

PUBLIC POLICIES TO SUPPORT ENTREPRENEURSHIP AND SMEs. EMPIRICAL EVIDENCES FROM ROMANIA

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Abstract

Based on a set of variables measured in the Global Entrepreneurship Monitor (GEM) study, we analyzed the entrepreneurial profile of Romanian economy after the onset of financial crisis. We found a positive attitude towards entrepreneurship in Romania, but the financial crisis started in 2008 severely affected the entrepreneurial environment.

In many countries, the lack of an entrepreneurial culture and financial constraints are seen as critical barriers to entrepreneurship. In the light of global financial crisis, the support of entrepreneurial activities has risen as the entrepreneurship has the potential to foster economic recovery. In the second part of the paper we analyze policy actions implemented by the Romanian authorities in order to support SMEs in coping with the effects of financial crisis. We have found that the most used policy tools have been public subsidies for new businesses and loan guarantees.

The paper highlights the main weaknesses in the design and implementation of public policies in Romania and recommends some policy action to improve SMEs' access to finance. The results of this study can be useful for improving the local entrepreneurial environment and also for designing new policy actions aimed to improve the SMEs' access to financing.

Keywords: entrepreneurship, public policy, SMEs' financing, financial crisis, Romania.

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1. Introduction

Supporting entrepreneurship and SMEs, namely facilitating their access to finance on reasonable terms, is a priority both nationally and at EU level. The government strategies to support SMEs developed in Romania after 1990 gives a great importance to access to finance. Also in the European Union, 'Small Business Act' for Europe accords special attention to facilitate SMEs' access to finance.

Thorough understanding of the phenomenon of entrepreneurship and their factors (internal and external) determines the starting point in developing public policies to support SMEs. Also, evaluating the results of past government measures represents the condition to enhance future policies.

In Romania, like in many Central and Eastern European (CEE) countries, the process of deleveraging initiated by subsidiaries of multinational banks, a sharp decline in bank profitability, and an erosion of bank capital affected corporate lending and, to a larger extent, SMEs' financing. Romanian SMEs currently face difficulties in accessing finance due to both demand and supply side constraints. On the supply side, Romanian banks are under pressure mostly due to the high level of non-performing loans (one of the highest in the European Union). On the demand side, (1) the lack of sufficient collateral and track record in the case of start-ups, very young firms, micro and small enterprises and (2) poor business performance and insufficient information for medium-sized firms determine banks to be reluctant to approve new lending. The aim of the paper is to analyze the public policies implemented after the onset of the global financial crisis in order to foster entrepreneurship and to support SMEs from Romania.

The rest of the paper is organized as follows. In the next section, a review of the existing literature on public policies to support entrepreneurship and SMEs is provided. The third section presents the entrepreneurial environment in Romania during and after the financial crisis. Section four assesses the public policies for supporting entrepreneurship and SMEs in Romania implemented over the period 2008-2013. Concluding remarks follow in the last section.

2. Literature review

An extensive empirical literature has documented the positive effects of entrepreneurship on job growth, innovation and economic growth. Numerous studies (Vos *et al.*, 2007; Beck, Demirgüç-Kunt and Maksimovic, 2008) found that SMEs face higher financial constraints as large firms and the lack of external financing represents a barrier in their survival and development. The global financial crisis which started in 2008 deeply affected the SMEs and exacerbated the financial constraints they faced. Given their important role in the economic recovery from the current economic and financial crisis, many governments initiated (new) programs to foster SME financing, including government subsidized lines of credit, public guarantee funds, (public) venture capital funds, and other public SMEs support schemes.

Another line of research developed mainly in recent years refers to policy analysis to support entrepreneurial activity. Thus, many authors and international institutions active in analyzing the entrepreneurial phenomenon developed articles dedicated to policies to support entrepreneurs in various countries (OECD, 2009; United Nations Economic Commission for Europe, 2012; OECD/The European Commission, 2013; Wilson and Silva, 2013; Wehinger, 2013).

