

Romania

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The Situation of the Small and Medium Size Enterprises in Romania

The Romanian economy entered a growth process following the definition of priority sectors and an increase in competitiveness.

The progress made has led to Romania's status as a functional market economy being fully recognized by the European Commission in their country reports regarding the important steps taken by Romania on its way to European integration.

The governmental structure that has the responsibility of promoting SMEs is the National Agency for Small and Medium Sized Enterprises and Cooperatives (NASMEC).

In 2003, the NASMEC took over the entire organizational structures, attributions and functions of the Ministry of Small and Medium Sized Enterprises and Cooperatives, and it is the only governmental structure that has the purpose of improving the business environment in Romania.

The perspective of Romania's integration into the European Union in the year 2007 imposes to our country to speed up structural reforms, to reach a high level of competitiveness in order to face the competitive forces of the Single Market.

In the same time, for solving our competitiveness problems, the Government will continue to act, through the National Agency for Small and Medium Sized Enterprises and Cooperatives, for improving the access of SMEs to financing, financial support of investments in equipments, new technologies and products, ensuring the access to the results of research and development activities, facilitating cross-border co-operation, promoting Romanian products to export, and developing an appropriate business infrastructure.

Regarding the development of the SME sector, one can say that in Romania, more than 99% from all enterprises is represented by small and medium size enterprises. Next table shows the evolution of the active SME number in the period 1999-2004.

Table: Number of active SMEs by size category

Company size	1999	2000	2001	2002	2003	2004
Micro	294.597	279.893	280.448	285.207	313.485	358.242
Small	25.987	29.417	31.249	32.010	34.883	36.080
Medium	6.102	6.864	7.455	7.989	8.342	8.674
Total	326.686	316.174	319.152	325.206	356.710	402.996

Source: Ministry of Public Finance (MFP) and National Institute of Statistics (INS)

From the table one can remark that during 2004 there were active almost 403.000 SMEs, which means an increase by almost 24% as compared to year 1999.

During all this period, most of the Romanian SMEs were micro enterprises; in 2004 this category represented 89% (see the chart) from the total number of SMEs and registered an increase by a percentage point as compared to year 2003.

Chart: SMEs share by size class

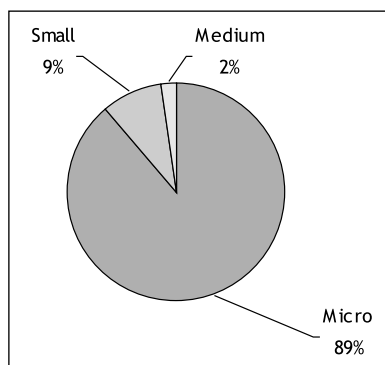


Table: Number of active private SMEs by activity sector

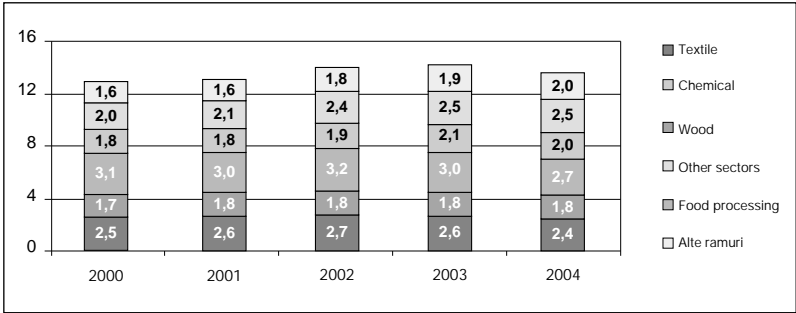
Activity sector	1999	2000	2001	2002	2003	2004
Agriculture	10.055	9.494	8.929	10.011	10.430	11.390
Industry	39.457	40.252	41.609	45.586	50.117	54.657
Constructions	10.956	11.705	13.990	16.312	20.378	25.115
Services	266.218	254.723	254.625	253.297	275.785	311.834
Total	326.686	316.174	319.152	325.206	356.710	402.996

Source: Ministry of Public Finance (MFP) and National Institute of Statistics (INS)

A lively dynamics was registered also for the services sector. By comparison with the stagnation phenomena registered during 2000-2003, the services sector is to be noted for a demographic increase, that is an increase in the number of active enterprises for the year 2004. The number of enterprises in the services sector has increased by 13% as compared to previous years' situation.

As a conclusion, all activity sectors registered positive values for the demography of SMEs all along the period concerned.

