

Enterprise Policy Performance Assessment

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STABILITY PACT
FOR SOUTH EASTERN EUROPE



INVESTMENT COMPACT
FOR SOUTH EAST EUROPE



European Bank
for Reconstruction 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)

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, Serbia and Montenegro. 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 monitoring of progress as well as identification of practical steps to **implement** reform and transition.

The work of the Investment Compact has been actively supported and financed by seventeen OECD member countries: Austria, Flanders (Belgium), Czech Republic, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Norway, Sweden, Switzerland, Turkey, United Kingdom and United States (see www.investmentcompact.org). The European Commission (EC) has, through DG Enterprise and Industry, contributed to the funding for this report.

The Enterprise Policy Performance Assessments (EPPAs) are an output of the SEE Enterprise Forum, a regional policy initiative sponsored by the Investment Compact for South East Europe. The EPPA reports have been jointly produced by the OECD and European Bank for Reconstruction and Development (EBRD), in consultation with the European Commission (DG Enterprise and Industry). The EPPA reports have been initiated by Declan Murphy, Programme Director of the Investment Compact, and their preparation has been co-ordinated by Antonio Fanelli (Principal Administrator, OECD), Francesca Pissarides (Senior Economist, EBRD) and Edward Tersmette (Desk Officer for the West Balkans, EC- DG Enterprise and Industry).

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The assessments and views expressed in this report are those of the Investment Compact Team of the OECD secretariat and of the EBRD Office of the Chief Economist and do not necessarily reflect the views of the OECD and EBRD member countries.

FOREWORD

In all countries the government and its agencies have a fundamental lead role to play in providing an environment favourable to business operations and conducive to private investment. This is especially true for small business. Small and medium-sized enterprises are the backbone of most economies today. In order to flourish and grow they need an environment that facilitates and enables business start-up, does not hamper them with excessive and costly regulations and facilitates access to finance and business services. In this respect there is an urgent need in South East Europe (SEE) to design and implement an effective enterprise policy, as the level of private investment still lags behind that of advanced countries.

For these reasons, in 2002 the OECD and the EBRD launched the Enterprise Policy Performance Assessments (EPPAs) in the framework of the Investment Compact for SEE Programme. The EPPAs consist of a series of reports covering all the countries of South East Europe, assessing the quality of the government policy for the SME sector and regularly monitoring its implementation. In 2002 the Investment Compact published nine country reports (separate reports were produced for Serbia and Montenegro, respectively) as well as a Regional EPPA report measuring progress on SME policy implementation in the SEE against a set of good practices and benchmarks.

As part of the 2004 EPPA programme the Investment Compact presents the 2004 edition of the Enterprise Policy Performance Assessment for Romania. The format of the report is the same as last year, allowing for a direct comparison of the progress achieved since the 2002 EPPA.

The 2004 report has been prepared by the OECD and the EBRD in close consultation with the European Commission, which also provided financial support to the programme. Excellent synergies have been developed between the EPPA and the European Union Charter for Small Business, with the EPPA providing a set of policy recommendations and priority actions to the government and small business community in those policy dimensions covered by the EU Charter. In order to improve the link between the EPPA and the EU Charter, the scope of the 2004 EPPA has been expanded. The EPPA reports now cover seven policy areas, adding entrepreneurship, vocational training and access to technology to the previous set of six policy dimensions (institutional framework, regulatory environment, tax policy, access to finance, advisory services, business incubators), bringing their scope closer to that of the EU Charter.

This Enterprise Policy Performance Assessment report is presented as an independent and constructive contribution to the debate on enterprise policy in Romania, with the principal aim of facilitating the reform implementation. The OECD, EBRD and European Commission will monitor progress and seek to provide active support on implementation in partnership with the SEE countries in 2005.



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INTRODUCTION

Scope and Structure of the Enterprise Policy Performance Assessments (EPPAs)

The 2004 EPPA Country Reports have been prepared jointly by the OECD and the EBRD, in consultation with the EC and with the assistance of a network of South East European and international consultants.

In 2002 the OECD Investment Compact and the EBRD launched the Enterprise Policy Performance Assessments (EPPAs) with the aim of producing independent and comprehensive assessments on an annual basis of the enterprise policy carried out by the government institutions in the each of the countries of South East Europe.

The country assessment is the result of the elaboration of a number of inputs: insights from entrepreneurs and SME owners, collected through focus group discussions and interviews, contributions from SME experts, policy makers, representatives of the association of private enterprises, international and bilateral organisations dealing with SME issues, desk research and analysis, combined with the experience and judgement of OECD and EBRD experts. The assessment was originally designed to address six policy dimensions, at the core of enterprise policy.

Nine EPPA reports, one for each of the SEE country, with Serbia and Montenegro being assessed separately, and a Regional SEE Assessment Report were published by the Investment Compact in 2003 and disseminated throughout the SEE Region. All the reports are available from the Investment Compact web-site: www.investmentcompact.org.

The EC General Directorate for Enterprise and Industry joined the OECD-EBRD team in October 2003 with the aim of developing synergies between the EPPAs and monitoring of the implementation of the best practices contained in the European Charter for Small Enterprises, signed by all the SEE countries.

The 2004 EPPA Country Reports represent both a continuation and an expansion of the work started in 2002. The scope of the reports have been expanded in 2004 to include a seventh policy dimension covering entrepreneurship, vocational education and access to technologies, thereby better integrating the scope of the EPPAs with that of the European Charter on Small Enterprises.

The 2004 framework of research for analysis of the performance of enterprises policy thus consists of the following dimensions of small enterprise policy:

- Institutional framework for SMEs policy.
- Rule of law and regulatory framework.
- Tax policy for small business.
- Financial instruments for new and small companies.
- Business consulting services for new and small enterprises.
- Business Incubators.
- Entrepreneurship, vocational education and access to technologies.

The 2004 EPPA Country Reports are structured in two parts. Part I includes an overall assessment of enterprise policy, looking at progress made since the publication of the 2002 EPPA report. It also contains an updated list of policy recommendations and a set of priorities for short term action.

Part II consists of two chapters. The first contains the insights of entrepreneurs and SME owners and managers, while the second chapter is dedicated to analysis and assessment, including a report on the implementation of the policy recommendations listed in the 2002 EPPA Country Report.

The EPPA Methodology

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 small 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.

The policy assessments have been formulated on the basis of the following inputs:

Focus group research:

Focus group discussions were held with SME representatives. The focus group discussions were guided by a question template, applied to all the SEE countries, derived from extensive case study work on good practice in transition economies, including South East Europe, and OECD country experience (OECD-UNIDO, 1999).

Individual SME interviews and expert interviews:

Individual SME interviews were used to cross check the focus group research and to provide further insights on key issues in each of the SEE countries.

Expert interviews were conducted to cross reference information from the focus groups and individual SME interviews and to contribute to overall views.

Desk research:

Examination of existing reports, databases, documents, etc. was conducted by country-based experts/consultants, selected for their enterprise policy knowledge and experience, under the supervision of the OECD Investment Compact team.

Expertise from the OECD, the EBRD and the EC:

A team of experts from the OECD, EBRD and from OECD countries has reviewed inputs from focus groups, interviews and desk research and elaborated the country assessments.

A detailed description of methodology used in the research is presented in Annex 3.

PART I

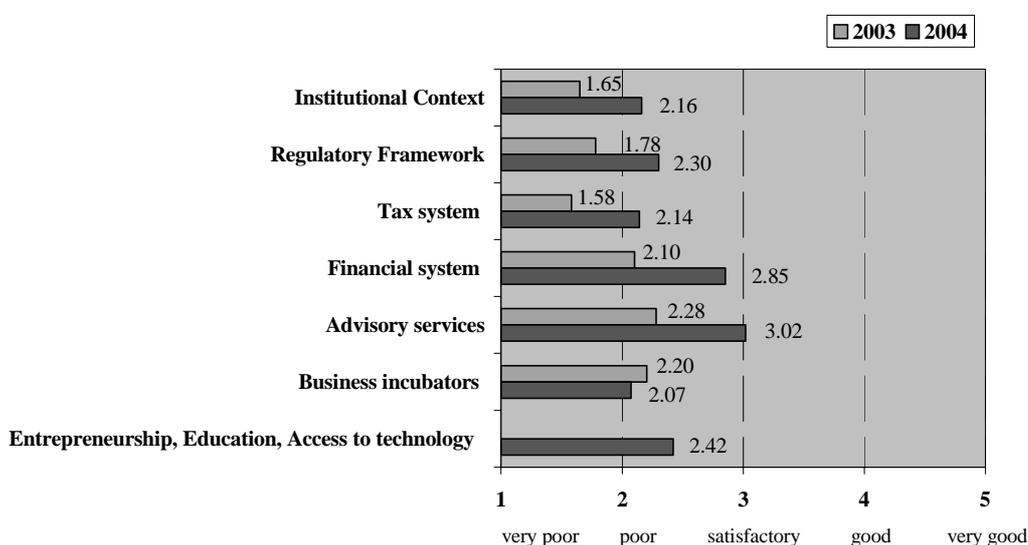
Overall Assessment and Policy Recommendations

Overall Assessment

Since the 2002 EPPA report, Romania has made significant progress in several areas of SME policy reform. While much remains to be done in order to approach OECD benchmarks and good practices, the positive evolution of the SME framework should lead to successful developments in the future.

From a total of 28 priority policy recommendations listed in the 2002 EPPA report, covering six policy dimensions, there has been significant progress for seven policy recommendations, some progress in the implementation of twelve recommendations and no relevant progress for the remaining nine.

Figure 1.1 Average Ratings by SME Owners and Managers of the Seven Dimensions of Good Practice, between 2002 and 2004



During the 2004 focus groups, the SME owners and managers reported improvements in five out of six dimensions of good practice. At the same time, the overall ratings still place Romania in a range between “poor” and “satisfactory”. The majority of the previous recommendations made have been given the rating of “limited progress”. It is therefore necessary not only to continue on the path of reform, but also to keep and even increase the reform momentum.

Business representatives are sometimes critical in their perception, but this is not necessarily related to the lack of reform. Often the slow pace of reform and the gap that has been created between private sector needs (more and more moving in line with European and international business standards) and the responsiveness of the public sector is a contributing factor.

A great importance was given to professional education and training, and it was also recognised by the public sector as being one of the main priority activities for the next couple of years. Foreign Direct Investment and development of SME sector remain the priorities of the Romanian public sector¹.

Institutional framework for SME

The framework has developed well, but better coordination is needed between the objectives of the SME policy and the wider goals of enterprise and industrial policy. The National Agency for Small and Medium-sized Enterprises and Cooperatives (NASMEC) adopted recently (August 2004) a new Strategy for SME development, as well as a new law on SMEs (July 2004). Both documents are creating ambitious goals for the Agency which must better coordinate with the other public institutions involved in the business environment and its improvement. Compared to last year, it seems that the framework for SMEs has gained strength and in the future will be on a clearer path towards development and support of SMEs. Even though by the summer of 2004 there were fewer progress steps than had been expected, the framework is in place and the responsiveness of NASMEC towards the business environment seems to have improved.

It is still necessary for the Agency to better coordinate its communication and activity with the other public institutions involved in improvement of the business environment. The lack of coordination and of synchronisation continues to be a burden for the private sector. Communication with both public sector and representatives of the private sector needs to be improved and further developed, as those bodies are partners in the activity of creating a friendlier environment for SME development, and not competitors.

Rule of law and the regulatory environment

The legal framework continues to be unstable. A significant number of legislative changes have been recently adopted, for example, modifying the registration and authorisation system for businesses, and creating a new framework for the SME sector. Nevertheless, the issue remains for the Romanian public sector to stabilise the current legal framework and to continue reducing the number of normative acts. The new law on SMEs adopted in July 2004 introduced, among others, two important changes – the creation of local NASMEC offices, and the introduction of a Cost Benefit Analysis for all drafts of normative acts with impact on the business environment. Both aspects show NASMEC's commitment and involvement in strengthening its relationship with representatives of the business environment. The task remains to organise these two new activities in the most effective way. It is already known that the adoption of new legislation is less a problem than its implementation and the monitoring of effectiveness in providing benefits for the business environment.

In the autumn of 2004, a new law was adopted regarding registration and authorisation of businesses. The registration time was reduced to three days, and authorisation will be carried out on the basis of a statement of personal liability. Special authorisations will be required for businesses whose activity has an impact on health and the environment and will be delivered by the respective ministries. The establishment of a 'one-stop-shop' of all the institutions involved in the registration and deliverance of authorisations would streamline the process for the business environment. Reducing the registration time to three days is an improvement, but for a small section of the private sector, the additional special authorisations will extend the registration time to approximately one month. It is necessary to monitor the implementation of this new system, in order to create the best conditions for promoting new investors in Romania, both domestic and foreign and for developing the current SME framework. The Fiscal and Fiscal Procedure Codes, and the Labour Code still contain provisions that are the subject of controversy between the public and the private sector. Several public debates

are announced for 2005 and also several amendments are under consideration, in order to improve their content and usefulness for the private sector.