OECD is a leader in studying the effects of the financial crisis on SMEs from its member countries. Soon after the onset of financial crisis, OECD (2009) started to study the effects of the global crisis on SMEs' and entrepreneurs' access to finance and also the policy actions implemented by governments in order to tackle these issues. The report found that extension of loans and loan guarantees were the most used policy measures to improve conditions for access to finance by SMEs and entrepreneurs. In 2010, OECD has launched an Assessment of Government Support Measures to Facilitate SME Access to Finance in the Global Crisis (OECD, 2010). Secondly, in order to monitor SME financing trends and needs, it developed a Pilot OECD Scoreboard on SME and Entrepreneurship Financing Data and Policies starting 2012 (OECD, 2012). OECD and the European Commission (2013) study the policy actions for inclusive entrepreneurship in Europe. The paper presents policy practices from EU member states designed for unemployed and excluded communities.

Wilson and Silva (2013) analyzed policy measures to support seed and early-stage financing for SMEs in 34 OECD countries. Table 1 presents the various financing instruments available in these countries during the financial crisis. The authors found that many OECD countries implemented supply side policy interventions during the financial crisis. Grants, loans and credit guarantees schemes are widely used across OECD economies to ease financial constraints for SMEs. Many OECD countries have also some type of government equity programme in place in the form of direct investment through government funds, fund of funds and public/private co-investment funds. Furthermore, tax incentives (front-end and back-end) and Young Innovative Companies programs have been often used by governments in order to improve the SMEs' access to finance.

Table 1: Financing instruments used by OECD countries during the financial crisis

Type of instrument	Number of OECD countries	Change in support (last 5 years)
Grants, Loans and Guarantees	30	Increased in 25 countries
Tax: YIC (Young Innovative Companies)	9	New in 3 countries
Tax Incentives: Front-end	15	Increased or new in 9 countries
Tax Incentives: Back-end	12	Unchanged in most countries
Equity Funds: Public	14	Increased in 7 and new in 3 countries
Equity: Fund of Funds	21	Increased in 8 and new in 8 countries
Equity Funds: Co-investments	21	Increased in 11 and new in 6 countries

Source: Wilson and Silva, 2013

Wehinger (2013) provides an extensive review of policy measures to support SME lending in OECD countries during the financial crisis. He found that policy support played an important role in overcoming many of financial constraints faced by SMEs.

To the best of our knowledge, this is the first study to assess the public policies aimed to support entrepreneurship and SMEs in Romania. Numerous studies undertaken until now have excluded Romania from the sample, most likely due to the difficult access to information. We use data from the Adult Population Survey and the National Experts Survey of the GEM project. We also employed hand-collected data for public policies in order to assess the effects of public actions to support entrepreneurship.

3. Entrepreneurial profile of Romanian economy over 2007-2013

Analyzing data from the Global Entrepreneurship Monitor (GEM), we highlight several features of individual perceptions and entrepreneurial activity in Romania in 2007-2013. After the onset of the financial crisis, the percentage of individuals who believe there are opportunities to start a business in the area they live in decreased to the lowest level within the period (14%, in 2009). After that, in the light of improved macroeconomic conditions, the perception of entrepreneurial opportunities started to improve continuously, reaching the highest value in 2012 (37%) (see Table 2).

Table 2: Entrepreneurial attitudes and perception towards entrepreneurship in Romania (2007-2013)

Variable	2007	2008	2009	2010	2011	2012	2013	2013 EU28
Media Attention for Entrepreneurship	50	56	47	47	57	55	61	49.0
High Status Successful Entrepreneurship	62	69	67	66	69	74	73	65.5
Entrepreneurship as Desirable Career Choice	61	-	58	66	68	71	74	56.9
Know Startup Entrepreneur Rate	42	38	35	39	29	30	28	-
Entrepreneurial Intention	11.7	8.5	6.3	8.6	24.7	27	23.7	13.5
Fear of Failure Rate	33	49	53	41	36	41	37	39.8
Perceived Opportunities	26	26	14	18	36	37	29	28.7
Perceived Capabilities	29	24	27	38	42	38	46	42.3

Source: Global Entrepreneurship Monitor, 2014

In the same time, the percentage of individuals who believe they have the required skills, knowledge and experience to start a new business (so called ‘perceived capabilities’) remained relatively constant in the first three years, followed by a 10% increase in the second part of the period (2010-2013). It is interesting to note that Romania exhibits higher evaluation of these two perceptions than the EU 28 average (see Table 2).

