THE STIMULATION OF SMALL AND MEDIUM-SIZED ENTERPRISES – BETWEEN THEORY AND PRACTICE

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Abstract: SMEs are outnumbering other types of firms in the Romanian economy. For this reason, the importance given to this type of enterprises must increase. One possible way of achieving this goal is stimulating their activity using means for raising the financial and legal support.

Throughout this paper we intend to identify and propose specific procedures for achieving the above mentioned objective, out of which we mention: evaluating the economic impact of the existing regulations concerning the SMEs; simplifying the procedures for obtaining the authorizations and special licenses needed for starting up the business and the ones which are issued after the firm is registered; simplifying the declaration and registration procedures for SMEs; improving the legal environment for SMEs by removing the administrative barriers. The object of our study is providing assistance for SMEs in identifying new ways of increasing and developing their business, and, last but not least, the accounting harmonization with international regulations.

Keywords: small and medium-sized enterprises, structural funds, stimulating methods, accounting implication

1. Introduction

After 1990, the Romanian economic environment has enriched itself with new actors—small and medium-sized enterprises. Today, these small and medium-sized enterprises (SMEs) are active contributors to the Romanian economic development as a whole. In the EU economy, who we are part of since the 1st of January 2007, SMEs are underlying pawns where innovative ideas and especially new jobs are being fostered. According to statistical data there are roughly 23 million SMEs in the EU that ensure about 75 million jobs and represent 99 % of the total number of enterprises functioning within the EU [1].

In this context, *the objectives of the present paper* are mainly directed towards: the place occupied by SMEs in the EU and Romanian economic sphere; the impact of SMEs on the economy's evolution as a whole; the identification of the ways in which economic growth can be stimulated through SMEs, taking advantage of economic and fiscal opportunities offered by the state, and by accessing European funds provided for that purpose; the financial and accounting implications of the presented methods for SMEs' activity stimulation.

The paper uses a deductive approach, moving from theory to practice, sometimes focusing on inductive research that consists in practical case studies aimed at verifying the extent to which certain theoretical aspects that were previously mentioned are validated from a practical point of view.

1.1 Literature review

In "Encouraging Tourism Development through the EU Structural Funds-the implementation of EU programs on Bornholm and the tourism sector's use of them" [2] Benedicte Bull designed a case study and involved 57 interviews with tourism organizations. , funding recipients and regional governments responsible for the implementation of the funds on Bornholm. In "Regional growth, national membership and European structural funds: an empirical appraisal"[3], Jackz Fazyolle and Anne Lecuyer tried to debate groth growth performances of European region over the period 1986 - 1996. John Bachtler and Ivan Turok brings together in "The Coherence of EU Regional Policy: Contrasting Perspectives on the Structural Funds" [4] a rich selection of up-to-date practical experience of EU regional policy from across Europe. In "Structural fund programs as instruments for sustainable regional development - a review of Nordic effectiveness" [5], Clement K. presented the achievements of Denmark, Finland and Sweden through 6 project examples with an associated diversity of approaches. Nicole Koenig and Eberhard E.Bischof f analyzed in "Analyzing seasonality in Welsh room occupancy data" [6] the general relationship between occupancy performance and hotels activities. Adriana Corfu, Zélia Breda and Carlos Costa, in "EU Integration and tourism destination management: The case of Portugal" [7] attempted to provide some theoretical and empirical findings on Portuguese tourism evolution during the two-decade period of EU membership. Leonas Simanauskas and Skirmantas Šidlauskas, in "Efficiency of the EU structural support and its effects on the country's progress" [8] showed the main method used by the European Union to reduce the discrepancies.

2. In fact, what do these SMEs stand for?

One definition that took the form of a recommendation was given by the European Commission in 1996. It was implemented all over the EU territory until 2003 when the said Commission, taking into account the economic development between 1996 and 2003, adopted a new recommendation by which the SMEs were redefined, recommendation that is taken into account in the elaboration of the politics, programmes and measures initiated by the European Commission for SMEs. The new definition entered into force on the 1st of January 2005. Both EU countries and also the accession countries as well as the European Investment Bank and the European Investment Fund—the two institutions acting as indispensable providers of funds for the EU states—are recommended to use the latest definition.