It is important to underline the commitment of the Romanian public sector in streamlining procedures and reducing the number of burdens to business activity. It is also important to continue monitoring the implementation of this legislation, to ensure that it leads to the improvement of the overall business environment.

Tax regime for SMEs

Although improved and streamlined in comparison with a couple of years ago, the tax regime is still perceived as a burden by entrepreneurs, both from the perspective of the tax levels, and from the viewpoint of the procedure for completing tax returns.

VAT refund continues to be one major issue that is constantly raised by the representatives of the business environment. Despite the adoption of an Emergency Procedure for VAT refund, the situation does not seem to have improved since 2002. With the adoption of the Fiscal and Fiscal Procedure Codes however, essential reform steps have been taken. Still, the private sector expects other improvements from amendments begun in 2004. The overall opinion is positive. The tax system is seen by business environment representatives as improved, relatively stable and more transparent than in 2002.

Financial Instruments for New and Small Business

The SME sector is only marginally benefiting from the positive evolution of financial instruments. Whereas commercial banks have started to develop products for SMEs, the other finance institutions, such as state/private guarantees, venture capital funds or micro-finance institutions are still under developed. There is a significant number of financial instruments that private banks are offering to SMEs, but absence of collaterals and guarantees seem to impede their access to financing. It is important to mention here the law on micro financing that has already been drafted and is to be approved in the near future, in order to create the legal framework. This effort needs to be continued, also regarding SME access to funding.

Advisory services and business incubators

This policy dimension has registered significant progress since the last EPPA, being the only dimension which passed the “satisfactory” benchmark in the view of entrepreneurs. However, the quality and consistency of the services provided still remain rather low. As mentioned before, there is a considerable gap between the needs of the private sector and the range of advisory services. Sometimes, advisory services are perceived as non-reactive and not sufficiently adapted to the current development of the SME sector. This is one issue to be remedied that shows at the same time the rapid evolution of the Romanian SME sector.

Concerning the development of business incubators, the Government has been unsuccessful in promoting this good practice, and consequently the awareness of this business development instrument is extremely low among entrepreneurs. The new plan for opening 20 new incubators in the next four years may change this perception, but with quality and not just quantity of the business incubators being the deciding factor.

Entrepreneurship, Vocational Education and Access to Technology

Romania has a long way to go in order to bring the entrepreneurs image with the general public to European and international standards. Another gap to be filled in is the lack of information on the SME sector on existing training programmes that NASMEC and other public institutions are developing. Communication and cooperation need also to be strengthened in this field. Training is vital for a solid SME sector in Romania.

Box 1.1 Romania and the EU Charter for Small Enterprises

Romania signed the European Charter for Small Enterprises in 2002. The Charter, a Pan European initiative endorsed by all the EU member states, the EU candidate countries, the countries of the West Balkans, outlines ten policy areas which are instrumental in improving the business environment for small companies. These include regulatory reform, access to finance, business advocacy, entrepreneurship, education, competitiveness, etc and broadly cover the same policy spectrum as the EPPAs. Under the framework of the European Charter Process, the Romanian Government identified in 2003 a set of targets related to initiatives designed to help small businesses.

Progress on target implementation is reviewed annually in a report prepared by the Romanian Government and published by the European Commission, together with the reports on the other countries in the Western Balkans. The second annual European Charter Report for the Western Balkan Region, containing the country reports and a regional overview prepared by the European Commission, is scheduled to be published in January 2005.

The EPPA Report contributes to the European Charter process with an independent and business oriented policy implementation assessment. The list of the European Charter targets for the policy dimensions covered by the EPPA together with comments on the target implementation status is reported in Annex 4.

Overall, the targets set by Romania in 2003 appeared to be relevant for the small business sector and broadly in line with the EPPA 2002 policy recommendations. As it emerges from the 2004 EPPA, progress has been made. A new Strategy for the SME Sector has been approved in August 2004 to improve the activity of SME sector in Romania. Also, the Working Group for the Improvement of the Business Environment led by the Ministry of Economy and Commerce is continuing its activity in 2005, implementing a specific Action Plan.

2004 Policy Recommendations and Priorities for Action

The 2002 EPPA report included a set of policy of recommendations for each policy dimension, in all 27 recommendations covered by the report, to provide inputs to policy discussion and policy-making.

In the 2004 assessment, a more pragmatic and focused approach has been taken. Instead of listing a number of policy recommendations per dimension, leaving to the government the task of defining the terms of implementation and set the order of priority, as in 2002, the 2004 EPPA has this time identified a more restricted set of measures aimed at improving the small business environment.

The 2004 EPPA Report therefore includes a new set of policy recommendations, consisting of a) a number of recommendations retained from last year, selected among those that have not yet been fulfilled and are still relevant, and b) a limited number of new recommendations, related to recent policy developments.

In addition, for each policy dimension a single Priority for Action that should be implemented over the short term (less than one year) has been recommended.

The implementation of the 2004 set of Policy Recommendations and Priorities for Action will be regularly monitored through the Investment Compact monitoring process.

Box 1.2 Priority Reform Issues for Action

1. Ensure an efficient implementation of the SME Strategy adopted in August 2004 and disseminate the implementation results among SME community
2. Monitor the implementation of law 359/2004 modified by Emergency Ordinance 75/2004 regarding the reduction of registration and authorisation time for businesses
3. Organise regular consultations between the Ministry of Public Finance, NASMEC and SME representatives at both central and local levels
4. Encourage bank financing for SMEs, while supporting other existing or potential forms of financing, including state/private guarantees, venture capital, micro-financing etc.
5. Support the consolidation and creation of associations of SME advisory bodies, at both national and local levels
6. Establish by 2008 a clear strategy regarding the number and efficiency of business incubators created
7. Invest in appropriate teaching and training, in a coherent and continuous way, in order to form future entrepreneurs. Use domestic success stories to show examples of how current challenges can be overcome.

Institutional Framework for SME Policy***Priority for Action***

1. Ensure an efficient implementation of the SME Strategy adopted in August 2004 and disseminate the implementation results among members of the SME community

Coordination and Inter Ministerial Cooperation

2. Position the SME sector as one of the main pillars of new Government economic strategy
3. Ensure the necessary budget support to the SME programmes that NASMEC is developing. In this respect, the budget should ideally be determined on a multi-annual basis.
4. Ensure a cost effective implementation of regional offices of NASMEC, with the support of the Chamber of Commerce network, the Regional Development Agencies, the local business associations and other local consultants.

Communication with SME stakeholders

5. Further support SME representatives in improving the communication with their members and ensure good distribution of policy information.
6. Develop the consultation and communication strategy of NASMEC, in order to target several categories of both existing and potential entrepreneurs.

SME Strategy

7. Improve contacts with the SME community by closely implementing the SME Strategy adopted in 2004; ensure the necessary dialogue in order to accomplish the governmental strategic goals.

Rule of Law and Regulatory Environment

Priority for Action

8. Monitor the implementation of law 359/2004 modified by Emergency Ordinance 75/2004 regarding the reduction of registration and authorisation time for businesses

Registration, De-registration, Re-registration

9. Monitor the implementation of the “silence is consent” procedure.
10. Ensure the status of one information point for the “One-Stop-Shop” for the streamlining of procedures.
11. Introduce on-line company registration and use the existing legislation regarding the electronic signature.
12. Coordinate the Ministry of Public Finance and the Trade Registry in order to internalise the issuing of the fiscal record needed for company registration.

Business Simplification:

13. Nominate the members of the Working Group for the Improvement of the Business Environment during the first quarter of 2005.
14. Add the remaining measures of the 2003 Action Plan for Developing the Business Environment to the 2004 Action Plan, that the Ministry of Economy and Commerce proposes to adopt before March 2005.
15. Establish the Working Group for impact assessment of the normative acts coordinated by the National Agency for SME and Cooperatives according to the Law no.346/2004.
16. Enhance the coordination role of the Directorate for Monitoring and Improving the Business Environment within the Ministry of Economy and Commerce and improve coordination between this Unit and NASMEC.

Anti Bribery and Corruption:

17. Monitor and enforce the implementation of the transparency law, in order to ensure full dialogue within the decision-making process in public administration.
18. Finalise the Anti-corruption Strategy during the first quarter of 2005 and increase the awareness of the actions taken to curb corrupt practices of doing business.
19. Monitor the implementation of the Anti-corruption Strategy by strengthening the co-operation between the public and the private sectors in fighting corruption.

Tax Policy for Small Businesses

Priority for Action

20. Organise regular consultations between the Ministry of Public Finance, NASMEC and SME representatives at both central and local levels

Tax coordination

21. Increase the SMEs’ awareness of the fiscal strategy for the coming years.
22. Continue to decrease the tax burden on the enterprise sector.

Tax return completion

23. Simplify the tax return procedure.
24. Create a single account where SMEs may pay all taxes instead of the current requirement to have nine separate payment orders.
25. Allow the on-line/e-mail submission of the tax returns.
26. Cancel the current procedure where tax returns are required on **both** paper and floppy disk support.

*Financial Instruments for New and Small Business****Priority for Action***

27. Encourage bank financing for SMEs, while supporting other existing or potential forms of financing, including state/private guarantees, venture capital, micro-financing etc.
28. Increase the awareness of SMEs on the existence of foreign assistance programmes backing up bank financing²;
29. Start a public debate on the possibility to transfer the National Guarantee Fund for Credits to SME under private management.
30. Organise consultations with the commercial banks in order to encourage their participation in crediting SMEs, as a mutually rewarding exercise on the medium term.
31. Adopt and implement the law³ regulating the establishment of micro-finance institutions, while ensuring that these institutions will remain open, transparent and in line with the National Bank of Romania (NBR) existing regulations.
32. Support the development and consolidation of venture capital, and in particular for venture capital available for SME start-ups.

*Advisory Services****Priority for Action***

33. Support the consolidation and creation of associations of SME advisory bodies, at both national and local levels
34. Ensure that efforts for certification/accreditation for advisory bodies will not affect free market competition.
35. Provide training to advisory institutions. Involve large domestic or foreign consulting companies in training exercises for smaller advisory institutions.
36. Organise periodic consultations with advisory bodies' representatives in order to have a constant update of the advisory market developments;
37. Organise portals and forums of discussion, where entrepreneurs may express their views regarding advisory services.

Business Incubators

Priority for Action

38. Establish by 2008 a clear strategy regarding the number and efficiency of business incubators created
39. Better promote existing successful business incubators with the SME community.
40. Provide better support to the networking of existing incubators
41. Ensure resources when creating a new business incubator in order to allow it to become self-sustained.
42. Encourage the creation of private incubators and the taking over of existing incubators by the private sector.

Entrepreneurship Education and Access to Technology

Priority for Action

43. Invest in appropriate teaching and training, in a coherent and continuous way, in order to form future entrepreneurs. Use domestic success stories to show examples of how current challenges can be overcome.

Education and Training

44. Run a PR campaign presenting the positive effects of entrepreneurship on the economy and society as a whole, e.g. job creation, higher standard of living etc.
45. Support any educational or training exercises aimed at promoting entrepreneurship. Encourage media participation at such events.
46. Allocate more resources to the START programme, especially for the training phase. Expand the network of academic and training institutions involved in this exercise.
47. Make entrepreneurial education and training more accessible in rural and remote areas, and support the development of such programmes in such de-favoured areas.

Research and Technology

48. Increase the awareness of the SME representatives of the existence of the National Plan for RDI, and its several programmes of technological upgrade. Offer training and assistance for participating in such programmes;
49. Increase the awareness of the SME representatives on the existence of EU grants supporting RDI. Provide training and assistance for applying for such grants;
50. Increase the awareness of the SMEs on the nature of innovation, explaining, for instance, that managerial innovation can be as lucrative as the technological one;
51. Monitor the implementation and use of the Protocol signed between NASMEC and the Ministry of Education and Research, aimed for enhancing RDI activities for SMEs.

Notes

- 1 The new Romanian Government elected at the end of December 2004 created the position of State Minister in charge of coordination of the activities in the field of business environment and small and medium-sized enterprises. This new Government position will assist the activity of the National Agency for SMEs, and will complement its activity.
- 2 EBRD has announced that it is lending Raiffeisen Bank Romania €10 million to help meet the growing demand among local entrepreneurs for finance to build, modernise or expand their existing businesses. The loan is being provided in conjunction with a European Investment Fund guarantee facility to support small and medium enterprises (SMEs) in the European Union accession countries. The guarantee, which is offered under the EU Multi-Annual Programme for SMEs, encourages banks to expand their finance for entrepreneurs by enhancing their risk-taking capacity. Raiffeisen Bank will use the funds to make loans of up to €250,000 to local entrepreneurs. Maturities on these small business loans can reach up to 10 years, well beyond terms currently available in the local market.
- 3 As of September 15th 2004, the draft law was posted on the website of the NASMEC, according to transparency law, in order to be viewed and commented upon by all interested parties.