The fear of failure rate increased sharply together with the worsening of the financial crisis, and starting with 2010 to meet a reduction under the average EU-28 countries.

The entrepreneurial intentions reflect the percentage of individuals who expect to start a business within the next three years. The value of this variable decreased in the first three years down to 6.3% in 2009, and then tripled to the level of 27% in 2012. For

the last year with available data (2013), Romania exhibits the highest entrepreneurial intention rate (23.7%), well above the EU-28 average (13.5%).

GEM provides information about the way the society assesses the visibility and attractiveness of entrepreneurship. Table 2 presents the evolution of three variables used in this regard, namely: media attention for entrepreneurship, high status successful entrepreneurship, and entrepreneurship as desirable career choice. Romania exhibits high level on all attitude measures. Entrepreneurship is considered to be a good career choice by 74% of individuals, compared to only 56.9% for EU28 average. Also, in Romania entrepreneurs are afforded high status and receive positive media attention.

The total early-stage entrepreneurial activity rate (TEA), the most important measure of GEM, reflects the percentage of individuals aged 18-64 in an economy who are a nascent entrepreneur or owner-manager of a new business. It includes individuals who are actively involved in setting up a business they will own or co-own, respectively individuals who are owning and managing 'a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months' (Global Entrepreneurship Monitor, 2011, p. 1). TEA has increased steadily in Romania from 4% in 2007 to 10.1% in 2013, a value well above the EU28 average (see Table 3).

Table 3: Entrepreneurial activity in Romania (2007-2013)

Name	2007	2008	2009	2010	2011	2012	2013	2013 EU28
Total early-stage Entrepreneurial Activity for Female Working Age Population	3.1	2.1	3.2	3.2	7.3	5.3	7.9	6
Total early-stage Entrepreneurial Activity for Male Working Age Population	5	5.9	6.9	5.1	12.5	13.2	12.4	10
Improvement-Driven Opportunity Entrepreneurial Activity: Relative Prevalence	38	34	31	47	34	38	32	47.0
Necessity-Driven Entrepreneurial Activity: Relative Prevalence	14	34	34	31	41	24	32	22.7
Established Business Ownership Rate	2.5	2.1	3.4	2.1	4.6	3.9	5.4	6.4
Total early-stage Entrepreneurial Activity (TEA)	4	4	5	4.3	9.9	9.2	10.1	8.0
New Business Ownership Rate	1.3	1.6	2.3	1.1	4.5	3.8	4.2	3.3
Nascent Entrepreneurship Rate	2.9	2.5	2.8	3.3	5.6	5.5	6.2	4.8

Source: Global Entrepreneurship Monitor, 2014

GEM measures the motivations to start businesses by two variables: improvement-driven opportunity entrepreneurial activity and necessity-driven entrepreneurial activity. As Table 3 shows, the motivations to start a business in Romania differ from one year to another. The percentage of necessity-driven entrepreneurs, people that are pushed into starting a business because they have no other options for work, increased 2.4 times in 2008 compared to 2007, a fact that can be partially explained by the effect of financial crisis. During the economic downturns, individuals tend to start businesses because there is an insufficient supply of jobs and they have to create a source of income. In addition, in developed economies or in innovation-driven economies, less than 10% of entrepreneurs are motivated by necessity.

Established Business Ownership rate reflects the percentage of individuals aged 18-64 in an economy who are currently owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months (Global Entrepreneurship Monitor, 2011). According to the GEM report 2013, the relation between TEA and EBO is the following: ‘TEA rates tend to be high in emerging economies, but established business activity is often low’ (Global Entrepreneurship Monitor, 2014, p. 34). In the innovation-driven economies, the opposite pattern is characteristic. In the case of Romania, the established business ownership rates are less than half of TEA rate, highlighting that the new businesses have limited sustainability over time.

