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THE ROLE OF THE EUROPEAN FUNDING IN THE CONTEXT OF THE ECONOMIC CRISIS

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Abstract

The economic crisis from the last period significantly affected the business environment. Despite the progress registered by Romania in the last years, there are some important disparities in the field of competitiveness compared to the European Union member states.

It is important to have adequate financial resources for the small and medium enterprises (SMEs) and to increase the competitiveness.

Companies may obtain European funds for investments in order to improve their activities, starting with the production facilities, procurement of IT equipment and modernization of the tourism infrastructure.

The general objective of the Sectoral Operational Programme - "The Increase of Economic Competitiveness" (SOP IEC) is to increase the productivity of the Romanian enterprises in order to comply with the European Union principles: long term development and decrease of the disparities.

With the support of the European funds it can be reduced the negative impact of the economic crisis.

The recent severe economic crisis, evidenced by lower demand, restrictive lending conditions from banks, severe lack of liquidity has affected the business environment. The main ways likely to boost the economic competitiveness, namely, on the one hand, the investment in the research - development - innovation (RDI) and information and communication technology and, on the other hand, the entrepreneurs attitude and their appetite for risk, were strongly confronted with the roughly effects of the financial crisis.

There has been a slow development of certain factors of unfavorable impact on competitiveness. Although Romania has progressed in the recent years, there are some important disparities in the field of competitiveness compared to the European Union member states. The reasons for this lagging behind is found in all the elements that determine competitiveness. This is reflected ultimately in low productivity, which defines the problem of competitiveness in Romania.

According to the Global Competitiveness Report 2012-2013 drafted by the World Economic Forum, Romania ranks 78 of 144 countries [1]. In the European Union, Romania has managed to overcome a single country, namely Greece, strongly affected by the economic crisis started in 2008.

In the same report, it is mentioned that the Romanian economy has better results in terms of efficiency ranking the 64th place in the world and worse in terms of innovation, the position 106 in the world.

Regarding the business environment during the period 2009-2011, there were established 365,232 companies while 334,403 firms closed their doors, most of them small and medium enterprises. In 2011, 68,589 firms were closed, about 3 times less than the previous year.

The increase of the productive investment and the improvement of the enterprises accessibility on the market, in line with the principles of sustainable development, it is essential to the competitive conditions of the Romanian economy in the European Union.

Romanian companies must be prepared to face competition in the Internal Market. Competition in the Internal Market can be good for the local companies only if they will be able

to capitalize the advantages derived from free movement of goods, services, people and capital.

In this context, the companies from Romania will have to improve the quality and diversification of their products and services. The enterprises strengthening and development highly depends on the equipment and technologies procurement that enable the adaptation of production to the requirements of the Internal Market. Thus, the support for enterprises to increase their productivity is the key.

The SMEs sector is the most affected due to the relatively weak orientation towards productive activities, reduced access to capital, technology and infrastructure adaptability to the market needs through innovation and the low level of managerial skills. The low complexity and purchasing power of the domestic market do not stimulate the companies for certification, affecting their ability to adapt to the standards set by the European Union integration and to the competition emerged due to globalization.

Adequate financial resources for SMEs are crucial for the development and competitiveness increase. Creating a favorable environment for investment financing is a step forward compared to the approach based mainly on supporting direct investment. Access to credit is generally difficult for SMEs, the credit conditions imposed by banks are inaccessible to them because of their under-capitalization and lack of collateral guarantees. Small companies face major obstacles in growth and development, with no tangible goods that could be used as collateral guarantees and the considerable risks that prevent them from obtaining a regular bank loan or increase the costs of such credit. There is a need to overcome these obstacles, given that innovative ideas, products and services, business models are often generated by start-ups and new firms. In the same time, a stronger involvement of the financial institutions in financing risk is needed. In fact, the funding of the enterprises projects by the financial institutions provide qualified expertise and competence in the selection and validation process of the business competitive models.

Although to provide innovative financial instruments is essential for growth potential of

SMEs, the programming and implementation of such tools requires a specific know-how to assess the areas of market failure as well as an appropriate financial management. As a result, Romania has been working with the European Investment Fund in order to identify the areas of market failure in the field of SMEs innovative financing.

Joint European Resources for Micro to Medium Enterprises (JEREMIE) conducted a study to assess the gaps in order to assist Romania in selecting the most effective and innovative ways to support access to finance for SMEs. The study prepared by a team of independent experts appointed by the European Investment Fund confirmed the access problems to the financial market in Romania.

It is necessary to create a range of funding sources to meet the different needs of SMEs. The national and local administration must create the framework where the market can be developed and attract the private sector to support these actions, that both to benefit of success and to share the risks. The funding means to ensure the necessary funds for carrying out the activities of the enterprises, institutions or non-governmental organizations (NGOs) through external financial resources.

The need for funds to manufacturing, to undertake the daily activities and to follow the contractual clauses concerning the orders execution leads to the identification of new ways of financing [2].

In the context of the existing competition and economic conditions, the selection of one financing technique takes into account the financial possibilities of the entrepreneurship and its capacity to manage funds, the commercial contract elements and its subject.

An important source to financial support the enterprises is represented by the EU funds for the 2007-2013 programming period. For example, companies can obtain EU funds in order to develop their business through modernization of the production facilities, procurement of IT equipment, modernization of the tourism infrastructure as well as for investment in the human capital, through four programs: the Regional Operational Programme (ROP), the Sectoral Operational Programme

"Increase of Economic Competitiveness" (SOP IEC), the Sectoral Operational Programme "Human Resources Development" (SOP HRD), the National Rural Development Programme (NRDP).