PART I

Chapter 1

Views of the SME Owners and Managers

1.1 Introduction

This section contains the analysis of the results of focus groups research on seven dimensions of good practice for the SME business environment. The analysed data were collected from the SME focus groups and experts during February and June 2004 and the questionnaires completed by the participants. The research conducted in 2004 includes the opinions of entrepreneurs and experts on an additional new dimension of good practice – Entrepreneurship, Competition and Access to Technology, as well as the opinions on targets relating to the implementation of the EU Charter for Small Enterprises. This was not included in the 2002 EPPA report for Romania, limiting comparison. In addition, some of the questions have been amended and are not directly comparable with the questions in the previous study. In these cases however no comparison is made.

The analysis of the SME business environment is made on the basis of assessment of the following seven dimensions of good practice:

- Institutional framework for SME policy.
- Rule of law and the regulatory environment.
- Tax policy for small businesses.
- Financial instruments for new and small businesses.
- Advisory services supplied to new and small businesses.
- Implementation of business incubators.
- Entrepreneurship, vocational education and access to technology.

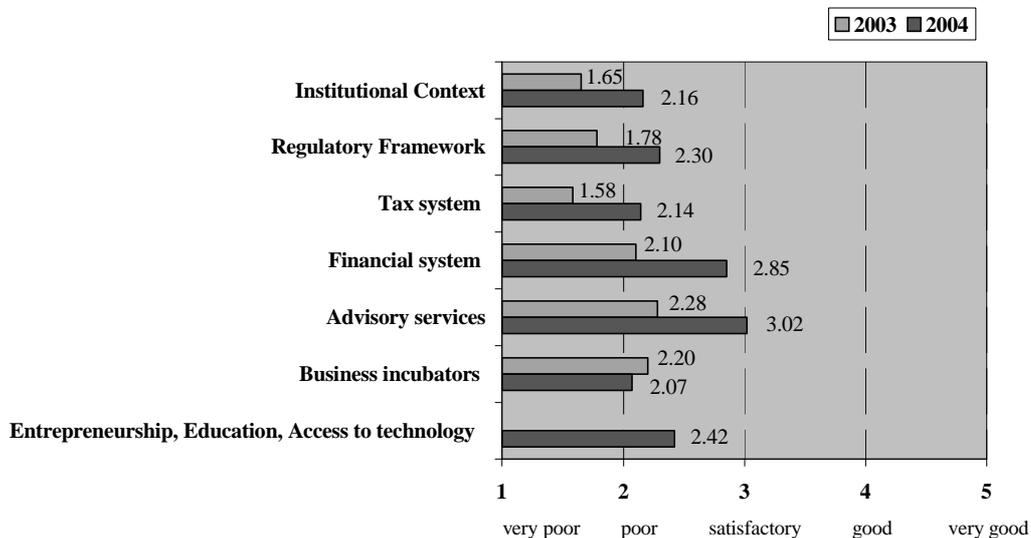
The questionnaire which served as the basis for discussion by focus groups participants and experts and which was subsequently completed individually by them, consisted of two groups of questions, one set comprised yes/no questions, and the other comprised questions in which participants rated their opinions on a scale of 1 to 5: [1 = very poor, 2 = poor, 3 = satisfactory, 4 = good and 5 = very good]. At the beginning of the analysis of each of the seven dimensions of good practice, we present the average results of the participants' ratings of the particular dimension of good practice.

The average ratings of dimensions of good practice in 2002 and 2004 EPPA reports for each of the seven dimensions are presented in Figure 2.1 below. This analysis indicates a substantial improvement in the business environment compared with 2002. In the previous report, the average ratings given for all dimensions were half below the "poor" level and the other half slightly above the "poor" level.

The views of the SME owners and managers who participated in the focus groups in 2004 were more positive and marked a significant improvement, when compared to the average of the opinions expressed in 2002. The ratings remain however between poor and satisfactory and only one of the dimensions – namely the advisory services – gets above the satisfactory level. The dimensions showing most improvement in this positive evolution are the fourth and fifth dimensions, namely financial instruments and advisory services, where the overall rating increased by 0.7 points.

The only exception, as regards the positive trend, is the dimension related to business incubators. In this case, as mentioned before, the downgrading is more the result of a lack of awareness at the level of entrepreneurs, rather than a negative perception on the existing business incubators.

Figure 2.1 Average ratings by SME Owners and Managers of the Seven Dimensions of Good Practice, 2002 and 2004



1.2 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 organisations/s in developing an environment to encourage entrepreneurship and the development of SMEs.
3. The awareness of the Government's SME development strategy.
4. The quality and effectiveness of the SME development strategy.
5. The local and regional governments' mandate and resources (funding, people and skills) to promote SME development.
6. The information provided and awareness by business people of the government's institutions, policy and programmes to support new entrepreneurs and develop existing SMEs.
7. The awareness about regularity of consultations between the Government and the private sector on SME policy.
8. The quality and regularity of consultation between the Government and private sector on SME policy and its performance and assessment.
9. The performance of the Government institutions supporting small business since March 2002.

Organisational Responsibility

	2004	2002
1. Do you know if a clear organisational responsibility for the development of SME policy has been assigned by Government?	Yes: 80% No: 20%	2.5

The majority of the interviewed entrepreneurs have heard about NASMEC¹ but only very superficially about its activity. NASMEC has a better visibility among members of the Chamber of Commerce and Industry (CCI) from the North-West and North-East regions (the proportion reaches 100%) than for firms randomly selected (Centre and Bucharest), out of which only one firm in two answered ‘yes’ to the question.

Experience of the interviewed firms with NASMEC is limited. Out of the 52 firms that participated in discussions only one took part in an SME fair organised by the NASMEC and one other in a dissemination workshop. A third firm mentioned in rather negative terms its attempts to contact and to get support from NASMEC.

The issues that have been raised in relation to the organisational responsibility for the development of SME policy are as follows:

The lack of communication between NASMEC and SMEs. Entrepreneurs do not consider the Agency’s web site (www.animmc.ro) as sufficient.

“They should develop a strategy to reach us, to become known, and not only to wait for us all to search on their Internet page”.

The relationship between ‘centre’ and ‘territory’ (counties) was viewed as unbalanced since the responsibility is assigned to an organisation located in the ‘centre’, with no representatives at the local level. The dominant opinion expressed bluntly by entrepreneurs outside Bucharest is that NASMEC consists of *“some people in some offices completely out of touch with reality”*.

“They (NASMEC) do something only in Bucharest and only for a limited circle of firms”.

Regarding the organisational responsibility for the development of SME policy, entrepreneurs referred to various regulations that have adversely affected their activity. In their opinion *“there are too many institutions, each steps on the others’ feet”*. While some problems are not addressed at all, others are simultaneously addressed by various institutions in a contradictory manner and neither NASMEC nor any other body plays the coordinating role for the SMEs related issues. The result is a dominant perception of ‘instability’, ‘incoherence’, and a ‘legislative mix up’.

“Things are moving in the right direction but slowly. However, the main problem isn’t what the NASMEC is doing but what the Agency cannot do. There are so many institutions doing so many things for the SMEs development that all that we want is the state to leave us alone”.

Regarding responsibility for the development of SME policy, the entrepreneurs mentioned the Chamber of Commerce and local bodies, which seem to be much more visible than the NASMEC.

Effectiveness of Government Organisation

	2004	2002
2. How do you rate the effectiveness of the organisation/s in developing an environment to encourage entrepreneurship and the development of SMEs?	2.0	1.70

The effectiveness of the organisations is evaluated on average as ‘poor’ but has slightly improved in the last year. The effectiveness of the organisations in developing an environment to encourage the development of SMEs is on average rated slightly better than effectiveness in encouraging entrepreneurship.

While micro firms tend to rate the effectiveness of the organisations between “very poor” and “poor” (average 1.6), the medium enterprises tend to rate it “satisfactory” (average 2.8).

Newly created firms (in 2002 and 2003) rated the effectiveness of the organisations significantly poorer (average 1.5) than the well-established firms with longer experience in business.

Several entrepreneurs described their interactions with various institutions in positive terms, particularly in the South-West region (where all entrepreneurs benefited from at least one EU grant). Nevertheless, many of the interviewed entrepreneurs pictured the relationships between SMEs and the governmental institutions in terms of ‘fighting camps’ and not of partnership.

“I found help whenever I asked for it”

“... one has to go (to the institutions), to fight to move things in the desired direction. My opinion is that we, at least the firms I know, suffer of shyness in pursuing our rights ”.

“... we are not the beneficiaries of the Government measures. Most organisations of the Romanian private entrepreneurs fight the Government to acknowledge the Romanian capital equal to the foreign capital. While the foreign capital represents in their (Government) eyes the hen with golden eggs, the Romanian private capital is seen equal to nothing at all.”

“They have no clear procedure in communicating with us (SMEs).”

SME Development Strategy

	2004	2002
3. Do you know if a Government SME development strategy exists?	77%	n/a
3.1 How do you rate the quality of the SMEs development strategy	2.5	1.7
3.1 How do you rate the effectiveness of the SMEs development strategy	1.7	

The majority of the interviewed entrepreneurs know about the existence of the government SME development strategy. Nonetheless, their knowledge about this strategy is poor. The self-assessed level of knowledge is positively correlated with the year in which the firm was set up. Thus, the more experience a firm has, the better the knowledge about the SME development strategy.

The quality of the strategy is evaluated “satisfactory”, whereas its effectiveness is seen to be rather “poor”.

Better assessment of the effectiveness is given by the South-West region (beneficiaries of PHARE funds), with an average rating of 2.7, and the poorest rating in the North-East region (average score 1.1).

The top-down approach in elaborating the strategy was criticised and attributed to the institutional centralisation. Entrepreneurs think that the strategy for SME development should be elaborated in a bottom-up manner in order to be effective. In their view the SME development strategy in its present form is not based on an extensive and comprehensive needs assessment, does not include their ideas and opinions and, consequently, does not address entrepreneurs concerns and ‘real problems’.

“The strategy looks nice on paper but has no practical effect, is theoretical and is done on a desk by people with no experience in business”.

“There is a national strategy for SME development, and a distinct chapter of the Government Plan of Actions for 2004, but unfortunately more than 50% of the actions in this sense are rescheduled from the previous year. So you see the political interest for our sector? We are the laggard sector of development”.

Owners of the SMEs active in trade pointed out that:

“Although we make up the majority of the SME sector, about 60% I think, neither strategy nor programmes address our needs or support us. At the end of most documents one can read: Not applicable to trade companies.”.

Local and Regional Governments

	2004	2002
4. Do local and regional Governments have the mandate, skills and resources (funding, people, skills) to promote SME Development?		
Mandate	Yes: 34.60% No: 65.40%	N/A
Resources	Yes: 57.15% No: 42.85%	
Rating given to the local and regional governments’ mandate and resources to promote SMEs development.	N/A	1.7

While the majority of the SMEs owners and managers participating in research believe that the local governments have the resources (funding, people, skills) to promote SME development, less than half consider that local governments have also the necessary mandate. The general view is that the poor performance of regional governments in promoting SME development is a consequence of scarce resources and lack of mandate.

In the South-West region (beneficiaries of EU grants) the proportion of those that consider that the local as well as the regional governments have both the mandate and resources to promote SMEs development is close to 100%, while in the North-East and the North-West regions the proportions drop to less than 10%. Thus, the opinions are divergent in this respect. It might reflect the differences between the local and regional governments.

In addition to local authorities and Regional Development Agencies, the regional offices of the Chambers of Commerce and Industry and the various local and regional associations 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.

Information Provided and Awareness of Government Programme

	2004	2002
5. How do you rate information provided and awareness of the Government's institutions, policies, programs to support new entrepreneurs and develop existing SMEs?		
Information	2.4	
Awareness	2.2	1.8

Average rating given to the information provided to support SMEs development is slightly higher than the average rating given to the awareness of the entrepreneurs. Information provided as well as awareness of the entrepreneurs are, however, perceived to be "rather poor"³. Compared to the EPPA 2002 the situation seems to have been improved, particularly with respect to information provided.

Although web sites such as those of the NASMEC (www.animmc.ro) and of the Ministry of European Integration (www.mie.ro) provide a large array of information, entrepreneurs claim that searching on internet is highly time consuming and not effective. On one hand, only few of the interviewed entrepreneurs have the habit to search available information on Internet. On the other hand, entrepreneurs who search on internet claim that most of the www.gov.ro pages are not updated.

No publications⁴ were referred to or mentioned as useful channels of information on government's institutions, policies, and programmes to support new entrepreneurs and develop existing SMEs.

Disseminating activities such as the NASMEC fairs are used by a small number of SMEs. Some other entrepreneurs heard about this fair but "*we found it unstructured so we did not attend it*".