The third set of variables measures the economic impact of entrepreneurship on job growth expectation, innovation and internationalization. The first variable (growth expectation early-stage entrepreneurial activity) reflects the entrepreneurs’ expectations about the potential for their businesses and also their ambitions to grow their ventures (Global Entrepreneurship Monitor, 2014). Table 4 shows job expectation as a percentage of TEA for the period 2007-2013. We notice that in the first three years, job expectations decline from 32% in 2007 to 14% in 2009, while in the second part of the period the entrepreneurs’ expectations about the potential for their businesses improved substantially.

Table 4: Entrepreneurial aspirations in Romania (2007-2013)

Name	2007	2008	2009	2010	2011	2012	2013
International Orientation early-stage Entrepreneurial Activity	18	49	27	27	39	39	32
New Product early-stage Entrepreneurial Activity	36	34	39	29	43	48	47
Growth Expectation early-stage Entrepreneurial Activity: Relative Prevalence	32	24	14	33	45	49	44

Source: Global Entrepreneurship Monitor, 2014

The second variable (New Product early-stage Entrepreneurial Activity) reflects the percentage of early-stage entrepreneurs with innovative products. Similar to the first variable, the second variable exhibits a ‘V-pattern’: a decrease in the first part of the period and a rebound in the second part.

Romanian entrepreneurs started to have an international orientation in the aftermath of European Union integration. International orientation declines during the hardest part of the financial crisis (2009 and 2010) and regains its importance in the last three years (see Table 4).

Entrepreneurial activity and entrepreneurship dynamics depend on a large extent on the start-up financing. Table 5 presents the evolution of informal investor’s rate in selective countries from Central and Eastern Europe. In Romania there is a decrease of this indicator until 2009 because the financial crisis has affected the risk appetite of investors. In the period 2011-2013 the percentage of informal investors substantially increased, its value being above the regional average, but slightly inferior to countries like Czech Republic, Estonia, Lithuania, and Slovak Republic.

Table 5: Financing entrepreneurial ventures in Central and Eastern European countries (2007-2013, %)

Country	2007	2008	2009	2010	2011	2012	2013
Croatia	2.5	3.6	3.1	3.2	3.8	3.7	3.4
Czech Republic	-	-	-	-	6.8	-	7.7
Estonia	-	-	-	-	-	8.7	6.6
Hungary	0.8	1.1	4.7	4.1	4.7	4.5	3.4
Latvia	1.6	5	6.7	10.6	7.1	7.3	7.9
Lithuania	-	-	-	-	6.1	9.3	7.3
Poland	-	-	-	-	3.1	4.1	3.1
Romania	4.6	2	1.9	3.2	6.3	6.2	5.2
Slovak Republic	-	-	-	-	7.8	7.2	7.3
Slovenia	3.2	2.9	2.8	3.4	3.4	3.8	3
Average	2.54	2.92	3.84	4.90	5.46	6.09	5.49

Source: Global Entrepreneurship Monitor, 2014

4. Assessment of the public policies for financing SMEs and supporting entrepreneurship in Romania

4.1. *Financial constraints in Romania during and after the economic and financial crisis*

Starting the fourth trimester of 2008, the macroeconomic environment deteriorated significantly in Romania. The peak of the crisis in Romania has been achieved in 2009 and 2010. SMEs were affected in several aspects: difficult access to bank loans, decreased economic performance, and increased risk aversion of investors.

The need for supporting entrepreneurial activity in Romania is highlighted by numerous studies nationwide, but also at international level allowing comparisons with other states. Several surveys conducted at the regional level in Romania in 2009, the year in which the financial and economic crisis is at the highest level in our country, highlight the negative effects on SMEs. According to these surveys, SMEs' access to finance has been considered one of the main obstacles to business in Romania in 2009 (Fundatia Post-Privatizare, 2011). Also, Romania experienced a drop in new firm registration starting 2009 and a sharp increase of the number of firms which suspend their activities.