The main advantages offered by these economic entities can be summed up in the following way: they offer products and provide services at lower costs than the big enterprises do; they are flexible and adapt themselves easier to the market requirements, thus enhancing the economic development of the country; they represent the incubator for the future big enterprises; they encourage competition; they offer new jobs.

Moreover, the financial resources of these enterprises are scanty, the financing being, more often than not, self-financing from the owner’s pocket. In this way, the SMEs are up against real difficulties in obtaining capital or loans, especially at the beginning of their activity. The limited resources narrow down the possibilities to access new technologies or innovations. This is where one has to step in to redress the unfavorable situation of the SMEs, by raising them from the status of being mere “debutant” in the economic life to that of influential participant. This shall be done through the improvement of the production capacity, the increase of competitiveness in the human resources field and the increase of investments, all of these bearing on the subsequent evolution of SMEs but directly influenced by the financial capacity of the entity.

Consequently, in this paper we focus on the following possible ways of financial stimulation, indispensable on an active EU market: economic and fiscal advantages offered by the state; financing through structural funds (post-accession).

2.1 Economic and fiscal advantages offered to SMEs by the state

Under the state budget law, funds amounting to 0.2 % of GNP are granted each year, both at local and national level, for setting up and funding of SMEs. Also, with a view to improving the access of SMEs to funding, the National Fund of Credit Guarantee for SMEs was set up and the government annually approves stimulation programmes for setting up and developing SMEs, based on programmes compiled by the National Agency for SMEs and Cooperation.

Other advantages offered to SMEs by the state are: for criteria pertaining to turnover, 50 % discounts from the performance guarantee required in public procurement of products, services and works; free technical assistance with a view to facilitating access to specialist services in the public procurement field; first hand access to hiring and leasing available assets of independent operators, national companies and state capital companies; reduction or removal of the required guarantees and early payments for the consumption of utilities and public services provided for SMEs. Some of the fiscal advantages offered to SMEs are: duty-free imported raw materials, needed in the manufacture of products which, in turn, are duty-free on importation; duty-free and tax-exempt importations meant to work up the activity (machinery and equipment); income tax exemption for reinvested profit; other facilities: allocation of budgetary funds to finance development programmes and the set-up and development of SMEs; simplifying the administrative procedures for registration and procurement of opinions, authorizations and licenses; availability of information, assistance, consultancy, research and technologic innovation services; management professional training.

2.2 EU post-accession funds or cohesion and structural funds

A. Generalities

After accession to the EU, the Romanian SMEs shall be eligible for an array of activities co-financed through EU structural funds. Using structural instruments, the funding will help SMEs align with the quality requirements in order to cope with competition from member states and the environment requirements mapped out by the EU. Therefore, the first sector considered is the producing sector comprising investments into equipment, machinery, apparatus, procurement of technology, patents, licenses, qualified services, access to certification of international standards, implementation of environment and quality management systems.

The same instruments will be used in order to grant funds for consultancy services, preparation of business plans, and development of products and strategies for the company and to foster the set-up of new business centers and incubator units.

The structural funds for the creation of economic and social cohesion are the structural instruments used to distribute the European funds during the period 2007-2013. There are three financial instruments, known as structural funds:

- **European Regional Development Fund—**designed to reduce the imbalance between different EU regions. It will fund projects pertaining to all the three objectives of the cohesion politics, covering the following areas: research and technological development, computerization of society, transport, energy, the environment, tourism and culture, urban and rural redevelopment, support for companies and contractors, investments in social, educational and health infrastructure.
- **European Social Fund**—designed to fund priorities from two cohesion politics. The projects concerned will belong to four main areas: increase of enterprise and labour adaptability, improving access to labour market, strengthening social inclusion, promotion of partnerships for reform in employment and social inclusion.
- **Cohesion Fund**—designed to fund major projects on environment and transport infrastructure, being a continuation of ISPA fund for candidate countries.

From the point of view of financing opportunities for SMEs, the three most outstanding operational programmes are: the Sectoral Operational Programme “Increase of Economic Competitiveness”, the Regional Operational Programme and the Sectoral Operational Programme “Human Resources Development”.Summing up the priority axes specific to each operational program above-mentioned, table 1, presents the correlation between the priority axes.

