

FINANCING, A MAJOR ISSUE IN ROMANIAN SMES COMPETITIVENESS

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The economic and social importance of the small and medium enterprise (SME) sector is well recognized in academic and policy literature. It is also recognized that these actors in the economy may be underserved, especially in terms of finance. This has led to significant debate on the best methods to serve this sector. There have been numerous schemes and programs in markedly different economic environments. However, there are a number of distinctive recurring approaches to SME finance. This paper present the current situation in Romania, based on a comprehensive quantitative research.

Key words: Romania, SMEs, financing, competitiveness

JEL classification: D8, L2, M1

1. General perspective

In terms of SMEs financing, the outcome of our research¹⁹⁸ reveals that: **71.26% of the enterprises used their own resources for financing their activity**, **49.52% contracted bank loans**, **25.88% used leasing** as a financing source, 5.57% contracted non-reimbursable funds and 3.82% of the SMEs contracted loans from financial institutions.

We notice that 1.43% of SMEs appealed to factoring, 0.88% used guarantees from the Romanian SMEs Guarantee Fund, 0.40% of companies accomplished share emission on capital market and only 0.24% used other financing forms (credits from providers, associates/ shareholders and other natural persons, sponsors etc.)

This situation highlights the average capacity of some enterprise to finance their activity by themselves, the decrease of the amount of bank loans and leasing compared to previous years and a reduced use of other financing modalities for the majority of small and medium companies in Romania. See figure 1.

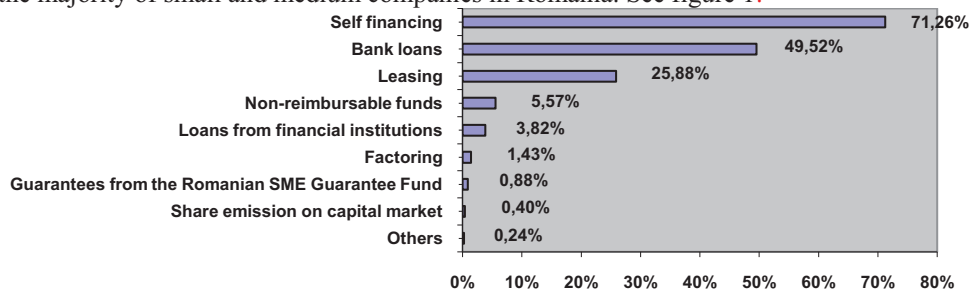


Figure 1.

SMEs financing

Analysis of financing modalities depending on **SMEs regional status** reveals the following important aspects:

- SMEs within the South Eastern region register a higher percentage of companies that used leasing as a financing source (35.00%) and non-reimbursable funds (8.75%);
- economic units in South West register the highest proportion of SMEs that used their own resources for financing their activity (75.79%) and the lowest weight of firms that used factoring (1.05%);
- companies from the Center used in higher degree bank loans (60.87%), factoring (4.35%) and the Romanian SMEs Guarantee (2.90%);

¹⁹⁸ The research has been conducted on a sample of 1256 SMEs – micro, small and medium sized enterprises – operating in all economic sectors, covering every age category and each of the eight development regions, being considered as representative for the goals of the research and for the Romanian SMEs' situation

- companies in South West, North West and Center distinguish themselves by the absence of SMEs that accomplished share emissions on capital market, enterprises in South East and West didn't contracted loans from financial institutions, companies from West and North West didn't used factoring, SMEs from South West and West didn't access the FNGCIMM.

See table 1 for further details.

Table 1

SMEs financing by development regions

No	Financing sources	Development regions							
		North East	South East	South	South West	West	North West	Center	Bucharest
1.	Own resources	74.81%	61.88%	69.57%	75.79%	70.31%	67.14%	57.97%	75.38%
1.	Bank loans	57.89%	51.25%	58.70%	46.32%	26.56%	48.57%	60.87%	42.64%
2.	Leasing	25.56%	35.00%	26.81%	28.42%	31.25%	21.43%	30.43%	20.56%
2.	Share emission on capital market	0.38%	0.63%	0.72%	0.00%	1.56%	0.00%	0.00%	0.25%
3.	Non-reimbursable funds	5.26%	8.75%	8.70%	5.26%	3.13%	5.71%	5.80%	3.81%
3.	Loans from financial institutions	3.01%	0.00%	3.62%	4.21%	0.00%	7.14%	1.45%	6.35%
4.	Factoring	1.13%	1.25%	2.17%	1.05%	0.00%	0.00%	4.35%	1.52%
4.	Guarantees from the Romanian SME Guarantee Fund	0.75%	1.25%	0.72%	0.00%	0.00%	1.43%	2.90%	0.76%

Analyzing SMEs by **size classes** (see table 2), we noticed that:

- the weight of SMEs using bank loans, leasing, share emission on capital market, non-reimbursable funds, factoring and guarantees from the Romanian SME Guarantee Fund increase as the size of the enterprises increases, due to the enhancement of activities and economic potential;

- the percentage of enterprises that used their own resources for financing is higher among micro enterprises (73.00%) and the small sized enterprises are the most numerous that used loans from financial institutions (4.24%).

