

INCREASING THE MANAGEMENT AND PRODUCTIVE CAPACITY OF ROMANIAN SMES AND LARGE ENTERPRISES BY ACCESION OF STRUCTURAL FUNDS – SOP IEC

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The European Integration came with new challenges for the Romanian enterprises especially for the SMEs, the opportunities arising from operating on the European Single Market and the possibility for accession of European Regional Development Funds. The main programme designed to offer access for small, medium and large Romanian enterprises to European funding is the Sectorial Operational Programme “Increase of Economic Competitiveness”- SOP IEC. The area of intervention “D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs” a) with a financial allocation of 430 million lei in the period 2007-2013, supports strengthening and upgrading of the productive sector by tangible and intangible investments for small and medium enterprises (excluding micro enterprises) and also for large enterprises.

Key words: European financing, large enterprises, small and medium enterprises, POS CCE, SOP IEC, structural funds

The article’s JEL codes: G38, O19

1. Introduction

The European Integration came with new challenges for the Romanian enterprises especially for the SMEs, the opportunities arising from operating on the European Single Market and the areas eligible for the European Regional Development Funds. The Sectorial Operational Programme “Increase of Economic Competitiveness” (further referred to as SOP IEC) is one of the seven instruments (Operational Programs), which offer the financial support for the consolidation and modernization of productive sector through investments. The SOP IEC aims to strengthen the strategic focus of the Economic and Social Cohesion policies across Romania, and to make the correct and appropriate linkages to the European policies and the Lisbon Strategy for growth and job creation.

The **general objective** of SOP is the increase of Romanian companies’ productivity, in compliance with the principle of sustainable development, and to reduce the disparities compared to the average productivity of the European Union. The target is an average annual growth of GDP per employed person by about 5.5%. This will allow Romania to reach an approximate of 55% of the EU average productivity by 2015.

The specific objectives of the SOP “Increase of Economic Competitiveness” are:

- Consolidation and environment-friendly development of the Romanian productive sector,
- Establishment of a favorable environment for sustainable enterprises’ development,
- Increase of the R&D capacity, stimulation of the cooperation between RDI institutions and enterprises, and increase of enterprises’ access to RDI
- Valorization of the IC&T potential and its application in the public (administration) and private sector (enterprises, citizens)
- Increased energy efficiency and sustainable development of the energy sector

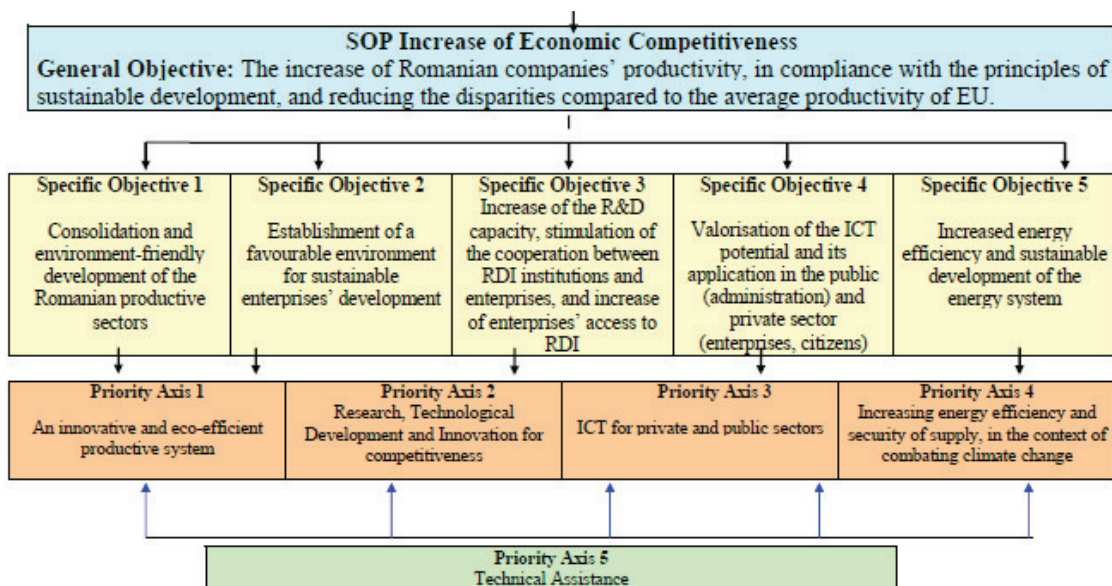


Figure 1. SOP Increase of Economic Competitiveness

(Extracted and adapted from the *Framework Document - Sectorial Operational Programme "Increase of Economic Competitiveness"*)

