

## Problems of Romanian SMEs with tapping EU structural funds

Gábor HUNYA \*

### Abstract

*Romanian SMEs can directly benefit from the Sectoral Operational Programme “Increase of Economic Competitiveness” (SOP IEC) and some parts of the Regional Operational Programme (ROP) in the 2007–2013 period. There has been wide interest for these subsidies on behalf of SMEs but major problems emerged with the implementation of projects. These are mostly related to the poor preparation of the projects, their cumbersome approval and the unfavourable general economic conditions in the country. The paper relies on information compiled by a survey and several focus groups run with SME in early 2011. These reveal that Romanian SMEs are at a rudimentary stage of skills, organization and market knowledge. Their development aims are rather short-term and not very complex. They lack the knowledge, expertise and staff to participate in complex tenders and in application processes which explains their high failure rate with EU financed projects. Learning by doing is, however, improving their skills and capacities. However, the design and structure of the EU programmes are also deficient in supporting the development of SMEs in need of more simple and transparent mechanisms which they can understand and cope with.*

**Key words:** SMEs, EU support programmes, Romania

**JEL classification:** D2, G3, H7, L2, R1

---

\* Gábor Hunya is Senior Research Economist at The Vienna Institute for International Economic Studies (wiiw), Austria; e-mail: Hunya@wiiw.ac.at

This article is based on the final report of a research project conducted with the financial support of the European Commission in the framework of the tender “Access by Romanian small and medium-sized enterprises to structural funds and support mechanisms. Tender No. CCI 2009.CE.160.AT.062 Financing for this project, of an amount of € 90.000 came from the European Regional Development Fund. The opinions expressed are those of the authors only and do not represent the Commission's official position. For the complete research report see Hunya (2011). This article relies on joint work with the research team of the underlying research project, Irina Dumitriu (Romanian Banking Institute, Bucharest, Romania), Réka Horváth (Faculty of Economics and Business Administration, Babeş-Bolyai University, Cluj-Napoca, Romania), Iuliana Klebeev (Project Consulting AGE, Bucharest, Romania) and Sascha Ruhland (Austrian Institute for SME Research).

## 1. Introduction

External funding has been of great importance for the Romania small and medium size enterprises (SMEs<sup>1</sup>) even if most of their investment activity has been financed by their own resources. In recent years, bank financing has dried off and government programmes have been streamlined. But with the EU accession in 2007, the country has become eligible for EU funds which could become the primary outside source of investment financing for SMEs. Companies have rushed to benefit from those funds, but many of them failed in the application process and faced major difficulties during implementation. The reasons are only partly related to the difficult conditionality and cumbersome processes prescribed by the EU, much depending on the poor skills and abilities of Romanian SMEs and their support organisations.

The objective of this paper is to assess the competences of SMEs necessary to access EU financed programmes. (See the description of the programmes in the Appendix.) First the paper presents some specific characteristics of SMEs in Romania (Section 2) and the economic policy context of the research (Section 3). Relying on the results of an online survey and focus group discussions (Section 4), we assess the gap between the programmes offered under the EU programmes (SOP EIC and ROP) and the needs of SMEs (Section 5). In the same way, we define the discrepancy between the conditions of the EU support programmes and the needs of SMEs (Section 6). In the final section (7) conclusions are provided explaining the low rate of success of Romanian SMEs in attracting EU funds and their low rate of satisfaction with the current support schemes.

## 2. Main characteristics of SMEs in Romania

SMEs in Romania have some peculiar features if compared to their EU counterparts<sup>2</sup>. Some of these features, such as the relatively low density of SMEs, are due to general economic backwardness. Others have a historical background such as the relatively big weight of medium-sized and large companies in output and employment. The number of SMEs per thousand inhabitants in the non-financial business economy was 18.9 in 2005, less than half of the EU average. In the years of fast economic growth in Romania, 2005-2008, conditions were advantageous for setting up new business activities boosting SME density to

---

<sup>1</sup> SMEs are defined according the EU rules ([http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm)) and enterprises with less than 250 employees and EUR 50 million of turnover.

<sup>2</sup> A set of standard indicators (number of enterprises, turnover, persons employed, value-added, etc.) is available through the Eurostat's 'Annual structural business statistics' (SBS). The most recently published data refer to 2006 (for some countries to 2005).

23.6 per inhabitant<sup>3</sup>. The share of SMEs was lower in the Romanian economy in terms of value-added and employment than in most other EU members (Table 1) but increased rapidly in the 2000s.

**Table 1. Share of SMEs in the non-financial business economy, 2006, %**

	Bulgaria	Hungary	Austria	Poland	Romania	EU-27
Number of enterprises	99.7	.	99.7	99.8	99.6	99.8
Value-added	53.2	51.9	.	48.4	49.6	57.7
Persons employed	72.6	72.2	.	69.8	63.6	67.4

*Source:* Eurostat, Enterprises by size class – overview of SMEs in the EU, Issue number 31/2008.