At European Union level, the European Central Bank (ECB) and the European Commission (EC) are conducting every two years surveys on the SMEs' access to finance (Survey on the Access to Finance of Small and Medium-sized Enterprises – SAFE). Table 6 presents the SMEs' most pressing problems over the period 2009-2013. Access to finance was the second most pressing problem for Romanian SMEs, after the 'finding customers' concern in 2009 and 2011. The last survey (2013) highlighted that competition and regulation are the most pressing problems for Romanian SMEs, followed by finding customers and access to finance.

Table 6: SMEs' most pressing problem in Romania and EU27 over the period 2009-2013

SMEs' most pressing problem	2009		2011		2013		
	EU27	Romania	EU27	Romania	EU28	EURO AREA	Romania
Finding customers	29.10	32.50	24.10	25	22.4	24.1	17.5
Competition	12.80	8.10	14.60	12.80	13.8	11.7	21.9
Access to finance	16.10	19.10	15.10	14.80	15.4	16.3	15.0
Costs of production or labor	7.70	5.70	12.20	15	12.9	13.9	9.1
Availability of skilled staff or experienced managers	7.80	5.40	13.60	5.10	14.2	14.2	7.8
Regulation	7.20	9.00	7.70	9.20	14.2	12.6	21.2
Other	15.00	18.70	9.70	16.70	7.1	7.1	7.7
DK/NA	4.40	1.40	2.90	1.40	-	-	-

Source: European Central Bank, 2013

Obstacles in financing SMEs in Romania persisted even after the improving of the macroeconomic environment. The results of the survey conducted by the European Central Bank and European Commission are supported by barometers of opinion conducted by Ernst & Young in the past two years. According to Ernst & Young surveys, 93% (in 2012) and 90% (in 2013) of entrepreneurs under 40 years old consider difficult or very difficult to finance their businesses (Ernst & Young, 2014).

4.2. Policies to support entrepreneurship and SMEs in Romania

Creation, development and survival of SMEs depend to a large extent on access to finance. Given the key role that entrepreneurs and SMEs play in the economy, several states implemented numerous programs to support entrepreneurship and SMEs by providing financial support. Since the bank loan is the main source of external financing for SMEs in Romania, reducing the supply of credit on short term or long term had negative effects on their activity. As financial constraints were the main obstacles in the development of SMEs during the financial and economic crisis, public policies should primarily consider finding mechanisms to support entrepreneurship by facilitating access to finance.

Public programs to support entrepreneurship in Romania took into account two main pillars after the onset of the financial crisis:

1. Providing financial support from the state budget for the establishment and development of SMEs; and
2. Developing credit guarantee funds for start-ups.

Annex 1 presents the results of government programs to support entrepreneurship for the period 2008-2013. Figures for 2014 are projections estimated by the authorities responsible for implementing the programs. Public programs aimed at providing financing to various fields, such as: stimulating the creation and development of micro enterprises by young entrepreneurs (P.I, P.II); entrepreneurship education for youth (P.II.) and women (P.V); facilitating the access of SMEs to guarantees and loans (P.III and P.IX); supporting traders, artisans and craftsmen (P.VI and P.VII);

creation and development of business and technological incubators (P.IVA); support the innovation process (P.VIII).

From the Annex 1 it can be observed that the government continued multiannual programs financed by the state budget (P.II, P.IV, P.V, P.VI, and P.VII) for developing entrepreneurship and SME support, and also starting with 2011, the government launched two new programs to facilitate SME financing (P.III) and to stimulate the creation and development of micro-enterprises by young entrepreneurs (PI.). Only in 2012 a national program to support innovative entrepreneurship appears. Thus, the National Scientific Research (ANCS) has launched a scheme for financing innovative SMEs, called 'Innovation checks for SMEs', with an annual budget for a three years period in amount of 15.5 million RON.

The reduced amount of funds allocated to these programs, and the poor information of potential beneficiaries of these programs have made the number of supported businesses to be small compared with the number of existing SMEs in Romania.

