OPPORTUNITIES TO FINANCE ENTERPRISES BY CAPITAL MARKET

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Abstract: The positive effects of Romania joining the European Union are business opportunities for Small and Medium Size Companies, entities that should provide products and services of best quality, in order to meet customers' expectations and to increase competitiveness.Within this context, we consider the capital market one of the solutions that can be used without high costs, while, the Romanian capital market, in spite of its instable activity, can provide accessible financing possibilities to different companies.

Keywords: capital market, competitiveness, financing possibilities, financing sources

Any organization is compelled to adjust to the environment it works in, which makes business financing a need. Any aquisition of new assets requires the raising of additional capital and long-term assets are generally financed by long-term capital. Requiring additional capital, a company has several options to raise it, respectively the use of own resources or the help given by external sources. Within the category of internal sources there are owners' or organization members' contributions along with the surplus ensuing from the organization's activity.

As far as external resources are concerned, companies may: use the financial instruments provided by capital market, that is issuing stocks and bonds, contract loans from banks, use special financing techniques (leasing, factoring, lumping, discounting).

Choosing any of the financing sources supposes several advantages and disadvantages. Thus, if entities choose to finance themselves from internal sources, they can have advantages such as keeping their financial independence and autonomy as there are no additional requests (interests, guarantees); keeping organizations' ability to make loans is a secure means to cover financial needs with the main disadvantage that they have fewer chances to invest the money in other sectors. Financing from external sources has the main advantage in getting a variable level of financial resources whose reimbursement terms can sometimes be negotiated.

In a survey regarding the financing sources used by the SME's in Romania before the EU accession it is shown that Romanian managers use as financing sources: own sources belonging to the stockholders – 44,6%, self-financing – 26,22% and bank loans – 22,22%, and hardly between 0 and 2,22% they use capital market or other special financing techniques.

1. Bank credit

The access to the funds provided by banking units requires that applying entities have a certain preparation, namely:

- getting the necessary information about the financing possibilities provided by financial organizations;
- choosing the financing organization in compliance with its credit offers;
- drafting the documents demanded by the financial organization that facilitates the access to financing;

- properly assessing the available guarantees.

The main problems that can occur when accessing and using some financing options are related to the interests and commissions charged, the need to provide the financial organization with real guarantees for credit reimbursement, the long time taken to analyze the credit papers which can cause the company to miss favourable market opportunities, the lack of previous economic and financial activities. When it comes to newly-born companies, banks are reticent to give loans since the former cannot ensure security of credit reimbursement from various reasons: they have no history, no experience, scarce elements to allow a pertinent economic and financial analysis.

On the other hand, commercial banks do not always have enough courage, know-how or financial power and decline credits because they cannot determine reimbursement. Over the last years, the financial structure of Romanian companies either corporations or SME's has significantly changed in terms of interest reduction, private property's share increase and economic restructuralization.

2. Financing by means of the capital market

Accessing the capital market can be considered a rapid and efficient way to find the necessary resources.

The main financial instruments that can be used on the capital market either as a financing source or to adopt investment decisions are: real estate, participation in collective placement, instruments of the monetary market including public securities with less than one- year due date, financial futures contracts, options, swaps on interest rate etc.

Financing by means of the capital market supposes a typical device meaning a public sale offer. An original public offer on the Romanian capital market took place in 2007, as compared to three such offers in 2006, three in 2005 and one in 2004. Therefore, 2007 features the accomplishment of SNTGN Transgaz public offer, Romania's national carrier of natural gas, between 26 November and 7 December. The Transgaz offer beat all the records Romania had previously had, attracting total submissions of 1.8 billion Euros which meant the twenty-eightfold oversubmission of the 1,177,384 offers provided. The offer price was 191,92 Lei/share and the number of submission orders was 12,089, another record. The offer's success relied on the issuer's profile, monopoly position, way to set up the revenues by regulations, and prospects related to the Nabucco project; a good offer price; the sale ability of the distribution group. As to the exchanges in the region, Romania ranks behind the Czech Republic and Hungary from the perspective of original public offers, countries that have had two original public offers and the one that ranks first is Poland's exchange where 81 public offers have taken place as compared with 28 recorded at all the other exchanges in the region.