SMEs in Romania are characterized by low productivity and low profitability. Although profit dodging is widespread in Romania, SMEs with investment plans and those relying on external financing cannot afford reporting losses. The high and growing regional disparities regarding GDP per capita in Romania are reflected in the density and performance of SMEs by region.

### 3. Legal, economic and institutional context

The research carried out among SMEs in Romania was, to a large extent, influenced by the macroeconomic environment. The main findings and opinions heard on the spot mostly confirm the results of the macro-economic analysis (Hunya, 2009, Hunya, 2009a, Hunya, 2010; IMF, 2009). These can be summarized as follows<sup>4</sup>.

While the basic legal and regulatory framework is well in place, the implementation of the legislative framework is often cumbersome and contradictory in Romania. Administrative procedures and formalities represent a resource-consuming burden for SMEs. Another pressing problem is the mutual indebtedness of companies and especially the payment arrears of the public to the private sector. The average taxation rate of 28% of the GDP in 2008 was the lowest in the EU<sup>5</sup>. This leaves little room to speak of an excessive tax burden in Romania from the ‘outside perspective’. SMEs claim, however, that taxes are too high, and this refers first of all to the social security contributions. In fact, Romania relies more heavily on indirect than on direct taxes, the social security contribution in particular is relatively high as compared with the EU average, and this gives companies the impression of over-taxation. The tax rate hikes as of 1 July 2010<sup>6</sup> and the decline in GDP will have the joint effect of increasing

<sup>3</sup>National Institute for Statistics, Anuarul Statistic 2009.

<sup>4</sup>For a detailed presentation see Hunya, 2011.

<sup>5</sup>Eurostat, Taxation Trends in the European Union, 2010.

<sup>6</sup>The measures include a mix of expenditure side measures (cut of public employee salaries by 25%) and revenue-side measures (increase of VAT and tax on interests).

the fiscal burden to about 31% of GDP, which is considerably higher than two years earlier but still low as compared with the EU average.

As a result of the current financial and economic crisis, profitability has declined and the number of SMEs going out of business increased. Most of the rest fight for survival. Low profits constitute a serious problem for future growth as retained profits and other own resources are the most important sources of financing. Also, own resources are very limited in Romania as the net financial asset position of the population is very weak. The contraction of domestic demand, aggravated by fiscal austerity measures in 2010, imposes a shift from the domestic market to exports in the case of SMEs producing tradable goods and services. However, most Romanian SMEs depend solely on the domestic market and have no experience with selling abroad.

Romania is in a competitiveness crisis which shows up in a wide foreign trade deficit. Raising international competitiveness is therefore a target for all segments of economic policy. Raising the competitiveness of SMEs is part of it. Nevertheless, small and especially micro-enterprises are characterized by lower productivity and slower growth of productivity than medium-sized or larger companies. SMEs, in particular micro- and small enterprises, are not export oriented and in general not innovative. Support spent on the non-innovative and domestic market-oriented SME segment may yield lower overall productivity increases of the economy than support spent on larger entities. Support to micro- and small enterprises is generally of local importance and part of labour market policy rather than a competitiveness policy issue. Support to larger projects of SMEs may be conceived in a way that they provide special support for participating in innovation and internationalization.

Romania is in an economic recession due to contracting domestic demand. SMEs are particularly affected as they primarily supply the domestic market. Development aims targeting an increase in employment or output are often not feasible for them. The support they need in the present circumstance may aim at consolidation and not at expansion, i.e. at an increase in efficiency by means of production cost saving restructuring, adjustment of production to demand and exploring new markets and products. In this process, neither the output nor the employment of the company may increase – in fact, it may decrease.

Romania is in a fiscal crisis. Soaring budget deficits prompted a stabilization policy which introduced austerity across the whole public sector. The government has also cut spending on SME support programmes, and, in the current situation, it cannot be reasonably expected to allocate more money to those programmes in the near future. The budget of the EU support programmes is given for the whole seven-year period of the financial perspective and may not be increased to fill the gap left by the vanishing domestic programmes. But Romania can improve institutions and procedures in order to benefit from a more rapid flow of support under the EU programmes. To this end, it has to

ensure the co-financing in those projects where the public sector is the beneficiary. It may also need to help SMEs accessing loans to ensure their co-financing. There is a danger that the lack of finances on the part of the government or the companies may hinder the access to the EU funds. Due to the financial constraints, a request of SMEs and stakeholders for an increase in public support to the sector is not really feasible. Raising the volume of support money from domestic sources is unrealistic on the short run. But international support may be redirected to cover some of the needs. For the next financial perspective of the EU starting in 2014, an increase in funds for SME support could be feasible both from the EU and government resources.

