

# **STABILITY PACT**

**SOUTH EAST EUROPE COMPACT FOR REFORM,  
INVESTMENT, INTEGRITY AND GROWTH**



**ROMANIA ENTERPRISE POLICY  
PERFORMANCE ASSESSMENT**

**Prepared by**

**ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT  
AND EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

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**ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT**

**The Stability Pact for South Eastern Europe** is a political declaration and framework agreement adopted in June 1999 to encourage and strengthen co-operation among the countries of South East Europe (SEE) and to facilitate, co-ordinate and streamline efforts to ensure stability and economic growth in the region. (see [www.stabilitypact.org](http://www.stabilitypact.org))

**The South East Europe Compact for Reform, Investment, Integrity and Growth (“The Investment Compact”)** is a key component of the Stability Pact under Working Table II on Economic Reconstruction, Development and Co-operation. Private investment is essential to facilitate the transition to market economy structures and to underpin social and economic development. The Investment Compact promotes and supports policy reforms that aim to improve the investment climate in South East Europe and thereby encourage investment and the development of a strong private sector. The main objectives of the Investment Compact are to:

- Improve the climate for business and investment.
- Attract and encourage private investment.
- Ensure private sector involvement in the reform process.
- Instigate and monitor the implementation of reform.

The participating SEE countries in the Investment Compact are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, Moldova, Romania and Serbia and Montenegro<sup>1</sup>. Building on the core principle of the Investment Compact that “ownership” of reform rests within the region itself, the Investment Compact seeks to share the long experience of OECD countries. It provides region-wide peer review and capacity building through dialogue on successful policy development and ensures identification of practical steps to implement reform and transition.

The work of the Investment Compact is actively supported and financed by seventeen OECD member countries: Austria, Belgium, Czech Republic, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Norway, Sweden, Switzerland, Turkey, United Kingdom and United States. (see [www.investmentcompact.org](http://www.investmentcompact.org))

This report is an output of one of the Regional Flagship Initiatives of the Investment Compact for South East Europe, a key component of Working Table II of the Stability Pact. It has been jointly produced by the OECD and EBRD with the expert advice of local consultants. The main authors of the report are Ricardo Pinto (OECD), Francesca Pissarides (EBRD) and Elisabetta Falcetti (EBRD). Background research and support was provided by Mirela Apostol Pitu (Synergy, Romania) and Ana Bulai (AB Research, Romania), who provided the first draft. The report was initiated and has benefited significantly from input and comments from Declan Murphy, Programme Director of the Investment Compact (OECD), Antonio Fanelli, Principal Administrator (OECD, Investment Compact). Jim Bourke (consultant, Ireland) has provided expert guidance on the report.

The assessments and views expressed in this report are those of the Investment Compact Team of the OECD secretariat and the EBRD Office of the Chief Economist and do not necessarily reflect the views of the institutions participating in this enterprise policy performance assessment or of OECD and EBRD Member countries.

## NOTE

1. On 4 February 2003, the Yugoslavian Parliament adopted a new constitution for a state union called Serbia and Montenegro.

## FOREWORD

Starting a business in today's environment brings opportunities and challenges. New lifestyles demand greater choice of products and services. New technologies and greater access to global markets have provided increased business opportunities. At the same time increased competition, insistence on quality and unremitting pressure for lower costs, just to mention some issues, represent major challenges for business. For Small and Medium-sized Enterprises (SMEs) the challenge is greater. They lack scale, resources and the capacity to handle complex business management. Typically, less than half survive more than five years and only a small proportion go on to become large companies. How to ensure the growth of the SME sector – a fundamental feature of all developed and growing economies – is a major policy challenge for all countries.

This Enterprise Policy Performance Assessment (EPPA) on Romania seeks to help address that challenge. SMEs are a vital source of new jobs, exports and economic contribution to countries. The South East Europe (SEE) Compact for Reform, Investment, Integrity and Growth (Investment Compact), a key component of the Stability Pact, has consistently affirmed that the economic revitalisation of South East Europe is primarily dependent on private sector investment. Through the Investment Compact process, Stability Pact partners support and promote the structural policy reforms that will improve the climate for private enterprise and increase investment. Entrepreneurship and enterprise development are important elements in creating dynamic market economies. This assessment aims to assist SEE countries in stimulating entrepreneurship and enterprise development. Notwithstanding measurable progress in various areas, the report shows that the environment for creating and sustaining businesses remains underdeveloped in Romania. Reforming and improving the environment for entrepreneurship is a priority.

The EPPA draws on the practical experience and views of Romanian SME representatives, expert advisors and the complementary experience and skills of the Organisation for Economic Co-operation and Development (OECD) and the Office of the Chief Economist of the European Bank for Reconstruction and Development (EBRD), two Stability Pact partner organisations that have been closely involved in the reform process in transition countries.

The analysis and assessments made in this report provide valuable insights into the key issues confronting the government in Romania, based primarily on research with SME owners and managers. The Stability Pact, through the Investment Compact for South East Europe, will continue to contribute to establishing this framework in Romania and in the region as a whole through regular up-dates of the information contained in this report.



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## CONCLUSIONS AND RECOMMENDATIONS

### 1.1. Summary Conclusions

The Romanian authorities are increasing the support given to the SME sector, in recognition of the growing importance of SMEs to the national economy. This political support is manifested in developments such as:

- The creation of a Ministry for SMEs and Co-operatives (MSMEC) specifically in charge of co-ordinating and implementing SME policy and strategy.
- The development of a national network of “one-stop-shops” for the registration of new firms.
- The development of a Task Force with a wide-ranging agenda for simplifying the regulatory environment for business.

This Enterprise Policy Performance Assessment (EPPA) highlights a number of issues, grounded on insights from SME owners and managers and builds on the recently published OECD-EBRD report “Entrepreneurship and Enterprise Development in Romania: Policy Review” (2002). It identifies a number of actions needed in order to build further on the progress already made in improving the policy environment for SMEs.

In overall terms, the study finds that good progress has been made by the Government of Romania and MSMEC in setting out and beginning implementation of new policies to support the growth and development of SMEs. A stronger outreach and partnership with SMEs is needed if the opportunities for growth of the sector are to be maximised.

In line with experience in other countries at a similar stage of transition to a market-based economy, there are some issues emerging relating to policy implementation. It will take a persistent and determined effort to ensure that implementation is kept on track and momentum maintained. The best way to do this is with regular progress reviews to obtain feedback to identify areas requiring renewed focus.

The main issues identified in this assessment can be summarised as relating to the practicalities of:

- Communicating and consulting effectively with SMEs spread throughout the country.
- Co-ordinating the activities of the various bodies working to support SME development.
- Reducing complexity and ensuring coherency and consistency in policy, laws, regulations, procedures and support programmes, particularly between fiscal and developmental policies.
- Avoiding unnecessary changes in laws, regulations and programmes to facilitate planning of investments.

### 1.2. Performance Assessment Recommendations

#### *Institutional Framework*

MSMEC should give consideration to further intensifying its efforts to communicate and consult with SMEs on its activities by:

- Encouraging all SME representative organisations to improve their communication with members and ensure good distribution of policy information.
- Strengthening and further developing the work of the Tripartite Council, which consists of representatives of the private sector, trade unions etc., in focussing on SMEs.
- Improving the co-ordinating mechanisms in place with other ministries and bodies (see OECD-EBRD, 2002, p.14).
- Setting up forums and running seminars under the aegis of the regional and municipal SME development offices in co-operation with bodies such as the Chambers of Commerce, whose aim would be to:
  - Ensure that SME owners and managers receive regular and up-to-date information.
  - Meet SME representative organisations to consult on issues emerging.
  - Meet with such groups on a regular basis to share experiences and lessons learned.
- Using the media, supported by the development of local websites, to more widely publish and disseminate reports and explanatory information on SME programmes to:
  - Facilitate full access to information and documentation.
  - Communicate and clarify what is being done to improve and simplify the regulatory environment.

MSMEC should give consideration to reviewing the approved SME Strategy to check on progress made. This should deal with the SMEs' perception that an integrated strategy has not been developed for the SME sector and that measures introduced and/or repealed are inconsistent and do not always have development of the sector as their central objective:

- Consult with the SME representative organisations prior to finalisation of the strategy.
- Publish the revised strategy soon after the completion of the consultation process.
- Following publication, arrange a series of regional seminars to explain and publicise the strategy.
- Make it clear to SME representative groups that their circulation of key policy information is important in achieving better understanding and implementation of policy.

### **Regulatory Environment**

Continue to vigorously pursue the process started by the Task Force on Removing Administrative Barriers and the "one-stop-shop" initiative to ensure that the system is operating efficiently and simply from the perspective of owners and managers of SMEs:

- Undertake an assessment to establish whether the transition to consolidation of the "one-stop-shop" system under the Department of Justice is going smoothly, as well as whether further improvements can be made to:
  - Reduce the complexity of procedures for obtaining licenses, permits and certificates.
  - Simplify processing the pre-registration documentation.
  - Enhance the capacity of the "one-stop-shops" to deal with new rules and regulations.
- Firms fear what they perceive sometimes as a current "negative" framework which stipulates what enterprises can or cannot do, together with a high degree of scope for interpretation of rules and regulations. Steps are needed to ensure a greater focus on a "proactive" and an "enabling" approach, consistent with the principle of "silent consent", where if the relevant public body fails to respond within a prescribed period, it will be deemed that consent has been given.
- In the longer term give consideration to moving away from using fees for licenses to fund Ministry and development body budgets to a system of central funding with charges directly related to services provided.

### **Tax Policy for Small Businesses**

A formal process should be introduced to ensure that when consideration is being given to changing fiscal policies, in particular taxation policy, a full evaluation of the impact on other economic development objectives takes place:

- Produce a report for Ministers by MSMEC on the likely effect of proposed changes on encouraging SME development and their coherence with existing policy.
- Evolve and adjust fiscal, in particular taxation, policies in coherent and broadly predictable ways.
- Communicate the logic for the direction of fiscal policy to SMEs at the forums and seminars recommended above.
- The development of the Tripartite Council's role (see above) should also include consultation with the SME sector on fiscal policy issues.

### ***Financial Instruments for Fostering New and Small Businesses***

A healthy financial sector is the key pre-requisite for providing access to finance for SMEs. Profitable private financial intermediaries are the necessary link between domestic savings and investment by private sector enterprises, in particular SMEs. Only profitable and properly run private financial intermediaries can provide sustainable access to finance and other financial services by SMEs. To help build a lasting foundation for financing SMEs, two immediate reforms should be implemented:

- Give consideration to allocating the management of the State Guarantee Fund to the private sector. Guarantees should not cover more than 50% of bank loans to enterprises (OECD-EBRD, 2002, p.19).
- Amend the banking regulation requiring banks to deposit 25% of all foreign-originated credits with maturity of less than two years with the National Bank of Romania (NBR), at 1% interest. This rule applies not only to (relatively rare) foreign loans to banks with an initial denomination of less than two years but to all foreign credits which fall below two years as they mature. If this rule is not amended, the local banks might eventually decide to turn down the offer of foreign loans, and the only funds available for on-lending to SMEs will be banks deposits, thus reducing the amount of finance available to enterprise sector. The NBR should amend this regulation so that rather than considering the remaining maturities, the NBR would apply it to the original maturity of the contract.

### ***Advisory Services Supplied to New and Small Businesses***

The range of services provided should be reviewed with a view to deciding how to improve the responsiveness of the advisory bodies and how the range of services can be developed in the future to provide best value to SMEs for the charges made:

- Link this study to the MSMEC's plans to support a network of Business Advisory Centres.
- National policy should continue to prioritise supporting SMEs, especially start-ups, through subsidised business support services.
- Give consideration to the introduction of a system of certification and accreditation of advisory bodies to set standards and improve confidence in and quality of the services.
- Require business advisory bodies to develop and publish a customer charter, which sets out the range of services they provide, a schedule of charges for each and the standards they promise to adhere to in their dealings with SMEs.
- Further develop training and development of advisory body staff.
- Consider the development of joint initiatives between the local and municipal bodies and the Chambers of Commerce and other private sectors bodies to provide support and advisory services to SMEs (so that the best experience and practices of both can be combined and best value obtained for resources committed).

### ***The Implementation of Business Incubators***

Business incubators have had a mixed experience in Romania. A number of issues should be considered:

- The nature of business incubators should be explained and promoted to Romanian entrepreneurs by MSMEC.

- The Romanian government should support and expand the existing network of business incubators through the co-ordination of international projects that provide funds and expertise for their creation.
- Particular attention needs to be given to the issue of financial sustainability of both existing and new business incubators, given the recent experience in Romania.

## INTRODUCTION

Private investment by Small and Medium-sized Enterprises (SMEs)<sup>1</sup> is a key generator of economic growth and social change in OECD member country economies. In most countries, over 90% of all enterprises are SMEs. It is now widely accepted that the contribution of SMEs to new jobs, exports, innovation and regional development is vital to national development. How to benefit from and maximise this contribution is a continuous challenge for all countries. This Enterprise Policy Performance Assessment seeks to help address that question for Romania and highlight issues that require attention and priority action.