A second area of intervention was to improve the credit guarantee system for SMEs. Thus, a first step in the crisis context was the creation of the Romanian Guarantee Fund, which became operational in 2010. This measure was intended to facilitate SME's access to bank loans and to reduce financing costs by completing an operational system consisting of commercial banks, guarantee funds and counter funds. Starting with 2010, in Romania there are five credit guarantee institutions, namely: Romanian Loan Guarantee Fund (FRGC), Rural Credit Guarantee Fund (RCGF), Export-Import Bank of Romania (Eximbank), the National SME Credit Guarantee (FNG-CIMM), and the Romanian Counter (FRCG).

Of these, the most important institution to support SME access to finance is FNG-CIMM. This granted guarantees for SME loans from commercial banks or other authorized sources. However, FNGCIMM also granted direct funding to SMEs. Even if the number of beneficiaries and the guarantees' value provided by these institutions have experienced substantial growth in the period 2009-2013, the share of these guarantee funds is far below the needs of SMEs. Despite the measures taken, the volume of loans to SMEs in Romania represents only 2.3% of GDP in 2011, compared to an EU average of 5.5%.

We found that there was no public policy for supporting high-growth enterprises over the period 2008-2013. In many economies high-growth enterprises have a key contribution to job creation, innovation and value added. In this respect, in Romania there should be adopted successful models regarding the promotion of dynamic businesses with growth potential, known as 'gazelles'.

From the performed analysis it has been observed that support for the internationalization of SMEs has been reduced. Except for a program to support SME participation in fairs and exhibitions, public policies have not had a clear strategy and other effective measures to support SME's internationalization. A national program which provides SMEs with information, suggestions and incentives to internationalization is a desirable way of public intervention. The study conducted by the European Com-

mission (2008) provides numerous examples of tools and techniques to support the internationalization of SMEs.

Based on the best practices from OECD countries we consider that the following policy actions may improve SMEs' financing in Romania:

1. Public policies should take into consideration the differences between traditional SMEs and high growth enterprises and to implement different policy measures for HGEs selective areas (for example, in the areas not so developed);
2. Creating an electronic platform to facilitate entrepreneurs' access to important information, such as available funding sources (including the government), private and public organizations to support entrepreneurship, business incubators, training programs, counseling, coaching and mentoring for entrepreneurs;
3. To increase the use of public loan guarantees, counter-guarantees and mutual guarantees schemes to stimulate private sector funding of start-ups;
4. Implementing measures meant to increase the range of financial sources available to SMEs and to promote them on the market. Venture capital, crowdfunding, microfinance, and asset-based finance represent alternative financing sources for the SMEs that are in the first stages of development.

A common feature of public policy in CEE countries is the creation of venture capital funds to support innovative SMEs. For example, Latvia has launched five public venture capital programs over the period 2005-2014 (Avots, Strenga and Paalzow, 2013). Cumming and MacIntosh (2006) and Cumming and Li (2013) reported that many countries have put in place programs for venture capital market development. The importance of venture capital to the innovation process and to the economy is well recognized in the financial literature (Bessler *et al.*, 2012).

Governments have at their disposal several tools and methods to stimulate venture capital market or certain segments of it. Tax incentives for business angels, co-investments funds, and public support for business angel networks are examples of supply side measures. On the demand side, public policies should support investment readiness programs for entrepreneurs and the development of an entrepreneurial culture and ecosystem. Mason and Kwok (2010) highlighted that public venture capital supply for early stage ventures should be combined on the demand side with training programs in order to improve investment readiness.

The development of crowdfunding can be made through the creation of online platforms where entrepreneurs with business ideas can make contact with many small investors and through the strengthening of regulatory requirements (improving the regulatory requirements).

Finally, policy can have an important role to play in supporting microfinance activities for disadvantaged and under-represented entrepreneurs through the development of micro-credit schemes.

5. Conclusions

The contribution of entrepreneurship and SMEs to job creation, innovation and economic growth is well recognized by the Romanian society and public authorities. Starting with 2009 the Romanian SMEs have been severely affected by a sharp decrease in demand for goods and services and a tightening in credit terms (as seen in higher interest rates, shortening maturities and increased request for collateral and guarantees), which are severely affecting their cash flows and liquidity. Several surveys highlighted that obtaining financial resources is one of the main obstacles in starting and growing a new business.