Table 2

SMEs financing by size classes

No	Financing sources	Size classes		
		Micro enterprises	Small enterprises	Medium enterprises
1.	Own resources	73.00%	66.97%	71.43%
2.	Bank loans	42.88%	61.21%	62.18%
3.	Leasing	19.25%	35.45%	43.70%
4.	Share emission on capital market	0.25%	0.30%	1.68%
5.	Non-reimbursable funds	3.38%	8.48%	12.61%
6.	Loans from financial institutions	3.75%	4.24%	3.36%
7.	Factoring	1.00%	1.82%	3.36%
8.	Guarantees from the Romanian SME Guarantee Fund	0.50%	0.91%	3.36%

SMEs analysis by **fields of activity** (table 3), highlights the following aspects:

- companies within services hold the lowest weight of SMEs that used bank loans (42.06%), but a higher percentage of firms that used their own resources for financing (75.70%);

- among companies from the industrial field one can record the most of the enterprises that accessed non-reimbursable funds (11.11%) or guarantees from the Romanian SME Guarantee Fund (3.11%);

- SMEs within constructions register the highest weight of companies that contracted bank loans (64.52%), leasing (58.06%), share emission on capital market (3.23%), factoring (12.90%) and obtained more frequently loans from financial institutions (6.45%);

- companies that carry out their activity in trade business, tourism and constructions distinguish themselves through the absence of SMEs that accessed guarantees from the Romanian SME Guarantee Fund;

- commercial companies from tourism did not use the factoring and enterprises within the industrial field did not use share emission on capital market.

Table 3

SMEs financing by fields of activity

No	Financing sources	Fields of activity					
		Industry	Constructions	Trade	Tourism	Transportation	Services
1.	Own resources	72.00%	64.52%	64.38%	68.42%	69.52%	75.70%
2.	Bank loans	60.00%	64.52%	48.75%	60.53%	49.73%	42.06%
3.	Leasing	32.00%	58.06%	25.63%	15.79%	26.74%	20.56%
4.	Share emission on capital market	0.00%	3.23%	0.00%	0.00%	0.53%	0.47%
5.	Non-reimbursable funds	11.11%	6.45%	5.00%	10.53%	2.41%	5.14%
6.	Loans from financial institutions	0.89%	6.45%	3.75%	2.63%	3.48%	5.61%
7.	Factoring	1.33%	12.90%	3.13%	0.00%	0.80%	0.70%
8.	Guarantees from the Romanian SME Guarantee Fund	3.11%	0.00%	0.00%	0.00%	0.80%	0.23%

2. Quality of banking services

The outcome of our research shows that, according to the entrepreneurs, the banks providing the best services for SMEs are (figure 2): **ROMANIAN COMMERCIAL BANK** (indicated by 43.97% of companies), **BRD-GROUPE SOCIÉTÉ GÉNÉRALE** (35.68%), **TRANSILVANIA BANK** (24.49%), **RAIFFEISEN BANK** (19.96%), **OTP BANK** (16.01%), **BANCPPOST** (13.31%), **LIBRA BANK** (12.05%), **ING BANK** (11.38%), **UNICREDIT ȚIRIAC BANK** (10.99%), and **ABN AMRO ROMANIA** (3.95%).