The State has a fundamental role to play in providing a favourable framework and environment for private sector development in OECD member countries. In the transition economies of South East Europe (SEE), where private investment levels lag behind those of developed countries, the necessity to create an enabling environment for SMEs and private investment is more urgent. Reform of the business and investment environment leading to the creation of a dynamic entrepreneurial culture is crucial to drive the process of change in industrial structures and the transition to market economy structures.

The OECD and the EBRD have undertaken a series of Enterprise Policy Performance Assessments (EPPAs) in all SEE countries in order to monitor the development of policies and infrastructures to support the SME sector. Substantial emphasis has been placed in eliciting the views of private SMEs on their past experience and perception of the key barriers to business and new investment, and their assessment of progress in implementing policies to encourage the development of SMEs.

Previous OECD research has identified six broad dimensions of the framework and environment supporting SME growth and development, which are particularly important for governments to get right:

- Institutional framework for SME policy.
- Rule of law and the regulatory environment.
- Tax policy for small businesses.
- Financial instruments for fostering small businesses.
- Advisory services supplied to new and small businesses.
- Implementation of business incubators.

Romania has gone through a decade of democratic, economic and social transition. The Investment Compact, endorsed by the countries of SEE including Romania, explicitly acknowledges that the revitalisation of the region must rely primarily on private sector development and investment (Investment Compact Charter, OECD, 2001, pp. 5-7). This EPPA captures private sector insights measured against the above six dimensions of good practice. They present views on performance and progress made on the basis of good practice indicators developed for transition economies. They take into account other OECD and EBRD studies, and in particular, build on the report “Entrepreneurship and Enterprise Development in Romania, a Policy Review” (2002), as well as the OECD Romania Economic Assessment (2002).

The EPPA research provides a qualitative “snap-shot” of the SME perceptions of the business and investment environment. It highlights issues in need of policy attention and indicates a number of

recommended actions. This report is presented as a contribution to enhance policy dialogue between the key SME representative associations and the supporting State institutions. It will be up-dated on an annual basis, thus allowing a fuller picture of progress to be developed over time.

The methodology employed in the EPPAs is set out in Box 2-1.

### Box 2-1. EPPA Methodology

- I. The EPPA methodology has been designed to provide insights and assessments of the performance in the *implementation of* policies to improve the investment environment for business. The EPPAs have been conducted on a standard basis in all countries of the region and provide a benchmark for (a) highlighting key reform issues (b) measuring private sector insights and assessments of the business environment (c) assessing progress on a country by country basis and (d) comparative cross-country review for the SEE region.
- II. The main components of the EPPA undertaken in Romania are as follows:
  - A question template was derived from extensive case study work on good practice in transition economies and OECD country experience (OECD-UNIDO, 1999) and used in the research.
  - Country-based experts/consultants were selected for their enterprise policy knowledge and experience.
  - Focus group research: focus group discussions were held with SME representatives.
  - Individual SME interviews: to validate the focus group research and to provide insights on key issues.
  - Expert interviews: to cross reference information from the focus groups and contribute to views.
  - Desk research: examination of existing reports, databases, documents, etc. for Romania.
  - Expertise from OECD, EBRD and experts from OECD countries.
- III. Under the guidance of OECD, the focus group research with the private sector in Romania was carried out by local Romanian consultants, *Synergy* and *AB Research*, using a structured brief and template of questions developed by OECD and EBRD. The focus group research commenced in mid-2002 and other interviews and desk research extended into the second half of 2002. It focused on six dimensions of good practice in the following policy areas:
  - The Institutional Framework for SME policy.
  - Rule of Law and the Regulatory Environment.
  - Tax Policy for Small Businesses.
  - Financial Instruments for Fostering New and Small Businesses.
  - Advisory Services Supplied to New and Small Businesses.
  - The Implementation of Business Incubators.
- IV. Six focus group discussions took place in Bucharest (capital city), Transylvania (economically dynamic area) and Moldavia (less dynamic area). In all, 53 entrepreneurs took part in the detailed discussions, covering the following sectors of activity: manufacturing and services, with some trade-oriented companies. The participants included representatives of micro, small and medium-sized companies, ranging from start-ups to well established firms. Standard templates were used for the discussion and the collection of ratings. In the locations where focus groups were undertaken, some of the participants were also representatives of various local associations of SMEs or were closely involved with the local Chambers of Commerce and Industry. Examples of such participants in focus groups included:
  - Presidents of local associations of SMEs.
  - Representatives of the local Chamber of Commerce and Industry in Timisoara.
  - Representatives of the local Association of SMEs and Association of Small and Medium Crafts in Bucharest.
  - Representatives of the local Chambers of Commerce, the Confederation of Private Entrepreneurs.
  - The Association of Women Managers in Brasov.

This allowed for a wider perspective than the focus group discussions and to cross reference the information that was obtained in the focus group discussions.

**Box 2-1. EPPA Methodology (cont.)**

- V. The findings from the focus groups and interviews were complemented with additional information provided by the EBRD. The EBRD's Office of the Chief Economist has assessed progress in structural and institutional reform across the region since 1994. The EBRD jointly with the World Bank launched the Business Environment and Enterprise Performance Survey (BEEPS, 2002) in 1999. The BEEPS asks enterprises to evaluate economic governance and state institutions and assess the extent to which the business environment creates obstacles to the operation and growth of their businesses. In 2002, a second stage of the BEEPS 2002 was undertaken, surveying close to 6,000 firms across 26 countries of the region.
- VI. The analysis in this EPPA is based on the information collected by the local consultants using the methodologies described above (focus group research, expert interviews, secondary data collection) and is complemented by the EBRD assessment and the BEEPS results. All information has been analysed by the OECD and EBRD, resulting in the assessment presented in this EPPA.

**NOTE**

1. The notations SME and small enterprise in this report also includes micro-entreprises, which according to the EU definition ([http://europa.eu.int/comm/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm)) are independent enterprises with up to 9 employees and whose turnover or balance sheet asset value are  $\leq$  € 2 million. Small enterprise are likewise defined as having between 10 and 49 employees and turnover or balance sheet asset value of  $\leq$  € 10 million and medium sized companies as having between 50 and 250 employees and turnover of  $\leq$  € 50 million or balance sheet asset value of  $\leq$  € 43 million.



## INSIGHTS FROM SME OWNERS, MANAGERS AND REPRESENTATIVE BODIES

### 3.1. Introduction

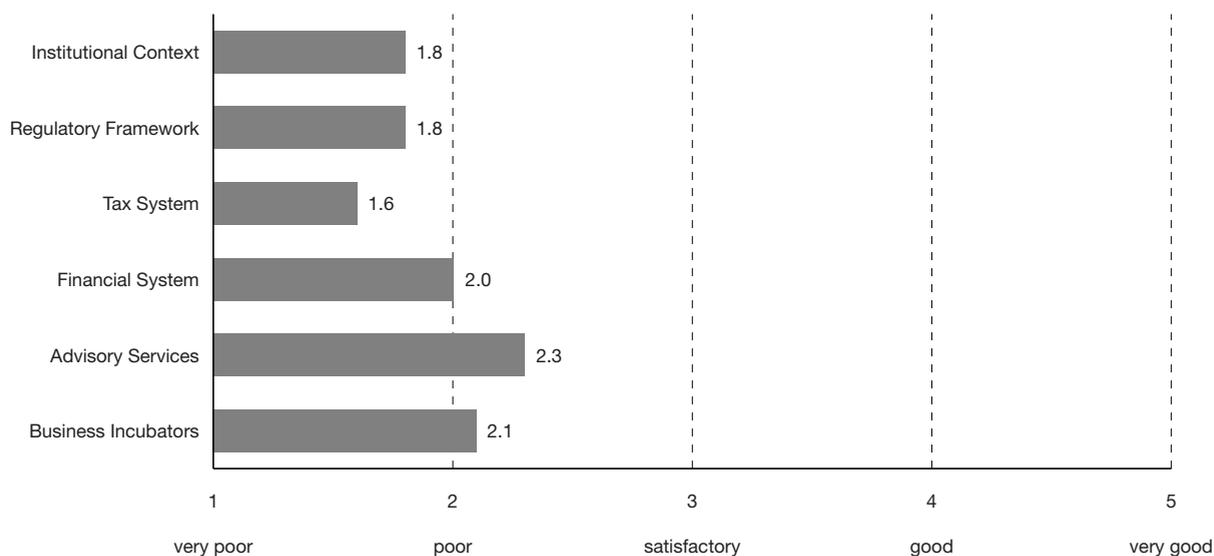
The analysis of the results of the research with the SME focus groups is presented below under six framework dimensions of good practice for the business environment:

- Institutional framework for SME policy.
- Rule of law and the regulatory environment.
- Tax policy for small businesses.
- Financial instruments for fostering small businesses.
- Advisory services supplied to new and small businesses.
- Implementation of business incubators.

The analysis highlights the main issues arising from the discussion with the private SMEs participating in the EPPA research. The key questions dealt with in the focus group research are summarised at the beginning of each section. The average ratings used to represent the views of the entrepreneurs range from 1 to 5 and can be read as follows: 1 = very poor, 2 = poor, 3 = satisfactory, 4 = good and 5 = very good.

The average ratings per dimension of good practice are highlighted in figure 3-1. In general, the ratings are low with the Tax System rated the poorest of all (1.6) i.e. between “very poor” and “poor”. Business Advisory Services obtained the highest average rating of all (2.3) i.e. between “poor” and “satisfactory”.

Figure 3-1. **Average Ratings of the Six Dimensions of Good Practice by SME Owners and Managers**



The main points made by the participants during the focus groups are reported *verbatim* and the quotations most relevant to the analysis are highlighted. Each section concludes with a summary of the issues emerging from the research.

In addition, this chapter presents selected analysis of the Business Environment and Enterprise Performance Survey (BEEPS) 2002 survey. The BEEPS is a survey of 255 Romanian enterprises and, like the focus groups, was carried out in 2002. Of these, 217 were considered to be SMEs (of which 36% micro, 35% small and 29% medium-sized) according to the EU definition for employment (i.e. they had less than 250 employees). The results presented in this document refer only to the responses provided by the SME sub-sample. The BEEPS research is based on a sample survey and provides further insights on private sector views. The BEEPS analysis is presented in separate text boxes (for example, see box 3-1. below) and a summary of main results is contained in Appendix I.

### 3.2. Institutional Framework for SME Policy

The issues researched under this heading:

1. Clear assignment of organisational responsibility for the development of SME policy.
2. The effectiveness of organisation/s in developing an environment to encourage entrepreneurship and the development of SMEs.
3. The quality and effectiveness of the SME development strategy.
4. The local and regional governments' mandate and resources (funding, people and skills) to promote SME development.
5. The information provided and awareness by business people of the government's institutions, policy and programmes to support new entrepreneurs and develop existing SMEs.
6. The quality and regularity of consultation between government and the private sector on SME policy and its performance and assessment.

#### Organisational Responsibility

1. Has Government assigned clear <b>organisational responsibility</b> for the development of SME policy?	2.5
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The Government has acted rapidly to assign responsibility for development of SME policy to the Ministry for SMEs and Co-operatives (MSMEC), and to a lesser extent to the Ministry of Development and Prognosis and the Ministry of Finance. However, most of the focus groups participants were not aware of MSMEC, its role or what it could do to assist them:

*“... in the last few years the only effective SMEs development activity was undertaken by non-governmental organisations. ... we learned more about their [Ministry for SMEs’] existence and activities from you [the researchers].”*

Many of the new institutions created by the Government, are considered to be “supervising” or “monitoring” bodies, and are perceived to have overlapping responsibilities. The entrepreneurs consider the remit of these organisations ambiguous:

*“Everything comes down to sheer luck. It depends on which inspectorate or monitoring body comes, and which interpretation it chooses [to apply].”*

**Issues:** Despite the good progress made in developing an extensive institutional framework for SMEs in Romania, including the Ministry for SMEs useful web site ([www.mimmc.ro](http://www.mimmc.ro)), there is insufficient familiarity with the key institutions in the country supporting SME development and their role and responsibilities.

## Effectiveness of the Organisation/s

2. Rating given to the <b>effectiveness of the organisation/s</b> in developing an environment to encourage entrepreneurship and the development of SMEs	1.7
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As a general rule, the SME owners and managers participating in the research are not entirely convinced that government institutions are really supporting them:

*“... the government is more concerned with its image and less with the development of a concrete and efficient strategy [for SMEs]. Of course, it has formed several institutions and bureaux, but we learn about them from the media and that is all the assistance we get...”*

A point noted during the research is that when requests for information are made, for example from business associations, associations of SMEs and local Chambers of Commerce etc., they sometimes obtain no support or feedback from the key institutions. Good servicing of enquiries for information is vital for the success of policy.

**Issues:** Good general progress has been made, however, there is still a perception of insufficient responsiveness and availability of supporting SME development services, resulting in a low rating for the effectiveness of the organisations involved. At the same time, it should be noted that SME representative organisations have a vital role and responsibility to inform members of policies and programmes.

### Box 3-1. Obstacles to Doing Business (BEEPS, 2002)

The entrepreneurs were asked to rate the severity of obstacles pertaining to several aspects of the business environment (the scores can be interpreted as follows: 1 = no obstacle; 2 = minor obstacle; 3 = moderate obstacle; 4 = major obstacle). Three areas of analysis overlap with the areas investigated through the focus groups methodology: regulation, taxation and provision of finance. On average they are rated respectively 1.9, 2.9 and 2.7 (i.e. between minor and moderate obstacles). A direct numerical comparison between the two types of analysis is not possible, due to the very different formulations of questions asked, however, the results are broadly consistent. It should be noted that the BEEPS included other areas of investigation in which obstacles of greater severity were identified, such as crime, land (title and access), labour regulations etc.

