

THE IMPACT OF THE EUROPEAN REGIONAL DEVELOPMENT FUND ON SMES – EVIDENCE FROM ROMANIA

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Abstract: *As the first programming period for Romania is reaching its end, more information becomes available regarding the effects of the European Union funds on the Romanian economy. Going beyond the mathematical absorption rate, it is important to analyse these effects, especially with regard to the small and medium-sized enterprises (SMEs), in order to improve the future implementation documents for 2014-2020. The purpose of this article is to measure the impact of the European Regional Development Fund (ERDF), granted within one of the 2007-2013 operational programmes, on the net turnover, number of staff and gross profit of the small and medium-sized enterprises from one Romanian county – Iasi. Overcoming the difficulties of gathering reliable data, the empirical research presented in this article tests three hypotheses. The first one is that the EU funding provided to an SME leads to an increase in its net turnover, number of staff and gross profit. The second hypothesis is that there is a direct relationship between the amount of the grant given to an SME and the evolution of the three previously mentioned parameters. The third and last tested hypothesis is that the SMEs that implemented more than one EU-funded project have a better evolution than the ones that implemented only one. The conclusions of our study include recommendations for the implementation guides that are currently being drafted by the responsible national authorities. They also include suggestions with regard to the availability of data concerning the EU-funded projects, especially in the context of the new requirements of the European Union regarding e-cohesion and information and communication. In this context, we also explore the potential benefits of implementing projects that complement each other instead of independent projects. As such, the research presented in this article aims to contribute to a better understanding of the impact of the EU regional development policy and to the improvement of the legislative and procedural framework of its implementation.*

Keywords: SMEs; regional development; European Regional Development Fund; complementarity; e-cohesion.

JEL classification: O18;R11.

1. Background

2007-2013 was Romania's first programming period as a member of the European Union. The nonreimbursable assistance that was provided to Romania by the EU was implemented under 7 operational programmes under the Convergence objective.

These programmes covered a wide range of investment areas, from the development of transport, environment and energy infrastructure, the development of human resources and administrative capacity to investments in competitiveness and innovation. One of these programmes is the 2007-2013 Sectoral Operational Programme Increase of Economic Competitiveness (SOPIEC), financed by the European Regional Development Fund (ERDF) and having a total budget of 11.2 bln. Lei (Ministry of European Funds, 2015).

SOPIEC was designed to support the increase of the Romanian enterprises productivity,

including SMEs, by investing in the productive equipment of the companies, supporting the adoption of the international standards and the internationalization of enterprises, providing access to finance, investing in research and development capabilities and Information and Communication Technologies etc. The programme comprises several priority axes, each focused on a specific field of intervention. The most relevant part of the programme for the SMEs is the first priority axis called “An innovative and eco-efficient productive system”, which comprises three components (“Key Areas of Intervention”): one regarding the productive investments and also market preparation, one regarding the access to finance via a financial engineering instrument and one regarding the support of entrepreneurship (Ministry of Economy and Finance, 2012: 10-17).

Within the first component, the programme provides financial assistance for investments in equipment and technology, including production premises, acquisition of patents and licenses, under the operation 1.1.1 named “Support for strengthening and upgrading the productive sector by tangible and intangible investments”. This operation is addressed both to SMEs (except microenterprises) and large companies.

2. Hypotheses

The empirical research presented in this article tests three hypotheses. The first one is that the EU funding provided to an SME leads to an increase in its net turnover, number of staff and gross profit. The second hypothesis is that there is a direct relationship between the amount of the grant given to an SME and the evolution of the net turnover, number of staff and gross profit. The third and last tested hypothesis is that the SMEs that implemented more than one EU-funded project have a better evolution than the SMEs that implemented only one, measured by the 3 financial indicators previously mentioned.

3. Methodology

The population on which the study was performed is made up of small and medium-sized enterprises that correspond to several criteria. The definition of an SME used in this paper is the one stipulated in Law 346/2004 with the subsequent modifications, according to which an enterprise is considered to be a small or a medium-sized enterprise if it has less than 250 employees, a turnover not higher than 50 million euros and a balance sheet total of less than 43 million euros.

The criteria were chosen in order to make the research manageable due to the large number of SMEs supported by the financial assistance provided by the European Union to Romania during 2007-2013 (1.928 projects only under the operation 1.1.1 of SOP IEC, according to the 2013 Annual Implementation Report of the programme).