Table1: Correlation Operational Program—Priority axes peculiar to SMEs

OPERATIONAL PROGRAMME	PRIORIT AXES	ACTIONS
OP “Increase of Economic Competitiveness”	1. Innovative production system	- productive investments - support in obtaining qualified services for the implementation of European standards; - support for enterprise internationalization and access to new markets; -consultancy for SMEs; - integration in the chain of suppliers
	2. research, technological development, innovation for competitiveness	-research-development partnerships; - investments in infrastructure;

	3.information and communication technology	-fostering the usage of information technology; - development of e-economy;
	4. increase of energetic efficiency and sustainable development of the energetic system	- improving the energetic efficiency; - turning to profit the renewable energy sources
OP Regional	1. strengthening local and regional business environment	- creating and/or improving local and regional business supporting structures; - renewal of abandoned industrial sites;
	2. local and regional tourism development	- increase the quality of tourism services and the services for the recovery of historical and cultural heritage
OP "Human Resources Development"	1. education and vocational training supporting economic growth and the development of a knowledge-based society	-ensuring quality in the continuing of vocational training;
	2. connection of life long learning	- improve access and participation to continuing vocational training
	3. increase of labour adaptability	- training and support for enterprises and employees for the facilitation of adaptability

B. The financial mechanism

Besides the EU contribution from its own budget, the financial mechanism for the use of Structural and Cohesion Funds imposes strict rules regarding the intervention of the beneficiary state in supporting, through its share of the project's value, the expected and actual achievement of the operational programmers' objectives. The maximum amount of EU contribution is established by the Council Regulation No. 1083/2006, in compliance with EU financial perspective for 2007-2013. At the level of an operational program, Romania is eligible for a maximum Community financing ratio of 85 % for all the three funds: ERDF, ESF and CF [4].

To this effect, the amount of money that Romania will receive as aid from the EU budget through Cohesion and Structural Funds is 19.668 billion euros. 12.661 billion thereof are to be allotted through structural funds within the "Convergence" objective, 6.552 billion euros will be allotted through the Cohesion Fund and 455 million euros will be allotted to the "European Regional Cooperation" Objective.

According to the proper financial mechanism the beneficiary of the project is supposed, firstly, to incur costs for the carrying on of the activities approved in the financing contract. The beneficiary will require that the costs be settled after they are verified for legal, eligible and effective conformity. This might be a disadvantage because SMEs first incur costs from their own sources after which they require the settlement.

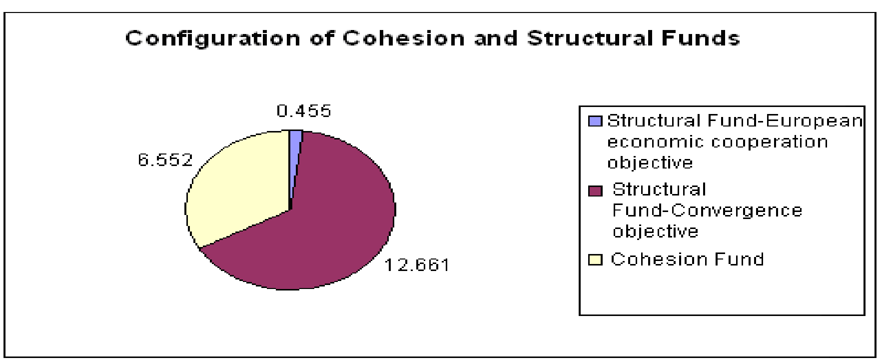

Fig.1 Configuration of Cohesion and Structural Funds

For the reimbursement of costs incurred within a project, a payment application is submitted to the relevant authority. The costs are evaluated by taking into account the eligibility rules and the content of the application. Therefore, in order to be eligible, such cost must meet the following cumulative conditions:

- It must be incurred by the beneficiary between the 1st of January 2007 and the 31st of December 2013, unless otherwise decided by the management authority in the financing contract;
- It must be accompanied by invoices, in compliance with the national legal dispositions, or other accounting supporting documents equivalent to invoices, under which costs are identified and audited;
- It must comply with the dispositions of the financing contract, concluded by the management authority or the intermediate body, for and on behalf thereof, for the approval of the operation;
- It must comply with the national and Community law.