After the onset of the financial and economic crisis in Romania, public policy has focused on supporting entrepreneurial activities by improving conditions for access to finance by SMEs and entrepreneurs. As a response to the financial and economic crisis, the public policies in Romania focused on providing grants to start-ups and SMEs and on strengthening the loan guarantee mechanisms and institutions for SMEs.

Even if the funding provided through these programs has increased over the period immediately following the onset of the global crisis, the access of small businesses to finance remains a pressing problem.

We found that there was no clear strategy or policy concerning the funding and supporting of innovative SMEs or companies with high rate of growth (high-growth enterprises). We have also noted the lack of a program to support venture capital for innovative SMEs or other alternative sources of funding in an environment of rapid deleveraging process. In Romania, venture capital funding represented less than 0.1% of GDP in 2011.

We consider that the following policy recommendations could improve the access of SMEs to financing. We recommend the adoption of public policies meant to increase the range of financial sources available for SMEs and to promote them on the market. Venture capital, crowdfunding, microfinance, and asset-based finance represent alternative financing sources for the SMEs that are still undeveloped in Romania.

In order to increase the venture capital available to SMEs, public authorities could: (1) finance, directly or through intermediaries, the setting up and development of venture capital funds (a model could be the Yozma fund from Israel) or co-investment funds; (2) provide tax and regulatory incentives for business angel investments; (3) allow institutional investors (pension and mutual funds) to invest in venture capital funds and small capitalization companies.

Policies and reforms of capital markets can also facilitate the financing of entrepreneurial firms. Financing through SMEs capital markets represents an external financing alternative that has the potential to fill in the equity gap. The development of the secondary capital market could have a significant effect on the volume and cost of finance provided to SMEs and also could facilitate the access to capital for non-bank financial intermediaries. Specific actions necessary to develop SME capital markets could be: tax incentives for issuers and investors; lower transaction fees; simplified

listing procedures; simplified disclosure requirements; raising funds in a shorter period for SMEs.

Given that bank financing is still the most important source of money for SMEs, we recommend increasing the use of public loan guarantees, counter-guarantees and mutual guarantees schemes to stimulate private sector funding of start-ups.

Financial constraints, inconsistency of public policies and the lack of entrepreneurial education and culture have been important obstacles to entrepreneurship and SMEs development in Romania after the onset of the financial crisis. Our results are useful for designing new policy actions aimed to improve the SMEs' access to financing.

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**Annex 1: The main government programs
to support entrepreneurship in the period 2008-2014**