The first criterion implies that the enterprise had actual expenditures reimbursed during 2009-2013 from SOP IEC, from the operation 1.1.1 described above. This criterion excludes the microenterprises (with under 9 persons employed) from the population, as these are not eligible under operation 1.1.1. We considered more relevant to take into consideration the amount of funds actually received by each enterprise and not the value of the initial financing contract as it is possible that not all the budget of the project is spent or financial corrections are applied due to deficiencies in implementation.

The second criterion refers to the geographical location of the enterprise. One county was chosen –Iasi, which belongs to the North-East region of Romania, which was the least developed region in 2006, in terms of GDP per capita, according to the Regional Operational Programme 2007-2013.

On the basis of the data available for 2011 and presented in the Development Plan of the NE Region for 2014-2020, out of the 6 counties of the North-East region, Iasi participates to the greatest extent to the GDP of the region with 28,77%. Iasi County has also the largest number of active enterprises compared to the other counties in the region (27,4%). The third criterion is that the SME has not cancelled the project. When a project is cancelled, the public contribution has to be reimbursed to the national authorities and as

such the enterprise does not receive any financial support in the end.

A fourth criterion regards the availability of data. In this respect, it is important to mention that the EU regulations ask the institution responsible for managing an operational programme (namely a managing authority) to publish the list of beneficiaries that receive financial assistance from the EU funds. Nevertheless, as this requirement involves only the publishing of the name of the beneficiary, the title of the project and the public contribution, the amount of information regarding the projects depends on how much the managing authority is willing to make available to the general public.

In the case of SOP IEC, the Ministry of European Funds, within which the managing authority is located, publishes a regularly updated list of contracted projects. This list includes the name of the beneficiary, the title and the detailed budget of the project and also the reference to the call of projects within which each project was submitted. The latest version of the list includes contracted projects up to 31.03.2015. The list does not include information regarding the geographical location of the enterprise or the amount of funds that were actually reimbursed to the enterprise (Ministry of European Funds, 2015). Therefore, in order to identify the SMEs from the Iasi County, the online search option provided by the website of the Ministry of European Funds was used. This option allows the user to access the national database of contracted projects – SMIS-NSRF, in which information regarding the geographical location and the reimbursement claims is available. Nevertheless, the information provided by this facility does not allow the identification of the small and medium enterprises. The only SMEs included in the population were the ones for which information was available at the beginning of April 2015 regarding the reimbursement claims.

Following the above mentioned criteria, the first step was to generate the list of projects with the help of the searching tool from www.fonduri-ue.ro. The filters used were SOPIEC, operation 1.1.1, Iasi County and a list of 61 projects corresponded to them. The 61 projects belonged to 54 enterprises.

In order to identify which of these 54 enterprises are SMEs and which ones are large companies, a crosscheck was performed with the list published by the managing authority, mentioned above. The crosscheck revealed that out of the 54 enterprises 4 were large companies, 1 was wrongfully registered to the North-East region and 2 had cancelled projects. The population of 47 SMEs was verified using again the detailed information regarding the reimbursement claims. Out of the 47 SMEs, 14 had reimbursement claims between 2009-2013, 20 had the first claim paid in 2014 or 2015 and 13 have no reimbursement claim paid by the responsible authority.

For the 14 remaining SMEs, verification was made in order to identify if they also had other projects, not belonging to operation 1.1.1, for which they had reimbursement claims paid between 2009-2013. The result was that 4 SMEs had such projects.

For this verification, we used the list of contracted projects in the North-East region, published by the NE Regional Development Agency and which includes information for all operational programmes, including the programmes regarding rural development and fisheries. The latest available version of the list is from September 2013. The list includes a unique registration code of each project (SMIS code) which allows the verification of the reimbursement claims using the online search tool from www.fonduri-ue.ro.

To sum up, the population analyzed is made up of 14 SMEs, which have 18 projects. The population is not considered representative for Romania.

For this population, two types of data were collected. First, information about the reimbursed amounts between 2009-2013. When the enterprise had 2 projects, the amounts were added. Second, information about the net turnover, number of staff and gross profit for 2009 and 2013 was collected from the website of the Ministry of Public Finances.