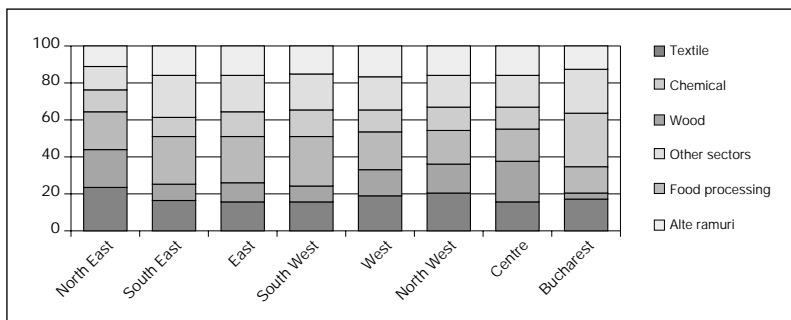
Chart: Evolution of ration between the number of active SMEs in the industrial sector and the total number of active SMEs during 2000- 2004



Source: NASMEC, INS

Within the general tendency for increasing, which is typical for the industrial sector as a whole, almost all the sub-sectors of the processing industry are registering positive trends mirrored in the dynamics for the SMEs operating in fields with higher value added; these fields are the ones extending their share (Chart above)

Chart: The economic structure of the development regions by industrial sectors, in 2004



Source: NASMEC, INS

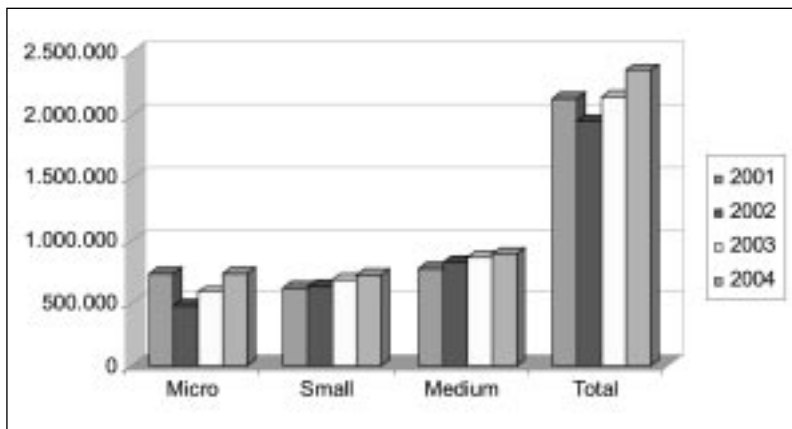
According to the economic sector (without disaggregating by firm size) the ranking of innovative sectors is given in the Table below. The sector of food and beverages, clothing and leather, and wood, where a large number of Romanian SMEs operate, are ranked in a low position with respect to innovation.

Table. Ranking of innovative sectors in Romania

Ranking		% of Innovative firms
Top 10	Medical precision, optical, watch making instruments	45
	Chemical substances and products	44
	Means of road transport	40
	Real estate transactions	36
	Petroleum, coal coking and treatment of nuclear fuels	35
	Machinery and equipment	35
	Metallurgy	34
	Electric machinery and apparatus	34
	Furniture and other industrial activities non-classified elsewhere	29
	Computing and office machinery	27
Bottom 10	Publishing houses, polygraphy, recording and copying	17
	Food and beverages	16
	Clothing articles	14
	Means of transport not including road transport	14
	Wood and wooden products manufacturing	11
	Leather goods and footwear	10
	Wholesale and wholesale intermediate activities	10
	Transport, storage and communications	9
	Financial intermediation	7
	Waste recovery	2

Contributions and effects of SMEs in national economic and social development

Number of employees in SMEs



Weight of employees from SME in total employees in industry, construction, trade and other services

1998	1999	2000	2001	2002	2003	2004
37.8%	42.5%	46.9%	48.5%	50.7%	54.4%	55%

- SME sector registered an export value of 6754.8 million Euro
- 60% contribution of the private sector in GDP

Legal and Administrative Environment for Supporting The Development of the SME

- Law no 359/2004 of 13 Sept. 2004 (simplifying the official procedures for the registration to the Trade Registry of natural persons, family associations and legal persons, along with their tax registration and the legal persons' authorization for operation, amen-

ded and completed through GEO no. 75/2004) simplifies the registration and authorizing procedure in the following sense:

- it reduces the duration for issuing the registry certificate and the remarks certificate to *3 days* and *5 days*,- it authorizes the operation of a trading agent based on the *latter's statement* that he/she does not carry out that particular activity or that the requirements stipulated in legislation for that activity have been met.
- Law no 300 of the 28th of June 2004 (authorizing natural persons and family associations which carry out independent commercial activities brings in the following:
- Romanian citizens are recognized the *professional experience* acquired as a result of practicing a certain activity for 2 years;
 - The *tax record* replaced the criminal record-On behalf of the applicant, the Mayor must *book the applicant's company's name* with the Trade Registry and the tax record;
 - *Simplification of inspection and checking* of natural persons and family associations' operation on the market by setting up a notification procedure, by which the City Hall must notify the competent inspection authorities on the authorizations they issued on a particular trading agent or another.
- Law no 346 of the 14th of July 2004 regarding the stimulation of Small and Medium Sized Enterprises setting-up and development

