

## SMES' FINANCING – EFFECTS OF THE SMALL BUSINESS ACT IN EUROPE

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### 1. Introduction

An important initiative in the SMEs sector, the „*Small Business Act for Europe*”- (SBA) was elaborated in June 2008 by the European Commission and it has as central point the principle „Think small first”.

The main objective of the Small Business act is to define principles and measures in order to improve the environment where perform the European SMEs, taken into consideration their diversity. For achievement of this objective, the law includes ten principles, a set of legislative measures and strategic actions to be put into practice by the European Commission and the member states.

The ten principles are supposed to generate added value at the European Union level, to create a favorable environment for development of the SMEs and to improve the legal and administrative framework at the European level.

Thus, there are included the principles that regards the creation of environment to stimulate the entrepreneurs and the entrepreneurship initiatives, the establishment of the administrative framework and simplification of the legislation in conformity with the principle “*Think Small First*” taking into consideration the features of the SMEs, the increase of the level of implication for the public administration in solving the SMEs’ problems, in promoting the training services for the SMEs’ staff and all innovation forms, the creation of the

premises for transforming the challenges generated by the environment into opportunities.

### 2. The effects of Small Business Act at the European level

The financial crisis emphasized the necessity to adopt comprehensive political measures in favor of Small and Medium Enterprises. Thus, the European Council approved, in December 2008, an action plan that regroup measures which should be applied with priority, in order to answer to the needs of SMEs in the context of the international financial crisis.

The report elaborated by the European Commission regarding the application of the SBA initiative indicate the fact that in 2009 the Commission and the member states adopted important measures for improvement the access to financing and for supporting the SMEs access to the European and international markets, as well for improvement the framework-conditions for SMEs, especially through the elimination of the useless administrative burdens.

The access to the financial resources represent one of the necessary conditions for settle up a successful firm (especially for the SMEs), as well for its development. But the equities or the liabilities are often insufficient for the start up firms or for the firm with a high growth potential.

The aversion against risk determines the investors and the

financial institutions to avoid the financing for the firm at the start up stage. On the other side, many entrepreneurs need consultancy regarding the advantages and disadvantages of the different financing forms and the way they should present the investment projects in front of the potential investors.

Moreover, the SMEs often present a poor situation of their capitals, which is further affected by the payment delay. As well, the financial crisis had a negative impact on the access of financing by the SMEs.

The SBA's principle related to financing regards the access of SMEs to financing sources (especially, venture capital, micro credits and mezzanine finance) and the development of a legal and simulative business environment for doing the payment at the terms settled up in the commercial transactions.

European Union offers financial support for small and medium enterprises in Europe in different forms, such as subventions, loans and, in some cases, guarantees. The support can be offered either directly or through the national and regional programmes, such as the structural funds of the European Union.

One of the measures adopted by the European Commission regards the simplification of the normative for the state aid. Thus, the new general "block exemption" regulation (GBER) adopted as integrated part of SBA, consolidate and harmonize in a unique text the norms previously stipulated by five different regulations, extending the categories of state aid that beneficiate by exemptions. GBER introduced new norms regarding the weights of the aids for SMEs ( an increase of the part represented by the aid with 20% higher for the small firms and with 10% higher for the medium firms) as well as regarding the incentives for creation of enterprises and support for women entrepreneurs.

The Commission adopted a manual for the norms applicable in the state aid field that presents the

possibilities to support the authorized SMEs under the framework of the communitarian legislation regarding the state aid.

As well, the European Commission adopted a temporally framework regarding the state aid for 2009/2010, that offer to the member states more possibilities to counteract the effects of credit limitation on the real economy. Particularly, the member state can grant subvention credits with reduced premiums, credit insurances with reduced premiums, venture capital for SMEs and direct state aid up to 500,000 EUR, without notification of the individual cases.

Many member states (Bulgaria, France, Germany, Portugal, Great Britain) adopted measures for reduction of the delayed payments, anticipate thus the reforming of the directive regarding the delayed payments. The reduction of the terms and of the payments' delay remains an important issue for the SMEs that have activity in Greece, Italy, Portugal and Spain. These are the member states where can bring more improvements regarding the payment terms by the public authorities (in medium, about 150 days).

### **3. New initiatives at the European legal regarding the financing access of the SMEs**

The financial institutions, especially the European Investment Bank (EIB), played an essential role in facilitate the access of SMEs to financing in 2009. Thus, EIB intensified substantially the credit activity designed to SMES from 8.1 milliard Euro in 2008 to about 11.5 milliard Euro in 2009.

As an answer to the financial crisis and using often the temporary framework of the state aid, the majority of the member states (Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Italy, Lithuania, Luxemburg, Great Britain,

Spain, the Netherlands Hungary) adopted measures for improvement of the SMEs' access to liquidities, especially to the banking credits, based on the credit systems and guarantees deigned to the small and medium enterprises. Thus, the package of 30 miliard Euro given by European Investment Bank (EIB) for credits in favor of SMEs permit to some member states to use a second level guarantee scheme. Moreover, Belgium and France established a „credit mediator” that act as a contact point for SMEs and for the entrepreneurs that face problems with their bank.

