

IMPORTANCE OF SMES IN THE ECONOMIC DEVELOPMENT OF ROMANIA

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Abstract

Small and medium enterprises are situated of many years in the top European policy of sustainable development, is considered a key factor for growth, employment and economic competitiveness. SMEs have demonstrated resilience and flexibility in the face of new challenges posed by the crisis they contribute greatly to the economic recovery and restoring stability in the economic parameters. At the same time the SME sector is at an inflection point still under the impact of the severe decline in the years 2009-2010, the effects of which were later propagated by reducing consumption, unstable tax system and banking system became more reluctant in lending to companies small. The performance of SMEs in the EU depend on macroeconomic developments, it requires actions to improve the business environment in which SMEs operate, able to contribute to solid growth and sustainability.

Keywords: SMEs, taxation, employee, business environment

JEL classification: D01,H32

Introduction

The enterprise is the most important part of economy and society. The enterprise or the company - by which we understand an organisation made of one or more people who develop activities and who usually use economic means in order to obtain profit - is the most spread organisational form.

The small and medium enterprises represent the most numerous and important sector of enterprises, as they fulfil different economic, technical and social functions:

- they generate the greatest part of GDP (PIB) in each country, usually between 55%-95%;
- they offer places of employment for the majority of the occupied population;
- they generate, in a high proportion, the technical innovations applicable in economy;
- they present the highest dynamism on the terms of market economy, situation proved by the evolution of their number, the volume of the turnover and the size of the occupied work force, slightly superior to the big enterprises;
- they create products and services at expenses that are lower than those of big companies; the main factors that determine this difference are the lower constant conventional expenses; the superior volume and intensity of work under the conditions of a permanent presence of the entrepreneur in the company and, usually, a higher motivation of the staff;
- they show flexibility and high adaptability to the requests and changes of the market, favoured by the more reduced stature, the quick decision-making process, that characterizes the entrepreneur and his direct involvement in current activities;
- they represent one of the main sources of incomes of the state budget (taxes, VAT etc.);
- they offer the possibility of professional and social fulfilment to an important part of the population, especially to its most active and innovative segment, that "draws" economy after it;
- they ensure the main part of an economic background that is favourable for the market economy, characterized by flexibility, innovation and dynamism;
- they represent the seeds of the future big companies, especially in the new fields of economy, in its top branches based on technique and complex and performant technology;

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- the present tendencies of technical, economic and social nature favour the creation of small and medium enterprises in particular.

Small and medium enterprises present estimable structural "weaknesses" whose knowledge and counteract are essential. We hereby state which are these "weaknesses" characteristic to small and medium enterprises: the small weight of the incorporated resources and of the reduced reserves that they dispose of; the dependance, which is usually decisive, of its existence as only one person, the entrepreneur; the deficient taking into consideration of its specific interests and characteristics by the power factors from the environment; the technical level which is frequently lower compared to big companies; the stability and the permanence that are more volatile due to the previous specific features.

The sector of small and medium enterprises from Romania in an European context

The small and medium enterprises are situated in the center of the European policies of sustainable development, being considered one of the key-factors for the success of *Europe Strategy 2020*, through their contribution to the economic growth and creation of work places and also for the role that they have in the innovation and competitiveness of Europe.

Small and medium enterprises proved their capacity of adaptation and flexibility towards the new challenges generated by the crisis, contributing in a great extent to the economic recovery and the restoration of economic parameters in the stability area.

As a consequence, the European Committee emphasized the support of entrepreneurship and small enterprises, at the same time with relaunching the community policies supported through dedicated support tools and including small and medium enterprises in the strategies of industrialization, competitiveness and innovation for Europe.

Small and medium enterprises are by definition players of smaller span on the national and international markets, usually activating on the local market, strongly connected with the profile and the necessities of the economy from the land or region that launch its activity.

The characteristics of the local socio-economic environment influence the competitiveness of small and medium enterprises on the market, being determinant for selling products and services at high quality standards and they contribute to the diversification of the offer and the extension of local enterprises on new markets.

As small and medium enterprises face especially problems related to resources in order to be able to maintain themselves active or to be able to develop, facilitating the access to financing represents one of the major priorities of Europe, to achieve the increase and occupancy objectives, the European Committee elaborates tools and concrete plans of actions intended to ensure the financing necessary for companies.