Assessment of the information provided through other channels such as the County Chambers of Commerce and Industry or associations varies from one county to another and from one sector to another. For instance, in the tourism sector, the national association (ANAT) is very active and has a good information system in place. So is the case with the textile sector or with the construction sector. All this information is limited to the specific field of activity and include only to a small extent relevant information for SMEs. Other entrepreneurs located outside Bucharest attributed the poor provision of relevant information as "poor" as an effect of the uneven territorial distribution of the associations and organisations of the private sector.

"The influential associations and organisations of private entrepreneurs are all located in Bucharest and have very little representations in the region, many do not exist at all outside Bucharest."

Because of the poor communication between the national and the local levels, SMEs owners and managers suggested that other information channels (such as television) would be more efficient in SMEs development.

"Another problem is the relation between the central level and the local one. They should use the television to transmit important news or changes"

The majority emphasised that they have to concentrate on business so have no time to ‘fish’ for information. But as one business people put it *“the ability to search useful information makes the difference between a successful firm and the other ones”*. So, most interviewed SME owners and managers rely on the Official Monitor combined with informal channels.

Consultation between Government and the Private Sector

	2004	2002
6. Are you aware of regular consultations between Government and the private sector	Yes: 31.9% No: 68.1%	N/A
7. How do you rate the quality and regularity of consultation between Government and the private sector on SME policy and its performance and assessment?		
	Quality	1.7
	Regularity	2.1
		1.4

Less than a third of the interviewed entrepreneurs are aware of regular consultations between government and the private sector. In the entrepreneurs’ perception the quality of consultation between government and private sector is approaching ‘poor’ and their regularity is ‘poor’ as well.

Those who are not aware of the consultations tend to rate significantly poorer particularly the regularity of consultations. Thus, the group of unaware entrepreneurs rate on average the regularity of consultations between ‘very poor’ and ‘poor’ (average rating 1.7), whereas the group of aware entrepreneurs considers it as approaching ‘satisfactory’ (average rating 2.8).

The local governmental organisations are perceived as ‘weak’. On the other hand, the national associations or confederation of owners or of SMEs in various sectors of activity, particularly those involved in consultations, are perceived as having no territorial representation:

‘Their (associations or organisations of entrepreneurs) representation is very weak. Some do not exist at all in the territory (regions). Others have a person living in an apartment who sends out declarations in the name of the county.’

SMEs owners and managers from the North-East region believe that:

“For the Government only Bucharest and Transylvania exist, Moldova is not on the map.”

Besides regional disparities some mentioned that consultations are biased in favour of *‘large, former state firms’*, particularly in sectors such as manufacturing.

“For effective consultations they should create equilibrium both between social partners and between sectors. The large and influential ones neglect the others, which although smaller, as we are, share the same problems but have also some specific ones.”

A distinction needs to be underlined between professional associations and SMEs’ associations. All entrepreneurs referred to professional associations. No SMEs’ association (such as the National Council of Private SMEs of Romania - CNIPMMR) was identified.

The fact that only associations ‘acknowledged at the national level’ are invited for consultations has in the same time the effect of ‘fake’ national associations (those whose acknowledgement is based on units made up of *“a person in an apartment”*) and the unbalanced representation in the territory. Under these conditions, an SME has the choice to join a large and well-established national association (such as ANEIR⁵), *“which is expensive, they ask about 1,000 USD per year”*, or the choice to *“manage on its own”*.

“In order to have your interests well represented you have to be member of a professional association and of a SMEs body involved in management of development programmes. This is very difficult for us, SMEs outside Bucharest. So, most of us manage on our own”.

Changes the Institutional Framework for SME Policy

8. Rating of the performance of the Government institutions supporting small business since March 2002				
Much worse	Worse	No change	Better	Much better
4.3%	4.3%	67.4%	21.7%	2.2%

The situation has been improved between 2002 and 2004 but not significantly, since 21.7% of interviewees considered that the changes are moving in the right direction, versus 67.4% who saw no change. The micro-enterprises tend to assess this change between ‘worse’ and ‘no change’ (average rating 2.56), whereas medium businesses rate it as ‘no change’ to ‘better’ (average score 3.4).

As shown in the table above, the situation has improved between 2002 and 2004. With the exception of the ratings related to the consultation between the Government and the private sector, where a few entrepreneurs still considered the situation as “very poor”, all the other issues were rated, on average somewhat higher, as “poor” to “satisfactory”. It is necessary to mention here the fact that the entrepreneurial culture on SME and SME associations is still developing and important work needs to be done in this field. A more significant improvement may be noticed regarding the available information and entrepreneurs’ awareness vis-à-vis the public institutions and policies on supporting the SME sector. Another explanation for the rating improvement is the awareness of business representatives related to business support and programmes that the SME institutions are running since 2002.

1.3 Rule of Law and Regulatory Environment

The issues researched under this heading are:

1. The formalities for new company registration and comment on the process.
2. The procedures for obtaining licenses, permits and certificates necessary for business operations.
3. Approved programme for reducing the legal/administrative barriers for business and rating of the quality and effectiveness of this programme.
4. Approved programmes for reducing the impact of corruption.
5. The quality and the effectiveness of this programme.
6. The quality and regularity of consultation between the Government and the private sector/SME community on draft legislation and regulations that affect business and assessment of the change in the regulatory environment since March 2002.

Company Registration Process

	2004	2002
9. Rating of formalities for new company registration :		
Average number of steps for registration	2.7	
Overall rating of the registration process	2.8	1.8
Rating of the time and costs	3.0	
Impression	2.8	

The rating given to the company registration procedure has improved considerably between 2002 and 2004. The time needed for registration obtains the poorest rating, while the registration costs are rated the best. Firms newly created (2002-2003) tend to evaluate between ‘satisfactory’ and ‘good’ the registration procedure (average rating 3.40). Firms from Bucharest and Centre tend to rate the registration procedure much poorer (average 1.90, similar to the one from EPPA 2002) compared to those interviewed in the South-West (beneficiaries of EU grants) and North-West regions (average 3.5).

The time needed for registration has been estimated between 10 and 40 days, due to the common registration and authorisation procedure within the One Stop Shop. Estimations of the registration costs have ranged between ROL 7-10 million – equivalent of EUR 250.

Most entrepreneurs considered that the company registration procedure has been simplified, particularly by introducing the ‘one-stop-shop’ system⁶, yet characterized by ‘too much bureaucracy’.

“Regulations and procedures are good but when the human factor intervenes it is a disaster”.

Many entrepreneurs rely on lawyers to smooth the registration process. The existence of firms making profit from the registration process is interpreted as ‘proof that things are not going well’ because:

“These firms are using onerous methods. They take your registration file, which is already complete, but they know the right person in the right place and they know who to bribe so that registration is done more quickly.”

Some entrepreneurs explained that in their view the registration procedure has become more complicated between 2002 and 2004 due to the regulations in line with the newly introduced Fiscal Code:

“For obtaining the fiscal record⁷, a firm has to go to the Fiscal Administration and has to complete all sorts of complicated and useless forms. Romania is a country of papers and bureaucracy.”

Procedures for Obtaining Necessary Licenses, Permits and Certificates

	2004	2002
10. Rating of the procedures for obtaining licenses, permits and certificates necessary for business operations	2.4	1.8

Rating of procedures for obtaining licenses, permits and certificates has improved between EPPA 2002 and EPPA 2004. Rating is much poorer in the North-West and Bucharest (average 1.8) compared to South-West and Centre regions (average 3.3).

Some entrepreneurs believe that most licenses, permits and certificates are made to extract money from the SMEs and to maintain the ‘bureaucratic apparatus’. The main argument in this respect is that many of these are obtained ‘formally’ but in the absence of a thorough check by just paying the corresponding tax. In addition, many of the interviewed entrepreneurs mentioned ‘bribe’ as a functional mechanism in speeding up the process.

SMEs owners and managers involved in import-export activities consider that the procedure for obtaining the export license represents a positive example. They described nevertheless various situations related to customs or trade regulations that caused delays and high costs to their businesses. A few entrepreneurs mentioned as highly problematic the procedure for obtaining the environment license.

“For obtaining the environment license I had to pay ROL 70 million for the feasibility study. When everything was ready I was told: now contribute with 10 million to put the stamp in the right position.”(Equivalent of EUR 2 000)

“To set-up a firm is much easier than to obtain all licenses and permits for functioning as a well-developed firm. However, the renewal of all licenses and permits is nothing compared to the renewal of the environment license.”

More developed SMEs that take part in various auctions consider that certificates are impractical, particularly those from the Pensions House (proving that the company paid the social insurances for its employees). This type of certificate costs around ROL 3 million and is valid only 15 days. Other entrepreneurs mentioned certificates from the Trade Registry.

The principle of ‘silent consent’ is seen as *“a good initiative yet not effective”*.

“Silent consent would be great if they (municipality clerks) would apply it. The problem is that on the 29th day (in the 30th day silent consent would be effective) you receive an answer saying that your file is not complete or something similar. Consequently, you have to go again, to solve the problem, and to wait for another 30 days”.

The ‘personal liability statement’⁸ is seen as an efficient instrument related to business licensing. Nevertheless, SMEs owners and managers pointed out that:

The personal liability statement should be used for registered firms (when they renew their registration) and not for start-ups since *“many entrepreneurs are not aware of the risks they take and that their activities put at risk the population”*.

‘Personal liability statement’ should not be used in sectors such as tourism or restaurants.

There is a lack of guidance on familiarising the entrepreneur with the requirements of each chapter of ‘declared on own responsibility’ that makes clear for entrepreneurs the risks they take.

The entrepreneurs participating in discussions suggested that a more efficient simplification procedure would be to introduce an ID for each firm and to build a consolidated national database (coordinating all administrative bodies) including situation of all financial obligations to the state.

Programme for Reducing Administrative Barriers

	2004	2002
11. Awareness of the Government approved programme for reducing administrative barriers for businesses.	38.5%	
Quality	2.4	2.0
Effectiveness	2.1	

Rating given to the quality and particularly to the effectiveness of the government programme for reducing legal/administrative barriers for business has remained 'poor' between 2002 and 2004. There is no real improvement in business representatives' perception.

SME owners and managers from the North-East and Bucharest-Ilfov regions rate both quality and effectiveness of the simplification programme as 'very poor', while the other rated them 'satisfactory'. As already mentioned above, the focus group participants emphasised the lack of coherence of the government programme. On the one hand, there have been mentioned the improvements of the company registration procedure and of the procedures for business licensing were mentioned. On the other hand, the new Fiscal Code and the new Labour Code are perceived as introducing new legal and administrative barriers for businesses. Thus, the perceived lack of coherence is a reflection of the conflicting objectives built in the implementation strategy, namely securing revenue and simplifying business environment. Interviewed entrepreneurs believe that the supervisory bodies that actually implement the programme have little interest in simplification of the business environment, which would diminish the scope of corruption. Nonetheless, in focus groups from the Centre and South-West regions an improvement in civil servants' attitudes and practices have been mentioned. The introduction of the Register of Control has been considered particularly helpful in this respect.

“In recent years the activity of the supervisory bodies has improved. At least I no longer observe the presumption of guilt in their attitude.”

As a suggestion, entrepreneurs believe that the control activity might be improved by training the staff and particularly by introducing a condition of a five-year work experience in private sector for inspectors.

Programme for Reducing the Impact of Corruption

	2004	2002
12. Awareness of Government approved programs for reducing the impact of corruption	Yes: 78% No: 22%	2.0

Awareness of the government anti-corruption programme is good, with about 80% of all interviewed entrepreneurs knowing about it; the knowledge is rated well, whereas a few SME owners active in trade declare a much poorer knowledge of only 3 or 4.

The rating given to the effectiveness of the government anti-corruption programme has been 'very poor' in the North-East and Bucharest-Ilfov regions and 'poor' to 'satisfactory' in the other regions. In all focus groups participating SMEs provided examples of bribery. A few described situations in which refusing to pay the bribe resulted in harassment - repeated and frequent inspections and fines. The majority

believes that lack of legislative stability is a source of corruption because it makes them constantly feel vulnerable in front of state representatives.

“Be it economic police, financial guard or other control bodies, they always ask to speak with the general manager. Why should a general manager make time for them? Why they do not ask to speak with the specialised department? Simple, because they know how to make you feel happy to pay the bribe instead of a much greater penalty according to a regulation nobody heard of. So you pay and get back to work.”

13. Rating the quality and effectiveness of the Government’s program for reducing the impact of corruption	2004	2002
Quality	2.2	
Effectiveness	1.6	2.0

Entrepreneurs referred to the political corruption as well as to the corruption existent in the private sector such as ‘employees corrupted by a supplier or a client’. The perceived corruption was very high among SMEs participating in the discussions, reflecting a view comparable to feedback from the wider population. The *Public Opinion Barometer* (October 2003, financed by the Foundation for an Open Society) shows that:

- 47% of the population believe that since the government came to power the corruption ‘has increased’, ‘has remained the same’ (32%), ‘has decreased’ (7%); 14% did not answer.
- the Romanian Government has implemented ‘very many’ measures in the view of only 3% of the population, ‘many’ measures (13%), ‘few’ measures (30%), ‘very few’ measures (23%), ‘no measures at all’ (17%) or ‘do not know’ (15%).
- only 24% of the population declare themselves ‘satisfied’ or ‘very satisfied’ with the anti-corruption activities of the police, only 21% with the government’s activities, and only 20% with the justice system and activities. In the population’s perception the most satisfactory anti-corruption activities are carried out by mass media.