The general objective of SOP IEC, namely the increase of Romanian companies' productivity, in compliance with the principle of sustainable development and reducing the disparities compared to the average productivity of EU [3] is in line with the thematic priority of the National Strategic Framework (NSRF), which is to increase the competitiveness of Romanian economy on long-term and it is consistent with the priority 1 of the National Development Plan (NDP), that aims at the increase of economic competitiveness and development of the knowledge based economy.

It was foreseen that for the period 2007-2013, the Sectoral Operational Programme "Increase of Economic Competitiveness" receives 2,55 billion euros.

The priority axis no.1 of the SOP IEC, "an innovative and eco-efficient productive system" aims to contribute to the consolidation and sustainable development of Romanian productive sector as well as to establish a favourable environment for enterprises' development.

This priority axis of SOP IEC refers to the efforts of supporting enterprises, especially SMEs, and concentrates both on improving the market conditions linked to the development of the industrial base, in order to revive the business environment and generate new innovative

enterprises, as well as on developing of the business sector, improving the access to capital and

fostering technological development. Improving the access to capital and supporting technological development, the target beneficiaries are the existing companies that require modernization and development of products and processes as well as the start-ups, particularly in the manufacturing sector and specialized services that need qualified and integrated assistance through an adequate development of the business environment. Taking into consideration the importance of the large enterprises from Romania, the share of turnover and jobs in the manufacturing and the role they

play in diversifying the range of products and services, the operation addressed to the direct productive investments envisages the SMEs as well as the large companies.

The Priority Axis 1 includes the following Key Areas of Intervention (KAI):

- productive and environment friendly investments and preparation for market competition, especially of SMEs;
- Access to finance for SMEs;
- Sustainable entrepreneurship development.

The SMEs sector, the most affected by the current economic crisis is supported by the SOP IEC within the Priority Axis 1, KAI 1.1 - Productive and environment friendly investments and preparation for market competition, especially of SMEs by funding 1,246 projects (up to June 30th, 2012) mostly focused on productive investments (76%) and implementation of international standards, internationalization and access to new markets.

Implementation of innovative financial instruments is essential for growth potential of SMEs and therefore, Romania decided to use JEREMIE initiative allocating, in this respect, the amount of 100 million euros, ERDF funding within SOP IEC. The funds aim to improve the access to finance for SMEs on two levels: security (2/3 of the amount) and venture capital / growth (1/3 of the amount). Taking into account the difficult financial market conditions, which resulted in a reluctance of financial institutions to provide bank loans to SMEs, JEREMIE fund contributes through its interventions to encourage financial intermediaries to finance more substantial the SMEs sector, as a result of sharing the credit risks or guarantee within the JEREMIE.

Under the Priority Axis 1, reallocations were made. Thus, due to the high interest shown by the private beneficiaries for the major productive investment, it was required to supplement the amounts allocated with 195.07 million Euro investment for SMEs and 97.53 million Euro investment for the large enterprises.

We believe that a small business based on a three-phase development model could convince European institutions to provide financing. This model is not universally valid,

but it can help to a better understanding of the development process.

In the initial phase of starting a new small business, the focus is primarily on survival and struggle to reach the return and the profitability levels before consuming the limited working capital. Typically, this phase will last between six months and three years, although in extreme cases, some small businesses will continue to fight for five years or more before reaching stability. Personal goals of entrepreneurs are focused on reducing personal financial exposure - especially if the family home was offered as security in exchange for lending - but there is still a desire as well as a sense of fulfillment and achievement. The trend of the first stage consists in accepting any business that offers even the smallest contribution to overcoming the cost and profit.

The focus is now shifting less on survival and more on increasing profits and reducing personal financial exposure. Director-owner seeks a return on invested capital and, in addition, an award for the personal effort that has been put into the business. As a result, there is a greater focus on profitability and maintaining healthy profit margins, coupled with a selective attitude towards customers. There is also a focus on customer needs, to maintain for a long time the ordinary clients as well as to improve the standards and the quality in business.

What is really characterizing the second phase is the gradually changes from the operational to the strategic thinking. Within this phase is still not a strong strategic thinking but due to the fact that the desire for expansion becomes prevalent, the shift to the strategic thinking is necessary as a prerequisite for the implementation of the following phase.

Due to the fact that the third phase is characterized by an increase of a market share and a turnover, there is also much less financial pressure on the business once the funds become available for future development. Typically, recognizing the need for change in management practices to facilitate future growth leads to increased levels of delegation. This is the fundamental factor without which the future expansion can not occur, and it is usually accompanied by the development of new managerial skills, giving the opportunity for

improved systems of delegation. At this level, decisions are primarily strategic and tactical, the operational decisions are supposed to monitor the management levels as the business grows.

In some cases, new firms go bankrupt or their owners retire or give up before they reach the end of the first phase. In other cases, the business starts only when a stable and growing market has been already established - effectively jumping to the third stage. Others, with less ambitious goals, simply decide to stop at the second stage.

Using European funding available for the Romanian entrepreneurship, is a concrete way to reduce the negative impact of the economic crisis and the austerity measures. The infusion of financial resources for investment, in various fields, from direct productive sector to the RDI and from the information and communication technology to the energy sector represents opportunities that can contribute to counteract the effects of the economic crisis aiming at economy recover.

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