## SME Development Strategy

3. Rating given to the <b>quality and effectiveness</b> of the SME development strategy	1.7
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A “poor” rating was obtained because the participants do not yet perceive that there is an integrated overall SME development strategy for Romania. The perception is of a series of individual measures that need to be developed as a more integrated set within a clear overall strategy:

*“... the current legislative framework is something that appears one day and disappears the next. Even when there are laws stipulating incentives, we do not benefit from them, as they [relevant institutions] do not issue the guidance norms for implementation.”*

There is also a perception that the existing measures are designed primarily to increase state revenues and that this can have a negative influence upon the development of the SME sector:

*“It is just as if you are changing the rules after the game has started. The legislation changes often. For example, this year [2002] the government decided to introduce VAT for construction and tourism without either giving prior notice or clarifying what would happen with the contracts already signed by the firms operating in these sectors.”*

The participants believe that the growth in the SME sector is not necessarily due to the government's strategy. Their view is that the current state of SME policy is more about the "survival" of the sector than about its "development". The following complaint, highlighting the need for more intensive communication, was often heard:

***"The state is not interested in developing SMEs."***

**Issues:** The entrepreneurs think that an integrated SME strategy has not yet been developed for the sector. Measures introduced and/or repealed are perceived by the entrepreneurs to be unrelated to the objective of developing the sector and implemented without reference to a medium-term plan. The SME sector needs stronger reassurance of government commitment to support the development of the SME sector, an issue that the Ministry for SMEs is seeking to respond to.

### Local and Regional Governments

4. Rating given to the <b>local and regional governments' mandate and resources</b> (funding, people and skills) to promote SME development	1.7
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Local authorities in Romania are mandated to stimulate SME development. The "poor" rating was driven by the participants' perception that the law is not very specific about how such powers are to be used, which in turn means that local governments do not always prioritise this issue. The efforts by many local authorities, especially the larger ones, in setting up units to assist SME development were appreciated, however, many of the participants in the focus groups were unaware of the existence of such local offices. Those who were aware, felt that they were not effectively linked in to an overall strategy and did not always appear to have the necessary resources or skills to effectively help businesses:

***"The offices in important cities such as Brasov and Timisoara are not open throughout the working week. ...they act as if they have nothing in common with the Ministry for SMEs; they do not care about our [SMEs'] problems; they do not develop visible actions or initiatives to improve ... this sector."***

In addition to local authorities and Regional Development Agencies, the regional offices of the Chambers of Commerce and Industry and the National Association for Private SMEs provide advice and information on a commercial basis, mainly to their members. They are considered by the private sector to be the main local institutions active and contributing to SME development at the local level.

**Issues:** Local government currently has insufficient resources or skills for promoting SME development. Even large municipalities only have part-time enterprise promotion offices.

### Information and Awareness

5. Rating given to the <b>information provided and awareness</b> of the government's institutions, policies, programmes to support new entrepreneurs and develop existing SMEs	1.8
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The reason for the "poor" rating is that the SME participants lamented the lack of what they describe as "real" communication. The participants were aware of visits by the Ministry for SMEs to various parts of the country in order to present future plans, as well as various press releases of the Ministry's activities.

SMEs expressed poor awareness of information provided to support enterprises. There are examples of such activity, such as the Ministry for SMEs' publication of "SME Financial Programmes 2001-2002" (2001), of which 20.000 copies were disseminated and/or are available on-line. These do not appear to be reaching the enterprises. Information regarding SMEs comes through specialist magazines such as "SME Revista" as well, and there appears to be more awareness of these.

The participants pay close attention to projects providing funds to support the development of SMEs such as the PHARE (Poland Hungary Assistance for Reconstruction of the Economy – now extended beyond the original two countries) and the World Bank programmes. They consider that these tend to lack transparency as they involve restricted information flows and that enterprises do not appear to benefit equally. Participants say that even when information about the projects and programmes becomes available, the necessary documentation for obtaining funds is not easily accessible to all firms. There is a similar perspective with respect to the government's own programmes.

**Issues:** Despite the range of enterprise analyses, programmes and activities now underway in Romania, the detailed information on programmes and initiatives is not reaching all SMEs enterprises and businesses do not feel they have equal access to information.

### Consultation between Government and the Private Sector

6. Rating given to the <b>quality and regularity of consultation</b> between government and the private sector on SME policy and its performance	1.4
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In line with the findings on the earlier questions in this section, the SME owners and managers, while acknowledging some individual efforts, generally felt that much more could be done to improve the quality and regularity of consultation between government and themselves. None of the participants in the research could highlight an example of a relationship of a consultative nature with a governmental institution based on their own experience or that of another enterprise known to them:

***“We thought that with the new Ministry, things would change... Nothing happened.”***

***“We received... a note on the Ministry's intention to regulate the property rights on craftsmen's co-operatives... We got together, discussed it, ... consulted local associations throughout the country and sent petitions. Nobody from the Ministry reacted to this ... I do not think our opinions are really considered.”***

Many participants believed that in their day-to-day relation with State bodies, they invariably feel as if the presumption is that they are in breach of the rules and regulations and that this is reflected in the way the government deals with them.

According to some representative bodies, there had been attempts to initiate a dialogue, both on specific problems and on strategy issues, but response has often been perceived as inadequate. This perception should not be seen as the general view of all SMEs, but that some SMEs consider themselves disadvantaged in comparison with larger enterprises.

It is recognised that the Tripartite Council, which consists of representatives of the private sector, trade unions etc., is the focus of the Ministry for SMEs' consultative activities at the national level. The responses strongly suggest that the MSMEC needs to give further consideration to finding effective mechanisms of interacting with SMEs at the local level. The perceived lack of communication between the government and SMEs is considered by the SME owners and managers to be a cause of tension between SMEs and government. This reinforces a perception of on-going uncertainty, unreliability and instability of the institutions in charge of initiating and developing effective strategies for SME development:

***“We entrepreneurs, cannot develop medium term business plans if we have insufficient information on which laws they will change or adopt, what taxes they will introduce, or what incentives we will benefit from in future. It is just like walking on quicksand.”***

**Issues:** Consultation and communication between the SME sector and the Ministry exists through the Tripartite Council (see OECD-EBRD, 2002). However, SMEs do not believe that they are being adequately consulted on the initiatives to support their development, suggesting that members of the Tripartite Council should seek to improve their channels of communication with their members.

### 3.3. Rule of Law and Regulatory Environment

The issues researched under this heading:

7. The formalities for new company registration and comment on the process.
8. The procedures for obtaining licenses, permits and certificates necessary for business operations and
9. The existence of a government approved programme for reducing the legal / administrative barriers for business and rating of the quality and effectiveness of this programme.
10. The efficiency of the programme for reducing the impact of corruption.
11. The quality and regularity of consultation between government and the private sector / SME policy community on draft legislation and regulations that affect business.

#### Company Registration

7. Rating given to the <b>company registration</b> procedure	1.8
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The participants said that they had recently witnessed some very positive developments, such as the creation of the network of “one-stop-shops” for company registration, resulting in the processing of the necessary documentation and permits in one location. On the other hand, a number of other problematical issues were raised. These related to the number and type of documents and licenses that are required in order to submit a company for registration, including papers from ministries, sanitary licenses, fire licenses, city hall licenses, etc. The view was that the focus of business simplification should now be shifted to the pre registration stage. This stage still requires too much time and effort by entrepreneurs looking to register a firm. Many of them have to rely to too great an extent on lawyers to smooth the process of registration:

***“I’ve decided to contract a law firm to handle all the necessary papers, but I am aware of the fact that not all firms can afford to do that. This is a large burden for smaller firms to bear.”***

The “one-stop-shop”, the main initiative to improve the regulatory procedures, is considered by the participants to be a commendable start. It is not yet believed to be operating effectively due to issues such as the training needed by the staff, lack of information and changing regulations. During the summer of 2002, over a period of seven days, five separate acts of parliament were changed, all associated with the paperwork necessary to register firms. The “one-stop-shop” staff seemed unclear about the new requirements, resulting in tensions between them and the entrepreneurs:

***“At the beginning, I said to myself that it was not worth paying €300 to a lawyer just to deal with some documents, especially with the creation of the one-stop-shop. After three months of going like crazy to all kinds of institutions, I hired someone just to deal with these matters.”***

***“It is very difficult to set-up a firm, it is also difficult to [make it] work, but it’s even more difficult to put end to a business. One needs thousands of documents in order to set-up the firm, and most of them are irrelevant.”***

The participants estimated that it now costs between €500 to €1,000 to set-up a new firm, depending on the urgency of the case, legal advisor costs, the approvals required, etc. The costs are considered to be too high. In their view, this has a knock-on effect in reducing the scope for start-ups, especially in disadvantaged areas such as Moldavia, Dobrogea and Northern Transylvania, with their high levels of unemployment and low wages:

***“The costs of starting-up a business today are very high ... we are the ‘cash cow’.”***

**Issues:** The “one-stop-shop” system is acknowledged to be an initiative that has resulted in major improvements to the business registration process, in terms of time, complexity, inconvenience and money. However, this is a process and the discussion suggests that the initial stages of company registration and

starting a business is still perceived as complicated and time-consuming for entrepreneurs. It is expected that the introduction of the principle of “silent consent ” should improve matters.

### Licenses, Permits and Certificates

8. Rating of procedures for obtaining <b>licenses, permits and certificates</b>	1.8
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The feedback indicates a perception that the procedures for obtaining licenses, permits and certificates for business operations work poorly at present:

*“My file ‘slept’ somewhere. I had to wait six months to get the registration certificate.”*

Entrepreneurs maintain that they are only willing to put-up with this situation because few firms require these documents on a regular basis. Particularly high levels of dissatisfaction were noted in the food-processing sector:

*“Last week, the Agriculture Department checked my licenses. They found some cakes that were produced by another company. They then asked me for 25 certificates and authorisations just for the vehicle that transported the cakes [to my premises], all of which is pretty unreasonable.”*

*“You pay taxes and more taxes every year for obtaining useless licenses. These are rules copied from somewhere else, but not adapted for different fields or types of activity.”*

**Issues:** Efforts are underway to simplify the procedures for obtaining licenses, permits and certificates, however, these remain overly complex, resulting in delays and costs to enterprises.

Further business regulation issues identified in the BEEPS survey are discussed in box 3-2.

#### Box 3-2. Business Regulations (BEEPS, 2002)

According to the BEEPS, the aspects of the business environment for SMEs pertaining to regulation (labour regulations, customs and trade regulations, title or leasing of land, access to land and business licensing and permits) are considered to be a less severe obstacle than the focus groups analysis suggests (average rating is 1.9 i.e. minor obstacle on an ascending scale of severity of constraints of 1 = no obstacle to 4 = major obstacle). However, variance in the rated severity of various aspects of the regulatory environment is very high, with issues related to business licensing seen as the most difficult for entrepreneurs, followed by customs and trade regulations, labour regulations, issues related to access to land and to titles or leasing of land (respectively 2.4, 2.0, 1.9, 1.7 and 1.6).

### Simplification Programme

9. Rating given to the efficiency of the <b>programme for reducing administrative barriers</b> for business	2.0
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Despite the existence of both the Ministry for SMEs’ and the Task Force’s Action Plans for simplifying the business environment, the focus group participants were not convinced that there is an effective programme in place to reduce legal and administrative barriers in order to stimulate and support SME development. The “poor” rating for the efficiency of the programme for reducing administrative barriers for business indicates the belief that much still needs to be done.

The participants accepted that the reforms such as the recent establishment of the “one-stop-shops” or a more transparent mechanism for obtaining licenses have the aim of reducing administrative barriers. However, they believe that the way that the supervisory bodies actually implement the rules remains the real issue. Participants were not convinced that the institutions in charge of diminishing barriers are really interested in achieving this goal. They feel that there is a vested interest in some bodies in retaining complexity and uncertainty in implementation to provide scope for corruption, which is ultimately an important source of income for civil servants. The licenses are currently a relatively secure and recurring source of income for ministries and local administrations. It was felt that this creates an incentive to inflate the cost of licenses, that must be periodically renewed:

*“The government has no interest in reducing the bureaucracy and all these legal labyrinths ... we constitute a safe source of income for Ministries ... for local authorities ... and for most public organisations. A safe source of income and also a safe source of bribes.”*

**Issues:** The intention of the reforms for simplifying the business environment is praised by SMEs. However, the implementation strategy has built in conflicting objectives – on the one hand to secure revenue and on the other to simplify procedures. In addition, at the operational level there is a continued need to change attitudes and practices that will reduce complexity in administration.