Consultation between Government and the Private sector

14. Rating the quality and regularity of consultation between Government and private sector on Regulatory environment	2004	2002
Quality	1.8	
Regularity	2.0	1.3

Quality and regularity of consultation between government and the private sector on draft legislation and regulations that affects business are assessed ‘poor’. However, this represents an improvement compared to the ‘very poor’ rating obtained in EPPA 2002. Similar to the previous questions, entrepreneurs from the North-East region rate both the quality and regularity of consultation as ‘very poor’ (average 1.2).

As mentioned earlier, from the point of view of associations, SMEs participating in the focus groups appear largely as divided in five groups. The first two groups include entrepreneurs that are members of national associations or organisations well structured,

active, and informed. Only the first of these two groups has influence in the political arena, and more precisely participates in the consultations with the government. Both firms from Group 1 and Group 2 participated or had attempts to participate, while only a few firms of the other groups tried to participate individually.

While firms from Group 1 combined examples of success with failures, firms of Group 2 described only failed attempts of promoting an initiative.

“It is very important how well we are organised, but even being organised does not necessarily help very much in relation to the government”.

Issues brought up in discussion, as examples of unsatisfactory or non-existent consultation, were the newly introduced regulatory packages: Labour Code and Fiscal Code (including new VAT regulation)⁹.

“Everybody heard on TV the debates regarding the new Labour Code. Officials accused us by saying that owners’ associations did not want to participate. This is not true, we haven’t been asked. Simply stated, they have negotiated this Code only with the Unions. It was their choice to neglect us”.

Individual participation is possible by taking part in the forum of discussion usually available on Internet or by attending meetings. In this regard, participants claim that both on-line forums and meetings have been useful in terms of information about measures intended to be applied but useless in terms of effective discussions and feedback of views.

As a consequence, most entrepreneurs believe that consultation is more ‘form’ than substance:

“There are no effective consultations. They (government) call the private sector to consultations only because it looks good to the EU”.

“Calls for consultations are the result of international pressure giving the impression of democracy, transparency, and flexibility”.

The majority says, consultations are empty words as long as ‘any good law is followed by unreasonable methodological norms’ and might anytime ‘be annulled or distorted by a decision of the Ministry of Finance’ aimed ‘to pump revenues into the state budget’. Furthermore ‘when legislation that affects business is changed so often consultations are rather a waste of time’.

Noteworthy, interviewed entrepreneurs are highly critical towards the government and its institutions but at the same time their level of participation is also low. Very few of them tried to influence in some way the major decisions that affect business.

Changes in Regulatory Framework

15. Rating for the **changes** in the regulatory environment (registration, licenses, permits, certificates) since March 2002

much worse	worse	no change	better	much better
0.0%	14.0%	34.0%	50.0%	2.0%

On nearly all key questions concerning the rule of law and regulatory environment the average ratings in EPPA 2004 are higher than those obtained in EPPA 2002. Similarly, on this question, the situation has improved during the last year. However this general

improvement since 2003 needs to be seen in context, except the rating on the registration procedure all others addressed issues are still evaluated as ‘poor’.

The SMEs from the North-East are more sceptical, rating on average ‘no change’ compared to those from the other regions who rated ‘better’.

The assessment on this dimension shows an overall improvement of ratings. A significant progress may be observed regarding company registration, where there is a 1.0 upgrade, which brings the average perception close to “satisfactory”. Another important observation is related to the downgrading of the ratings obtained for the fight against corruption, which is consistent with other research work¹⁰ suggesting the existence of widespread corruption in the administration, and implicitly in the business area as well. In terms of consultation on draft legislation, the results suggest that, although the situation is improving, there are still entrepreneurs rating the process as “very poor”, and expressing disappointment with the implementation of recent legislation.

1.4 Tax Policy for Small Businesses

The issues researched under this heading are:

1. Tax policy and new enterprises
2. Stability and transparency of the tax system
3. Percentage of annual net profit paid in tax by SMEs
4. Consultation and communication between Government and the private sector on tax rates and incentives
5. Consistency of the policy
6. Change in the regulatory environment since March 2002

Encouragement of Enterprises

	2004	2002
16. Are you satisfied with the tax policy in terms of encouragement, support and ease of use provided to new and existing SMEs?	Yes: 12% No: 88%	
Encouragement/ support	1.8	
Ease of use	1.8	1.5

Irrespective of the sector of activity, size, region or firm business experience the great majority of SME owners or managers consider that the present tax policy poorly encourages new enterprises and existent firms, and it is not ease to use.

The general view of the tax policy is that it represents the main barrier to SMEs development in Romania. The main concerns on tax policy refer to perceived high tax burdens, rapid and inexplicable changes in the tax system, and ‘*excessive power*’ of the Ministry of Finance to take any decision that ‘*pumps revenues into the state budget*’ irrespective of damage done to the private sector.

“The tax system is oppressive. Tax policy is just political interest. In this respect, all things done or said by entrepreneurs are overlooked.”

In the entrepreneurs’ view the high tax burden is linked with both the poor administrative capacity and with the pressure from the unions.

‘Tax burden has increased since the new Labour Code was introduced. Due to the raise of the minimum wage to ROL 300,000, I have to add ROL 180,000 to the taxes for any employee with minimum wage.’

Any delay in tax payment on the part of an SME is considered fraud and it is heavily punished. On the other hand, neither does the state pay attention to its liabilities to the SMEs (VAT reimbursement was most frequently mentioned in this respect), nor protect SMEs against cheating.

‘The much praised Fiscal Code has created chaos’.

‘Once an invoice is issued the firm has to pay VAT and taxes. The problem is that when I was cheated I lost not only the products but also the VAT and taxes paid to the state. Moreover, the state institutions didn’t protect me at all’.

‘I set up my first firm in 1991. This firm developed very well because start-ups were exempted from profit tax for a five-year period. Meanwhile this vital incentive was cancelled’.

In terms of how ease of use is observed in the tax policy, entrepreneurs highlighted the discrepancies between laws and their corresponding methodological norms. These discrepancies are seen as ***‘things that complicate the system so much that implementation of the law can be discretionary’.***

Tax System Stability and Transparency

17. Rating given to the stability and transparency of the tax system:	2004	2002
Stability	2.1	1.6
Transparency	2.6	

Notwithstanding the above views, the ratings given to stability and particularly to transparency of the tax system have improved since March 2002. At the same time focus group participants evaluate stability of the tax system for small enterprises as still in the ‘poor’ category and its transparency approaching as ‘satisfactory’.

The majority of focus group participants identified legislative instability as a major problem. They provided examples illustrating how various changes of the tax policy have adversely affected their development plans or their relationships either with the state institutions or with their suppliers and clients.

‘We do not seek state support. We ask nothing but to be left to operate with stable rules’.

‘To keep up with the legislative changes one needs to hire a lawyer. And since each law has implementation norms and each norm has been modified several times the employed lawyer would need an army of assistants’.

Entrepreneurs pointed out that the county offices of the Ministry of Public Finances¹¹ besides ‘current documents and inspections’ are supposed also to provide consultancy to entrepreneurs. Development of these consultancy services is seen as necessary. Further attention must be paid to increase the effectiveness of implementation of the law in the territory.

Annual Net Profits typically paid by SMEs in Tax

	2004
18. Annual net profits typically paid by SMEs in tax.	25%
- Annual net profits typically paid in tax is increasing	49%
- Annual net profits typically paid in tax is decreasing	34%
- Annual net profits typically paid in tax is stable	17%

Estimations of the annual net profits typically paid by SMEs in tax were not obtained, nearly all focus groups participants referred to the profit tax, which according law is 25% in Romania.

Consultation and Communication on the Tax Policy Measures

19. How do you rate the consultation and communication on tax policy between the Government and the Private Sector on tax rates and incentives	2004	2002
	1.8	1.5

Similar to consultation on draft legislation, consultation and communication on tax policy is assessed as being ‘poor’ with a marginal improvement since 2002.

Assessment of the consultation and communication between government and the private sector on both tax rates and incentives for enterprises is lower for SMEs active in manufacturing (average rating 1.5).

The Ministry of Finance is perceived as holding “*excessive power*” being entitled to change the rules anytime and in any manner irrespective of how much damage is done to the SMEs sector.

SMEs are severely penalised whenever they do not meet their obligations in due time, whereas large firms frequently are spared of the obligations they fail to meet. This is perceived by SMEs as paying the bill of ‘*government’s generosity*’ towards the large firms.

‘They (administrative bodies) cannot collect taxes from the large enterprises regardless of whether they are state or private. So government spares the large enterprises of various taxes and obligations and increases the taxes we (SMEs) have to pay.’

Consistency of the Tax Policy with Other Government Policies

20. Rating of the consistency of the tax policy with other Government policies at improving the operational environment for small businesses?	2004	2002
	2.5	1.7

Entrepreneurs’ assessment of coordination of tax policy has improved. Firms established in the beginning of the ‘90s (up to 1995) tend to evaluate the coordination of tax policy with the overall government policy as ‘poor’ (average rating 2). SME owners and managers from the North-East and North-West regions tend to rate the coordination of tax policy as ‘poor’, while those from the other regions rate it more ‘satisfactory’.

Tax policy is generally seen as poorly coordinated with the overall government policy/development strategy because it:

- does not encourage development of SMEs active in manufacturing;

- does not encourage development of export activities mainly due to the ‘huge delays in VAT reimbursement’ but also due to customs procedures and other regulations;
- does not encourage (in fact it blocks according to some SMEs) development of tourism, particularly of rural tourism, due to the ‘confusion induced by the norms of the Fiscal Code’;
- does not encourage investment and innovation due to the existing taxation on reinvested profit;
- does not encourage creation of jobs due to the new regulations in line with the Labour Code; expenses for training the personnel are not exempted;

“Wages are small in Romania compared with the European Union but the firm labour costs are very high: for a wage of \$400 of a specialised operator I have to pay to the state another \$400.”

- suffers from poor administrative capacity;
- lacks stability, and as a consequence feeds corruption;
- creates unfair competition between SMEs and large enterprises.

Changes in Tax Environment

21. Rating for the changes in the tax policy for small business since March 2002				
much worse	worse	no change	better	much better
0.0%	26.1%	47.8%	50.0%	2.0%

The view of business representatives is divided between “no change” and “better”, although in general terms they sound more disappointed than encouraged by the tax policy in Romania. Significant regional differences are recorded in this respect. Thus, SMEs from the North-East region are more sceptical rating in average ‘no change’ compared to those from the other regions, particularly entrepreneurs from the Centre region who selected ‘better’. On all key questions concerning tax policy for small businesses, the ratings have improved as compared to 2002. Significant changes (over 0.7) may be noticed concerning the stability and transparency of the tax system and the co-ordination of tax policy. Although improving, the policy of encouraging SME through the tax policy is still considered “very poor” by several entrepreneurs. Moreover, this dimension, along with the one related to business incubators is rated as one of the poorest of all dimensions.

1.5 Financial Instruments for New and Small Businesses

The issues researched under this heading are:

1. The stability, competitiveness and services of the banking system
2. The commercial banks’ interest in extending credits to the SME sector and lending attitude with respect to the SME sector
3. The SME access to the following main sources of finance: own/family capital, repatriation capital, commercial banks, micro finance, leasing, other sources of finance (credit unions), venture capital /equity funds and also the skills of bank personnel.
4. Rating for bank funding for: working capital, capital investment, technology investment, change in the banking environment for SMEs since March 2002, provision of services and lending.

Stability, Competitiveness and Services

22. Rating given to the stability, competitiveness and services provided by the banking system	2004	2002
Stability	3.4	2.3
Competitiveness	3.4	2.3
Services of the banking system	3.3	2.3

The banking system is seen as fairly stable and competitive. In addition, the participants value the developments in the banking system as follows: a bank dedicated to SMEs was set up with EBRD¹² support (Mirobank); a few banks (such as AlphaBank) developed regional programmes for SMEs; international banks (such as ING Barings and City Bank) intend to develop some specialised departments for SMEs. There were some participants who emphasised the need for *'more banks fit to small businesses, honest and flexible.'* With respect to the banking system entrepreneurs' ratings indicate a significant improvement from 'poor' to 'satisfactory'-'good' on the three dimensions: stability, competitiveness, and provided services. No significant differences between regions, sectors or size have been recorded.

In contrast, commercial banks from Romania:

- At the county level 'have no power of decision';
- Credits for purchasing of equipment and new technology are 'too expensive' and difficult to obtain;
- Concern with the high level of bureaucracy was mentioned in only one focus group and in relation to only a few commercial banks;
- Lack of flexible lending policies responding to the SMEs needs;
- Have poor offer of educational services for entrepreneurs;
- Have rather poor consultancy and dissemination of their products and services;
- Have poor offer of services for identification of potential clients.