In the field of financing, there are stated concrete measures, supported by significant budgetary allocations. The present economic realities require particular attention towards the needs of the small and medium enterprises, taking into account the deterioration of the investment climate. The European Committee considers necessary the introduction of new initiatives intended for improving the access of small and medium enterprises at financing, including through new capital markets and fiscal policies of stimulating investments.

The sector of small and medium enterprises from Romania presents itself as being one in expansion, with a more and more important role in the assembly of economy. So, it is estimated that under the present economic conditions and in prospect, the small and medium companies are the only ones that can generate work places and as a result, the economic development is directly linked to it. The evolution of this sector is illustrated by the following basic indicators: the number of enterprises, the number of employees, the added-value, the apparent productivity of work, the leaning towards investments, the index of the entrepreneurs' appreciation and the capacity of management to face the crisis.

Table 1**Distribution of SMEs, employment and value added size classes in 2008 and 2013**

	SME class	2008	2013
No. of SMEs (percentage)	Micro	92.37%	92.51%
	Small	6.56%	6.44%
	Medium	1.07%	1.05%
No. of employees (percentage)	Micro	44.08%	43.38%
	Small	30.25%	30.85%
	Medium	25.67%	25.77%
Added value (percentage)	Micro	37.28%	37.10%
	Small	31.66%	31.32%
	Medium	31.06%	31.59%

Source: Statistical database for the annual report of European SMEs 2013-2014

The evolution of the number of small and medium active enterprises was a positive one until the year 2008 and after that, because of the effects of the economic crisis, their number began to decrease. The lower work productivity in Romania has negative effects on the competitiveness of small and medium enterprises. By combining two indicators, the percentage of the medium number of employees and the percentage of the added-value, we can determine the apparent productivity of work in small and medium enterprises compared to the medium level on economy.

The main difficulties that the small and medium enterprises have to face are: the decrease of internal request, excessive taxation, inflation, bureaucracy, corruption, excessive controls, high expenses of credits, delays at collecting the counter values of the bills from private companies, the difficult access at credits, employment, training and maintaining staff, growth of the level of payment expenses, weak quality of infrastructure, competition of products from import, not-paying bills by the institutions of state, decrease of request at export, obtaining the consultancy and training necessary for the company, knowledge and adoption of community acquis. Other difficulties identified by the small and medium enterprises are: unfair competition, very high expenses with the rents of commercial spaces, the economic crisis, the prices of raw materials, decrease of the population's standard of living that is reflected in the reduced number of customers, injustice made by the taxing institutions to the small companies compared to large organisations; weak training of the state's clerks etc.

The recovery of economic development both in Romania and in Europe depends on the evolution of the sector of small and medium enterprises because these represent the most dynamic factor in economic development and social insert, by its potential of competitiveness and innovation and by its capacity to create and maintain work places in the society.

Small and medium enterprises have been situated in the top of European policies for many years, being considered a key-factor for economic growth, occupancy and competitiveness. At the level of the EU, the compensation of the loss caused by the economic crisis that started in 2008 still remains a challenge for small and medium enterprises. The economic results recorded in the last few years indicate the signs of a recovery of small and medium enterprises. There are uncertain evolutions on the assembly of the small and medium enterprises sector, with clear differentiations between countries, sectors of activity and size classes.

Table 2**Evolution performance of SMEs in the EU28**

Indicator	2008	2009	2010	2011	2012	2013	2014	2015
No. SMEs	21261849	20974190	21755376	21901107	21810243	21614919	21564839	21646395
No. employees	90806273	900332632	89933916	90077618	89297328	88843465	88981523	89585622
VAT (EUR mil)	3622465	3273275	3425857	3570666	3626206	3666778	3769518	3899312

Source: Statistical database for annual report 2013-2014

Generally, the statistics regarding the small and medium enterprises from Romania are situated under the European average and the profile of the country's performances is under the level of the EU, both because of the crisis and the significant decrease of GDP (PIB) from the national

economy and as an effect of general instability, factors that have influenced together the progress of the policies for the small and medium enterprises. However, present estimations show a come-back of the sector of small and medium enterprises close to the levels previous to the crisis in what regards the number of companies and of employees and less of the added-value.