### Anti-Corruption Programme

10. Rating given to the quality and effectiveness of the <b>Government’s programme for reducing the impact of corruption</b>	2.0
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Following the establishment of an Anti-Corruption Prosecuting Office in 2002, the Government has officially started an anti-corruption programme which could have an impact on SMEs. At the present time, however, the majority of participants do not yet consider this programme to be particularly effective. This is partly because it is too early to evaluate its impact, nevertheless, it appears that only a minority of the participants did not have to regularly give inspectors “*a series of financial gifts*” to avoid paying “*official penalties*”. The bribes usually represent 10% of what the official penalty would otherwise be imposed:

*“The anti-corruption programme ... has no visible effect. On the contrary, civil servants became more subtle in their methods.”*

*“There is no real interest in reducing bureaucracy and all the legal problems... No one from the central administration is interested in this as we constitute a safe income source [for them].”*

The constantly changing regulatory environment dealt with above contributes to this situation by creating ambiguity and uncertainty, thus in turn generating scope for rent-seeking activities (see also box 3-3.).

**Issues:** The Romanian Government has implemented various measures, however, the issue of corruption and bribery is of everyday importance to the majority of SMEs participating in the discussions. It is common for inspectors to accept bribes in return for reduced or no official fines. As a result, SMEs feel highly vulnerable and fear inspections, even official or routine ones, and a register of inspections may reduce their arbitrariness.

#### Box 3-3. Corruption (BEEPS, 2002)

Some evidence of corruption affecting the SME sector also emerged from the BEEPS analysis. It found that SMEs pay 2.7% of total annual sales in unofficial payments/gifts to public officials. This percentage is higher than the finding of the 1999 BEEPS (1.7%). However, a much smaller percentage of firms is affected by corruption with respect to 1999, according to the same sources. In 1999, 50.9% of those interviewed admitted to having made frequent bribe payments, whereas in 2002 only 36.7% of firms did so.

### Consultation between Government and the Private Sector

11. Rating given to the <b>quality and regularity of consultation</b> between government and the private sector on draft legislation and regulations that affects business	1.3
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Very few of the interviewees were able to highlight a situation where they had been asked for opinions as to how best to develop or implement draft legislation and regulations that affect business. Certain participants indicated that, as representatives of various business associations, they have been invited to attend meetings at which they were informed about measures intended to be applied, but that the format of such meetings did not facilitate effective discussion and feedback of views.

Entrepreneurs argue that calls from the regions for dialogue are not necessarily followed-up with meetings or concrete measures. Such meetings and campaigns as are held, are viewed as being motivated more by the requirements of EU accession:

*“...the Ministry [for SMEs] is the result of external pressures, generated by the EU accession [process].”*

**Issues:** Moves are under way to improve the business regulatory environment. The Task Force’s activities cover enterprise-wide initiatives; MSMEC’s activities focus on small enterprises in particular. Both initiatives interact with business representatives but more effective consultation is needed with SMEs. It is not enough to disseminate decisions. Opportunities must be created for discussion of the practical effect of new initiatives in advance of them being put into operation and how they can best be implemented.

The BEEPS survey examined two other aspects of interest. Box 3-4 deals with issues to do with contractual rights and changes to the legal system. Box 3-5. examines the private sector’s perceptions of the lobbying power of various organisations on the making of laws and regulations.

### 3.4. Tax Policy for Small Businesses

#### Box 3-4. Legal System: Contractual Rights and Impact of Changes (BEEPS, 2002)

##### Confidence in Ability of the Legal System in Upholding Contractual and Property Rights

Confidence in the legal system in upholding contractual rights is low, with only 49% of entrepreneurs trusting the legal system to some degree. The following table shows the entrepreneurs reactions to the statement: “I am confident that the legal system will uphold my contract and property rights in business disputes.”

	%
Strongly Disagree	11.5
Disagree in Most Cases	9.2
Tend to Disagree	26.3
Tend to Agree	22.1
Agree in Most Cases	22.1
Strongly Agree	6.9
N/A	1.8

**Box 3-4. Legal System: Contractual Rights and Impact of Changes (BEEPS, 2002) (cont.)****Expectations of How Future Changes of the Legal System Will Affect Private SMEs**

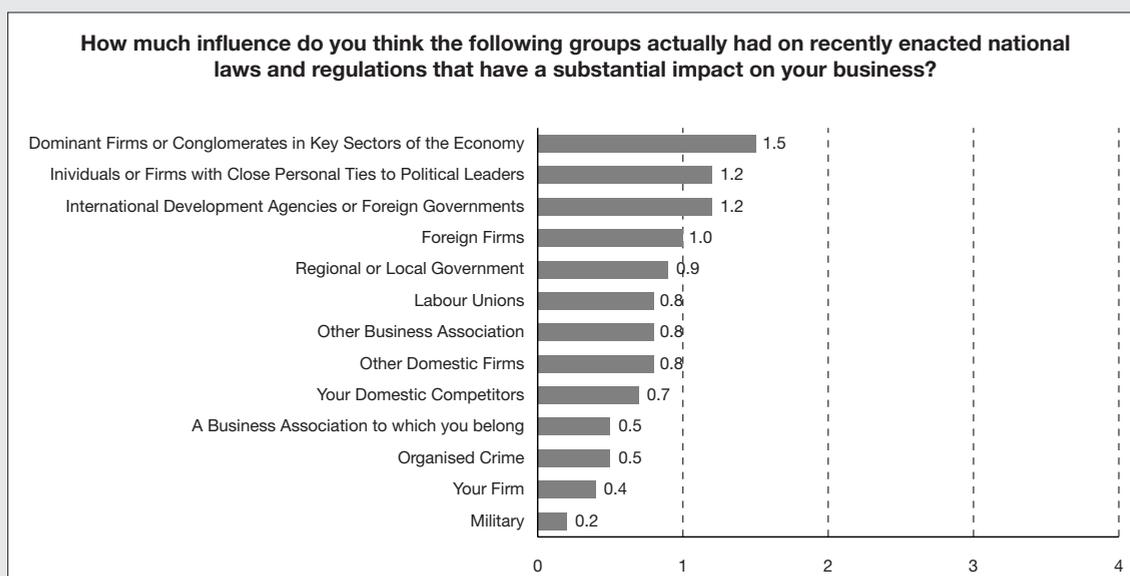
The frequency of changes in legal and regulatory environment appears to be taken for granted, with 65% of entrepreneurs expecting sudden, unexpected changes to the system in the short term. The following table shows the entrepreneurs reaction to the question: "How likely do you think that an unforeseen change in laws or regulations will occur in 2003 and have a significant impact on your business?"

	%
Extremely unlikely	13
Highly Unlikely	20
Fairly Unlikely	35
Fairly Likely	84
Highly Likely	35

The percentage of time spent by senior management in dealing with public officials about the application and interpretation of laws and regulations and to get or to maintain access to public services was over 6% in 2002.

**Box 3-5. Private Sector Perception of Lobbying Power of Various Entities (BEEPS, 2002)**

The entrepreneurs were also asked about the link (in terms of lobbying power) between the legislative powers and regulatory authorities with various organisations and economic agents (the scores can be interpreted as follows: 0 = no impact; 1 = minor influence; 2 = moderate influence; 3 = major influence; 4 = decisive influence). As can be seen from the chart below, large firms and conglomerates in key sectors of the economy, firms with ties to political leaders and international development agencies are believed to be able to exercise, to a minor degree, some sort of lobbying power on the legislative and regulatory authorities. The entrepreneurs interviewed in the BEEPS believe that SMEs and their business associations have almost no impact on the making of laws and regulations.



The issues researched under this heading:

12. Whether the present tax policy encourages new enterprise and rating of the tax system in terms of the encouragement, support and ease of use that it provides to new and existing SMEs.
13. The stability and transparency of the tax system for small enterprises.
14. The consultation and communication between government and the private sector on tax rates and incentives for enterprises.
15. Co-ordination of tax policy with other government policies.

### Encouragement of Enterprises

12. Rating given to tax policy in terms of the <b>encouragement, support and ease of use</b> that it provides to new and existing SMEs	1.5
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The tax policy being pursued by the Romanian government is considered by many of those researched to inhibit, rather than encourage the development and expansion of new enterprises. SME owner / manager participants considered that the existing tax regulations and burdens are actually pushing them to give-up or operate on the *“edges of legality”* as a survival strategy:

***“We are a family of chemists and we have done this work all our lives, but now I think we should stop. The state imposes very high taxes, it fixes the prices of medicines and now we are asked for new technology to conform to European standards. But are the prices at European standards? Are the taxes? The salaries?”***

Not surprisingly, the owner and managers of SME firms would like to see a reduction in the tax burden and perceive the tax incentives as being essential to encourage start-ups. Participants said that they estimate that the taxes paid to the State are a very high proportion of the annual turnover of a typical SME and that this has been steadily on the increase for the last four years:

***“Last month, my salary costs amounted to ROL 70 million. ROL 30 million was the net salary that people received and ROL 40 million was for taxes. Do you think this is normal? ... This forces them [the staff] to find other solutions, especially if they are young.”***

Significantly, none of the participants had created new official jobs in their firms. Rather, a number of the participant firms, especially those in the service sector, had been forced to release permanent employees, preferring to issue short-term contracts:

***“We've had to downsize, just to keep operating.”***

They considered the principal effect of the onerous social security taxes has been to incentivise unofficial employment:

***“I pay my employees unofficially. They wouldn't even come to work otherwise because official employment forces them to lose a lot of money.”***

Although the general economy has been growing rapidly in recent years, many of the participants indicated that their firms had contracted in size and the principal reason for this was that they could not cope with a simultaneous increase in taxes and salaries, especially in view of the level of inflation. A response has been to downsize to reduce their cost base, but at the same time to employ people unofficially.

**Issues:** The general view of the tax policy is that it is considered to be a key factor blocking faster SME development in Romania. The main issues related to perceived high tax burdens, rapid and inexplicable changes in the tax system and the attractiveness of operating in the grey economy, which some SMEs see as a necessity for survival.

### Stability and Transparency

#### 13. Rating given to the **stability and transparency** of the tax system for small enterprises

The participants gave a relatively low rating to the transparency and stability of the tax system for small enterprises. They believe that a lack of stability adds to the costs of compliance and makes SMEs feel permanently vulnerable *vis-à-vis* the various representatives of the State since they cannot assume that they are complying fully with the requirements of the law. In their view, this results in an unnecessarily confrontational environment between SMEs and the central/local administration:

*“We always feel under threat from state institutions. We, small enterprises, just can’t keep up with the [tax] legislation. Just when you think you know the law, it is changed. Sometimes even our accountants can’t cope and we must hire experts... but we can’t really afford it.”*

There is a perception that government has introduced a series of rapid changes without any prior debate or consultation resulting in *ad hoc* and sometimes contradictory responses:

*“I lost a lot of money because they have introduced new taxes without notification. As a construction firm, we were exempted from VAT until April 2002 when suddenly the VAT became compulsory. We don’t know why, especially as the government states that it wants to encourage construction. We had to pay VAT, although we had signed contracts the previous year, with the [then] prevailing terms and conditions. The client no longer has confidence in us. Eventually, all of us lose out.”*

Another example, relates to the turnover tax:

*“We’ve been told that starting next year [2003] the 1.5% turnover tax and the reinvestment of the profit incentive - tax relief - would be suspended. Why? Did they [the Government] conclude that we have ... completely recovered from an economic point of view?”*

This situation means that entrepreneurs become uncertain about the most appropriate financial conditions for contracts, generating problems between the state and private firms but also between customers and firms.

The tax changes can affect firms dramatically, sometimes driving them to the brink of bankruptcy:

*“Last year I set up a travel agency ... and signed contracts with some foreign partners ... This year, I was surprised to find out that the prices would increase by 20%. New regulations mean that VAT is now compulsory for tourist activities ...I have just started this business and bankruptcy is now very close!”*

**Issues:** Rapid changes in fiscal policies undermine the ability of enterprises to forecast and plan for expected tax levels. This leads to lower investment and less job creation and adds to the compliance cost burden on firms.

### Consultation and Communication on Tax Policy

#### 14. Rating given to the **communication between government and the private sector** on tax rates and incentives for enterprises

There was unanimous opinion among the focus group participants: nobody had participated or even heard about any form of consultation on tax rates and incentives for SMEs. Participants expressed their belief that SMEs are currently not considered as stakeholders:	1.5
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*“There is not even a minimal consultation process. The institutions of the State do not even try to be aware of the problems that this sector faces.”*

*“I’ve tried to initiate a dialogue with the Ministry for SMEs to communicate to them the situation ‘on-the-ground’ and explain that we can no longer go on with the current situation. I sent letters, petitions, requested meetings through the Chamber of Commerce, but nothing happens.”*

The SME sector claims that the situation is different when it comes to large enterprises, by virtue of their political connections or their large trade unions, which could create political damage:

*“... there are ways of drawing the government’s attention: strikes, political bribes - a substantial contribution to electoral campaigns - or direct representation in Parliament... We can’t do any of these things. We have very few employees, limited financial resources and we have little to offer, other than our hard work and honesty. But this doesn’t mean anything today.”*

**Issues:** There is no experience of consultation between government and the SME sector on tax policy such as appropriate rates and incentives for enterprises. There is a belief that large enterprises are treated differently from SMEs by government in this respect. There is no knowledge of the dialogue that happens through the Ministry of Finance and its Tripartite Council.