Taking into account both the identified possibilities for improvement of the competitive position of Romanian companies and the areas eligible for the European Regional Development Funds support, the following Priority axes have been identified in the SOP IEC:

- Priority Axis 1: An innovative and eco-efficient productive system
- Priority Axis 2: Research, Technological Development and Innovation for competitiveness
- Priority Axis 3: ICT for private and public sectors
- Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change
- Priority Axis 5: Technical Assistance

2. Presentation of the Area of Intervention SOP IEC "D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs."

The Priority Axis 1: An innovative and eco-efficient productive system of the Sectorial Operational Programme "Increase of Economic Competitiveness" refers to the efforts of supporting enterprises, especially SMEs, and will concentrate 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. The objectives which are set to be fulfilled by this priority axis are:

- Consolidation and sustainable growth of the Romanian productive sector
- Establishment of a favorable environment for enterprises' development.

The main key areas of intervention, divided in subprograms, are:

- D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs
- D 1.2. Access to finance for SMEs
- D 1.3. Sustainable entrepreneurship development

From the above mentioned areas of intervention the main instrument of the SOP IEC in order to support and finance quality improvement of the production processes of the Romanian companies

is the area of intervention “D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs.”

The specific objective of this key area is represented by the consolidation and sustainable growth of the Romanian productive sector can be accomplished through:

- The revival of the productive sector based on extension and modernization, by investments in new technology, equipment, machineries and by acquisition of patents, trademarks, licenses and know-how,
- Innovation of production both concerning the production processes and the products,
- Adaptation to European and International Standards and certification of management systems,
- Access of the Romanian companies to new markets
- Promotion of sustainable development, decreasing of the negative impact on the environment and growing the international competitiveness.

The following **indicative operations** are established:

- a)Support for strengthening and upgrading the productive sector by tangible and intangible investments
- b)Support for the implementation of international standards
- c)Support to access to new markets and internationalization

3. Criteria of eligibility for applicants

For the first indicative operation mentioned above: “D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs.” a), two state aid schemes are designed, for large enterprises (over 250 employees) and for SMEs with more than 9 employees: small and medium enterprises (micro enterprises will be supported under a similar operational programme in the Regional Operational Programme).

In order to check if an entity is an SME the first step is to verify if it is an enterprise. Further it must be established the data of the analyzed enterprise according to the following three criteria: staff headcount, annual turnover and annual balance sheet.

Comparing the data of the analyzed company with the thresholds for the three criteria will allow determining whether the company is a micro, small or medium-sized enterprise. It is necessary to note that while it is compulsory to respect the staff headcount thresholds, an SME may choose to meet either the turnover or balance sheet ceiling. It does not need to satisfy both and may exceed one of them without losing its status.

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million (in 1996 € 40 million)	or	≤ €43 million (in 1996 € 27 million)
Small	< 50	≤ €10 million (in 1996 € 7 million)	or	≤ €10 million (in 1996 € 5 million)
Micro	< 10	≤ €2 million (previously not defined)	or	≤ €2 million (previously not defined)

Figure 2. Categories of SMEs according to the new thresholds

(Extract from “*The New SME Definition – User Guide and Model Declaration*”, p. 14)

The new definition offers this choice since, by their nature, enterprises in the trade and distribution sectors have higher turnover figures than those in manufacturing. Providing an option between this criterion and the balance sheet total, which reflects the overall wealth of an enterprise, ensures that SMEs engaged in different types of economic activity are treated fairly. The distribution of the companies in the micro, small or medium-sized enterprises categories is presented in the figure no. 2 above.

For this operation, the financial support will be paid, through economic and financial appraisal of the applications for funding and in accordance with the provision of art. 57 of Council Regulation No. 1083/2006129, in order to avoid any financial support for:

- Public funding which would lead to deadweight;
- Investment deriving from delocalization from other member States in order not to involve the Structural funds in such public funding;
- Enterprises in financial difficulties.