Romania is also in a governance crisis with a weak government, limited institutional capacity and weak ownership of policies agreed with international organizations. The economic policy steps are often taken ad hoc, with no impact analysis, and there is no ex-post evaluation of most of the policy steps either. In the framework of the current austerity policy, expenditures for government administration have been cut, salaries reduced. The motivation and efficiency of civil servants and government offices may have suffered.

#### **4. Research methodology**

In order to get an up-to-date view of the needs and capacities of SMEs manager in Romania we applied a complex research methodology. First, we went through the available literature and conducted interviews with SME representatives, consultant companies and public authorities at national and regional level. Interviews were taken, among others, with representatives of the national and several regional (judet) chambers of commerce and industry as well as of local business clubs and consultant organizations. Then, to assess the opinion of SME leaders, a standardized survey was carried out as an important instrument for the collection of primary data on the situation, the demands of and the development barriers to Romanian SMEs. The results of the survey were verified in standardized interviews and focus groups with consultants and SME administrators. These focus groups have been organized in the development regions. In addition, the major commercial banks working with SMEs were asked about their experience with SMEs in general and about their activities supporting SMEs in accessing EU funds. The results of the surveys, focus groups and interviews have been summarized and confronted with the aims, requirements and implementation practice of the EU funded projects. The gaps between the needs of SMEs and the EU programmes provided the basis for policy recommendations.

The companies targeted by the wiiw Survey of March 2010 were about 3500 SMEs recorded on the disk 'Pro-Business Romania 2010' of the Romanian Chamber of Commerce and Industry as well as about 1000 micro-enterprises in the database of the regional operational programme. The total number of 332

responses was subject to evaluation. The specific features of the survey sample ensure that the answers are significant and representative for the purpose of research (Table 2)<sup>7</sup>.

**Table 2. Size structure of the sample by number of SMEs**

Size category	% of SMEs in sample	% of SME in total <sup>1)</sup>
Micro, 1-9 employees	53.9	89.5
Small, 10-49 employees	29.8	8.7
Medium, 50-249 employees	16.3	1.8

1) Active enterprises from industry, construction, trade and other services.

Source: wiiw Survey and Anuarul Statistic 2009, Table 15.3.

The survey contains no loss-makers, it comprises more companies active in manufacturing and none in trade and financial intermediation and represent both the more advanced and backward regions of the country.

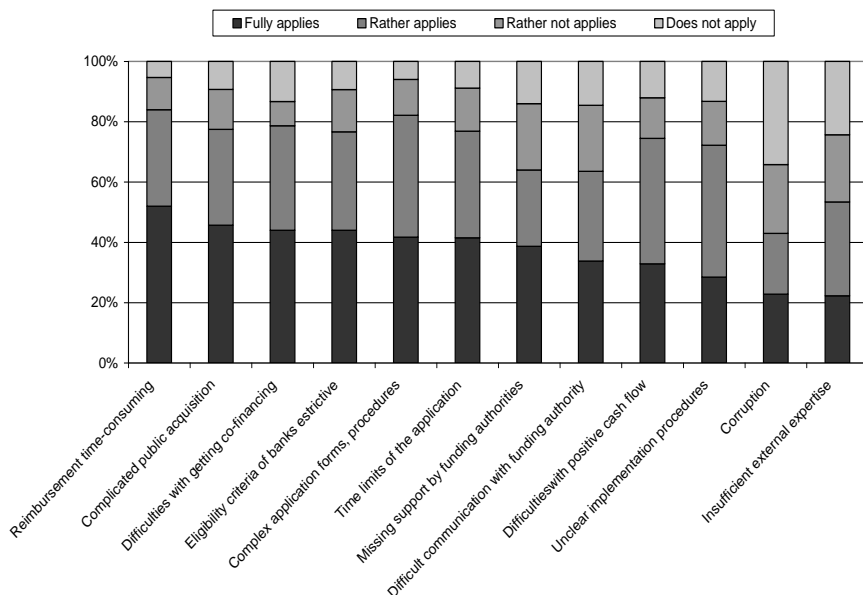
## **5. Discrepancy between the conditions of the EU support programmes and the needs of SMEs**

After having assessed the various needs of SME, the research team weighed the SMEs' development requirements against the support offered to them under the SOP IEC and ROP for the period 2007-2013. Gaps were identified concerning the general design of the programmes, their regional accessibility and the way the programmes were implemented. These gaps reflect not only the perceived shortcomings of the programmes listed in this section but also the weaknesses of SMEs in drafting and implementing programmes (Graph 1).

Gaps were identified between the development needs of SMEs and the design of support programmes. The needs of SMEs to increase their competitiveness cover a whole range of areas with very diverse objectives. If weighing the identified needs of SMEs against the key areas of interventions (KAIs) and indicative operations (IOs) of the EU support programmes, one can conclude that most needs of SMEs are covered by the current interventions within the two operational programmes in one way or the other. However, the way the overall support package was designed and structured is deficient in supporting the real development of an SME. Basic structural discrepancies between the needs of SMEs and the design of the support programmes call for a new design of the programmes.