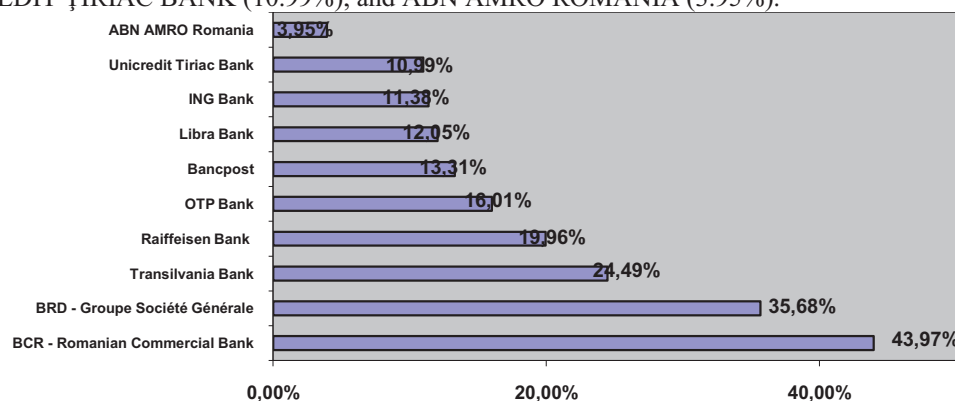


Figure 2

Quality of banking services

The entrepreneurs/ managers mentioned most frequently the following banks as having a low quality regarding the banking services: **BANCPPOST** (indicated in 21.57% of the firms), **BRD-GROUPE SOCIÉTÉ GÉNÉRALE** (17.78%), **TRANSILVANIA BANK** (14.29%), **RAIFFEISEN BANK** (13.70%), **COMMERCIAL ROMANIAN BANK** (de 13.41%), **UNICREDIT ȚIRIAC BANK** (9.33%), **OTP BANK** (7.79%), **ING BANK** (6.41%), **LIBRA BANK** (4.08%), and **ABN AMRO ROMÂNIA** (3.50%). See figure 3.

One can observe that **the subjects' opinions regarding the quality of the banking services are very different**, the banks evaluated more often holding positions both in the top for best quality services and in the top of worst quality services. We must underline the fact that the banks have been perceived in a positive manner more frequently than in a negative one (except for **BANCPPOST**), which reveals **an ascending evolution regarding the quality of the banking field in Romania**. We will therefore refer only to the positive appreciations recorded by SMEs:

Analysis of banking preferences depending on **SMEs regional distribution** reveals that:

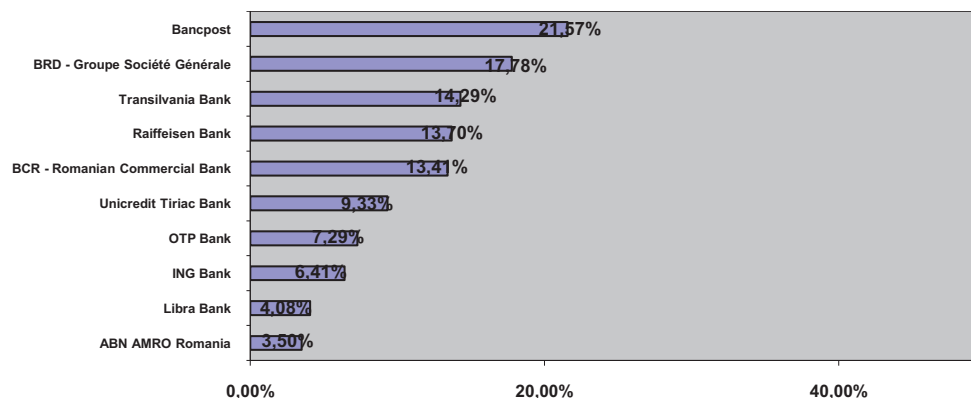


Figure 3. Low quality of banking services

- BCR maintains its first position in top in South East, South, South West and Bucharest;
- BRD is favorably appreciated in a higher number of companies in West (55.56%) and in a lower number of SMEs in the North Western region (14.75%);
- TRANSILVANIA BANK is frequently preferred in North West (59.02%) and Center (46%). See table 4.

Table 4

Quality of banking services by development regions

No	Bank	Development regions							
		North East	South East	South	South West	West	North West	Center	Bucharest
1.	BCR - ROMANIAN COMMERCIAL BANK	20.59%	58.33%	57.94%	63.77%	37.78%	22.95%	46.00%	50.61%
2.	BRD - GROUPE SOCIÉTÉ GÉNÉRALE	19.75%	44.17%	37.30%	39.13%	55.56%	14.75%	36.00%	43.90%
3.	TRANSILVANIA BANK	19.75%	35.83%	25.40%	14.49%	24.44%	59.02%	46.00%	15.85%
4.	RAIFFEISEN BANK	20.59%	16.67%	37.30%	26.09%	20.00%	13.11%	18.00%	14.33%
5.	OTP BANK	25.21%	7.50%	22.22%	2.90%	0.00%	14.75%	2.00%	7.62%
6.	BANCPPOST	11.76%	10.83%	17.46%	26.09%	0.00%	11.48%	8.00%	14.02%
7.	LIBRA BANK	18.91%	8.33%	4.76%	1.45%	2.22%	4.92%	0.00%	5.79%
8.	ING BANK	5.04%	3.33%	1.59%	5.80%	22.22%	6.56%	4.00%	24.39%
9.	UNICREDIT TIRIAC BANK	14.71%	10.00%	3.97%	5.80%	8.89%	3.28%	12.00%	14.02%
10.	ABN AMRO ROMANIA	2.52%	0.83%	0.79%	4.35%	15.56%	1.64%	4.00%	6.10%

Taking into account the impact of **companies' size classes** on the perception of the quality of banking services (see table 5), we remark that:

- ROMANIAN COMMERCIAL BANK maintains its position in SMEs preference top, irrespectively of their size;
- BCR and TRANSILVANIA BANK are most frequently favorably appreciated within small sized enterprises (45.39%, respective 25.89%), and BRD - GROUPE SOCIÉTÉ GÉNÉRALE is preferred more often by micro enterprises (37.50%);
- the percentages by which RAIFFEISEN BANK, OTP BANK, LIBRA BANK and ABN AMRO ROMANIA are favorably appreciated increase together with the enterprises' size.