Commercial Banks' Interest in Developing the SME Sector

23. Rating given to the:	2004	2002
Bank's interest in developing the SME sector	2.6	1.7
Lending attitude of commercial banks with respect to the SME sector	2.4	

Rating of bank's interest in developing the SME sector varies from 'poor' in the case of firms active in services to 'satisfactory' for those active in manufacturing. Entrepreneurs from Bucharest-Ilfov and the South-West regions rate both bank's interest and lending attitude as 'poor' compared to 'satisfactory' to 'good' given by those from the North-West and Centre regions.

'Small banks' are perceived as having higher interest in SMEs than the large banks. In relation to commercial banks' interest in developing SMEs, lending attitude and procedures, the focus groups participants raised the following issues:

Do not take any risk and consequently have too high guarantee/collateral requirements.

“Commercial banks in Romania are constructed only to take and not to give money”.

Do not finance business ideas/plans.

“A well documented business plan is not financed by a commercial bank due to the lack of legislative stability which transforms in to enormous risks”.

Apply high interest rates.

“How is it possible to have interest rates of 28-30% when the inflation, at least in the official statistics, is much lower 14-15%?”

Can change interest rates as they please without notification in advance after the contract was concluded, which results in losses for the SMEs. Criteria used to change the interest rate are not made transparent.

“We are not told what criteria they use to change the interest rate. However, they do not use LIBOR or EUROBOR that are fairly stable so that one cannot make realistic plans”.

For certain types of credits commercial banks require the use of consultancy for preparing the loan applications (for instance for ISO certificates) and the cost of consultancy is perceived as making up a too large a share of the credit.

“In my experience a too large proportion of the credits obtained from commercial banks are swallowed by small firms of pseudo-consultancy”.

Access to Finance

23.1 Rating given to the access to:	Rating 2004	Rank 2004	Rating 2002	Rank 2002
- Own/family capital	3.5	1	4.7	1
- Repatriation capital	2.7	4		
- Commercial banks	2.7	3	1.5	4
- Micro finance	2.2	5	2.3	3
- Leasing	3.3	2	1.2	5
- Other sources of finance (e.g.credit unions)	1.9	6		
- Venture capital/equity funds ...	1.8	7		
Rating given to the access to key sources of finance and guidance on financial matters to small businesses.			2.3	
Rating given to the quality of bank personnel skills	3.4			

SMEs participating in the EPPA 2004 research rated the access to own family capital as ‘good’, to leasing as ‘satisfactory’, to remittance capital and commercial bank as ‘almost satisfactory’, and to micro finance, venture capital and other sources of finance as ‘poor’.

Ratings provided to the access to finance source is consistent with interviewees’ behaviour. Own family capital has been the main funding source followed by leasing, used mainly to purchase light equipment, vehicles and bank loans. Few, particularly micro enterprises, used remittance capital to open their businesses. A few SMEs owners pointed out that overdraft facility are difficult to open and are costly.

Rating of the quality of bank personnel skills varies significantly according region. Whereas interviewed entrepreneurs from the South-West, North-West and Bucharest

regions rate it as ‘satisfactory’ (average score 3), those from North-East and Centre rate it as ‘good’ (average score 4). The entrepreneurs raised the issue of lack of expertise necessary to assess the documentation of credits for technology.

“Banks do not have employees trained to understand the impact of a new technology. When technology refers to a truck for instance things are simple but when technology refers to a new line of production or some sophisticated machinery bank employees are very prudent because they do not know how to assess all implications”.

Access to bank funding for working capital, investment and technology

24.1 Rating given to the access to bank funding	2004	2002
For working capital	2.7	N/A
For investment capital	2.6	
Access to bank funding for technology investment	2.3	
Availability of bank funding for investment capital	2.2	

Overall, the access to bank funding was rated ‘rather satisfactory’. In participants’ view “*the real problem is not the access but the high interest rates*”. Rating of access to bank funding for technology investment is lower for interviewed SMEs active in manufacturing (average score 2). Credits for purchasing of equipment and new technology are described as “*too expensive*” and difficult to obtain due to the costs of documentation.

“I wanted to buy equipment but I gave it up when I found that the documentation for the credit was more expensive than the equipment”.

Or because credit maturities are too short:

“I took a credit and purchased some equipment. The problem is that there is no coordination between obligations to the bank and production requirements..

Changes in the Banking Environment

24.2 Rating given to changes since March 2002 in	2004	2002
- bank environment	3.3	N/A
- provision of services	3.5	
- lending	3.2	

According to the SME owners and managers the provision of bank services has improved in the last year. In contrast, lending opportunities for SMEs and the overall banking environment for small business have not changed significantly. Only the small group of entrepreneurs interviewed in the central region tend to rate all the above changes in more positive terms (‘good’), particularly due the programmes for SMEs developed by few banks in the area.

A comparative assessment, 2004-2003, shows an improvement of the ratings for this dimension. The most remarkable evolution was perceived regarding the stability, competitiveness and array of services provided by the banking sector, where the ratings have improved by more than 1 point. Noteworthy is the meagre improvement on SMEs’ access to finance, which shows that several policy measures are still expected in this area.

Overall, the EPPA 2004 shows that the average rating for this dimension is close to “satisfactory”.

1.6 Advisory Services for New and Small Businesses

The issues researched in this section are:

1. Use and satisfaction with the range and quality of advisory services available to new entrepreneurs and SMEs from private consultants and Government / donor supported advisory centres, rating of the present services and comment on the changes needed
2. Efficiency of advisory services provided to demand and the needs of enterprises
3. Responsiveness of advisory services provided to demand and the needs of enterprises
4. The skills, experience and quality of the staff providing business advisory services
5. The continuity of business advisory services available
6. Rating of change in the provision of advisory services for SMEs since March 2002

Use of Advisory Services

26.1 Does the company make use of professional business advisory services	2004			2002
	Yes	No	No answer	
- From private consultants	56%	29%	15%	N/A
- From government supported centres	25%	36%	39%	N/A
- From donors	25%	38%	37%	N/A
- From others providers	33%	35%	32%	N/A
- Overall, from any source	73%	17%	10%	N/A

The majority of the SME participants in EPPA 2004 make use of professional business advisory, particularly from private consultants. In fact, the interviewed SMEs obtain professional business advisory services from two sources on average.

Satisfaction with the Advisory Services

26.2 Satisfied with the range of advisory services available to SMEs:	Yes	No	No answer	2002
	- Provided by private consultants	56%	15%	29%
- Provided by government supported centres	19%	35%	46%	N/A
- Provided by donors	25%	29%	46%	N/A
- Provided by others	29%	21%	50%	N/A
- Overall, from any source				N/A

While SMEs that make use of consultancy declare themselves to be satisfied with the range of advisory services available to small businesses, the other SMEs tend to not answer the question.

26.3 Rating given to the satisfaction with the range of advisory services available to new entrepreneurs and existing SMEs.	2004 2.6	2002 1.9
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Satisfaction with the range of advisory services available to new entrepreneurs and existing SMEs is low in Bucharest and the North-East region (average rating 2) and is medium in South-West and Centre regions.

The main sources of dissatisfaction with the advisory services include:

1. Uneven development across the country of the private business consultancy. For instance in the North-East and the South-West regions, entrepreneurs mentioned the limited range of advisory services as a problem.

“Most demanded advisory services relate to business development and financing opportunities, project documentation and business plans. There is a big difference between Bacau and Bucharest. Here, in Bacau, the business consultancy is just developing so the range of available services is limited but also the costs are much lower than in Bucharest. For the moment the demand for consultancy exceeds the offer in the region. .”

2. A large part of consultancy is limited to ‘*writing finance applications*’, particularly in the regions with underdeveloped business consultancy markets.

3. Most available consultancy is based on high fees and commissions

“Real consultancy is very expensive. Services available to small entrepreneurs, particularly the one provided by public institutions, are cheap but rather inefficient”.

Efficiency of Advisory Services

27. Do business advisory services operate efficiently?	2004	2002
Rating of the efficiency of private advisory services	3.4	2.3
Rating of the efficiency of public advisory services	2.3	
Rating given to the efficiency of advisory services available to SMEs.	78%	2.3

Firms that make use of business advisory services tend to consider that these operate efficiently (90% of them), an opinion that is shared by only 45% of the firms that do not make use of advisory services.

Entrepreneurs perceive the private advisory services more efficient than the public ones.

Responsiveness of Advisory Services to Demand

28. Responsiveness of advisory services respond to demand and needs of enterprises	2004	2002
Rating of the responsiveness of private advisory services	3.3	2.2
Rating of the responsiveness of public advisory services	2.3	
Rating given to the responsiveness of advisory services to demand and needs.	67%	2.2

Most entrepreneurs believe that advisory services respond satisfactorily to demand. While the responsiveness of private advisory services is assessed 'satisfactory', the responsiveness of public services is considered rather 'poor'.

“Technical assistance services in the legal field, in accountancy, in IT and so on is much better developed than consultancy in management and business development. Only a few large and very expensive firms provide this kind of services, mostly located in the very large cities of the country. So they are often unavailable for small firms, especially if they are based outside Bucharest.”

“Advisory services for business ideas, plans, and strategies are very poor. Most of us play it by ear.”

Human Capital

29. Rating given to the:	2004	2002
Skills of the staff	3.6	
Experience of the staff	3.2	2.7
Quality of the staff	3.	

The quality of the staff providing advisory services is better assessed by the medium firms (average rating 3.70 – 'good') than the micro-enterprises (average 2.75 – 'satisfactory').

Similarly, the quality of the staff is better assessed by the well established firms (average rating 3.92 – 'good') than the new ones established in 2002-2003 (average 2.90 – 'satisfactory').

International consultancy is rated better than the local services. Consultancy available in Bucharest and the other large cities of the country is also considered better than the human capital (particularly quality of staff) available in smaller cities.

Continuity of Provision

30. Rating given to the continuity of advisory services available.	2004	2002
	3.2	2.3

The assessment of the continuity of advisory services available has improved between March 2002 and March 2004 from 'poor' to 'satisfactory'.

Changes since March 2002 in Advisory Services

31. Rating the changes in provision of Business Advisory Services for SMEs since March 2002				
much worse	worse	no change	better	much better
2.1%	0.0%	29.8%	63.8%	4.3%

Change in the provision of business advisory services for SMEs since March 2002 is generally better – according to entrepreneurs' reaction. SMEs that make use of consultancy rate more positive and are more optimistic.

Overall assessment on Business Advisory Services for Small Business

Business Advisory Services overall rating	2004	2002
	3.0	2.2

The overall rating for this dimension is the highest in the EPPA 2004. Entrepreneurs appreciate the available human capital within the consulting firms as well as the continuity of consulting services providers on the market as “satisfactory” to “good”. Although several issues related to consulting services remain to be improved, such as the range, efficiency and responsiveness of such services, the consulting sector in Romania is booming with an increasing quality of the provided services.

1.7 Business Incubators

This chapter needs to be treated with caution because SMEs participating in EPPA 2004 research (as in EPPA 2002) do not have experience of the business incubators active in Romania and have poor knowledge of business incubators so that they express opinions largely impressionistic in nature.

The issues examined under this heading are the following:

1. Awareness and experience with business incubators and their value for new entrepreneurs and existing SMEs
2. The Government policy's efficiency and programme for encouraging business incubators
3. The extent to which business incubators' activities respond to the needs of local entrepreneurs
4. Awareness of other Government or donor supported schemes for start-up
5. The change of Government policy towards business incubators since March 2002

Experience of Business Incubators

32. Business incubators	2004	2002
- Aware of what business incubators are	31%	
- Make Use of a business incubator in Romania	0%	
- Have Experience with a business incubator in Romania	1 SME	
- Rating given to the business incubators' importance/value for new entrepreneurs and existing SMEs.	2.4	2.6

The value of business incubators for new entrepreneurs is rated marginally in the ‘poor’ category but rating is made by only 20% (10 cases) of the interviewed entrepreneurs.

Due to the low awareness of business incubators local consultants made short presentations in each focus group, mentioning also the active business incubator in the region. Following the presentations, most entrepreneurs agreed on the potential usefulness of business incubators in assisting new and small businesses.

Those entrepreneurs aware of what business incubators are can be grouped in: 1. the largest group that heard the term but knew little or nothing about it; 2. only a few well-informed entrepreneurs who read and collected information on the subject. In

entrepreneurs' discourses there was a clear confusion between business incubators, business centres, industrial parks, technological parks and the disfavoured areas.

“If you read the law of industrial parks you can find the elements of the business incubators. But the law uses the term ‘industrial parks’. These industrial parks are only for those with money from the start. The small ones (SMEs) are not excluded but the costs are exorbitant. The business incubators component cannot be realized in Romania unless some solid Guarantee Funds are established”.