<sup>7</sup> For a more detailed presentation of the sample see Hunya, 2011.

**Graph 1. Problems related to accessing structural funds, % of respondents**



Source: wiiw Survey, March 2010.

The purpose statement of the programmes deviates from the business philosophy of SMEs. It requires that entrepreneurs follow the European, national and regional strategies and horizontal objectives and be interested in implementing them. SMEs are required to set up development strategies that help to reach the socio-economic objectives of the EU, the government or the local authorities. SMEs are not aware of and cannot follow such goals. They need to be supported in developing and implementing their own business strategies to become more competitive and more profitable. Competitiveness and regional equity could be the general goal of the support programme as the common denominator for both business needs and government.

SMEs need more comprehensive programmes. Most companies wish to apply for grants with their real business plan which integrates several needs and seeks a complex solution. At present, such plans cannot be financed under one programme but only separately, in the framework of different programmes. Applying in several KAIs or IOs makes SMEs difficult to keep track, particularly because the two programmes (ROP and SOP EIC) have different eligibility criteria and rules are not uniform. For the future financial programming period more comprehensive programmes would be necessary.

Since currently SMEs have to apply under several programmes, they need calls that are available in a well-structured order. Currently, the opening of calls on different IOs under the SOP IEC is not harmonized in time and content. They

do not provide applicants the possibility to get support in accordance with the logical time sequence associated with reaching their business objectives. For instance, permanent application for “support for consultancy for SMEs” would be needed in order to allow access to this support in parallel with the application and the implementation of investment projects.

The SMEs’ activities are rather diverse and flexible, which often does not fit into the predetermined rules of eligibility. SMEs do not see why certain NACE codes of activity are not eligible. Funds allocated to SMEs are insufficient for most of the operations as compared to the needs. Romania spends a relatively small part of the EU funds on SME support. Meanwhile, the government’s own support programmes are weakened due to the lack of budget financing. Investment financing in particular is in great demand despite the current financial crisis.

The support of innovative SMEs is insufficient. R&D-related support programmes finance primarily public institutions with weak relations to practical implementation. Although SMEs are mostly unaware of the importance of R&D in their future success, this awareness could be raised by government programmes.

A gap has been identified between the needs of SMEs and the regional accessibility of the EU programmes. The high number of projects submitted under many of the operations addressed to SMEs within both programmes proves that companies are interested in the financing opportunities offered by the EU in spite of the problems they face in the application stage and further, during implementation.

Regional differences in the applications and success rate reveal that more backward regions need more support to access funds. Backward areas are particularly undersupplied with information and consultancy. A decentralization of the funds management of the SOP IEC programmes could bring information closer to the beneficiaries.

The large size of the Romanian development regions conceals the problem which is mainly SMEs from regional centres that apply while more remote areas and smaller towns are in a disadvantageous position.

Technical improvements in the operational procedures are necessary in the SMEs’ perception. Complaints are mainly addressed to the authorities responsible for the structural funds and are linked to the information service provided: difficult communication with authorities and between authorities, insufficient support and guidance, unclear implementation procedures. SMEs identify the following major problems (in order of importance):

- reimbursement procedures take too long, which has a negative impact on the cash-flow;
- it is difficult to cope with complex application forms and procedures;
- difficulties in obtaining the financial resources to co-finance projects;



- public acquisition processes are too complicated and are not interpreted in a unitary way;
- eligibility criteria for financial support are too restrictive in terms of economic activity;
- starting and closing dates for the calls for proposals are not set in advance and the time for application may be too short;
- the project evaluation period stated in the guidelines is not respected;
- problems with the cash-flow emerge during the long period of project assessment;
- implementation procedures are not clear enough.

## **6. Weaknesses of SMEs in drafting applications for funds and implementing projects**

The process of drafting applications and the implementation of the EU-financed projects call for a set of abilities and competences on the part of the SMEs. They must be familiar and comply with precise and strict rules governing this form of financial support. Before looking for funding sources, potential beneficiaries have to identify what are their real needs and to define clear and coherent ideas of what they want to achieve and how. That means that SMEs need the ability to think strategically and to develop feasible business plans. From the various sources of information like surveys, focus groups, and consultations, the research team reached the conclusion that SMEs have major weaknesses in applying and implementing EU financed projects.

The SMEs' main weakness is the absence of a coherent development strategy. Only one fifth of the SMEs have the necessary strategy at hand when they start the application process for the EU funds. This turns out as a handicap as compared with those SMEs that have had complete development projects at hand. Only larger SMEs are having adequate development strategies, while smaller ones produce – often unrealistic – strategy documents only for the sake of accessing funds.