### Co-ordination of Tax Policy

#### 15. Rating given to the tax policy **co-ordination** with the **overall government policy**

The participants perceived a difference in policy between small and large enterprises. They argued that small enterprises are severely penalised if they do not meet their obligations in due time. The best they can hope for is to find “*small subterfuges*” in order to survive. By contrast, they maintain that both state-owned enterprises and certain large firms systematically fail to meet their taxes without experiencing any consequences. The lack of co-ordination and consistency in the application of tax policy results in unfair competition and privileges for larger firms:

*“The SMEs, because of the government’s ‘strategy’, get to sustain the black or grey hole of the labour market and the economy. I pay my employees unofficially.”*

**Issues:** Since 2002, all firms have received equal tax treatment. However, in practice, there is a perceived discrepancy between the actual treatment of larger versus smaller enterprises in implementing tax policy, such as relation to tax arrears.

Box 3-6. examines the ratings the BEEPS survey results for tax administration and tax rates.

### 3.5. Financial Instruments for New and Small Businesses

#### **Box 3-6. Taxation Issues (BEEPS, 2002)**

According to the 2002 BEEPS, the two aspects of the business environment for SMEs pertaining to taxation, tax rates and tax administration are at 3.2 and 2.7 respectively on the BEEPS scale, indicating moderate obstacles to doing business.

The issues researched under this heading:

16. The stability, competitiveness and services of the banking system.
17. The commercial banks’ interest in extending credits to the SME sector and lending attitude with respect to the SME sector.
18. The SME access to the following main sources of finance:
  - Own/family capital.

- Micro finance.
  - Venture capital/Equity.
  - Others (e.g. credit unions).
  - Repatriation capital (from family / friends abroad).
  - Commercial banks.
  - Leasing.
  - Credit reference sources.
  - Bank personnel skills.
19. The availability of finance for SMEs at local and regional level.
20. The availability of funding for all sectors including technology companies.

### Stability, Competitiveness and Services

16. Rating given to the **stability, competitiveness and services** provided by the banking system

	2.3
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Overall, the private sector considers the commercial banking system to be fairly stable, with increasing levels of competition. The interviewees valued the recent developments in the banking services and consider them to be similar to those being experienced in other eastern European countries. At the same time, the SME owners and managers are concerned by the perceived high level of bureaucracy of the commercial banks, for example in relation to credit application procedures:

***“Banks kill you with bureaucracy... It takes too long to get all the approvals, feasibility study, business plan, collateral etc. You spend a lot of money and waste a lot of time.”***

The participants in the research felt that the completion of the procedures for obtaining credit can be time-consuming and costly to firms, sometimes taking several months. Most banks require them to use consultancy firms to prepare the loans applications and a “commission” is demanded consisting of a certain proportion of the loan amount. The cost of the consultancy is borne entirely by the loan applicant:

***“I paid a pretty significant proportion of my loan for the consultancy services. This is not exactly fair: on one hand it [the bank] gives you [credit], but it takes it away from you with the other hand. It [application procedure] lasted three months, but I had no other choice.”***

**Issues:** SMEs view the banking sector as being fairly stable, competitive and providing a range of services. They believe credit application procedures to be cumbersome and costly.

### Banks' Interest / Attitude to SMEs

17. Rating given to the commercial banks <b>interest in developing SMEs</b> and their <b>lending attitude</b> to the SME sector	1.7
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All participants in the discussion interacted with commercial banks, because the use of a bank account is a prerequisite for registering a firm. Participants in the focus groups consider the general relationship with banks to be good, although activities are principally restricted to current account transactions. They suggested that there is ample scope for widening the range of services offered to SMEs by commercial banks. They are convinced that the banking system continues to behave unduly conservatively towards SMEs. This is reflected in the poor rating for the perception of the banks lending attitude and their commercial interest in developing the SME sector.

The entrepreneurs participating in the research maintain that banks are not yet very proactive *vis-à-vis* SMEs:

***“I’ve never heard of any bank that offered special services to [small business] clients as a result of stable relationships and trust built over a period of say, ten years.”***

Entrepreneurs argue that whilst bank managers are very cautious with them, thus slowing the pace of SME development, they are perceived to be much more flexible towards large firms:

***“... They [banks] prefer to give millions of dollars of credit to some big firms based on the fact that they own some overvalued large building and some land. This is why they [banks] go bankrupt.”***

This adds to the belief in some quarters that the financial sector contributes to a large degree to the existence of an uneven playing field for SMEs vis-à-vis their larger counterparts:

***“... I proved over five years that I am honest and meet my obligations. However, I can’t get credit because they ask me to put a mortgage on my house. Individuals who own empty warehouses on the outskirts of the city ... have access to credit. I don’t.”***

**Issues:** Banks are perceived to be conservative, not very proactive towards their SME clients and discriminating against small firms as compared to larger firms.

### Access to Finance

18. Rating given to the <b>access to key sources of finance</b> and guidance on financial matters to small businesses	2.3
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As in many transition economies, individual/family capital is the main funding source for start-up capital. The following is a typical quotation:

***“... I bought a publishing house... I could only buy the shares with money borrowed from friends and relatives.”***

The second most frequently accessed source of finance for many participants is other established business, whether active or not, that invests capital, equipment and know-how into a new firm:

***“I started my business with money I brought in... in fact, it was the profit from a construction firm I previously had.”***

Table 3-1. **Relative Importance of Main Financial Sources Accessed by SMEs**

Financial Sources	Rating	Ranking
Family or individual capital	4.7	1
Capital from “mother” company	4.1	2
Micro-finance	2.3	3
Commercial bank loans	1.5	4
Leasing	1.2	5
External/Foreign capital	0.1	6

In some cases, funds were obtained from micro-finance programmes. It is argued that, in many areas, this is the only type of finance available at local and regional level (see below):

***“In 1995 I managed to obtain a PHARE micro-credit for start-up businesses. The €3,000 was very important for me. I would not have been able to do anything without it.”***

SMEs' access to commercial loans is hindered by the perception that interest rates are too high, that maturities are too short and that collateral requirements are too high. Notwithstanding these considerations several entrepreneurs applied for and obtained loans with these characteristics.

The banks' collateral requirements were regarded as:

*"... prohibitive and inhibiting active SME development."*

Another financial source frequently tapped is leasing, especially as a way of financing the purchase of light equipment, vehicles and technology. Unlike other countries in SEE, leasing appears to be developing very rapidly:

*"All equipment we have in our clothing factory was purchased through leasing arrangements. It was pretty convenient for us."*

Boxes 3-7. and 3-8. examine respectively the sources of finance for SMEs' needs and their perception of the ease of obtaining bank loans.

#### Box 3-7. Sources of Finance for SMEs' Needs (BEEPS, 2002)

According to the BEEPS, the two aspects of the business environment for SMEs pertaining to finance (cost of and access to capital) are rated between modest and moderate obstacles to doing business (respectively at 2.8 and 2.5). They are ranked fourth and ninth in the set of 21 potential obstacles to doing business. Overall, the survey results highlight that in comparison to issues such as macroeconomic instability, tax rates and economic policy uncertainty, the relative severity of the financial obstacles appears to be secondary. Nevertheless, an analysis of the sources of finance used by the Romanian entrepreneurs in the past to finance both their working capital needs and new investments shows a very heavy reliance on internal funds and loans from family and friends. This is not unlike any other country in the world, however, the dimension of the reliance on internal funds is far larger than in western economies. Private local banks account for a modest share of financing needs (8.1% for working capital requirements and 6.4% for new investment requirements). Supplier credit (3.5%) appears to be of some relevance to satisfy the financing needs for working capital and leasing companies that provide credit have some relevance in supporting new investments (3.6%). At present, foreign-owned banks are virtually irrelevant in the provision of finance to the SME sector. The following table presents the relevance of sources of finance used by interviewed entrepreneurs for working capital needs and to finance new investments in percentage of total.

Working Capital		New Investment	
Internal funds	69.5	Internal funds	62.2
Private local banks	8.1	Private local banks	6.4
Family/friends	5.9	Family/friends	5.6
Supplier credit	3.5	Leasing	3.6
State-Owned banks	2.6	Government	2.4
Equity	2.3	State-Owned banks	2.0
Leasing	2.1	Foreign banks	1.4
Other	2.0	Supplier credit	1.3
Government	2.0	Other	1.2
Customer credit	1.2	Money lenders	1.0
Money lenders	1.1	Equity	0.9
Foreign banks	1.0	Credit cards	0.8
Credit cards	0.7	Customer credit	0.1

Finally, the role of remittance capital is noteworthy:

*“The money I used was earned through five years work in Italy. It was a bad idea [to come back and start a business]. I would have earned much more if I had stayed there.”*

**Issues:** Commercial bank loans only rank as fourth out of the six main financing sources for SMEs. This is associated with a perception of bureaucratic behaviour and with complaints about high interest rates and costs. Leasing is becoming an increasingly important source of funding, as is micro-finance. The Ministry for SMEs is working to initiate other finance initiatives, such as credit Guarantee Schemes, to support the development of small enterprises.

### Access at Local and Regional Levels

19. Rating given to the access to finance at <b>local and regional levels</b>	2.3
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The key means of accessing finance at the local and regional levels is through a variety of regional development programmes and projects focusing on underdeveloped regions. Entrepreneurs, especially in the Moldavia region, believe that it is possible to obtain this type of finance. The SME development funds of the PHARE programme have been very active. However, the SME owners and managers felt that the procedures involved (such as the bureaucracy, collateral requirements and business plans) tend to exceed their capacity and should be simplified:

*“I applied in 1993 for my first PHARE grant to buy equipment. I got the credit on very good conditions with a reasonable interest rate. It took a lot of time and I had to fill in many application forms, but I cannot say I am not content. It was my first credit and it helped me a lot.”*

#### Box 3-8. SMEs' Perception of Ease of Obtaining a Bank Loan for Working Capital/Investment Needs (BEEPS, 2002)

A further question was asked regarding the entrepreneurs' perception of the ease with which they would be able to obtain a loan from a commercial bank for both working capital needs and for financing a new investment. The answers appear to be very optimistic if compared to the aggregate data on domestic credit to the private sector and considering what past experiences with own financing needs would suggest. This might indicate either the entrepreneurs' extreme confidence in the most recent developments of the banking sector (e.g. a new bank showing excellent performance in micro-lending), or hint at different types of obstacles (i.e. unaffordable cost of capital, too high collateral, etc.). In the case of working capital loans, 48% of entrepreneurs thought it would be fairly easy or very easy, and in the case of loans to finance new investments, this percentage drops to 35%. The entrepreneurs' responses to this question are presented below in percentage of total.

	Working Capital	New Investment
Impossible	6.9	10.6
Very Difficult	17.1	21.7
Fairly Difficult	21.7	27.2
Fairly Easy	28.6	24.4
Very Easy	19.4	10.1
N/A	6.5	6.0

In fact, the SMEs believe that although this source of funding is meant to be complementary to banks' loans and government programmes, it is in fact a relatively more important source of finance than the former:

***"In Timisoara, there are many institutions that grant credits for business development, especially for SMEs, under much more reasonable conditions than commercial banks."***

**Issues:** Regional programmes and targeted funds are considered to be important in Romania, although there are similar perceptions about bureaucracy, as in the case of bank lending.

#### Access by Sector

20. Rating given to the access to <b>financial sources</b> for <b>all sectors</b> including technology companies	1.5
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Theoretically, finance is available for all sectors on an equal basis but in practice commercial banks are perceived by the respondents of the focus groups to be less interested in lending to agricultural firms than to firms in industry or services.

#### 3.6. Advisory Services for New and Small Businesses

The issues researched under this heading:

21. Satisfaction with the range and quality of advisory services available to new entrepreneurs and SMEs and rating of the present services and comment on the changes needed.
22. Efficiency of advisory services operations.
23. Responsiveness of advisory services provided to demand and the needs of enterprises.
24. The skills, experience and quality of the staff providing business advisory services.
25. The continuity of business advisory services available.

#### Range of Advisory Services

21. Rating given to the satisfaction with the <b>range of advisory services available</b> to new entrepreneurs and existing SMEs	1.9
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The SME owners and managers participating in the research were concerned that the range of services is limited and, with the exception of some donor-funded-initiatives, that most of the advisory services are based on fees and commissions.

Where bodies are responsive to their clients' needs, it is appreciated:

***"I try to use this kind of firm for many projects. For example, I went to one when I organised an auction. They helped me... for a fee of course. I am pleased... [they] respected the deadlines and the agreement ...They were professional."***

**Issues:** The range and quality of advisory services needs to be developed.

#### Efficiency of Advisory Services

22. Rating given to the <b>efficiency of advisory services</b> available to SMEs	2.3
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Entrepreneurs rate the efficiency of the advisory services between "poor" and "satisfactory". Many of the business advisory centres were created as a result of internationally funded projects and are attempting to become self-financing before donor funding dries-up completely. This means that they have to operate in a much more commercial manner. With the entry of large numbers of business consultancies and other privately owned companies providing business services, the market has become very competitive. In

addition other institutions, such as the National Association of Private SMEs and the Chamber of Commerce and Industry, deliver business advisory services for a fee. The more positive assessments relate to private business advisory services, rather than donor or publicly-funded initiatives.

**Issues:** The emergence of a competitive private sector offering advisory services is an important development in Romania. This reduces the necessity for donor-funded initiatives in the longer term.