Government Policy on Business Incubators

33. Government – business incubators	2004	2002
- Awareness of a government policy and programme of encouraging the establishment of business incubators.	18%	N/A
- Believe that government policy and programme regarding business incubators is efficient .	21%	N/A
- Rating given to the efficiency of the government policy encouraging business incubators.	2.0	2.1

Less than 10% of the interviewed entrepreneurs had heard about the government policy and programme of encouraging business incubators. Only 11 entrepreneurs expressed their opinions on how efficient is the government policy on business incubators and a part of them referred in fact to how efficient this would be. As a consequence, the majority sees efficiency of government policy in this area as ‘poor’.

The information that a business incubator is active in their area (provided by the local consultants) produced reactions such as ‘*Yes? Where?*’ or ‘*Impossible, that space is a ruin. Nothing has been done yet besides publicity.*’

Thus, most entrepreneurs were poorly informed, highly positive towards the concept but at the same time sceptical that it will become reality. Consequently, while some focused on how beneficial is the idea, others focused on perceived ‘flaws’:

Again we should emphasise that all the above opinions are not necessarily based on reliable information due to the low response level and in this information/knowledge vacuum the views may reflect the entrepreneurs’ low confidence in government and its policy and programmes.

Focus on Needs

34. Rating given to the extent to which the business incubators’ activities respond to the local entrepreneurs’ needs.	2004	2002
	1.8	1.9

In EPPA 2004 as in EPPA 2002 the business incubators’ activities are perceived as ‘poorly’ responding to the local SMEs’ needs. However, this rating is given in the absence of relevant information and experience with business incubators. In addition, as one entrepreneur put it:

“It is very difficult to assess as long as there is no functioning business incubators, at least none that we know of.”

Other government/donor supported schemes for start-ups

35. Support for start-ups	2004	2002
Are you aware of a government -supported scheme for start-ups.	Yes - 25%	N/A
Are you aware of a donor -supported scheme for start-ups.	Yes - 10%	N/A

Very few entrepreneurs know about other government or donor supported schemes for new established small firms. They referred to: NASMEC financing scheme, Romanian-American Investment Fund, and the PHARE programme.

Changes since March 2002 in Business Incubators

36. Rating the changes of Government policy towards business incubators since March 2002				
much worse	worse	no change	better	much better
0.0%	0.0%	78.3%	21.7%	0.0%

The rating ‘no change’ (average score 3.22) was given by 78% of the participating entrepreneurs. This rating reflects again the lack of information on business incubators than entrepreneurs’ opinion.

Overall assessment on Business Incubators for Small Business

	2004	2002
Business Incubators overall rating	2.0	2.2

The negative rating must be interpreted with caution, as the entrepreneurs seem to be unaware of the existence and functionality of business incubators.

1.8 Entrepreneurship, Education, Access to Technology

The issues examined under this heading are the following:

1. The contribution of the education system to the creation of an entrepreneurial spirit
2. Awareness of the training schemes for small entrepreneurs
3. The quality of vocational training in relation to the business activities
4. Rating of the Government’s provision of information about the business standards and business opportunities
5. Rating of the Government’s programmes aimed at improving the technological capacity of small businesses
6. Rating of the change in the image of entrepreneurs since March 2002

Education System

37. Rating given to the contribution of the educational system to the creation of an entrepreneurial spirit in Romania.	2004 2.3
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Main issues raised by entrepreneurs are the following:

- Education is still very theoretical and disregards practical training. The cancellation of the former system of vocational/technical schools was mentioned as a major issue.
- Education system does not respond to the labour market developments.

“Schools are like enterprises that are producing on stock. For example in our area, a mono-industrial one, although the huge chemical plant is downsizing, the local schools have not adjusted their profile in accordance to the market developments”.

- Work ethic and entrepreneurial orientation are not included in the scope of the educational curricula.
- Education system does not promote a realistic and friendly image of small businesses and of the entrepreneurs.
- A revision of the labour occupation classification in accordance with market developments would be more than welcomed.

Training schemes for Small Entrepreneurs

38. Awareness of training schemes for small entrepreneurs.	2004 55% - Yes 45% - No
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More than a half of the entrepreneurs participating in EPPA 2004 know about training schemes for small entrepreneurs. In fact, most of those aware of these training schemes have also participated in one or more. This is not a common situation at the level of the micro and small entrepreneurs from Romania.

The most efficient training schemes for small entrepreneurs mentioned by the interviewees were those organised by the Chamber of Commerce and Industry, by donors (such as USAID), by various foundations and associations (such as AIESEC or UGIR-1903), by ministries (such as PERCOMEX training in foreign trade) and NASMEC or by universities (such as CODECS and other MBA courses).

Quality of Staff's Training

39. Rating given to the:	2004
- Quality of vocational training in relation to activities of your business	3.2
- Effectiveness of apprenticeship in Romania	2.8
- Difficulty of the company to recruit staff with the right skills	2.5

Entrepreneurs rated ‘satisfactory’ the quality of vocational training in relation to activities of their business. Nevertheless, they repeatedly underlined the poor practical abilities of the young staff. Effectiveness of apprenticeship in Romania was also assessed ‘satisfactory’. The topic of on-site training for their employees was addressed. Interviewed entrepreneurs consider that on-site training is very effective and are used by a very small part of SMEs. Those SMEs that provided on-site training explained that:

a). costs for training are high and are not tax exempted; b). trained employee tend to leave the company in favour of better paid jobs either from larger firms, other sectors of activity or temporary work abroad; and c). on-site training is not officially recognised. The fact that the Labour Code does not protect entrepreneurs in situations when an employee leaves the company right after he/she completed a training course does not encourage them to invest in on-site training.

“For hiring 15 engineers I interviewed 1200 persons. Because they have to work with some special equipment I supported their training outside the country. After that training 10 of them left to better paid jobs and I was left with only 5”.

With respect to difficulties to recruit staff with the right skills the SMEs owners and managers participating in EPPA 2004 raised a series of issues:

- Most entrepreneurs moderate the recruitment themselves. Few entrepreneurs used recruitment services provided by private firms. Their experiences were mixed, however, all agreed that recruitment services are rather expensive for SMEs. In two regions the insufficient number of human resources firms was mentioned as problem.
- “I paid a lot of money for this service (recruitment) and in ten recruited persons only two really meet my requirements.”
- Difficulties to recruit professionals and highly qualified staff were reported only outside Bucharest. Difficulties to recruit workers with very specific skills were mentioned particularly in certain sectors such as food-processing. With respect to recruitment of skilled or unskilled workers the difficulty mentioned in every focus group was ‘to find a serious and honest worker’.
- The few entrepreneurs who hired young faculty graduates through the programme promoted by the National Agency for Employment were highly critical.

“The way in which the Ministry of Labour operates this scheme, its legislation and bureaucracy, simply kills you. So many documents and so much time raise the costs so much that it destroys incentive.”

Information About Business Standards and Business Opportunities

40. Rating given to the government’s provision of information about:	2004
- Business standards	2.3
- Business opportunities	2.0

Government’s provision of information about business opportunities is rated ‘very poor’ (average rating 1.45) by micro-enterprises and ‘rather satisfactory’ (average score 2.64) by medium firms.

Government’s provision of information about business opportunities is rated ‘very poor’ by entrepreneurs from Bucharest and North-East regions and ‘rather satisfactory’ by those from Centre and South-West regions.

Programmes to Improve the SMEs' Technological Capacity

41. Rating of the Government's programs to improve the technological capacity of small businesses	2004
	2.2

Awareness of government's programmes to improve the SMEs' technological capacity is very low in the North-East region: only 1 in 15 interviewed entrepreneurs.

Rating given to the government's programmes to improve the SMEs' technological capacity is lower in the North-East region (average score 1.8) compared to the rating given by entrepreneurs from the South-West and Centre regions which is 'rather satisfactory' (average score 2.8).

Image of Entrepreneurs

42. How do you rate the change in the image of entrepreneurs since March 2002?				
much worse	worse	no change	better	much better
0.0%	8.9%	48.9%	42.2%	0.0%

Entrepreneurs believe that since March 2002 the image of entrepreneurs in Romania has changed a little bit in 'better' (average 3.33). However, this was a controversial and disputed theme.

Data of the *Romanian Public Opinion Barometer* (October 2003, Foundation for an Open Society, Bucharest) showed that the image of entrepreneurs is biased by the general belief that making a fortune in Romania is possible only by breaking the law (50%) and by having good connections (24%). Only 8% of the Romanian population believe that one can make a fortune by work and personal effort.

In people's view business owners are corrupted 'nearly all' (26% of population), 'most of them' (31%), 'a small part' (16%), and only 3% answered 'none'; 23% of the population did not answer. In terms of the proportion of corrupted members business people are perceived by the population as less corrupt than the parliamentary representatives but as corrupt as the ministers and judges.

On the other hand, in Romania the propensity to develop a private firm is low and only slightly decreasing. In October 2003, only 6% of the population 18 years or over reported intention to start a business.

Overall Assessment on Entrepreneurship, Education and access to Technology

	2004	2002
Entrepreneurs, Education and Access to Technology overall rating	2.4	N/A

This dimension of good practice was introduced for the first time in the EPPA 2004. The overall assessment between "poor" and "satisfactory" is worrisome, as this dimension addresses directly the competitiveness potential of the Romanian SME. The average ratings suggest that serious improvements are needed related to education policy, promotion of business opportunities and policy of promoting technology transfer and innovation.

Final remarks

Comments such as ‘market in Romania is not favourable for the SMEs’, ‘SMEs are treated with indifference and contempt by the government and the state institutions’ or ‘most of the good things have been done only under international pressure’ have been repeatedly made during all five focus groups. The lack of confidence in the government and the state institutions was rather high particularly in three focus groups.

Entrepreneurs appear decided and consensual in what they want, statements such as the following being done by various persons in every focus group:

“What do we expect from the State? A legislative environment simplified, clear and durable. Equal treatment. Acknowledgement as investors and jobs creators. We do not want money from the state but incentives and a stimulating tax policy.”

Notes

- 1 In July 2003 the Ministry for SMEs and Co-operatives as well as the Ministry of Development and Prognosis were dissolved. The Government assigned responsibility for development of SME policy to the National Agency for SMEs and Cooperation (NASMEC after its Romanian acronym). At the same time, the responsibility for regional development was assigned to the General Directorate for Regional Development that was included in the Ministry for European Integration. Two other ministries, the Ministry of Public Finances and the Ministry of Economy and Trade also have an important role in defining the economic policy of Romania.
- 2 Nevertheless the strategy was debated and approved in large consensus by all representatives business associations, union, within framework of the Consultative Committee for Development SMEs (45 members), and also within Social Dialogue Commission, and ministries. But it shows again lack of abilities of business associations in informing their members and debate the issues with them and then, on their behalf, transfer the ideas, demands to public administration.
- 3 In the South-West region the group of beneficiaries of PHARE funds rated both information provided and awareness as ‘satisfactory’ to ‘good’, whereas in the North-East group all scores were between ‘very poor’ and ‘poor’. Both information provided and awareness regarding government’s institutions is positively correlated (Pearson coefficient 0.33) with the firm’s years of experience. Thus, the longer the firm experience in business, the better the assessments of information provided and awareness.
- 4 Guides and other NASMEC publications were mentioned in only one focus group. A local association of private business referred to them but its representative mentioned that the association had to ask for these publications (on legal issues) from Bucharest because they were not available within the local institutions. Newspapers are full of information but: (1). information is fragmented so that one has to consult more newspapers to collect the full range of information and (2). newspapers are not perceived as a trustworthy channel of information relevant for SMEs so that one has to crosscheck it with information from official channels.
- 5 ANEIR is the acronym for the National Association of Exporters and Importers of Romania
- 6 also known as the Sole Office;
- 7 The fiscal record is part of licenses that businesses obtain prior to their actual registration. Obtaining the fiscal record is not directly part of the registration process.
- 8 An international best-practice, also known as the self-certification procedure;
- 9 Both Codes were discussed and approved by the Social Economic Council.
- 10 Transparency International, European Commission, etc;
- 11 The Local Directorates of Public Finances;
- 12 European Bank for Reconstruction and Development;

Part II

Chapter 2

Analysis and Assessment

2.1 Institutional Framework for SME Policy

Situation on the Institutional Framework

Coordinating Institution

In June 2003, the National Agency for SME and Cooperation (NASMEC) has replaced the former Ministry for SME and Cooperation (MSMEC), as the institution in charge with coordinating and implementing SME policy and strategy.

The change of status, from a ministry to a national agency, has not dramatically affected the capacity to deliver SME policy. The President of NASMEC is a member of the Government, having the status of Secretary of State. Nevertheless, the budget resources allocated for NASMEC are rather scarce, limiting the scope of policy actions, despite the threefold increase of budget for the next year.