4. Results

The first hypothesis tested was that the EU funding provided to an SME leads to an increase in its net turnover, number of staff and gross profit. This hypothesis has 3 components and the results are not consistent for all of them, as it is shown in the following figures. First, 57% of the SMEs showed an increase in the net turnover and 43% showed a decrease, as presented in Figure 1 below.

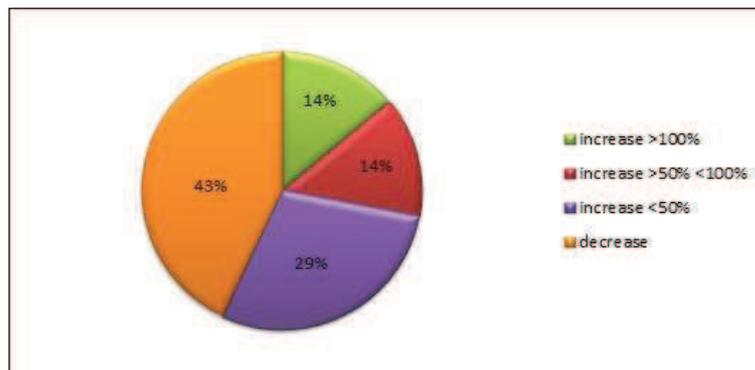


Figure 1: Evolution of net turnover 2009-2013

Source: adaptation of data from www.mfinante.ro

Second, 78% of the SMEs showed an increase in the number of staff during 2009-2013 and 22% showed a decrease, as presented in Figure 2 below. The increase in the number of staff could also be explained by the fact that a project proposal would receive more points during the appraisal process on the basis of the number of jobs created and maintained. For instance, a maximum of 8 points out of 100 were given for a project that would lead to the increase of 20% of the staff employed (Ministry of Economy, Trade and Business Environment, 2011:77).

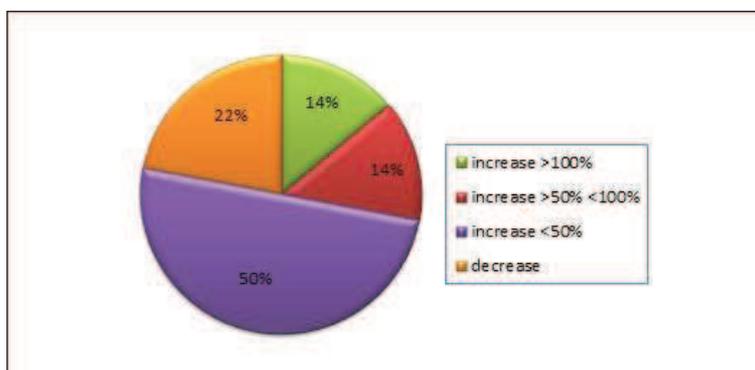


Figure 2: Evolution of number of staff 2009-2013

Source: adaptation of data from www.mfinante.ro

Finally, 57% of the SMEs showed an increase in the gross profit during 2009-2013 and 43% showed a decrease, as presented in Figure 3 below.

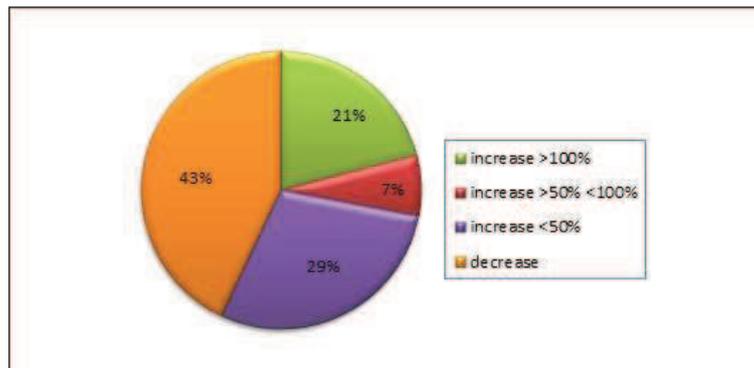


Figure 3: Evolution of gross profit 2009-2013
Source: adaptation of data from www.mfinante.ro

Considering the results obtained, the first tested hypothesis is confirmed, in the sense that the EU funding provided to an SME leads to an increase in its net turnover, number of staff and gross profit. The data indicate a strong relationship between the EU funding provided to an SME and the increase of its number of staff and a moderate link regarding the net turnover or gross profit.