The Romanian small and medium enterprises are less competitive, less innovative and have a weaker technological basis than their bigger correspondent. From the point of view of the competitiveness of the Romanian small and medium enterprises on the EU market, we can observe the disparity between the level of productivity and their efficiency.

The impact of the crisis could explain, until a certain point, the change of paradigm of perceptions and attitudes towards entrepreneurship manifested in the Romanian society in the last years. But the opportunity factors, such as the free access to the unique market, the cooperation networks and the EU resources and especially the important number of programmes and projects with the related financial allocations, addressed to the objective of promoting entrepreneurial culture and education, all these should have come as a counter-weight.

The situation of the Romanian small and medium enterprises shows more performancy deficiencies and competitiveness disparities that determine an insignificant role of these in the assembly of the sector of small and medium enterprises from the EU. However, in this context some positive features are highlighted in the structure on size classes and economic sectors that represent a valuable potential of competitiveness, that could be valued through effective policies and public interventions, in order to consolidate and develop from a competitive point of view the small and medium enterprises from Romania.

As a consequence, the future actions should continue to focus on a mixture of complementary measures, aiming at the improvement of the business environment, the financing needs and facilitating the access of the small and medium enterprises to the proper tools, with a more powerful emphasis on the innovation of business and on the creation of the qualifications and professional competencies that are highly specialized. An effective mechanism of monitoring and evaluating the implemented measures and the new initiatives remains a desideratum for the business environment, that has to be put into practice by elaborating the necessary methodologies and by actively involving the representative organisations of small and medium enterprises.

The support for the improvement of the business environment by simplifying the procedures and by diminishing the administrative expenses must follow all the key-moments from entrepreneurship life cycle (startup, development, transfer of business, bankruptcy or second chance), through legislative and fiscal initiatives, having as an effect the reduction of bureaucracy and the number of taxes and duties, that is still well above the EU average.

Education and professional training are key factors for the acquisition of knowledge and necessary attitudes to succeed in business, but we do not have to neglect the deficit of qualified human resources in fields of specialized competencies that the Romanian companies have to face at present. So, the development of professional dual education and the intensification of the training curricula for the employees from the small and medium enterprises are compulsory requirements. One of the recommendations, in the context of present evolutions, is the creation of stronger bonds between research, innovation and industry, especially by offering priority to the activities that have the potential of attracting foreign investments.

At the same time, small and medium enterprises should adapt their own business strategies to the present exigencies of the global market in order to increase their competitiveness and to be able to benefit and to successfully value the opportunities offered by the new operational programs with financing from European funds. Strategic governmental measured and coordinated actions are required to support the enterprises that are economic active in the more and more powerful competition from the EU unique market, as well as to stimulate business and to create new companies.

On the other hand, the evaluation of performance indicators and of evolution tendencies of the companies that are active in the non-financial economy highlight the limited resources and the precarious technological basis, that is more striking in the productive sector, small and medium enterprises generally operating at the limit of subsistence and circumstantially orientating towards traditional fields.

At the same time, serious budgets should be allocated for dedicated financing programs and schemes, that would give financial support directly to the small and medium enterprises oriented towards innovation, creating the premises to build, in Romania, a critical mass of enterprises with a growing potential, in fields of high technology or based on the transfer of the results from research.

The future governmental policies should start from an evaluation as strict as possible of the impact on small and medium enterprises, on the one hand on the legislative and fiscal frame, introducing without any delay the European tool "SMEs test", and on the other hand on the effect produced by the public financial interventions of any kind, by creating and using the appropriate mechanism of monitoring and evaluating.

It is also required the facilitation of some new ways of alternative financing for startups and for small and medium enterprises in general, including by giving penalties to the legislation where is necessary, as well as the need of simplifying the fiscal legislation in order to stimulate the more pronounced development of the alternative financial markets.