Micro-enterprises or smaller SMEs see their main business opportunity in flexibility and fast reaction to market opportunities. They consider this behaviour as an asset and see this opinion confirmed in the rapidly changing circumstances of the financial crisis. They do not agree with the restrictive and segmented structuring of the support programmes and with the cumbersome terms and process of accessing them.

What is on the one hand the dissatisfaction of SMEs with the current support programmes reveals on the other hand their weakness in terms of thinking strategically. This weakness of SMEs to develop realistic business strategies and development projects has repercussions for the EU funding.

Most SMEs lack the experience and internal capacity to do a SWOT analysis or to write a strategy or a business plan. The development strategies and projects written only with the purpose of obtaining external grants distort the support policies and lead to failures in the implementation phase.

The present situation calls for action from both sides: (i) to make at least a part of the support programmes more flexible and to meet the needs of smaller SMEs faster; (ii) to increase the capacity of SMEs and of their consultants to improve the quality of business plans and development projects.

It is a widely held perception that information on the different support programmes is spread over very many uncoordinated sources, thus not really accessible for SMEs. Information is worded in a way not understandable for managers and they receive unsatisfactory explanations from the Managing Authorities. While the knowledge and skills of SMEs have been developing by experience, the management of support programmes may also be improved. Easily accessible information available close to the SMEs and stable, transparent conditionality could improve the functioning of the support programmes and support the learning process of SMEs.

Consultants have a key role in the success of applications and implementation of projects. When applying for funding, SMEs need to ask for consultancy because they do not understand the requirements stated in the guidelines and because in most cases those requirements surpass the capacity of the SMEs to prepare the application in-house. Problems with the availability of such support can be regional, qualitative and cost related. The weakness of consultant services may aggravate the weaknesses of SMEs.

The strongest providers are concentrated in Bucharest and in large cities of the more developed regions. In less developed regions and outside the regional centres the offer is quite poor. Also, the Managing Authorities and Intermediate Bodies are centralized in Bucharest, and the ROP-related bodies in the regional centres. Businesses located outside the centres are not only less informed but usually also has lower-quality advice for money. The location of SMEs determines the quality of consultation available.

The cost of consultants, especially of good ones, is too high for micro and small enterprises. In the ROP, 5% of the eligible cost usually does not cover the fees asked by consultants for supporting the enterprise in the application and implementation process. In the SOP IEC project application, 10% of the eligible cost can cover the consultants' fees although not entirely in case of smaller projects.

SMEs have generally weak capacity to draft applications. The lack of trained staff in the field of application for EU funds (a procedure relatively new to SMEs) is one of the reasons why so many projects are rejected in the first stages of the evaluation process. Based on the experience of SMEs and consultants, the best-quality applications can be prepared by a mixed team

formed by the company's experts who will also be in charge of implementing the project and specialized consultants who know how to write a successful financing application.

The main problems of SMEs during the elaboration of the projects are linked to the requirements applicants have to fulfil and to drafting the necessary documents. As for the requirements, the terminology of the application is only one of the problems. SMEs have basic shortcomings in identifying themselves with the development regions and the aims of the EU policies. Instead, SMEs would prefer to follow their own objective of business development while the macroeconomic and regional justification should be left to the authorities.

As to drafting the necessary documents, in particular a cost-benefit analysis, there is a general lack of qualified knowledge in Romania both within the SMEs and among the consultants. The terminology and the calculation methods are not properly understood. There is a wide-spread need for capacity building.

SMEs very often underestimate the collateral problems and risks embedded in a project application:

- Applicants sign the declaration of engagement to assure their own contribution to eligible and non-eligible costs and the necessary financial resources for optimal implementation of the project without checking before submission the bankability of the project.
- Applicants commit themselves, by signing the application form, to having the capacity to assure sufficient human resources needed for the project implementation even if in many cases they do not have it.
- Applicants overestimate their capacity to meet the project's success indicators and face major difficulties in achieving them.
- The budget of the project does not usually properly evaluate the risks of changes in exchange rate, inflation, fiscal conditions.

All sorts of miscalculations may occur. The production capacity of the acquired equipment in many cases exceeds the demand for products to be produced. The planned technology may not be the most advanced. The consultation fees and banking costs can be higher than assumed.

SMEs show further weaknesses during project implementation. Successful implementation depends to a large extent on the quality of the project preparation and the input of a full-time project manager. SMEs have to devote adequate capacity in terms of human, financial and time resources, follow properly the specific rules and regulations, meet the objectives and attain the result indicators to become eligible for the final reimbursement. As a major obstacle, SMEs lack experienced and dedicated staff for implementing projects. Among the complex procedures in the implementation process, public acquisition procedures are usually unknown and therefore, by far, the most difficult for SMEs.