The second hypothesis is that there is a direct relationship between the amount of the grant given to an SME and the evolution of the net turnover, number of staff and gross profit. The first correlation is presented in Figure 4 below.

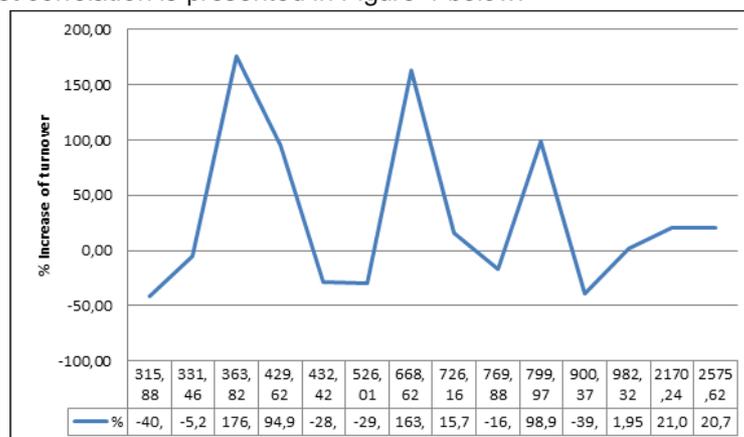


Figure 4: Variation of increase of net turnover in relation to the value of the grant (thousands lei)

Source: adaptation of data from www.mfinante.ro and www.fonduri-ue.ro

As the figure clearly illustrates, there is no identifiable link between an increasing value of the grant provided to an SME (nonreimbursable assistance comprising ERDF and national budget contribution) and the increase of net turnover. A similar situation can be observed with regard to the variation of increase in the number of staff in relation to the value of the grant, as presented in Figure 5.

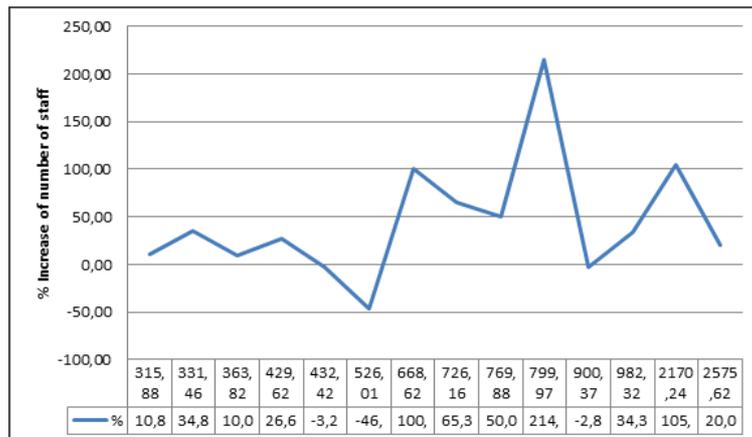


Figure 5: Variation of increase of number of staff in relation to the value of the grant (thousands lei)

Source: adaptation of data from www.mfinante.ro and www.fonduri-ue.ro

Finally, regarding the variation of increase in gross profit in relation to the value of the grant, one of the values that presented an abnormal increase in gross profit (over 10.000%) was eliminated from Figure 6 in order to better reflect the variation of the other values.

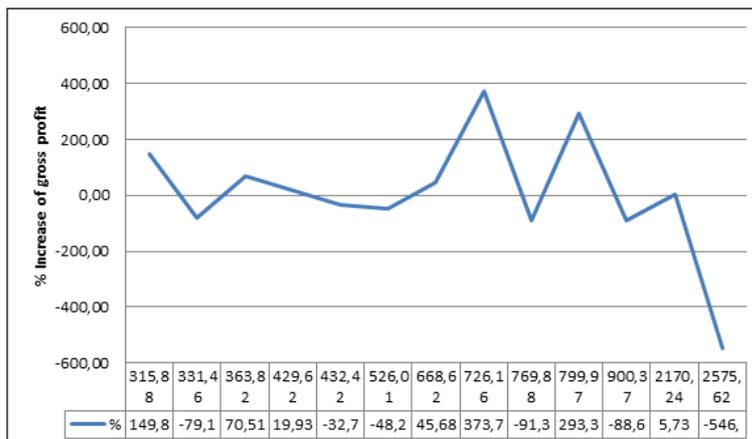


Figure 6: Variation of increase of gross profit in relation to the value of the grant (thousands lei)

Source: adaptation of data from www.mfinante.ro and www.fonduri-ue.ro

Considering the results obtained, the second tested hypothesis is not confirmed, in the sense that there is no clear relationship between the amount of the grant given to an SME and the evolution of its net turnover, number of staff and gross profit.