The Romanian exchange market therefore needs new companies, either small or medium, but having potential, acting in growing sectors that are weakly or not at all represented at the exchange. They might be the fields of IT, logistics and retail.

The advantages of common stock financing of a company are that it does not force the company to pay its stockholders fixed amounts or to redeem them. As common stocks ensure a buffer against lenders' losses, the stock sale increases the credit granted to a company. In its turn, it improves the rating of bonds (of the same issuer), cuts down the debt cost and ensures the flexibility of future long-term financing actions. Thus, the company will have the basis to gather more debts or issue more shares if that is the most recommended way to raise funds.

Among the disadvantages of common bond issuing in a company there are the extension of voting rights and the increase in the submission and distribution costs of new common shares. Empirical observations show that when announcing a share issuing there is a 3% reduction of the price of industrial companies' shares. Financing by means of the capital market supposes a specific device, that is a public sale offer. Yet, it is true that SME's' access to the capital market by stock issuing depends on certain conditions regarding the entrance admission to BVB quota.

When the structure of stockholding is not desired or they want to avoid the risks of capital watering, an alternative is issuing bonds.

From the perspective of costs, statistics over the years have shown that the dividends paid when issuing new shares are more costly than the interests paid to bondholders.

As compared with loans, the bond market involves:

- lower operational and maintenance costs;
- recycling by issuing new bonds at due date;
- lower financial cost.

Bonds are a good investment to the stock investors on Romania's capital market as completing a share portfolio by bonds will generate lower risks of the portfolio by diversification as well as improve the performance by ensuring a stable revenue such as interest. bonds are also recommended to institutional investors as they can ensure higher profitability of the instruments currently used by the same institutions.

In order to attract investors, bonds should be issued at good prices and their efficiency should be higher than a bank deposit's or a treasury note's. Bonds should also be sold all throughout the country by a large network of specialized and professionally qualified people.

The first corporate bonds in Romania were issued in 1997 by Siderca S.A. Călăraşi. The company issued then 350,000 bonds being worth 6,300,000,000 Lei. The main features of the issued bonds were:

- three-year due date;
- the ability to turn bonds into shares, respectively four shares into one bond;
- the binding loan was guaranteed by the company's assets;
- the interest was 57%/year, paid every term.

The issuer's financial status deteriorated during bonds' duration which made the company find it impossible to pay interests or redeem bonds in 2000.

As it also pursued bonds' exchange listing, the shares were unlisted at the RASDAQ which made investors' facility of turning bonds into shares never come true. Although accepted at the BVB listing, the Siderca bonds have never been traded.

The amount of corporate bonds issuing actually increased to 6 in late 2007 (compared to 7 in early 2006 and 6 in late 2005): The Romanian Commercial Bank (BCR09) and International Leasing (YTLS10) in the second bond category, Carpatica Commercial Bank (BCC09) and ProCredit Bank (PRCR09) in the third bond category, and the European Investment Bank (EIB14) and World Bank (IBRD09) in the international bond category. Accomplishing bond issuing imposes, as general rules and irrespective of the category aimed for subscription, a public bond sale offer performed according to an offer prospect approved by CNVM and getting a minimum compulsory Lei loan even to 200,000Euro

3. Advantages of financing by means of the capital market

The main advantages of financing by means of the capital market actually aim to:

- improve the access to capital and financing conditions, as share issuing provides long-term capital for a company that does not need to be reimbursed, there is no interest paid as a financial obligation. On the other hand, if after share issuing the company is listed at the exchange, new share and/or bond issuing is likely to take place in more favourable conditions than the former ones;
- list companies at the exchange which also gives them the opportunity to become famous and have more prestige thus increasing the competitiveness of the goods and services they supply their customers;.
- set a real value of a company. Share issuing in a listed company is going to generate a device involving the setting up of listed shares' market value which can be extremely important in mergers or aquisitions and the value provided by the capital market (exchange capitalization) could be considered as one closer to economic reality;
- increase the listed company's prestige due to the duty of periodically informing the shareholders and all those concerned about the company's economic and financial activities;
- improve the company's market image which will lead to the reduction of future financing costs and the easier access to potential partners and customers.

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