Most SMEs (from all regions and all sectors) lack own financial resources to co-finance projects. They often underestimate their self-financing obligations. Also, the financing needs due to the ex-post reimbursement of costs are often disregarded.

Even if since recently the beneficiaries may use as guarantees the assets acquired by the project and may benefit from a pre-financing mechanism, they still need to raise a credit. SMEs usually turn to banks too late, only after their project has been approved by the authorities. The level of financial indicators in the approved project is usually less demanding than those imposed by the banks for providing a credit. Thus, a large number of approved projects are not bankable.

SMEs that have already implemented projects financed from structural funds are more familiar with the requirements and can use the staff from the implementation team to write new projects. With the experience gained in the period 2007-2013, SMEs and consultants will be more experienced and skilled to apply for and to implement EU-financed projects in the next programming period. Also, the authorities have to undergo a learning process and realize that serving the interest of SMEs and meeting their demands is in their good interest. However, SMEs and their consultants may become skilled during the present programming period, they will need more accessible funding in a structure they can more easily cope with as well as on-the-spot support of MOs and IBs. An assessment of the results of that learning process will be necessary towards the end of the current programming period in order to adjust the programmes and processes. As for now, the conclusions of our evaluations call for some general and also rather urgent corrections.

## **7. Summary and conclusions**

The conclusions refer to the support needs of SMEs surveyed in the framework of this research. We have assessed neither the institutions designing and implementing the government's SME policy, nor the Managing Authorities and Implementing Bodies of the EU programmes. Our knowledge is based primarily on the views of the SMEs surveyed and interviewed. From these, the following conclusions follow:

- Most of the SMEs are at a rudimentary stage of skills, organization and market knowledge as compared with similar economic units in more advanced EU member states.
- The SMEs' development aims are rather short-term and not very complex.
- SMEs lack the knowledge, expertise and staff to participate in complex tenders and in application processes.

- Learning by doing is increasing SMEs' capacity to access external, including EU funding. Still, they need more simple and transparent mechanisms which they can understand and cope with. In addition, they need the support of competent consultants.

The above points have deeper roots and are also of a lasting nature. They are linked to the level of economic and social development of the country which is quite low as compared with the more advanced EU member countries. Medium-term development forecasts do not expect a swift recovery of the Romanian economy, even if the catching-up process to the average EU GDP may resume after 2012 (Hunya, 2010). The next EU financial period will not find the country in a much better shape than it is currently in, thus development plans can be realistically based on the present knowledge.

Under such circumstances, one can conclude that the procedures related to the EU funding are too complex and costly for the authorities and a simplification would be in their interest as well as in the interest of the beneficiaries. The SMEs' main demand related to the EU programmes is therefore simplification in all respects:

- less segmented programmes;
- clearly formulated and simple conditions of application;
- procedural simplification;
- speedier decision-making;
- more flexible conditions during the implementation;
- faster re-imburement of costs.

A simplified support scheme would fit Romania's development needs better than the current segmented and complex one. At the same time, the capacity of SMEs can be improved to apply for and to implement development funding by targeted and interactive support. Simplification means bringing the demands and conditions of the financing programmes closer to the capacities of the SMEs. This would also be in line with the limited administrative capacity of government offices. But simplification has its profound limits. Development support can only go to viable companies where the money is effectively used. This has to be ensured by the conditions of support. At the same time, one can also expect an improvement of knowledge based on learning by doing. Both SMEs and authorities may learn to deal with complex issues while implementing the EU programmes.

## References

Arisinvest (2010), *Major state aid schemes in Romania*, [www.arisinvest.ro](http://www.arisinvest.ro), Bucharest.

Autoritatea de Management pentru Programul Operațional Sectorial “Creșterea Competitivității Economice” (2009), *Ghidul Solicitantului: Sprijin financiar cu valoarea cuprinsă între 1.075.001 lei și 6.450.000 lei acordat pentru investiții în IMM-uri*, <http://amposcce.minind.ro/>, Bucharest.

Autoritatea de Management pentru Programul Operațional Sectorial “Creșterea Competitivității Economice” (2009), *Ghidul Solicitantului: Sprijin financiar în valoare de până la 1.075.000 lei acordat pentru investiții în IMM-uri*, <http://amposcce.minind.ro/>, Bucharest.

Autoritatea de Management pentru Programul Operațional Sectorial “Creșterea Competitivității Economice” (2009 and 2010), *Newsletter POS CCE Nos. 1-6*. Bucharest.

Association of Management Consultants in Romania (2010), *Piata de consultanta in management din Romania in perioada 2009-2010* (Management Consultancy Market in Romania 2009-2010), Bucharest.

Ciumara, Tudor (2009), “Points of reference in the evolution of the Romanian management consultancy market”, *MPRA Paper* No. 19389, University Library of Munich, Germany.