The third and last tested hypothesis is that the SMEs that implemented more than one EU-funded project have a better evolution than the ones that implemented only one. In order to identify if an enterprise had implemented other projects, for which it had received reimbursements during 2009-2013, a search was performed on a centralized document comprising all contracted projects in the North-East region (North-East Regional Development Agency, 2013). When another project was identified, it was verified for the status of the reimbursement claims with the online search tool from www.fonduri-ue.ro mentioned above.

The result was that 4 SMEs had another project, all of them financed under SOPIEC but not under operation 1.1.1. Out of the 4 projects, 3 regarded the access to the internet and one regarded the implementation of international standards.

The results of the analysis of the evolution of the net turnover, number of staff and gross profit for the two groups of SMEs, one with 1 project and one with 2 projects, is presented in Table 1.

Table 1: SMEs presenting an increase of the net turnover, number of staff and gross profit

Indicator	SMEs with 1 project	SMEs with 2 projects
Increase of net turnover	50%	75%
Increase of number of staff	80%	75%
Increase of gross profit	50%	75%

Source: adaptation of data from www.mfinante.ro

Out of the 10 SMEs that had only 1 project, only half presented an increase in the net turnover and the gross profit, compared to the 4 SMEs with 2 projects, out of which 75% presented such an increase. In terms of the increase in the number of staff, more SMEs having 1 project presented an increase than the ones with 2 projects, probably because of the benefits of creating more jobs during the project appraisal process.

As a result, the third hypothesis is partially confirmed with regard to the net turnover and the gross profit.

5. Conclusions

According to the research performed at the level of the SMEs from Iasi County which had projects approved under operation 1.1.1 of SOPIEC and reimbursement claims paid in 2009-2013, there is a link between the EU funding provided to an SME and an increase in its net turnover, number of staff and gross profit. The data indicate a strong link in the case of the number of staff and a relatively weak link in the case of the net turnover and gross profit.

The data did not reflect any correlation between the increase in the net turnover and gross profit and the increase in the amount of the grant. Nevertheless, the data illustrated a greater number of SMEs that had an increase in these indicators in the case of the SMEs that had more than one project for which reimbursement claims were paid by the responsible authorities.

In other words, the data suggests that it is more important the number of projects, covering more types of investments, and not necessarily the value of the grant. This translates into the necessity of having a more strategic approach with regard to providing grants to the SMEs. This could be achieved by prioritizing in the appraisal process the projects that have an integrated vision regarding the investments and the development of the enterprise. Also, more attention could be paid to identifying and promoting complementarity links between projects, prioritizing the interventions that implemented together will have a greater impact than implemented separately.

All of these require access to information that has to be accurate and up to date. The research performed and presented in this paper reflects the fact that the available sources of data regarding the projects implemented under 2007-2013 programming period are not complete (different pieces of information can be found in several sources of information), are not entirely accurate (the location of an enterprise was not correct), are not up to date (the centralized list of contracted projects was updated only up to September 2013) and was not presented in a format easy to process (most documents are in .pdf format and the online search option does not allow the export to Excel).

More information should be made available to the general public, in a format that allows data processing and concentrated in a single, accessible source. This could be achieved in 2014-2020 due to two new requirements imposed by the EU regulations. One of these

requirements is the e-cohesion. According to art.122 of Regulation 1303/2013, member states must provide the beneficiaries with the possibility of exchanging information with the responsible authorities in electronic format. This requirement implies that an important amount of information will exist in electronic format, information that could be made available to the public.

The second requirement regards information and communication. According to art.115 of Regulation 1303/2013, member states must publicize the list of projects financed in a format which allows data processing and on a single website for all the operational programmes approved in the member state. This requirement will enable more in-depth analyses and research in the future.

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