

THE EFFECTIVENESS OF NATIONAL PROGRAMS AIMED AT FUNDING AND DEVELOPING IMMS BY ROMANIAN YOUTH

Daniela MITRAN

Athenaeum University of Bucharest
danielamitran@yahoo.com

Abstract

National programs for funding and development of Small and medium sized enterprise (SMEs) by young people in our country are a part of a broader series of measures aimed at stimulating economic growth and competitiveness, creating new jobs, and increasing the entrepreneurial spirit. This paper presents two of our national programs that support young entrepreneurs in the creation and development of SMEs by providing them with facilities and non-reimbursable funding. The analysis of the implementation, funding, and results of these programs highlights their effectiveness, their main weaknesses, and the ways they could be improved.

Key word: Limited Liability Company, startup, subsidies, SME

JEL Classification M48, E62, E20

Introduction

Supporting the development of small and medium sized enterprises is a priority on both a European Union and national level. The objectives of the policies in this field include increasing the competitiveness of businesses, improving the rate of economic growth, and developing the entrepreneurial spirit while facilitating access to funding for SMEs.

In this context of supporting the development of small and medium sized enterprises and reducing the unemployment rate, Romania is running a series of national programs aimed at young entrepreneurs. Youth programs in the 2011 – 2015 period have sought to encourage the development of entrepreneurial abilities and to facilitate access to funding for the start-up and development of SMEs.

1. The program for the development of entrepreneurial skills and ease of access to funding for the youth

The „START” program is aimed at encouraging the founding of new small businesses, improving the economic growth of already existing ones, and developing the entrepreneurial skills of young businessmen.

Funding for the projects may be used to pay for the acquisition of diverse equipment, intangible assets, and entrepreneurial courses.

Cash grant provided by government has increased from a maximum of 70% in 2010 to a maximum of 90% of the project’s eligible expenses in 2015, while the maximum given amount per beneficiary also increased from 100.000 to 120.000 lei. The program’s annual allocated budgets and the number of beneficiaries are presented in table 1.

Table 1

| <i>Year</i> | <i>Annual Budget (lei)</i> | <i>Number of submitted projects</i> | <i>Percent of accepted projects %</i> | <i>Number of paid projects</i> | <i>Number of jobs created</i> |
|-------------|----------------------------|-------------------------------------|---------------------------------------|--------------------------------|-------------------------------|
| 2009 | 5.000.000 | 169 | 71,0 | 81 | 160 |
| 2010 | 6.000.000 | 240 | 32,5 | 63 | 120 |
| 2011 | 13.000.000 | 298 | 44,9 | 132 | 164 |
| 2012 | 20.000.000 | 336 | 57,7 | 189 | 447 |
| 2013 | 18.391.000 | 740 | 50,8 | 163 | 567 |
| 2014 | 17.000.000 | 581 | 59,7 | 167 | 604 |
| Total | 79.391.000 | 2.364 | | 795 | 2062 |

Source: ONRC statistics

The program’s assigned budget has increased over 3 times since the beginning of 2009, but it has remained relatively small compared to the interest shown by the youth.

Half of the 2000 jobs created by the program have been created in the past 2 years. The youth’s enthusiasm for this program has been constant in the past years, just like the number of paid projects.

The annual financial allocation for the projects suffers from delays and the date on which the program starts is hard to predict for the entrepreneurs.

In 2015 the program started in June and had a budget of 18.000.000 lei split between a minimum number of 150 beneficiaries.

2. The program of encouragement for the youth to start up and develop small businesses- Limited Liability Company- startup („LLC-Startup”)

Starting with 2011, the program has been giving financial aid and facilitating access to crediting through guarantees for loans contracted through **LLC-Startup** and tax cuts.

The program was meant to offer subsidies for a minimum number of 1.100 of LLC-Startup per year in the 2010 – 2012 period, and at least 550 LLC-Startup in the 2013 – 2020 period.

The cash grant represents at most 50% of the total value of business expenses, but no more than the equivalent of 10.000 euros in lei. As a result of the program, a number of 24.706 small businesses have been created by first time entrepreneurs as of October 2015.