European Commission (2008), *Small Business Act*. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:en:PDF>

European Commission DG Enterprise and Industry (2008), *European Union Support Programmes for SMEs, an overview of the main funding opportunities available to European SMEs*. [http://ec.europa.eu/enterprise/newsroom/cf/\\_getdocument.cfm?doc\\_id=4619](http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=4619)

European Commission DG Enterprise and Industry (2008), *SME Performance Review 2008*. [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm)

EUROSTAT (2009), *SMEs were the main drivers of economic growth between 2004 and 2006 – Statistics in Focus*, No. 71.

European Commission Directorate General for Economic and Financial Affairs (2010), *Economic Sentiment Indicator*, March.

GEA Consulting (2010), “Catre o poilitica industriala bazata pe aglomerari economice competitive – clustere” (Toward an industrial policy based on competitive economic agglomerations – clusters), [http://www.gea.org.ro/documente/ro/clustere/ fundamente\\_teoricevalentincojanu.pdf](http://www.gea.org.ro/documente/ro/clustere/fundamente_teoricevalentincojanu.pdf) Bucharest.

Government of Romania (2010), *Raportul strategic national privind implementare fondurilor structural si de coeziune* (Strategic report on the implementation of the structural and cohesion funds), Bucharest.

Hunya, G. (2009), Romania: on the verge of recession, in: Differentiated Impact of the Global Crisis, *wiiw Current Analyses and Forecasts*, No. 3, Vienna, pp. 40-42

Hunya, G. (2009a), Romania: contraction in all fields, in Richter, S. (ed.), Where Have All the Shooting Stars Gone?, *wiiw Current Analyses and Forecasts*, No. 4, Vienna, pp. 48-51

Hunya, G. (2010), Romania: recovery postponed, *wiiw Monthly Report*, No. 10, Vienna, October 2010, pp. 15-17

Hunya, G. (2011), An Assessment of the Access by Romanian SMEs to Structural Funds, *wiiw Research Reports*, No. 368.

IBC Focus (2010), Raportul parcurilor industriale si logistice din Romania (The Report of industrial and logistic parks in Romania), <http://www.ibcfocus.ro/index.php?lb=en> Bucharest.

IMF (2009), Romania: Request for Stand-By Arrangement - Staff Report; Staff Supplements; and Press Release on the Executive Board Discussion, *Country Report*, No. 09/183

Managing Authority for the Regional Operational Programme (2007), Framework-document for implementation, Bucharest.

Ministry of Economy and Finance (2007), Sectoral operational programme – increase of economic competitiveness, Bucharest.

Ministry for Economy, Trade and Business Environment (2010), Strategia guvernamentala pentru dezvoltare sectorului întreprinderilor mici și mijlocii (IMM), (Government strategy for SME development), Bucharest.

Ministry of Education and CNFPA (2009), Survey “Trecerea in revista a sistemului actual de FPC din Romania privind aspectele legislative, administrative si operationale si ecartul fata de cerintele EQART VET” (Overview of continuous vocational training in Romania on legislative, administrative and operational aspects and the gap to the EQART VET requests), Bucharest.

Ministry for SMEs, Trade, Tourism and Liberal Professions (2008), Annual Report on SME Sector in Romania [http://www.aippimm.ro/files/articles\\_files/62/5213/raport-anual-imm-2008.pdf](http://www.aippimm.ro/files/articles_files/62/5213/raport-anual-imm-2008.pdf), Bucharest.

Ministry for SMEs, Trade, Tourism and Liberal Professions (2007), Ghidul surselor de finantare pentru IMM (Guide for SMEs financing sources), November, Bucharest.

Ministry of Regional Development and Housing (2007), *Regional Operational Programme 2007-2013*, Bucharest.

Ministry of Regional Development and Housing (2007), *Framework-document for implementation of the regional operational programme 2007-2013*, Bucharest.

Ministry of Regional Development and Housing (2009), Ghidul solicitantului Axa prioritară 4 (Applicants' guidelines for priority axis 4.), [www.inforegio.ro](http://www.inforegio.ro).

Mitu, E.N., Dracea, M.N., Ploscaru, C.C. (2009), The Evolution of Fiscal Pressure in Romania and EU Member States, *Analele Universitatii din Oradea Stiinte Economice*, pp. 264-269.

National Institute for Statistics (2008), Activitatea de servicii pentru intreprinderi (Services provided to enterprises) in: *Seria statistica de intreprinderi (Enterprises statistics)*, Bucharest.

National Council for Small and Medium-sized Enterprises in Romania (CNIPMMR) (2009), "Ghid pentru implementarea in Romania a conceptului de cluster inovativ" (Guide to the development in Romania of the innovative cluster concept) <http://www.immromania.ro/presa/articol.php?id=288>, Bucharest.