### Responsiveness to Demand

23. Rating given to the <b>responsiveness of advisory services</b> to demand and needs	2.2
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The view seems to be that the organisations providing advisory services to SME are not very responsive to demand:

*“At present, they generally do not go beyond writing finance applications and assessing the chances of obtaining funding. They rarely provide services such as improving the quality of management and performance, so that a firm can better manage crisis situations and other problems.”*

### Human Capital

24. Rating given to the <b>skills, experience and quality of the staff</b> providing advisory services	2.7
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The staff (skills, experience and quality) of advisory agencies are generally considered to be approaching the “satisfactory” level. There is a general perception that the private sector providers have broadly the capacity and the human capital to meet the demands of the market:

*“I needed help from consultancy firms for my bank credit applications. I have never done a business plan and they helped me. I haven’t asked for help to see if my firm is going well ... Maybe if I have problems, I’ll call them.”*

### Continuity of Provision

25. Rating given to the <b>continuity</b> of advisory services available	2.3
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There is some concern that once project funding ceases, especially support from international donors, the activity of the business advisory centres will be seriously impacted, since many of them are not financially sustainable:

*“In Timisoara, the first advisory centres were financed by PHARE. None of the seven or eight centres is still functioning...the available financing to support them is low.”*

That said, the majority of such organisations in Romania have managed to continue operating.

**Issues:** Financial sustainability has yet to be achieved for a range of donor-funded business advisory services. This is an issue that the Government is aware of and trying to find solutions for. If such funding dries up, the focus is likely to shift away from SMEs over time because the advisory services will be more likely to continue to focus on larger clients with more resources.

### 3.7. Business Incubators

The issues examined under this heading were:

26. Experience with business incubators and importance to new entrepreneurs and existing SMEs.
27. The efficiency of the government policy and programme encouraging business incubators.

28. The state of the business incubators' governance structures.
29. The locations, the infrastructure and facilities of business incubators.
30. The extent to which the business incubators' activities are focussed on the needs of the local entrepreneurs.
31. The extent to which the operating conditions, services and charges are transparent and clear.

### Experience of Business Incubators

26. Rating given to the business incubators' <b>importance</b> to new entrepreneurs and existing SMEs	2.6
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The following information on business incubators (see section 4.6 for a definition) needs to be treated with caution. Although several business incubators are active in Romania, the participants in the research did not have direct experience of them and so the perceptions are largely impressionistic in nature.

Although none of the participants have used or have experience of business incubators in Romania, their potential usefulness in assisting the number of productive SMEs to increase is considered to be quite significant. Almost all participants were familiar with the existence of such business incubators and considered them to be useful in providing advice and support for a time-limited period. They should help in dealing with issues such as legal assistance to new entrepreneurs, accountancy services, helping with management crises:

*“The first years are a difficult stage for the majority of enterprises. Obtaining support from a specialist institution is very useful; perhaps even more important than receiving tax and financial incentives.”*

**Issues:** While none of the participants had direct experience with business incubators, there is a high level of awareness of their potential usefulness in assisting start-ups and developing small businesses.

### Government Policy

27. Rating given to the <b>efficiency of the government policy</b> encouraging business incubators	2.1
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The entrepreneurs felt that business incubators could help assess the sustainability of business ideas. The majority of interviewees admitted that they started their businesses without much knowledge of management and that none of them started with a clear, medium-term business concept:

*“I can see that the support of a business incubator could have been very beneficial to me.”*

None of the representatives had any knowledge of government policies or programmes focusing on business incubators. It was considered that the “disappearance” of such initiatives from the policy debate was due to the fact that the government did not support them very much.

Business incubators flourished in the late 1990s, when disadvantaged areas received support to help counteract labour market rigidities. Business incubators were financed from external funding such as the World Bank and the Ministry for SMEs is seeking to extend the network of business incubators.

**Issues:** The private sector would like to see greater activity by the State in either supporting the existing network of business incubators or in expanding it.

### Governance Structures

Due to the lack of specific knowledge by participants, no feedback was obtained on this question.

**Locations, the infrastructure and facilities**

Due to the lack of specific knowledge by participants, no feedback was obtained on this question.

**Focus on Needs**

30. Rating given to the extent to which the business incubators' activities <b>satisfy the local entrepreneurs' needs</b>	1.9
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Based on second-hand information, the activities of the business incubators were perceived to be broadly in accord with the needs of local entrepreneurs:

*"Business incubators provide firms with production space and facilities, cover certain expenses at the beginning ... and provide advice."*

**Transparency**

31. Rating given to the extent to which the operating <b>conditions, services and charges</b> are transparent and clear?	1.7
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The participants were not really aware of how well business incubators operated in terms of the conditions, services and charges. However, it is noticeable that there was an ambiguous attitude towards them. Some believed that access to incubators tends to be made available only to firms that are well connected:

*"... they operated as long as the PHARE resources lasted, or whatever resources they were using. They were nothing more than another way of giving more money to some people."*

**Issues:** There is a perception that access depends on contacts rather than quality of business concepts.



## ANALYSIS AND ASSESSMENT

The analysis of the discussions with the owners and managers of SMEs was presented in the preceding chapter of this report. This chapter presents the OECD-EBRD analysis and assessment of the six dimensions of good practice for the business environment. It reviews the current situation in each of these areas; takes into account other OECD and EBRD studies and analyses of good practice; and the private sector views, based on the preceding qualitative research with the owners and managers of SMEs. The assessment of the current situation leads to a series of recommendations by the OECD and EBRD, presented in chapter 1.

### 4.1. Implementation of the Institutional Framework for SME Policy

#### *The Situation on the Institutional Framework*

The institutional framework covers such issues as policy design, national strategy, implementation agency and consultation mechanisms (see OECD-EBRD, 2002 for a fuller discussion).

Law 133/1999 originally foresaw the creation of a National Agency for SMEs, but following the last general election in January 2001, the *Ministry for SMEs and Co-operatives* (MSMEC) was established. The Ministry has overall responsibility for developing and implementing SME policy and strategy and reports to the Government. It has a team of about 20 staff working specifically on SME issues based in Bucharest. It does not have a regional presence but it co-operates with the organisations that do, such as the Chambers of Commerce and the National Association of SMEs.

The importance with which the Romanian Government views the SME sector is highlighted in the government's *Priorities for the Period 2001-2004*, where the SME sector is expected to:

- Provide 760,000 new jobs.
- Deliver a 10% increase in SME exports per year.
- Increase its contribution to GDP.

Law 133/1999 sets out the main tasks and functions which MSMEC is expected to perform. The Ministry's remit (Government Decision 15/2001) includes the following:

- Development of SME policy and strategy in Romania.
- Elaboration of legislation in the field of SMEs.
- Elaboration, implementation and monitoring of programmes for SMEs.
- Provision of assistance to improve the services to, and the performance of, SMEs.
- Provision of assistance to improve access to financing.
- Stimulation of international collaboration.
- Harmonisation with the EU in the field of SME development.

Since its formation, MSMEC has focused on the preparation of a *national SME strategy* and elaboration of an *Action Plan on Removing Regulatory Barriers*. A report on the latter is presented to the government every six months, including reporting progress in implementing the "one-stop-shop" project initially carried out with

the Chamber of Commerce and Industry and now under the *aegis* of the Department of Justice, and on work leading to the creation of a *National Credit Guarantee Fund* for SMEs.

MSMEC has not yet published the national SME strategy, however, its work is directed by its Annual Plan, which is derived from the Strategy and Priorities set out in the Government Programme for 2001-2004. It attempts to disseminate information on such issue as legislation, support programmes through its website ([www.mimmc.ro](http://www.mimmc.ro)).

The Ministry for SMEs, as part of the constitutional requirement for all ministries, operates a *Tripartite Council*, consisting of trade unions, employers and government, which is the principal mechanism for social dialogue. The Tripartite Council is chaired and run by MSMEC. It meets on a monthly basis to provide information, allow for consultation and obtain feedback from the wider policy community.

Several *other ministries* have a direct influence on SME development, not least the Ministry of Development and Prognosis, Ministry of Finance, Authority for Privatisation and Management of State Ownership and the Ministry of Industry and Resources among others.

Both local authorities and county councils can implement economic and enterprise development policies and initiatives. Examples include business incubators, business advisory services and related mechanisms to support enterprise activities. However, their powers are limited, not least because of the tight financial constraints they operate under.

A number of *other institutions* are important for the SME sector: the Chamber of Commerce, the National Council of SME Private Enterprises in Romania, the Foreign Investors' Council and a variety of other bodies such as the network of Regional Development Agencies.

Box 4-1. sets out the current situation with respect to the EU accession process, the pre-accession funds and the Small Enterprise Charter, signed in 2002.

#### Box 4-1. EU Accession, SME Funds and the Small Enterprise Charter

The European Commission (EC) supports Romania (and Bulgaria) in achieving their objective to join the EU in 2007. The Accession Partnership will be revised in the light of the 2002 Regular Report. Furthermore, a detailed "roadmap" for accession outlines the process involved, as well as the pre-accession assistance funds available, including SME support (EC, 2002a). Negotiations on the SME chapter of the *acquis communautaire* have been provisionally closed. It covers the areas of enterprise policy, distributive trades, tourism and social economy, and consists largely of decisions setting up consultation procedures and Community programmes, and recommendations. These do not require transposition into the national legal order of the candidate countries, nor implementation and enforcement measures. The only exception is a Directive on tourism statistics (95/57/EC). The subject of this chapter is important in the context of economic development and the capacity to withstand competitive pressures. Three areas are of particular relevance:

- Overall enterprise/SME policy formulation and implementation.
- General business environment in the country.
- Adoption and application of the SME definition.

The policy issues of particular importance to small enterprises are set out in the "European Charter for Small Enterprises" (EC, 2002b), which was adopted by EU countries in June 2000. The candidate countries endorsed this Charter at a meeting in Mariborg (Slovenia) in April 2002. The key lines of actions, as defined in the Charter, are:

- Education, Training Entrepreneurship.
- Cheaper and Faster Start-up.

**Box 4-1. EU Accession, SME Funds and the Small Enterprise Charter (cont.)**

- Better Legislation and Regulation.
- Availability of Skills.
- Improving Online Access.
- Getting more out of the Single Market.
- Taxation and Financial Matters.
- Strengthen Technological Capacity.
- E-Business Models and Small Business Support.
- Representation of Small Business Interests.

Romania has made some good progress in preparing the institutional framework to administer firstly the pre-accession assistance and, in due course, the structural and cohesion funds. A National Development Plan covering the period 2002-2005 has been approved. The National Agency for Regional Development (NARD) has been established, consisting of eight regional Development Agencies, which act as the implementing agencies for the regional development, as well as the SME development programmes associated with the EC (and other) resources. Moreover, the priorities for the SME support programme have been determined by the Ministry of Development and Prognosis in co-operation with the Ministry for SMEs. However, the management and implementation of the system of structural funds remain weak, due to the lack of effective monitoring, good financial management and control, project preparation, pointing to the need of strengthen further the country institutional capacity (EC, 2002a, p.37).

**Assessment**

The Romanian Government and MSMEC have made considerable efforts to develop an extensive institutional framework for SMEs in Romania and to engage with and be more visible to the SME policy community. Consultation and communication between the SME sector and the Ministry exists through the Tripartite Council (see OECD-EBRD, 2002). MSMEC has made the effort to go beyond Bucharest to explain the range of enterprise analyses and activities now underway in Romania. However SMEs feel that more needs to be done, as they still have insufficient familiarity with the key institutions in the country supporting SME development and their responsibilities.

SMEs still do not believe that they are being adequately consulted on the initiatives to support their development despite the existence of the Tripartite Council. The small enterprise sector neither appears to be fully aware of the Ministry's activities nor feels that it is sufficiently responsive to its needs and priorities. There is a perception of insufficient availability of information and co-ordination by the institutions supporting SME development and businesses feel they do not all have equal access to programmes and initiatives. There is a perception that that an integrated SME Strategy has not been developed for the sector and that measures introduced and/or repealed do not have development of the sector as the central objective and they are introduced without reference to a medium-term plan. Participants in the research believe local government currently does not have sufficient resources or skills for promoting and advising on SME development. Even large municipalities sometimes only have part-time enterprise promotion offices.

There is a need for the MSMEC to continue strengthening the mechanisms for consultation with other ministries and the SME policy community at the national level. The issue of consultation and dialogue with the SME policy community and the private sector is of paramount importance. Previous OECD-EBRD work has highlighted the need for closer co-operation between MSMEC and other ministries, as well as the wider SME policy community (see OECD-EBRD, 2002, p.14). Small entrepreneurs feel there is a need to strengthen and improve the Tripartite Council, the main mechanism for regular social dialogue between MSMEC and SME representatives. In addition, the Ministry needs to continue working with its stakeholders to ensure that, through the business representative organisations in Romania, more determined consultative efforts are made.

## 4.2. Implementation of the Rule of Law and the Regulatory Environment

### *The Situation on the Rule of Law and the Regulatory Environment*

New businesses must register with the National Trade Registration Office in Bucharest or with the network of “one-stop shops” in the 42 counties. In July 2001 the government overhauled the system and simplified the procedure for registration and authorisation of new businesses through Government Ordinance 76/2001. These reforms were put in place to address concerns that the company registration process was complex, time-consuming and costly and the object of complaints from the business community.