In 2014, **LLC-Startups** have represented 10,66% of all the LLCs created, and in 2015 (until October) 14,5% of all the LLCs created have been LLC-Startups.

Barriers related to money are the most common for most entrepreneurs.

The average value of the startup capital of a LLC in Romania was 1660 lei

Young entrepreneurs who opened the first business are attracted by the program's facilities. The government support programs are considered to be important sources of funding for start-ups.

Table 2 presents the evolution of newly created **LLC-Startup**

At the end of 2014, a number of 3.224 LLC-Startups have lost the qualifications by surpassing the limit of 3 years since their inception.

Table 2 The evolution of newly created LLC-Startup

| | 2015 | | 2014 | | 2013 | |
|----------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| | Number of LLC-Startup created | Total number of LLC-Startup | Number of LLC-Startup created | Total number of LLC-Startup | Number of LLC-Startup created | Total number of LLC-Startup |
| January | 618 | 17635 | 408 | 11413 | * | * |
| February | 737 | 18372 | 670 | 12083 | * | * |
| March | 802 | 19174 | 955 | 13038 | * | * |
| April | 723 | 19897 | 418 | 13456 | * | * |
| May | 718 | 20615 | 453 | 13909 | * | * |

| | | | | | | |
|-----------|-----|-------|-----|-------|-----|-------|
| June | 848 | 21463 | 307 | 14261 | * | * |
| July | 847 | 22310 | 457 | 14718 | * | * |
| August | 771 | 23081 | 445 | 15163 | * | * |
| September | 850 | 23931 | 494 | 15657 | 276 | 9944 |
| October | 724 | 24706 | 548 | 16205 | 286 | 10220 |
| November | - | - | 438 | 16643 | 271 | 10506 |
| December | - | - | 374 | 17017 | 228 | 10777 |

Source: Own calculation based on data from ONRC

The data demonstrates the growing interest of young people for this program.

Table 3 The program's situation during the 2011 – 2014 period.

| Year | Number of submitted projectes | Number of accepted projects | Budget (in thousands of lei) | Number of financed projects |
|-------|-------------------------------|-----------------------------|------------------------------|-----------------------------|
| 2011 | 1256 | 626 | 21000 | 370 |
| 2012 | 1332 | 922 | 31000 | 581 |
| 2013 | 1176 | 575 | 21000 | 440 |
| 2014 | 1231 | 565 | 21000 | 415* |
| Total | 4995 | 2688 | 94000 | 1384 |

Source: AIPPIMM statistics

* The numbers shown for the year 2014 represent the number of finalized contracts. The payments are still ongoing until 31.12.2015.

From the data presented we can observe that the number of applicants for the program has been constant each year while the number LLC-Startups has risen annually.

The annual decrease in the share of applicants in total number of LLC-Startups are found in the reporting period.

The reduced number of applicants can be explained through the difficult process of registration: the application for financing may only be

submitted online, the open period for registration is short, the bureaucracy is excessive, applicants lack the resources needed for cofinancing.

During contract some firms have dropped out due to lack of resources for co-financing grant.

For 2015 the allotted budget is 29.879.000 lei and the number of 580 projects have been submitted, out of which 281 have been approved and financed or are on their way to be financed¹. In 2015 it was estimated that the program would finance a minimum number of 430 beneficiaries

The declining interest for the project is due to the change in the way financing is being granted:

- The beneficiary must support all of the business expenses with his own money (20.000 euros plus VAT if he solicits the full sum of 10.000 euros) and at a later date the state will pay him 10.000 euros after an inspection. This effectively means that the business owner must have 20.000 euros plus VAT.

- The acquisitions financed through the project must now be made in 30 days from the date at which the contract is signed, instead of 12 months as before. This means that salaries and rent, although eligible, can no longer be written off since the period is too short.

- The requests for non-reimbursable financing in the non-credit version of the program have risen since 2012 due to the cumbersome payment methods for the credits. Access to finance remains challenging, in particular for young SMEs.

We can observe a constant decline in the number of new jobs created by the project. In 2015, more than half of the businesses that apply for subvention only promise to create 2 more jobs, which corresponds to the minimum amount required by the program.(Table 4).