General aspects regarding the fiscality of the small and medium enterprises in Romania

Fiscality is unequally borne by the contributors that are legal persons. Even if the small and medium enterprises hold a smaller percentage from the national wealth, their contributions to the public budget (VAT, profit taxes, other taxes and duties) and to the compulsory social assurance funds (pensions, unemployment, health, other contributions) are bigger than those of the companies with state capital.

The brute result of the exercise (the sum of all profits minus the sum of all losses) for the small and medium enterprises is higher than in big enterprises. Also, in what regards social budgets, the small and medium enterprises are still those that pay the biggest amounts of money, because they hire a significant percentage of employees at a national level.

Romania does not have, at the level of small and medium enterprises, the greatest time offered for payments. In exchange, it has an extremely high number of payment obligations, which shows a certain lack of interest of the authorities.

These could simplify the payment procedures and leave more space for enterprises to focus on their object of activity, even if the subsequent distribution of taxes charged for different destinations among the state organisms would be more laborious. On similar terms, it is not the level of profit tax that seems to be a problem, but the ad-hoc function allocated to the enterprises that collect taxes for the taxation of work force.

Moreover, just on the segment of taxing work force and of contributions, the fiscality from Romania gets to overtake not only the average in the region of East Europe and also that of the most developed economies worldwide, grouped in OECD. This in spite of its position which is clearly more favourable at the chapter "other taxes" than Western countries and those from the region.

So, in order to get close to the Western practice, we would need improvements of the business environment intended to diminish by half the percentage of the underground economy in GDP (PIB), of course with the proper effects on the institution of a loyal competition. The decrease of tax evasion can be made either through offering stimuli for voluntary compliance or through a well dosed combination of all these. Unfortunately, the first option has already shown that it generates side effects, affecting in a negative manner the economic agents of "good faith" too, with an infibition effect on the economic development.

The second option was less used, where measures that have already been taken in other countries have not been taken into account by our country yet. So, a comeback to the VAT share before the crisis by a quantification at the level of cash cards and reimbursment in accounts or compensation with the payment of tax on deposit interest would be a quite simple solution.

The support measures must be oriented towards all the categories of small and medium enterprises and they must aim at all the stages of the life cycle of business. A special attention should be given to financing for the first development stage of a company, following at the same time a more favourable taxing frame for financing in the initiation stage of the business.

It is also considered that it would be useful the initiation of the following measures:

- the support of the small and medium enterprises by reducing the expenses linked to respecting tax regulations by: adapting the system of tax administration; simplifying tax declarations; facilitating the paying of taxes and duties by using electronic means; accelerating the implementation of the unique digital market;
- the assurance of a tax coordination so as to eliminate the possibility of a double imposition or of other taxing practices with negative effects that affect the unique market and the transboundary business or the investments of transboundary venture capital;
- the reduction of the expenses imposed by respecting the tax regulations, especially in the case of small companies and of those newly created that have great difficulties related to the abundance by the complex tax legislation and the difficult procedures of reporting;
- the re-evaluation of the tax on profit regime, taking into account the possibility of extending the status of loss limitation and of the deductions from the tax on profit.

Conclusions

The small and medium enterprises from Romania appear as a fragile segment in the assembly of the European small and medium enterprises, presenting some problems of competitiveness and development disparities compared to the medium performance from the EU, disparities that have been amplified in the period after the crisis.

There are some elements that customize the structure of the small and medium enterprises sector from Romania and these are the higher percentage of small and medium enterprises class (compared to the EU average) and the more intense activities in the processing industry. These show an unexploited potential of the small and medium Romanian enterprises, that could be the basis of a favourable evolution expected in the following period.

The economic results obtained by the small and medium enterprises from the EU in the last few years indicate the recovery of performances on the whole, but we cannot state that the tendency of positive evolution that they have is stable or irreversible. The small and medium enterprises from the EU present great discrepancies of development from one state to another, that take shape at the level of the big regions of the continent. The disparities gathered in the evolution history of each economy have been highlighted by the nefarious impact of the worldwide crisis and through the incapacity to answer of many of the small and medium enterprises.

As a constitutive part of the small and medium enterprises sector from the EU, the small and medium enterprises from Romania prove to be a segment that is still fragile under the following aspects: demographic inconsistency, reduced contribution to the economic and competitiveness performances and the deficient capacity to answer the crisis.