There is now a national network of “one-stop-shops”. These were previously located at the Chamber of Commerce and Industry Trade Registration Offices. However, since September 2002 responsibility for the Trade Register and “one-stop-shops” has been transferred to the *Ministry of Justice*. Companies now present a single application form (plus associated papers) and certification from the key relevant bodies is issued within 20 days. “One-stop-shops” co-ordinate the process of registration and certification with all relevant organisations (health, labour protection, environment, fire and sanitary/veterinary permit). The registration reform has also been associated with the introduction of a unique tax code/identification number.

The *start-up costs* of SMEs have come down dramatically. They are estimated as being between €130-€250, for the average SME. Over and above this, a further €120 is required for trade registration (personal liability statement) and another €120 if all five principal authorisations are required. However, SME owners and managers maintained that in practice, because of the complexity and the need to obtain specialist advice, the costs can be over €1,000.

The “one-stop-shops” simplify matters for entrepreneurs. However, most business activities require some form of special licensing for activities associated with health and safety (such as food production), public trust (such as insurance) or public needs related to utilities (such as waste treatment). The process can vary from public authority to public authority and reports (IRIS, 2000, pp.10-20) argue that the procedures, for example for obtaining “operational authorisations”, are often opaque, slow and subject to rent-seeking practices. This typically results in unnecessary complexities, burdens and costs for businesses.

Two main programmes are underway to simplify the regulatory environment. MSMEC has developed an *Action Plan on Removing Administrative Barriers* in recognition of the stunting effect that these barriers can have on SME development. Some of the measures contained in the Ministry’s Action Plan have already been implemented, the most important of which was the introduction of the “one-stop-shop” company registration office. Other measures are being implemented on a rolling basis. In October 2001, in response to a initiative by the World Bank to accelerate the process of regulatory reform, the government established a *Task Force on Removing Administrative Barriers to Businesses*. The Action Plan of the Task Force has been endorsed by the Council of Ministers. The Task Force’s initial remit is for one year but is expected to be extended.

The working of the *legal system* is essential to business operations, such as ensuring that contracts are enforceable by law and recourse to courts is fast and reliable in the case of disputes. Entrepreneurs tend to view the judicial system in Romania as being slow and erratic in reaching judgements, and open to external influence. Moreover, there is a perception among entrepreneurs that the court system cannot adequately enforce securities, contracts, bankruptcy and other commercial laws (UNDP, 2001, p.13). The *bankruptcy* law is considered to be fairly comprehensive, allowing sufficient scope for liquidating failed businesses or reorganising failing businesses. However, it does place a good deal of responsibility on judges and administrators, and its procedures are considered to be time-consuming. The banking sector has its own bankruptcy procedures.

The state owned enterprises (SOEs) have had a culture of not paying suppliers and contractors on time. Non-payment or late payment is a hidden subsidy. It has disruptive effects on the rest of the economy. It results in a huge stock of *payment arrears* (including taxes, wages and suppliers), amounting to about 45% of GDP in 2000 (EBRD, 2001). In addition to drawing a “subsidy”, SOEs also starve private sector companies to which they owe money.

*Corrupt practices* are both widespread and systemic, weakening the legal system, undermining public confidence and ultimately weakening economic performance (EC, 2000, p.18). This situation is underlined by the Global Corruption Report (Transparency International, 2001), which places Romania in 69<sup>th</sup> position, behind countries such as Bulgaria and Moldova. The government has created an Anti-Corruption and Organised Crime Unit to co-ordinate policy and action in this area, but the frequent changes in laws, rules and regulations, combined with the built-in scope for arbitrary interpretation of rules by public officials, continue to hinder the process of combating corruption.

### **Assessment**

The Romanian Government has recently undertaken extensive reforms to improve the Regulatory Environment for SMEs. These include the Task Force for Removing Administrative Barriers' activities which cover enterprise-wide initiatives, MSMEC's Action Plans focusing on small enterprises and in particular the introduction of the "one-stop-shops".

The commitment of the Government to reforms aiming at simplifying the business environment is very much appreciated by SMEs. There has been good progress in a number of areas, such as creating a single location for registration. Yet, entrepreneurs feel that the necessary steps to start a business remain complicated, time-consuming and costly and that much of the business regulatory framework is still overly complex, difficult to understand and frequently changeable, making compliance difficult. The implementation strategy appears to have built in conflicting objectives. On the one hand to secure revenue on the other to simplify procedures.

Because of corruption and bribery SMEs feel highly vulnerable and fear inspections, even routine ones. Recent OECD-EBRD work (2002, p.16) has called for further improvements to the regulatory environment and the need for a "new agenda on SME business simplification", linked to the wider enterprise business simplification process underway. Further steps are needed to ensure greater transparency and certainty for all businesses, together with a greater focus on an "enabling" rather than the current somewhat "negative" framework which tends to focus on stipulating what enterprises can and cannot do. Entrepreneurs are critical of the intrusive nature of the frequent changes in the regulations, the culture of monitoring and control by ministries and the inspectorate agencies.

The nature of the legislative framework in Romania intensifies business uncertainties and undermines the relationship with the state. Furthermore, the highly dynamic regulatory framework creates continuous uncertainty about which rules to comply with, what documents and certificates are needed, even which bodies are in charge of verifying their activity and what responsibilities/limits they have. SMEs feel highly vulnerable *vis-à-vis* inspecting, monitoring and auditing bodies.

More effective consultation is needed with SMEs on the process of regulatory reform. It is not enough to disseminate decisions. Opportunities must be created for discussion of the practical effects of new initiatives and how they can best be implemented. Views and feedback from SMEs should be shown to be taken into account.

## **4.3. Implementation of the Tax Policy for Small Businesses**

### ***The Situation on Taxation Policy for Smaller Businesses***

The *Ministry of Finance* determines overall policy, law and the administrative structure. The Ministry of Finance and its regional offices administer income tax, profit tax and VAT. *Local authorities* administer property tax, land tax and building tax.

Until recently, new firms were required to register separately with the central and sub-central fiscal authorities, but this has now been combined with company registration through the National Trade

Registration Offices at county level. A unique code, combining registration and tax, is required for payment of profit tax, salary taxes and VAT.

According to Law 414/2002, the *corporate profit tax* rate is now 25%, reduced from 38%. Companies can deduct most business expenses, but there are frequent changes to what is deemed to be deductible and a lack of clarity over tax provisions on deductible items. The current legislation allows for two special treatments applied at national level:

- There is a special tax rate (6%) for profits arising from export associated with self-manufactured goods and services, according to article 2.4 of the above mentioned law.
- There is also an exemption for micro-enterprises.

The standard rate of VAT is 19%. Exports of goods and services are zero-rated, as are goods entering free zones. The new law on VAT (Law 345/2002) also provides for VAT tax exemptions on some exported goods and services; Law 133/1999 also determines that imported goods are duty-free. The VAT *refund period* has recently been reduced to 30 days. In 2002, tourism and construction were excluded from the category of activities exempted from VAT.

The level of *Employer Contributions* for Social Welfare amounts to between 23.33% and 33.33% (for special working conditions) of the gross salary and is divided among numerous special funds:

- Pension (23%).
- Unemployment Benefit (5%).
- National Health Insurance (7%).
- Risk and Accident for Disabled (2%).
- The Commission for the Chamber of Labour for keeping and filing information (0.25% for firms keeping their books at their headquarter and 0.75% for books kept at the Chamber of Labour).

In order to stimulate the SME sector, the Government in the past has provided a number of *exemptions and incentives* to SMEs. Law 133/1999 (and subsequently Emergency Ordinance 297/2000 approved by Law 415/2001) introduced a package of financial and fiscal incentives, however, for budgetary reasons, the main provisions were overturned by law 414/2002, to the dissatisfaction of SMEs.

For example, the recently introduced *turnover tax for micro-enterprises* (Government Ordinance 24/2001) stipulates that the taxation for micro-enterprises (up to 9 employees; annual turnover of up to €100,000) should be 1.5%. Subsequently, Law 414/2002 eliminating two tax reductions for micro-enterprises (20% tax reduction for generating new employment and deductible investments made out of profit). This effectively means that all preferential fiscal treatment to SMEs has been eliminated in Romania.

As mentioned above, some of the *tax payments* (local taxes, employer social security contributions to special funds, profit tax, VAT and employment tax) must be paid locally. Some have to be paid monthly, others on a quarterly basis and still others on an annual basis, with some differences depending on the region in which the firm is based (IRIS, 2000). Firms must deploy substantial staff resources in order to comply with these administrative requirements and keep abreast of the frequent tax changes, with the burden falling disproportionately on smaller firms.

#### **Assessment**

Recent developments such as the reduction in the corporate tax, introduction of the turnover tax for SMEs, reductions in the VAT refund period to 30 days and the greater simplicity of the tax system are very much appreciated by SMEs. At the same time, the SMEs believe that there is little consultation between government and the SME sector on the direction of tax policy. They also believe that larger enterprises are treated differently from SMEs by government in this respect, possibly contributing to a lack of level playing field in tax matters.

The focus group discussions highlighted the importance of tax policy for SMEs development. Perceived high tax burdens, incentives of limited duration, rapid and inexplicable changes in the tax mean higher administrative costs for small enterprises and reduce their capacity to make financial and strategic plans. This uncertainty leads to lower investment levels and impedes job creation. It adds to the compliance cost burden on firms, which fall disproportionately on smaller enterprises, and encourages operating in the grey economy.

Although entrepreneurs do call for incentives (e.g. for start-ups, reinvested capital and hi-tech investments), they maintain that the most important measure that is expected by SMEs, is stability in the tax system. Previous OECD-EBRD research has stressed the need for improvements in tax policy for small businesses focusing specifically on the issue of creating a “stable, clear and simple small business tax system” (2002, p.18) and this remains of crucial importance to the sector.

#### 4.4. Implementation of Financial Instruments for Fostering Small Businesses

The finance section of this report analyses the way in which the financial sector addresses the financing needs of the SME sector, in terms of quantity and conditions of credit and range of financial products and services on offer. The section contains both factual information on the financial sector, and the assessment of its ability to meet the demand of the SME sector as elaborated by the EBRD in its annual assessments.

##### *The Situation on Financial Instruments*

According to the EBRD's own assessment, banking sector reform has progressed steadily in the last three years. By using EBRD's standard scoring system (1=little or no progress from the command economy starting point, to 4+ = standards equivalent to those of a well functioning market economy), the Romanian banking system has been rated 2.7 in 2002. On the other hand the non-banking financial sector is still lagging behind at 2.0 in the same year.

Table 4-1. **EBRD Score for Financial Sector Reform**

		1997	1998	1999	2000	2001	2002
Financial Institutions	Banking reform & interest rate liberalisation	2.7	2.3	2.7	2.7	2.7	2.7
	Securities markets & non-bank financial institutions	2.0	2.0	2.0	2.0	2.0	2.0

Source: EBRD.

Financial sector reform in Romania gained momentum in 1999, when the financial system underwent a restructuring process which led to the closure of one of the largest state-owned banks (Bancorex), and to the transfer of its portfolio of non-performing loans to the newly created Asset Recovery Agency (AVAB). The cleaning-up of the bad loans, the tightening of banking supervision and regulation, as well as substantial capital injections into the banks' balance sheets, contributed to strengthening the Romanian banks' financial position and improve the quality of their loan portfolio.

Despite this progress, the degree of financial intermediation in the economy is low, not only compared to the EU average, but also to the other transition countries that are candidate for EU accession. Total domestic credit accounted for only 12.6% of GDP at the end of 2001, of which about 8% was directed to the private sector. The recent rapid real growth of credit to the non-government sector in foreign currency, albeit from a very low base, has raised concerns about the increasing credit risk assumed by Romanian banks. It is expected that the new regulations on loan classification and provisioning, effective from January 2003, will induce banks to lend more selectively.<sup>1</sup> In addition, reserve requirements on foreign currency deposits have been

increased from 22% to 25%, and those on deposits denominated in lei reduced from 22% to 18%, creating incentives for a currency re-balancing of deposits.

Table 4-2. **Domestic Credit to the Private Sector (in % of GDP)**

1996	1997	1998	1999	2000	2001
11.5	8.4	11.6	8.1	7.2	8.0

Source: EBRD and Romanian National Bank

As of November 2002, the Romanian banking system comprised 40 banks, 32 of which were locally incorporated. Total banking assets amounted to over €13.5 bn. The two majority state-owned banks (Banca Comerciala Romana and Eximbank) and the savings bank (CEC) accounted for 42% of total assets of the banking system, while foreign controlled banks and branches of foreign banks reached a market share of 54.5%.

The first banks to enter the SME sector in the 1990s were Banca Romanesca, Banca Transilvania and Banca Ion Tiriac. They suffered, however, from lack of specific experience in lending to SMEs and their efforts mostly consisted of administering donors and IFI credit lines, generally extended under the recourse clause, with the participating bank bearing the project risk and offering the credit at market rates. The number of banks active in SMEs lending has increased to double digit since then, while credit co-operatives have been re-organised into five large groups and are now subject to regulation as per the 14<sup>th</sup> August 2000 Emergency Ordinance.<sup>2</sup>

For various reasons, the experience of Romanian banks with foreign credit lines is very mixed, with under-utilisation of funds granted in some cases due to very specific targeting of the credit lines, in others to poor project design or implementation. Romanian Credit Bureau data shows that the average loan amount extended under the banking system is €249,000. Government intervention resulted in a micro-credit programme managed by Banca Ion Tiriac and Mindbank, with capped rates for SMEs (50% of reference rate set by the central bank).