Table 5

Quality of banking services by size classes

No	Bank	Size classes		
		Micro enterprises	Small enterprises	Medium enterprises
1.	BCR - ROMANIAN COMMERCIAL BANK	43.45%	45.39%	43.43%
2.	BRD - GROUPE SOCIÉTÉ GÉNÉRALE	37.50%	33.33%	30.30%
3.	TRANSILVANIA BANK	24.09%	25.89%	23.23%
4.	RAIFFEISEN BANK	17.68%	21.63%	30.30%
5.	OTP BANK	13.26%	17.38%	30.30%
6.	BANCPPOST	11.89%	17.73%	10.10%
7.	LIBRA BANK	11.28%	12.77%	15.15%
8.	ING BANK	14.18%	4.96%	11.11%
9.	UNICREDIT TIRIAC BANK	10.06%	13.12%	11.11%
10.	ABN AMRO ROMANIA	4.73%	1.42%	6.06%

Considering the appreciation of bank services by **SMEs fields of activity**, we remark that:

- BCR is best quoted by transport companies (51.27%) and less frequently preferred by companies within constructions (29.17%);
- BRD - GROUPE SOCIÉTÉ GÉNÉRALE is more frequently favorably perceived by the enterprises from transport companies (38.85%) and less frequently by those within tourism (25.81%). BRD - GROUPE SOCIÉTÉ GÉNÉRALE and OTP BANK hold together the first position in the evaluation top of the construction field (33.33%);
- TRANSILVANIA BANK registers the most numerous positive appreciations among enterprises from tourism (32.26%) and registers the least preferences within constructions (16.67%). See table 6 for further details.

Table 6

Quality of banking services by fields of activity

No	Bank	Fields of activity					
		Industry	Constructions	Trade	Tourism	Transportation	Services
1.	BCR - ROMANIAN COMMERCIAL BANK	48.15%	29.17%	37.30%	35.48%	51.27%	39.38%
2.	BRD - GROUPE SOCIÉTÉ GÉNÉRALE	35.98%	33.33%	28.57%	25.81%	38.85%	36.26%
3.	TRANSILVANIA BANK	24.34%	16.67%	19.05%	32.26%	23.89%	26.91%
4.	RAIFFEISEN BANK	24.87%	29.17%	23.02%	12.90%	17.83%	18.13%
5.	OTP BANK	13.76%	33.33%	23.81%	25.81%	14.65%	13.60%
6.	BANCPOST	13.23%	4.17%	14.29%	29.03%	14.33%	11.33%
7.	LIBRA BANK	12.70%	29.17%	15.08%	12.90%	9.87%	11.33%
8.	ING BANK	4.76%	8.33%	6.35%	9.68%	10.51%	17.85%
9.	UNICREDIT TIRIAC BANK	8.47%	16.67%	16.67%	6.45%	9.87%	11.33%
10.	ABN AMRO ROMANIA	2.65%	0.00%	3.17%	0.00%	4.14%	5.38%

3. Conclusions

- More than 70% of SMEs subject to our research finance their economic activities from own sources.
- 49.52% of the enterprises contract bank loans to finance their activities.
- 25.88% of SMEs use leasing, 5.57% obtained non-reimbursable funds, 3.82% borrowed from financial specialized institutions, 1.43% financed through factoring, 0.88% used guarantees from the Romanian SME Guarantee Fund and 0.40% used share emissions on the capital markets.
- Higher levels of self-financing are recorded for SMEs with less than 5 years of experience (73.71%), SMEs from the South Western region (75.79%), micro-enterprises (73%), Joint Stock Companies (73.58%) and economic agents within the services field (75.70%).
- The frequency of bank loans is higher for SMEs with more than 15 years of experience (58.97%), companies from Center (60.87%), medium companies (62.18%), Limited Liability Companies (49.65%), enterprises within the constructions field (64.52%) and economic units with superior performances (52.30%).
- ROMANIAN COMMERCIAL BANK (43.97%), BRD-GROUPE SOCIÉTÉ GÉNÉRALE (35.68%) and TRANSILVANIA BANK (24.49%) have banking services highly appreciated by SMEs.
- RAIFFEISEN BANK (19.96%), OTP BANK (16.01%) and BANCPOST (13.31%) represent the second sample in the top of small and medium companies regarding the quality of banking services.

4. References

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