The changes of structure from the small and medium Romanian enterprises sector, beyond the disappearance of a great number of very small companies, could have the significance of consolidating and passing to a superior competitive level of small and medium enterprises on the whole, if in the next stage the accent is put on the improvement of productivity, which at present is lower than the EU average. The structure on economic sectors shows a feature of the assembly of small and medium enterprises from Romania: their significant presence in the processing industry, in a higher percentage than the European average. This is a relevant characteristic for their competitive potential in the context of the new community policies for relaunching the European industry. In addition, along the period after the crisis, there has been a growth of this percentage, Romania being one of the few European countries with significant achievements in what regards the overtaking of the values before the crisis at the indicators of the industrial production.

If in the European countries with strongly competitive economies in a traditional manner, the reduced density values of the small and medium enterprises does not influence the excellent level of competitiveness, for Romania the demographic dimension of business must remain a preoccupation and the startups must continue being stimulated, especially in the context of the decreases from the last years.

The negative effects manifested through the inhibition of entrepreneurial initiatives, can seriously affect, on a long-term, the population of small and medium companies from Romania, as well as

the growth, the places of employment, especially those for young people and last but not least the turning to advantage of the innovative and creative potential that the startups, by nature generate in any economy. The radiography overview of the companies from Romania show a series of inabilities and vulnerabilities of small and medium enterprises, that appear as being insufficiently prepared to successfully compete on the internal market of the EU.

The limitations of small and medium enterprises related both to general features and to the characteristics of each size class or field of activity were aggravated during the generalized crisis, the Romanian enterprises had to develop in an unfriendly economic environment, characterised by structural imbalances, instability of the tax system and by a banking system reticent at crediting small companies.

Especially depending on the internal consumption of the local market, the small and medium enterprises were affected by the decline of the national economy in the years of crisis whose effects propagated in the business environment by reducing the consumption at the level of population and averse evolutions of the main macroeconomic indicators.

The maintenance of financial stability in Romania in spite of the difficult internal and international conjuncture was made in the context of the measures taken by the National Bank of Romania regarding cautious regulation and surveillance of the risks from the system. But at the same time, the conditions of crediting were made harsher by the commercial banks, the majority of the credit institutions considering small and medium enterprises and especially very small companies as having a high degree of risk. The amplitude of the effects of the crisis and their prolongation on several years are translated through a decrease of the number of small and medium enterprises from Romania and the loss of the related places of employment starting with 2009. The complex of difficulties that appear could not be compensated by the European funds available for small and medium enterprises, as the using degree of these financings was reduced, both because of a defective administrative management and because of a lack of experience and knowledge of small entrepreneurs in implementing European projects at the rigours imposed by procedures.

The entrepreneurs' attractiveness towards agriculture and energy can be explained taking into account the potential of internal resources and the local market outlet, as well as the governmental policies of consistent financial support, oriented to these fields. We can distinguish the enterprises with activity in agriculture that configure as a stable segment under all parameters, even if at unsatisfactory values compared to the existing potential, being the only group of companies with a constant positive evolution on a medium term. These tendencies lean on the integration of the small and medium enterprises from agriculture in the chain of suppliers for the food industry and on a relatively high internal consumption market. Among the regions of Romania, there still exist general development disparities gathered in time, that are reflected in the business environment and in the entrepreneurship level.

The public policies and the financial support tools for the small and medium companies from Romania attract sources and mechanisms of various financing. Besides the direct financing for the development of small and medium companies, allocated from the state budget and from the Structural and Cohesion Funds, the mechanisms and funds of guarantee and counterguarantee, mainly capitalized by the Government of Romania, are the main levers that facilitate the access at financing small and medium enterprises.

The access at bank loans is restrictive for the majority of the small and medium enterprises, these being perceived with a high level of risk for banks. In the absence of collaterals and classic guarantees, the chances of small and medium enterprises to obtain bank loans diminished even more in the last years, marked by recession.

The microfinancing sector has rapidly evolved in the last years, becoming an important source for the small entrepreneurs from Romania. Microcredits are given under favourable conditions, by the financing institutions of microfinancing from Romania that succeeded in obtaining a good connection to the facilities and European programs available on this segment.

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