Only one bank offers micro-loans on a significant scale. That is MIRO Bank, established by EBRD, Commerzbank, IFC, IMI, and DEG/KfW, with total equity capital of €9 million in April 2002 to address the shortage in credit supply to Romanian MSEs with a particular focus on micro enterprises. At the end of December 2002, after just over a year of operation, MIRO Bank has extended 3,472 business loans for a total amount of €19 million loans (average loan amount less than €4,270). Credit lines extended under the EU/SME Facility since 1999, accounted at end of 2002 for a total of 998 loans to the SME sector, equivalent to €47.1 million. They also serve the micro enterprise sector, and for that they provide a subsidy to convince the participating banks to lend to these riskier clients. However, they have targeted larger clients than MIRO bank, as indicated by the larger average loan size, at €47,246.

The following table offers an overview of the cost of credit available from official sources. Micro-loans are defined as loans of less than €10,000 and small loans are defined as above that threshold. It is important to note however in comparing the rates charged by different providers that commercial banks almost never extend loans to the corporate sector below €5,000. In order to calculate the real interest rate for local currency loans, note that inflation was 17.9% in December 2002 on a year on year basis.

The *venture capital* market is still in its infancy. Private equity funds operating in Romania are estimated at a total capital of around €325m. The capital available for private equity investment is raised abroad either privately or is provided by IFIs. The market is heavily dependent on the perception of western institutional investors of the country's risk and outlook. Generally, due to high transaction and monitoring costs, equity funds tend to be attracted by medium and large-size enterprises, thus only marginally responding to the long-term finance needs of SMEs. There are few regional equity funds operating in Romania,

Table 4-3. Cost of Credit Available from Official Sources

	Foreign Currency Denominated Loans			Local Currency Denominated Loans		
	MIRO Bank	Other providers Banks	NGOs/ Programmes	MIRO Bank	Other providers Banks	NGOs/ Programmes
	Interest Rate			Interest Rate		
Micro loans	17%-24%	12%-19.5%	16%-20%	50% (- to 2.500€)	35%-45%	N/A
Small loans	12%-16%	7%-14%	16%-20%	N/A	30%-40%	N/A

Source: Group for Small Business, EBRD.

but they are generally attracted by large investments and tend to only consider projects jointly with other strategic investors.

The introduction of a new law in January 2001 (Law 133), paved the way for dismantling the pre-existing regional loan guarantee agencies, replacing them with a public institution, the *National Credit Guarantee Fund for Small and Medium Enterprises*, equivalent in mandate but not in structure. The Fund, created in December 2001, is 100% state-funded, although private minority participation is envisaged. A budgetary allocation of €1.7m has been made. Successive budgetary allocations will bring its social capital to €6.5m by the end of 2002 and an expected €30m by 2006. The Fund will have branches in each county and will give guarantees for credits obtained by SMEs.

The Romanian *leasing* market started growing steadily only after 1997, when it became recognised and regulated under Romanian law. The total volume of assets financed in 2001 is presumed to be €350-450m, including cross-border leasing activities. Local experts believe that investments financed through leasing account for less than 5% of total capital investments. However, the market is fragmented, with only a small number of players having convenient access to funding sources. The vehicles segment is by far the dominant leasing segment in Romania.

### Assessment

A healthy, profitable financial sector is the key pre-requisite for providing access to finance for SMEs on a sustainable basis. Profitable private financial intermediaries are the necessary link between domestic savings and investment by private sector enterprises, in particular SMEs, and the only way to ensure sustainable SME access to finance and other financial services. As perceived by the private sector, the aggregate data on the banking sector shows a very low degree of intermediation. Coupled with the extreme underdevelopment of the non-banking financial sector, this leaves only micro-finance programmes and dedicated credit lines as a formal source of external finance for the SME sector. Lease finance is acquiring importance for the SME sector, although it might still be mostly directed to financing household durables, rather than productive equipment.

## 4.5. Implementation of Advisory Services to New and Small Businesses

### The Situation on Advisory Services

A variety of business advice services are provided by a range of national organisations in Romania to entrepreneurs, potential entrepreneurs or business managers to promote start-ups and assist growing SMEs. Bodies offering services such as consultancy and information include the *Chamber of Commerce and Industry* and its regional network and the *National Association for Private SMEs* also with a regional structure offering services, mainly to members.

A wide range of *Business Support Centre (BSC) networks* are worth highlighting, such as:

- The UNDP centres (18).
- CDIMM (EU/PHARE) centres (5).
- USAID centres (5).
- DFID centres (3).
- The Romania – German Foundation centres (3).
- ROM-ITA centres (2).
- Euro Information Centres (8).
- Regional Development Associations (8 focusing mainly on regional development, but with a strong SME remit) etc.

Seven *business incubators* have already been created in Romania. No *Industrial / Technological Parks* have been implemented, although twelve such initiatives are known to be at various stages of feasibility. Over and above these, there is a large number of business consultancy, training organisations, legal/accounting firms and other types of private sector firms providing services to SMEs on a fully commercial basis.

Many Business Support Centres have been set up with donor support and have received substantial training and other input, however, they have been unable to secure *financial sustainability* through income generation, as originally anticipated. They will either simply terminate their activities or increasingly respond to the necessity to survive by providing services to enterprises willing and able to pay for training and other consultancy services, mainly large firms and international companies. From a peak of about 120 such organisations, only about 40 continue to operate as originally conceived, implying that they will find it increasingly difficult to maintain their original mission, which is to support the SME sector and start-ups.

The MSMEC has a plan to support a network of business support centres from 2002 and beyond. It intends to select a network of accredited Business Support Centres to provide training and consultancy to SMEs on dealing with issues such as preparation of business plans and undertaking market studies, although the budget available for this task is limited.

#### **Assessment**

The current research suggests that advisory services, mainly provided by private consulting firms, receive the best overall rating of all the good practice issues assessed in this report. The main deficiency of publicly funded organisations providing advisory services to SME seems to be that some of them are not very responsive. Previous OECD-EBRD research has focused on the necessity to develop an “effective network of business support centres” in Romania (2002, p.17). This research suggests that the range of services on offer rarely go beyond helping write credit applications, the preparation of business plans and assessing the chances of obtaining funding. The providers of such advisory services could be encouraged to provide a more “diverse range of business services”, such as training for management, crisis management, quality control, performance assessment, corporate strategies etc. There is also a need to focus on improving the confidence in and quality of the services, through a system of certification and accreditation.

Financial sustainability has yet to be achieved for a range of donor-funded business advisory services. If such funding dries up, over time their focus is likely to shift away from start-ups and SMEs, because the advisory services will be more likely to focus on larger clients with more resources.

#### **4.6. Implementation of Business Incubators**

The business incubator is a particular form of business service that offers potential in transition economies. There appears to be a lack of understanding about what exactly are business incubators. Business incubators were generally defined as special areas for new and young developing businesses that provide such businesses with premises, infrastructure, a comprehensive range of services and support that

can improve their ability to initiate and run their operations during the early developmental period. The combined features of physical facilities; focus on start-ups and SMEs and “soft” advisory and support services provided are what distinguish business incubators from other industrial centres or industrial estates. (OECD-UNIDO, 1999, pp.51-53).

### ***The Current Situation on Business Incubators***

One of the most successful forms of support to SMEs, especially start-ups, is the development of business incubators. Various Romanian governments have declared their support for the development of business incubators. Under the PHARE *programme*, ten business incubators were formed throughout Romania added to which, the *Romanian-German Foundation's* centre in Sibiu is also considered to be a business incubator. It is believed that three are still operational, post donor support. Further business incubators are expected to be created through the activities of the MSMEC, whose action plan identifies the extension of the network of business incubators as one of its priorities for the period 2001-2004.

### ***Assessment***

The participants had little direct experience of business incubators, however, these are perceived as necessary and useful instruments in assisting start-ups. They assumed access to be dependent on contacts rather than the business potential. The SMEs would like to see greater government activity in supporting and expanding the existing network of business incubators. Specific policy measures and targeted funding are necessary to sustain existing business incubators (bearing in mind that several have already closed down post donor funding) and initiate new ones in Romania.

## **NOTES**

1. The new regulation requires that borrowers' financial performance is taken into account in addition to their repayment history for provisioning purposes. Although in accordance with BCP8 (Basel Core Principle Number 8 on loan classification and provisioning) and international best practices, the implementation of this new legislation may seriously hamper bank lending to SMEs in terms of both the quantity of credit offered and the pricing of micro-loans (to compensate for increased provisioning). This would also have an effect on commercial bank lending to the SME sector as a whole. The central bank, together with the IMF, is currently consulting with representatives from commercial banks and IFIs active in the sector on how to amend the current draft to a final version which does not add further obstacles to the provision of financing to the lower end of the enterprise spectrum.
2. This follows the collapse of Bank Co-op (the bank for the country's co-operatives, established in 1989 as a private bank, with a network of 200 branches) and of FNI (the largest mutual investment fund) in 2000.



Chapter 5.

**INFORMATION SOURCES**

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UNDP (2001) *Promoting Entrepreneurship and Investment in the Romanian Economy: Issues and Options*, Country Office, Romania.



*Chapter 6.*

**WEB SITES**

Authority for Privatisation and Management of State Ownership - <http://www.apaps.ro>  
American Chamber of Commerce in Romania - <http://www.amcham.ro>  
Chamber of Commerce and Industry - <http://www.ccir.ro>  
EBRD - <http://www.ebrd.com/country/index.htm>  
Euro-Info Centre Bucharest - <http://www.euro-info.ccir.ro>  
FAIR - Foundation to Support Romanian Entrepreneurs - <http://www.fair.ro>  
Foreign Investors' Council of Romania - <http://www.fic.ro>  
Government of Romania - <http://www.gov.ro>  
IRIS Center - <http://www.iriscenter.ro>  
Ministry of Development and Prognosis - <http://www.mdp.ro>  
Ministry of Education and Research - <http://www.edu.ro>  
Ministry of European Integration - <http://www.mie.ro>  
Ministry of Industry and Resources - <http://www.mincom.ro>  
Ministry of Public Finance - <http://www.mfinante.ro>  
Ministry for SMEs and Co-operatives - <http://www.mimc.ro>  
Ministry of Tourism - <http://www.turism.ro>  
National Institute of Statistics - <http://www.insse.ro>  
National Trade Registry Office - <http://www.onrc.ccir.ro>  
One Stop Office - <http://www.biroulunic.ro>  
Romanian-American Enterprise Fund - <http://www.raef.ro>  
Romanian Foreign Trade Center - <http://www.traderom.ro>  
Romanian Online Business Center - <http://www.now.ro>  
World Bank - <http://www.worldbank.org.ro>



Appendix 1.

## OBSTACLES TO DOING BUSINESS

The main results of the 2002 Romania Business Environment and Enterprise Performance Survey (BEEPS) are summarised in the following table. It contains the average score assigned by respondents to each aspect of the business environment, where the scores can be interpreted as follows: 1 = no obstacle; 2 = minor obstacle; 3 = moderate obstacle; 4 = major obstacle.

### Rating of Severity of Obstacles to Doing Business (BEEPS, 2002)

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Macroeconomic Instability	3.2
Tax Rates	3.1
Economic Policy Uncertainty	2.9
Cost of Financing	2.8
Corruption	2.6
Tax Administration	2.6
Access to Finance	2.5
Anti-competitive Practices of other Producers	2.5
Contract Violations of Customers and Suppliers	2.5
Functioning of the Judiciary	2.4
Business Licensing and Permits	2.3
Street Crime	2.0
Skills and Education of Available Workers	2.0
Customs and Trade Regulation	1.8
Labour Regulations	1.8
Organised Crime	1.8
Access to Land	1.7
Electricity	1.6
Transportation	1.6
Telecommunications	1.5
Title or Leasing of Land	1.5

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Source: EBRD.

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**The Organisation for Economic Co-operation and Development (OECD)** groups 30 member countries sharing a commitment to democratic government and the market economy. With active relationships with other countries, Non-Governmental Organisations and civil society, it has a global reach. Best known for its publications and statistics, its work covers economic and social issues from macroeconomics, to trade, education, development and science and innovation. Over time the OECD's focus has broadened to include extensive contacts with non-member economies and it now maintains co-operative relations with some 70 of them. These contacts aim to further economic integration by making the OECD's experience available to other countries and enabling the OECD to profit from the insights and perspectives of non-members. (see [www.oecd.org](http://www.oecd.org))

**The European Bank of Reconstruction and Development (EBRD)** was set up in 1991 to support the development of market economies in central and eastern Europe and the Commonwealth of Independent States following the collapse of communism. The EBRD supports the economies of its 27 countries of operations by promoting competition, privatisation and entrepreneurship. Taking into account the particular needs of countries at different stages of transition, the Bank focuses on strengthening the financial sector, developing infrastructure and supporting industry and commerce. The EBRD is the largest investor in South Eastern Europe and is also an active contributor to the Stability Pact. (see [www.ebrd.com](http://www.ebrd.com))

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