Due to the important role of SMEs, cooperatives and home trade enterprises for the creation of new jobs and for industrial restructuring and economic growth, Law 346/2004 regarding the stimulation of Small and Medium Sized Enterprises setting-up and development sets up a well designed legal framework,

which may be applied for the stimulation of SMEs setting-up and development, this being an essential element of *sustainable economic growth and of the requirements for Romania's accession into EU*

- Government Ordinance no. 27/2006 for that modification of the Law no. 346/2004 regarding the simplification of the SME setting-up and development

Following the European Commission Recommendation no. 2003/361/CE NASMEC harmonized the SME definition with the one from EU through GO no. 27/2006 with the following:

SME are classified after the average number of employees and gross annual turnover or the total assets which they own in the following categories:

- a) *microenterprises* - 0 - 9 employees with an annual gross turnover or total assets of 2 million Euro equivalent in RON;
- b) *small enterprises* - 10 - 49 employees with an annual gross turnover or total assets of 10 million Euro equivalent in RON;
- c) *medium enterprises* - 50 - 249 employees with an annual gross turnover of 50 million Euro equivalent in RON or total assets of 43 million Euro equivalent in RON;

The Role of SMEs in Political Decision Making

Associative structures, mainly represented by employers organizations, chambers of commerce and industry, professional or commercial associations, make up the formal framework where various enterprises state their needs and requests because here they have better chances to

get their voice across to the Government or to other decision or policy-making factors. Consulting SMEs when making decisions about the development of various policies for the SMEs sector is a democratic process, which guarantees that all the stakeholders' interests are taken into account. This institutional framework for consultation has been present in Romania since 1997.

As a result of the development of the legal framework for consultation, various bodies are currently operating in Romania on this matter as follows:

- The National Consultative Committee for the Development of SMEs, set up within NASMEC, as a forum for debate on SMEs related issues. The Committee has 47 members, thus: 10 from sector-related ministries, 5 from trade unions, 27 from employers' organizations and representatives of banking associations, foreign investors' councils, chambers of commerce and industry, the Romanian Academy, the Romanian Agency for Foreign Investment.
- Social Dialogue Commissions set up within ministries, agencies and prefects' offices.
- The Social and Economic Council (Tripartite Council) operates on Law no 58/2003 amending and completing Law no 109/1997. The Tripartite Council was set up as a public institution of national interest, it has autonomy for conducting social dialogue at national level, namely among the Government, trade unions and employers organizations. The Tripartite Council is made up of 27 members, assigned by the social partners, and has an advisory role in the development of economic and social strategies and of public policies.
- Group for evaluating the impact of the legislation upon SME (GIL) was established according with the Law no. 346/2004 regar-

ding the stimulation of SMEs setting-up and development, modified and completed by the GO no. 27/2006. It was established under NASMEC coordination as a consultative body without legal personality. GIL releases consultative notices regarding projects of normative acts submitted to its analysis. GIL has 56 members and until now were organized three meetings, all the discussions and reports are available on the NASMEC web page under GIL section.

The Future and Challenges of the SMEs

In order to face the EU competition, NASMEC undertook measures with the purpose of developing and strengthening the SME sector.

- According with Law no. 346/2004 regarding the SMEs setting-up and development, NASMEC established in 2005 territorial offices in 5 major cities in Romania and in the first quarter of 2006 established another 2 offices in order to have a better covering for the SME sector and for a better access to the structural funds. Until now 75 employees were hired in these territorial offices and, these employees and the ones from NASMEC are trained in order to manage structural funds for the SMEs.
- NASMEC established in National Credit Guarantee Fund and Local Credit Guarantee Fund in order to help SME to have access to finance.
- NASMEC published brochures, annual reports, informed SMEs regarding the EU standards and conditions, took the pulse of the SME sector through surveys.
- On the web site the Agency has online suggestions, observations, questions, consultancy and info online.
- Also, NASMEC organizes seminars for information dissemination about programmes, opportunities, laws, quality standards and other.

- NASMEC unfolds the following programs financed from the state budget in order to help SMEs to increase and strengthen their activity. These programs are:
 - Program for supporting SMEs for developing exports;
 - Program for supporting investments of start-ups and SMEs in industrial priority sectors;
 - Program for supporting the access of small and medium sized enterprises to training and consulting services;
 - Program for setting up and development of technological and business incubators;
 - START Program for developing youth entrepreneurial abilities and the facilitation of access to financing;
 - Program for informing and educating traders;
 - Program for supporting crafts and handicrafts;
 - Program for developing the entrepreneurial culture for women entrepreneur;
 - EMPRETEC Program (co-operation between NASMEC, UNCTAD, and Ministry of Productive Activities from Lombardia Region)

We are aware of the fact that the integration into the European Union is a challenge for everybody especially for the small firms and that they have to face a lot of difficulties because of the major difference between Romania and other European countries that is around 20 years, but we try to prepare our business environment for this difficult competition.

NASMEC as the only government organization responsible with the development of the SME sector, took every opportunity for helping them in this process and will continue to do so.