In some cases they were not created or maintained jobs stipulated in business plan proposal.

¹ <http://www.aippimm.ro/categorie/programe/programe-nationale-2015/>

Table 4 The profit and employment in LLC-Startups

| Year | The turnover of LLC-Startups registered in the program -lei | The profit of LLC-Startups registered in the program -lei | Jobs Created by the Program | Total jobs created by the LLC-Startups |
|-------|---|---|-----------------------------|--|
| 2011 | 149.775.145 | 11.019.062 | 3.217 | 13.069 |
| 2012 | 107.922.033 | 11.764.236 | 2.583 | 4.070 |
| 2013 | 134.469.815 | 8.327.877 | 2.187 | 4.000 |
| 2014 | 56.000.000 | 3.500.000 | 830 | 6.400 |
| Total | 448.166.993 | 34.611.175 | 8.869 | 27.539 |

Source: AIPPIMM statistics

LLC-Startups had created over 27000 jobs by the end of 2014, while those that have received cash grants created 8869.

For 2013 the Profits of registred company have fallen.

The most important LLC-Startups sectors are:

- Construction of residential and non-residential buildings
- Freight transport by road
- Maintenance and repair of motor vehicles
- Maintenance and repair of motor vehicles
- Retail sale via mail order houses or via internet
- Restaurants and mobile food service activities
- Hairdressing and other beauty treatment
- Computer programming activities
- Manufacture of bread; manufacture of fresh pastry goods and cakes
- Advertising agencies
- Beverage serving activities

The SMEs financed by the Programe most are "Services" (50%), followed by those in the "Trade" (26%), in the "Industry" (19%) and end of the sector "Construction" (5%).

Conclusion

Offering non-reimbursable financial support and easing access to credits are welcome steps since approximately 48% of the Romanian youth

do not have enough financial resources to become entrepreneurs (and this is well above the European Union average of 21%).

The programs analyzed in this paper respond to a major public demand and have a social character.

The effect of adding up all the economic initiatives of individuals willing to succeed in the business world can be very important and may lead to an increase to the gross domestic product and to consumption, as well as a reduction to the unemployment rate, all of which would bring great benefits to the national economy.

The financing given through the project is largely covered by the welfare and tax contributions of the newly employed workers. At the same time, the budgetary strain caused by unemployment aid is reduced.

In the long-term these programs have an exponential effect:

- the increase in the number of businesses and the boost to the economic climate will bring more money to the state budget through VAT, accize, other taxes and contribution;
- the increase in the number of workers and contributions to the state and social securities budgets.

The objectives of the two projects have only been partially fulfilled, mostly due to the way they were implemented and the excessive bureaucracy which lead to a decline in interest from the young entrepreneurs. While the projects were initially aimed at young people, after the first years the age limit was removed.

The requirements that must be met in order to receive non-reimbursable funding have increased and have become more cumbersome. The financing of the projects is always delayed and the yearly launch calendar is unpredictable. Under these conditions, creating a business plan is very difficult for the potential entrepreneurs.

The programs can only cover a small part of the financing needs of the entrepreneurs. The annual sums destined for non-reimbursable financing are very small and the way in which they are granted is cumbersome. In order to increase the efficiency of these programs, their budgets must be made larger and the way they grant financing must be simplified.

References

1. Ferrando, A and Griesshaber, N (2011): "Financing obstacles among euro area firms, who suffers the most?" ECB Working Paper No 1293.
2. Kaya , O (2014): "SME financing in the euro area New solutions to an old problem, Deutsche Bank Research"
3. Robb, AM and Robinson, DT (2012): "The capital structure decisions of new firms", *Review of Financial Studies*, Vol 1(1), 1–27.

4. Banerjee, R (2014) :SMEs, financial constraints and growth BIS Working Papers No 475,
5. ***EUROPEAN COMMISSION Annual Report on European SMEs 2013/2014 – A Partial and Fragile Recovery, Final Report -July 2014,SME Performance Review 2013/2014
<http://www.otimc.ro/resurse/impact-programe-nationale-2009-2014.pdf>