The in-kind contribution can be considered an eligible cost if it consists of lands, buildings, equipment, materials. In this case, it is considered as the beneficiary's own expenditure and must not exceed the total contribution of the beneficiary by more than 20 %, as was settled in the financing contract. In the case of lands, buildings and equipment, their value is certified by an independent authorized auditor. In the case of buildings and equipment, these must be part and parcel of the operation's outcome. The lands and buildings must be free of charge and should not constitute the subject-matter of unsettled disputes.

There is, also, a range of expenditures that are not eligible, such as: the value added tax, interest and other credit commissions, collateral costs supervening in a leasing contract, procurement of second hand equipment, fines and costs. After the afore-mentioned conditions will have been met, the payments owed to the beneficiary can be incurred in two ways, namely: direct payment—the Paying Authority transfers money directly in the beneficiary's account; indirect payment—the Paying Authority transfers money in the account of the Paying Unit attached to the Management Authority and the Paying Unit pays the beneficiary.

The funding of the payment application does not take place where incongruity with national and Community law can be proven. Consequently, precise knowledge by each applicant of the rules concerning Structural Funds allotment is compulsory.

C. The accounting treatment applicable to structural funds

In order for the theoretical presentations regarding the financial and accounting mechanism of the structural funds to be relevant, we will use a numerical example that will bring forward the necessary steps that must be taken from the concluding of the financing contract until the settlement proper.

Stage 1: Submitting the documents which must contain the following: financial and economic analysis; risk analysis; feasibility study; technical project (where applicable); building authorization; environment authorization; environment strategic evaluation; documents confirming the co-funding; details regarding in-kind contribution; property certificate/concession act; accounting documents of the company; fiscal records of the person authorized to submit the financing application and the person responsible with the project; certificate proving that the applicant does not incur debts to the state budget (obtained from the Financial Administration).

Stage 2: The eligible beneficiaries fill in the financing application and the annexes required by the Management Authority.

Stage 3: The financing application is submitted to the Intermediate Body/the Management Authority.

Stage 4: The administrative conformity of the financing application with the internal procedures of each Management Authority is checked.

Stage 5: Then follows the check of the project eligibility and the technical and financial evaluation of the project.

Stage 6: The project is approved and the financing contract is signed.

Stage 7: The investment is carried out through the procurement of equipment approved in the financing contract.

Numerical example: An enterprise procures a piece of equipment necessary for the implementation of the alternative energy system approved through the Operational Program "Increase of Economic Competitiveness", priority axe 4—improvement of energy efficiency and sustainable development of the energy sector.

%	=	404 „Suppliers of non-current assets"	11.900
2131 „Plant and machinery"			10.000
4426 „Input VAT "			1.900

Stage 8: Payment of the debt for the equipment procured:

404 „ Suppliers of non-current assets"	=	5121 „Cash at bank in lei"	11.900

Stage 9: For the reimbursement of the money allotted in the investment carried out within the project, a payment application is submitted to the relevant authority.

Stage 10: The eligibility rules and the content of the application are checked;

Stage 11: Settlement of the investment carried out;

5121 „ Cash at bank in lei"	=	132 „Irredeemable loans representing investment subsidies"	8.000

Stage 12 (only for accounting): The depreciation of the investment over a period of 10 years (for example):

6811 „Expenses with depreciation of non-current assets"	=	2813 "Depreciation of plant and machinery"	1.000

Simultaneously, acknowledging the share of the non-reimbursable loan as current income:

132 „ Irredeemable loans representing investment subsidies"	=	7584 „Incomes from investment subsidies"	800

Conclusion

In conclusion, although the Structural Funds represent for Romania a new field, they should be an impetus to knowledge and to permanent involvement of all possible beneficiaries because, after all, it is in the interest of the beneficiary to get involved. The progress of each EU country depends not only on the funds proposed to be allotted from the EU budget, but mainly on each one's capacity to access these funds, thus proving it is difficult to obtain money and even more difficult to spend it.

Through the present paper we have presented a few ways in which SMEs can be stimulated, taking into account the fact that these represent the backbone of every economy. As this paper shows, the state is not and must not be the only responsible body for the boom of an entity. In the context of the integration into the European Union, the active involvement of each SME in obtaining the funds necessary to subsequent evolution is absolutely imperative. Asking is not enough; it is interest and exactingness that must be shown towards one's own business since financing possibilities are not short.

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