Also are not eligible for financial support companies in the fields of activities (CAEN codes): B - extractive industry, codes 051,052, 061, 062, 0721, 0892, 091, 099, C- processing industry codes 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 120, 191, 192, 2051, 206, 242, 243, 2452, 254, 2591, 301, 304, 331, 332, E- water alimentation, waste treatment codes 360, 370, 381, 382, 390 and F – Building construction codes 411, 4399.

The operation D1.1.a), presented above, supports strengthening and upgrading of the productive sector by tangible and intangible investments for small and medium enterprises (excluding micro enterprises) and also for large enterprises. The operation has a financial allocation of 430 billions lei, in the period 2007-2013, divided between regions as following:

Nr.	Regions	Financial allocation
1	Bucharest- Ilfov	43 billions lei
2	Regions: Center, North-West, West, South East	172 billions lei
3	Regions: North – East, South Muntenia, South West Oltenia	215 billions lei

Figure 3. Financial allocation within the SOP IEC D1.1 a) operation

(Extract from “*Ghidul Solicitantului POS CCE Axa 1 Domeniul 1.1 – Sprijin Financiar în valoare de până la 1.075.000 lei acordat pentru investiții în IMM*”, 2009)

The financial support for this operation is 60% grant for small enterprises in the Region of Bucharest Ilfov, 70% grant for the small enterprises in other regions of Romania. In case of the middle enterprises they benefit of 50% grant for those located in the region Bucharest-Ilfov and 60% grant for the middle enterprises located in other regions of Romania.

4. Eligibility of activities proposed for financing

Considering the specificity of the SOP IEC programme and especially of the area of intervention “D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs” the projects proposed for financing within this operation, are aiming to increase the economic development of the enterprises and the competitiveness of Romanian companies on the European Single Market. In order to fulfill this aims, the following activities are supported within the programme and are considered eligible:

- Creation of new production units,
- Extension of an existent production unit in order to increase capacity of production,

129 COUNCIL REGULATION (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, published in the Official Journal L210, p. 25-78,

- Diversification of production on an existent site, as a result of initiation new products and services,
- Modernization of the company, including changes of the production technology,
- Acquisition of intangible goods like patents, trademarks, licenses and know-how,
- Consultancies and training services linked with the activities above.

As seen above these activities are mostly encouraging new investments especially in the field of high-tech industry and highly productive industry support services.

The main criteria of selection for financing a project under this field of activity are:

- Relevance of the project for the realization of the objectives of the SOP IEC and especially the contribution brought by the project to the fulfillment of the SOP IEC objectives and especially of the D1.1a) field of intervention.
- Quality and coherence of the project and especially by justification for the need of public financing, by the quality of the technical-financial proposal and by presenting of the correlation between the objectives of the project and the obtained results.
- Maturity of the project and especially the level of preparation of the activities within the project, availability of the land, existence of the technical studies and permits, etc.
- Sustainability of the project which is concerning mainly the capacity of the applicant to ensure the financial and technical maintenance and operation of the investment for at least three years after the end of the project.
- Capacity of the beneficiary for implementing the project: management capacity, ISO certification, qualification of the management and of the personnel of the applicant.

If these criteria will be met the project will be selected for financing under the framework of SOP IEC programme and especially of the area of intervention “D1.1. Productive and environment friendly investments and preparation for market competition, especially of SMEs”. The implementation period for a project developed within this area of intervention is at most 24 months.

5. Conclusions

The European Integration came with new challenges for the Romanian enterprises especially for the SMEs, the opportunities arising from operating on the European Single Market and the possibility of accessing European Regional Development Funds. The main programme designed to offer access for small, medium and large Romanian enterprises to European funding is the Sectorial Operational Programme “Increase of Economic Competitiveness”- SOP IEC. The area of intervention “D1.1 a). Productive and environment friendly investments and preparation for market competition, especially of SMEs” is financing projects which aim to increase the economic development of the production enterprises and to increase the technical and management competitiveness of Romanian companies on the European Single Market. The operation D1.1.a), mentioned above, supports strengthening and upgrading of the productive sector by tangible and intangible investments for small and medium enterprises (excluding micro enterprises) and also for large enterprises. The operation has a financial allocation of 430 billions lei, in the period 2007-2013, divided between regions. The main criteria of selection for financing a project under this field of activity are: relevance of the project for the realization of the objectives of the SOP IEC, quality and coherence of the project, maturity and sustainability of the project and capacity of the beneficiary for implementing the project. The implementation period for a project developed within this area of intervention is at most 24 months.

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