The European Commission acts in partnership with the European Investment Fund (EIF). The investment of the European Investment Fund includes two instruments:

- Venture capital instruments that consist on capital investment in venture capital and business incubators that support the SMEs, especially the new created ones and the technically oriented firms;

- Guarantee instruments of the EIF consist on supplying guarantees for the credits supplied to the SMES by the financial institutions.

Competitiveness and Innovation Framework Programmes (CIP) include an amount of 1,130 million Euro for financial instruments during the period 2007-2013. These instruments are organized under some mechanism administrated by the European Investment Fund (EIFI), in the name of Commission:

- Facility for the innovation SMEs and with rapid growth (GIF) regards the increase of the capital sources for the innovation SMEs, in the start up phases (GIF1), as well in the development phase (GIF2);

- Guarantee facility for the SMEs that offer supplementary guarantees to the guarantee schemes, with the purpose to increase the financing through loans of the SMEs.

These instruments are focused on the market deficiencies from four areas:

- access to loans (or to a substitute of loan, as leasing) for the SMEs with growth potential;
- micro credits supply;
- access to capitals and cvasicapitals;
- securitization.

Besides the instruments for SMEs foreseen by the Competitiveness and Innovation Framework Programmes, EIB allocated 200 million Euro for the mezzanine financing in 2009.

The mezzanine finance is a hybrid financing instrument that combines features of the equities and liabilities and increase the possibilities of financing options for the firms. In fact, the financial mezzanine might represent an important complementary source for financing in the present day conditions.

Regarding the microcredits, the European Commission together with the European Investment Fund and the European Investment Bank elaborated in 2008 a common initiative, named JASMINE – Joint Action to Support Microfinance Institutions in Europe - that regards the increase of the microcredits offer in Europe. In September 2009 it was realized the first investment of 1.85 million Euro in the JASMINE initiative.

As well, the European Investment Fund foreseen the achievement of two supplementary initiatives, of 2-3 million Euro each. Moreover, the Commission increased its efforts to offer the member states and other interested parts information regarding the access of SMEs to financing, through periodical surveys.

Another common initiative of the European Commission, European Investment Fund and European Investment Bank is the program JEREMIE that have in view the access to financing for the micro enterprises and medium enterprises and, especially, the offer of micro credits, venture capital financing or guarantees and other innovation financing instruments.

In 2009 the JEREMIE initiative registered progresses being already put into practice by 13 member states, at the nation or regional level.

As well, the programming of the cohesion policy for the period 2007-2013 got to creation of 85 operational programmes, national and regional, which include the possibility that the European Regional Development Fund (ERDF) cofinance instruments such as JEREMIE designed to support the SMEs and the new creates firms.

In this context, the European Commission simplified the administration rules of the cohesion policy, in order to facilitate the application of the 455 programs regarding the cohesion policy for the period 2007-2013. These represent a total investment of 347 milliard Euro, and accelerate the investment flows that regards, especially, the projects' promoters such as the SMEs. The investment in the energetic and regenerable energy sectors are, as well, encouraged, because the potential to generate an increase of the jobs.

The 7th Framework Programme for Research and Technological Development (2007-2013) (FP7) pays a special attention to the SMEs, through its different programmes:

- „Cooperation” (about 32.3 milliard Euro),
- „Ideas” (about 7.5 milliard Euro),
- „People” (about 4.7 milliard Euro),
- „Capacities” (about 4.3 milliard Euro).

The simplification of the 7th Framework Programme for Research and Technological Development registered progresses in 2009; Commission adopted a proposal in order to permit the developing SMEs that participate to a project in FP7 to keep its advantages related to the SMEs statute during the project, even they overtake the limits available for that period.

The Commission decided the adoption of internal measures for facilitation of the budget execution, measures that could favorize the

economic relaunch. The limit term for approving the reports and making the payments were reduced, accordingly with a rule that impose the payments to be done in 30 days (20 days in case of prefinancing).

As well, the European Commission adopted measure regarding the reduction of the administrative burdens with 25% and promotion of the entrepreneurship. In order to encourage the crossborder operations with the common market, the Commission and the member states decided to reduce the fees for the communitarian brand with 40% and to simplify the registering procedure starting with 1<sup>st</sup> Mai 2009.

The member states had a considerable political commitment for putting into application the SBA, but both methods and achieved results are different. Several member states did the total „transpose” of the SBA initiative in their programmes (Belgium, Italy) or communicated the way they are going to put into practice the SBA (Finland, Romania, the Netherlands, Great Britain).

#### 4. Conclusions

One of the ten principles of the Small Business Act (SBA) regards the access of SMEs to the financing sources and the development of a legal and simulative environment for business.

The actions done at the European level so far consist on the financial support offered to the small and medium enterprises in different forms (subventions, loans, guarantees) directly or through the national and regional programmes, such as the Structural Funds of the European Union.

The European Commission adopted measures regarding the simplification of the rules for state aid. As well, some member states adopted measures for reduction of the delayed payments, forecasting the new directive on the delayed payments.

As well, the European Commission adopted measure regarding the reduction of the administrative burdens with 25% and promotion of the entrepreneurship.

The efforts registered at the European level in applying the SBA

initiative represent an important premise to continue this process, on long term, the action plan of SBA in order to create a favorable environment for SMEs' development.

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