Year	Name of the program	Budget (RON)	Results (Number of beneficiary firms)
P. I. Program to stimulate the creation and development of micro enterprises by young entrepreneurs (2011-2014)			
2011	Grant maximum 10,000 euro (50%); Beneficiary contribution: 50%	21,000,000	1,100
2012	Grant maximum 10,000 euro (50%); Beneficiary contribution: 50%	31,000,000	713
2013	Grant maximum 10,000 euro (50%); Beneficiary contribution: 50%	24,300,000	527
2014	Grant maximum 10,000 euro (50%); Beneficiary contribution: 50%	21,000,000	493
P.II. Program to develop entrepreneurial skills among young people and facilitate access to finance START (2004-2014)			
2008	Grant 60,000 RON	6,000,000	36
2009	Grant 60,000 RON	6,000,000	84
2010	Grant 100,000 RON (70%); Beneficiary contribution: 30%	7,102,000	70
2011	Grant 100,000 RON (70%); Beneficiary contribution: 30%	10,000,000	100
2012	Grant 100,000 RON (70%); Beneficiary contribution: 30%	19,200,000	205
2013	Grant 100,000 RON (70%); Beneficiary contribution: 30%	18,391,000	394
2014	Grant 100,000 RON (70%); Beneficiary contribution: 30%	13,000,000	130
P.III. Mihail Kogalniceanu program – to facilitate the financing of SMEs (2011-2014)			
2011	Bank loan worth	24,000,000	1,099
2012	maximum 125,000 RON/year;	70,000,000	-
2013	Partially subsidized interest max. 70%, but not more than 6.5%;	16,115,000	1,635
2014	Guarantees 80% FNGCIMM, but not more than 100,000 RON	10,000,000	400
P.IV. National multiannual program for the establishment and development of business and technological incubators (2002-2012)			
2010	Grant worth 20,000 RON/incubated firm	2,900,000	Establishment of 2 new business incubators (Tg. Mures and Mangalia); Establishment of 50 new SMEs;
2011	Grant worth 37,000 RON/incubated firm	6,150,000	Establishment of 1 business incubator in 2011 in Bacau; 6 functional business incubators with a total of 109 established firms; 4 incubators under finalization;
2012	Grant worth 37,000 RON/incubated firm	1,000,000	3 established business incubators; 300 incubated firms;
2013	Grant worth 5,000 RON/incubated firm	1,410,000	14 incubators
2014	Grant worth 5,000RON/incubated firm	6,000,000	15 incubators
P.V. National multiannual program for 2005-2012 for development of entrepreneurial culture among women managers in the SME sector			
2008	Direct grants are not provided to beneficiaries	700,000	Seminar participating 467; Course participating 188;
2009	Direct grants are not provided to beneficiaries	405,000	Seminar participating 642 Course participating 273
2010	Direct grants are not provided to beneficiaries	600,000	577 women participating at seminars; 240 women participating at courses;

Year	Name of the program	Budget (RON)	Results (Number of beneficiary firms)
2011	Direct grants are not provided to beneficiaries	500,000	240 women participating at the 8 courses of entrepreneurial training; 300 women participating at the 8 informative seminars;
2012	Direct grants are not provided to beneficiaries	500,000	218 women participating at the 8 courses of entrepreneurial training; 283 women participating at the informative seminars; 140 women participating at the forum;
2013	Direct grants are not provided to beneficiaries	500,000	15
2014	Direct grants are not provided to beneficiaries	500,000	Minimum 12
P.VI. Multiannual program of development and modernization of the business of selling products and market services			
2008	50,000 RON	14,700,000	254
2009	50,000 RON	7,288,000	281
2010	Grant worth 80,000 RON (60%); Beneficiary contribution: 40%	5,000,000	90
2011	Grant worth 100,000 RON, but no more than: - 80% for micro SMEs	7,000,000	N.A.
2012	- 70% for small SMEs	17,000,000	187
2013	- 60% for middle SMEs	14,763,000	211
P.VII. National multiannual program in the period 2002-2012 to support arts and crafts			
2008	Grant 20,000 RON	1,500,000	82
2009	Grant 20,000 RON	1,188,000	77
2010	Grant worth 50,000 RON, but no more than 90%; Beneficiary contribution: 10%	1,000,000	24
2011	Grant worth 50,000 RON, but no more than 90%; Beneficiary contribution: 10%	1,000,000	20
2012	Grant worth 50,000 RON, but no more than 90%; Beneficiary contribution: 10%	1,000,000	46
2013	Grant worth 50,000 RON, but no more than 90%; Beneficiary contribution: 10%	825,000	109
P.VIII. Program for innovative SMEs' 'Innovation Checks' (2012-2014)			
2012	Grant maximum 45,000 RON (maximum 90% from the projects value); Beneficiary contribution: minimum 10%	9,450,000	176
2013	Grant maximum 45,000 RON (maximum 90% from the projects value); Beneficiary contribution: minimum 10%	7,750,000	38
2014	Grant maximum 45,000 RON (maximum 90% from the projects value); Beneficiary contribution: minimum 10%	1,293,630 (estimated value)	In progress
P.IX. Government program to guarantee loans for SMEs			
2014	Maximum Financing: 5,000,000 RON/SME; Period: 24 months (extensible until 36 months)	2,000,000,000	In progress

Sources: Fundația Post-Privatizare, 2011, pp. 148-156; Fundația Post-Privatizare, 2012, pp. 34-42;
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