National Council of Romanian Private SMEs, CNIPMMR (2009), *White Charter of Romanian SMEs 2009*, Bucharest.

Nitu, Renate and Szidonia Feder (2010), Study Regarding the Influencing Factors of the Romanian Small and Medium-Sized Enterprises' Internationalisation Process, *Theoretical and Applied Economics* Volume XVII (2010), No. 1(542), pp. 17-26

OECD (2004), *Financing innovative SMEs in a global economy*, Paris.

Pencea, S. (2009), "Clusterul si beneficiile sale potentiale. Experienta Uniunii Europene" (The Cluster and its Potential Benefits. The European Experience", *Oeconomica*, No.1, pp.165 -184.

Popescu, R, Ungureanu, E (2008), Analysis of the situation of Romanian industrial parks, *MPRA Paper*, No. 11123, Munich.

Toader, S.A. (2007), Evolution of Taxation in Romania Between 1990-2006, *Social Science Research Network Working Paper Series*, December 13.

Vorniteanu M., Covaci, B., Cocosatu, C. (2009), Credit risk in financing SME in Romania. Universitatea Spiru Haret, *Facultatea de Finante si Banci, Centrul de Cercetari Economico-Financiare Avansate Working Papers*, No. 24, Bucharest.



## **Appendix: overview of the EU programmes supporting SMEs in Romania**

Romanian small and medium size enterprises can directly benefit from the Sectoral Operational Programme “Increase of Economic Competitiveness” (SOP IEC) which is one of the seven instruments under the convergence objective for achieving the priorities of the National Strategic Reference Framework. SMEs are also the target of parts of the Regional Operational Programme (ROP) the objective of which is “to support and promote a sustainable balanced economic and social development of the Romanian regions by improving business environment and infrastructure for economic growth”. Support goes mainly to infrastructure and support projects to improve the physical, human and social conditions but also micro-enterprises of local and regional importance can access funding.

Priority Axis 1 of the SOP IEC is targeting SMEs directly. The Framework Document (MEF, 2008) outlines for what purposes SMEs can receive funding in the following Key Areas on Intervention (KAI):

KAI 1.1 finances productive investments including

- Small investment projects;
- Large investment projects;
- Introduction of international standards;
- Access to new foreign markets;
- Technical assistance, consultancy support to improve the efficiency of companies.

KAI 1.2 offers access to leveraged financing (JEREMIE) (not functional yet);

KAI 1.3 finances business support services like competitiveness poles, consultation, clusters.

SMEs are eligible also for the following Indicative Operations in the SOP IEC:

2.3.1. Support for high-tech start-ups and spin-offs;

2.3.2. Development of R&D infrastructure in enterprises and creation of new R&D jobs;

2.3.3. Promoting innovation in enterprises;

3.1.1. Supporting access to internet and to connected services;

3.3.1. Support for integrated ICT business systems and other electronic business applications;

3.3.2. Sustaining the development of e-commerce systems, and other internet based solutions for businesses;

4.2. Valorisation of renewable energy resources for producing green energy.

The ROP segments available for the enterprise sector aim at setting up enterprises, rehabilitate industrial sites, support micro-enterprises and develop

tourism. Priority axis 4 of the ROP, “Strengthening the regional and local business environment” includes three key areas of intervention:

4.1 Development of sustainable business support structures of regional and local importance,

4.2 Rehabilitation of unused polluted industrial sites and preparation for new activities,

4.3 Support the development of micro-enterprises.

While the first two areas improve the local and regional business infrastructure, the third provides support directly to the smallest SMEs in key areas of activities like manufacturing, construction and business services. In addition the ROP Priority Axis 5, “Sustainable development and promotion of tourism”, the key area of intervention 5.2 “Setting-up, development and modernization of the tourism infrastructure” can address SMEs among other eligible entities.

A high number of projects has been submitted under the operations addressed to SMEs within both programmes by mid-2010 and the total budget claimed by the submitted projects has been well above the amount allocated for the support of SMEs. But the amount of funds approved and contracted was only 4.3% of the claimed project value (Appendix Table). The poor results are due to the inefficient and long project assessment process and to the weaknesses of SMEs to write proposals fulfilling the requirements imposed by the managing authorities. The latter aspect will be subject to the main part of this paper.

### Appendix Table

#### Value and number of project submitted and contracted in the SOP IEC by development region, 31 June 2010

	Total	Sud	Sud-Est	Sud-Vest	Vest	Nord-Vest	Nord-Est	Centru	Bucuresti-Ilfov
Value of projects submitted, RON million	19985	1407	1717	2293	8262	1771	1353	1832	1350
Value of projects contracted, RON million	868	112	229	105	85	94	15	122	106
Number of projects submitted	3750	377	387	316	302	617	542	721	488
Number of projects contracted	929	91	95	98	61	139	142	176	127

*Source:* Managing Authority for SOP EIC.