NASMEC has been very active in initiating programmes for supporting SMEs. More than 13 such specific programmes are currently running, being financed from budgetary and external sources. The range of programme is wide, from supporting export activity, providing training and consulting, facilitating credit access, developing business incubators, preserving craftsmanship, to organising fairs, etc. Although NASMEC may be commended for its dynamism and ambitious agenda, the effects of implementing several SME programmes are limited because of insufficient funding. The total amount of budgetary resources for NASMEC in 2004 is EUR 11.44 million. This equals a total of approx. EUR 34 per active SME¹. As a result, NASMEC is confronted with a both a quantity and quality dilemma.

It is true that NASMEC has been successful in attracting external financing or co-financing for its projects. Moreover, during the last year NASMEC has clearly consolidated and developed its activity. Nevertheless, even with external support, the overall effectiveness of NASMEC is still perceived as poor, as shown by the 2004 EPPA focus groups. NASMEC, similar to other state policy institutions, will need not just to focus on continuing improvements in its services but equally on the awareness and perception of SMEs of such activity.

SME Strategy

In August 2004, the Romanian Government adopted a new multi-annual strategy, for supporting SME development, for the period 2004-2008. The strategy, initiated by NASMEC, identifies five main priorities, as follows:

1. Creating a business environment favourable for creating and developing SME;
2. Developing the competitive capacity of SME;
3. Improving SME's access to financing;
4. Improving SME's export performance;
5. Promoting entrepreneurial culture and strengthening management performance

The strategy also provides details on the above-mentioned priorities, and identifies a total of 19 sub-priorities. In drafting the strategy, NASMEC benefited from the support of a PHARE technical assistance programme. Within the programme, a series of eight regional focus groups were held with SME representatives, in order to properly identify

the problems of the sector. The results were incorporated in the strategy as part of a SWOT analysis. Many of the results of the SWOT analysis coincide with the findings of the focus groups of the EPPA 2004.

An important element of the new strategy is the multi-annual financial programming, which shows that NASMEC is expecting an important increase in resources dedicated to SMEs over the next years. Furthermore, more than 75% of all resources for supporting SMEs will be allocated for only two sub-priorities²: *B1 – Support for Innovation and SME Access to New Technologies* (approx. 50% of all resources) and *C4 – Innovative Financial Instruments for SME* (approx. 25% of all resources)³. The latter priority involves investment in venture capital, seed funds, innovative funds and business angels' networks.

The entrepreneurs are aware of the existence of a government SME strategy. However, although a first draft of the new strategy has been publicly available since October 2003, the EPPA 2004 focus group research suggests that the SME representatives were not aware of the new provisions. Therefore, to some extent the results of the focus groups should be interpreted as related to the previously existing strategic documents. It highlights once again the crucial need for much better information dissemination to SMEs and regular dialogue between SMEs and state institutions.

SME support

Apart from the strategy, another important initiative of NASMEC in 2004 is the new law⁴ for stimulating SME creation and development. The main provisions of the law are the following:

- Create a consultative body for assessing the economic impact of proposed legislation on SME;
- Simplified procedure to be followed to be declared as SME;
- Prioritise SME for public procurement;
- Simplify SME's access to public utilities;
- Ensure SME's access to public assets of the national companies/regies autonomes;
- Support Research Development Initiative activities and technological transfer for SME and electronic commerce;
- Provide the concept of business transfer and its incentives to be granted through a special programme designed by NASMEC;
- Provide the framework for creating regional offices of NASMEC.

In comparison with the previous law for stimulating SMEs (Law no.133/1999), the new law offers fewer facilities according with Romanian commitments in the negotiation process, but creates the premises for prioritising the SME sector, at the local and central administration levels by focusing on the importance on allocation of resources for strategy implementation.

In terms of the territorial representation, NASMEC plans to come closer to the needs of SMEs by opening subsidiaries in the territory. According to the new law, the

subsidiaries should be opened by Government Decision in mid-November⁵. The creation of the offices is expected to lead to an increase in the effectiveness of SME support programmes implementation and the more effective application of the strategy.

The EPPA regional focus groups have pointed to the general perception that NASMEC activity is too centralized, as its messages fail to reach entrepreneurs outside Bucharest. Despite that, NASMEC tries to be more present in the regions and to enhance the interoperability of the agreements concluded with professional partners. The approved NASMEC budget for 2005 includes also financing resources for regional offices.

The perception of SMEs in the region about the importance of development policies and the relevant responsible institutions is rather good according to a NASMEC survey done in 2004. Also, NASMEC's visibility in the country was strengthened by using a mass media campaign «SME through Europe» in which various items related to increase SME competitiveness were disseminated.

Moreover, one important result of the EPPA focus groups shows that entrepreneurs expect more from the local institutions than from regional ones. This is also in line with the existing mandate and resources at the regional level⁶, given the fact that the eight existing developing regions in Romania are territorial units and do not have administrative powers and they have been recently empowered for implementing programmes in region, financed by Structural Funds.

NASMEC concluded agreements with the National Council for Private SMEs, in order to provide better information at local level to its members and address their business needs. Still, it may be better to focus more on developing a network of information multipliers, by forging partnerships with local institutions, and especially with local business associations.

Dialogue and information

In 2003, NASMEC created two consultative bodies for implementing SME policy: the Consultative Committee for SME development and the Working Group for implementing the European Charter for Small Enterprises. Both bodies involve governmental and non-governmental representatives, including employers associations, trade unions, etc. This consultative process is part of the NASMEC's effort to reach as many stakeholders as possible in the process of supporting the SME sector.

In addition, a third consultative body is the Commission for Social Dialogue, which is focused exclusively on issues related to the tripartite relations in the governance process related to SME.

Moreover, NASMEC has signed several bilateral agreements of which two are particularly worth mentioning. The first agreement is with the National Council for Private SME of Romania (NCPSMER), which is the most representative employers association for SME. The second agreement is with the Chamber of Commerce. Both NCPSMER and the Chamber system are well represented at the regional and local level.

Nevertheless, in spite of all the efforts of NASMEC, the penetration level of the information is low. There are two main explanations for this poor result. On one hand, the employers associations invited to join the consultation process are in reality less representative than they actually claim. Additionally, several employers associations are not very effective in keeping in touch with their members, in order to promote their interests. On the other hand, the entrepreneurs often fail to make their voices heard, or to

promote their interest, due to either lack of hope in their capacity to shape policy or to lack of resources. This passive nature of entrepreneurs is a result of not only the everyday struggle they face for business survival in a still non-friendly business environment, but also perhaps a question of historic mentality, making entrepreneurs diffident regarding processes such as lobbying or advocacy.

Once again, there is a lack of communication between associations and entrepreneurs. NASMEC does not have the means to inform all SMEs of its initiatives. That is why in 2004 NASMEC was more present in the territory by organising two major campaigns for SME «Impact of Enlargement» and «INFO FIN 2004». In order to promote de SME Strategy and find out the needs of SME, NASMEC conducted through a specially established unit a survey assisted by computer in which a sample of 993 SME representatives for each economic activities were interviewed. The survey is available on the NASMEC web site.

Certainly, communication is a two way process and public authorities should not carry the blame for the passive attitude of entrepreneurs. Nevertheless, the onus is on institutions such as NASMEC to send a stronger message that their role is to help SMEs develop and to respond to their questions and demands for support. In order to make a balance between industrial sectors NASMEC initiated in 2004 a consultation with several associations like: Romanian Patronate, National Council for Private SME in Romania, General Assembly of Manufactures in Romania UGIR 1903, and Chambers of Commerce and Industry for solving SME needs in the territory.

Assessment

NASMEC plays a crucial role as the institution directly responsible for SMEs. There are other governmental institutions that are shaping through their activity the business environment. Out of these institutions, the Ministry of Economy and Commerce (MEC) has important prerogatives related to the development of economic activity. Currently, the main focus of MEC is on public utilities and industrial policy. Nevertheless, MEC is also responsible for trade promotion and support, and also for the general improvement of the business environment. MET, along with the Ministry of Public Finance, is supposed to provide the main coordinates for economic policy in Romania.

So far, given its tradition to deal more with large industrial companies, MEC has not interfered with the SME policy promoted by NASMEC. But since 2003, the MEC has acquired a new Directorate for Monitoring and Improving the Business Environment, from the disbanded Ministry of Development and Prognosis.

The role of the Directorate, as suggested by its name, is to coordinate, at the governmental level, the policy for creating a business friendly environment in Romania. The main instrument used for this purpose is the *Action Plan for Developing the Business Environment*⁷. The action plan is oriented towards eliminating administrative barriers from the business environment, but comprises other objectives as well, such as improving corporate governance or providing a coherent and transparent policy regarding the business environment. For ensuring the proper implementation of the Action Plan, MEC also coordinates a working group on business environment. NASMEC is also part of the working group.

A second important instrument implemented by the Directorate within MEC is a comprehensive monitoring instrument, which aims at evaluating the impact of regulations on the business environment. The monitoring instrument is based on both a survey at the

enterprise level and a set of interviews with public institutions. The methodology and the technical assistance for this monitoring activity have been provided since 2000 by the World Bank (FIAS⁸). Noteworthy is the fact that the technical assistance in the last two years has had an important component of know-how transfer, as one of the main goals is to build the capacity for managing the monitoring instrument within the Directorate focused on business environment. In this way, after 2004, the Directorate within MEC would be able to continue the implementation of the monitoring instrument, without any external assistance.

The two instruments presented above – the Action Plan and the monitoring instrument – are meant to help the coordination of the enterprise policy in Romania. As most of the enterprises are SMEs, obviously the coordination process envisages dealing with them as well.

Unfortunately, the coordinating efforts of the Directorate within MEC are not taken as seriously as they should be by the other governmental institutions. There are three main reasons for this situation. Firstly, a remote Directorate within a ministry lacks the hierarchical authority to order institutions having ministerial status – see NASMEC, as an example. Secondly, the entire process of coordination of the enterprise policy is hindered by the existence of too many institutions involved – Ministry of Economy and Commerce, Ministry of Public Finance, National Agency for SMEs and Cooperation, Competition Council, National Authority of Control, Ministry of Justice (Trade Registry) etc. Thirdly, the entire governance process in Romania in the last 14 years, irrespective of the political power, has been characterised by a certain lack of cooperation between public institutions. Although an impressive number of Working Groups and Inter-ministerial Committees and Commissions have been created, public institutions still have a problem in setting common horizontal goals and working together to achieve them. Thus, several islands of governance are floating around, and bridges are usually built only at the express order of the Prime Minister. Although it is healthy to have some competition even among governmental institutions, it should never reach the status of rivalry.

A possible institutional reform should focus on the horizontal functionality and coherence of an enterprise policy. Although an even more ambitious reform may be imagined, the Government should think at least at improving the relation between MEC and NASMEC. As already mentioned, MEC is still strongly influenced from its heritage of managing state-owned companies and public utilities. Although MEC has started to get closer to the market, additional efforts are necessary in order to crystallize an economic development strategy focused on small enterprises. Nevertheless, MEC seems to be suitable for having a coordination role as regards such a policy.

On the other hand, SME policy should be a part of a wider enterprise policy. There is a need to avoid overlapping, as many of the existing SME policies should in fact be general enterprise policy objectives. For instance, the removal of administrative barriers, the public-private dialogue or the policy towards innovation are not SME specific policies. Certainly, SMEs are more vulnerable and more influenced by such policies, but a more comprehensive vision would be more advised.

It is also important to support and develop as much as possible the SME Task Force that UNDP created together with International Organisations and foreign embassies in Bucharest, as another tool in improving the SME sector in general. NASMEC could become the link between MEC Task Force and UNDP Task Force on SME issues, in order to avoid overlapping.

2.2 Rule of Law and Regulatory Environment

Situation on the Rule of Law and Regulatory Environment

The new Romanian Constitution, amended and approved by referendum in October 2003 provides now an important right for entrepreneurs: the right to economic freedom – art.45 of the Constitution (“*The free access of a person to an economic activity, free initiative and their exercise within the conditions set forth by the law are guaranteed*”).

Another new amendment of the Constitution, – art.135, 1st paragraph - provides now that “*Romanian economy is a market economy based on the free initiative and competition*”. Also, 2nd paragraph of this article includes an obligation for the State to ensure, among others, “*freedom of the trade, protection of the fair competition, creation of a favourable framework for use of the productive means*”.

Although these constitutional provisions represent mere principles and do not have a direct impact on SMEs, they provide the entrepreneurs with the legal background for fighting against any legal provision that may hinder their economic freedom, by being entitled to ask the Constitutional Court to declare such provisions as void.

Another important legislative initiative was adopted in 2003 – the “Sunshine Law” - Law 52/2003 for transparency of the decision-making process in public administration. The Transparency law is aimed at previous consultations of the private sector as regards drafts of normative acts, in order to create a real legal dialogue between the initiators and the private sector.

Court system and enforcement of decisions

Courts continue to suffer from an inadequate training of judges in responding to the complex commercial matters. The Romanian judiciary has often come under criticism from international organisations and business community alike for its failure to ensure a proper protection of the investments and of the contracts. The Government now proposes to create specialized commercial courts, starting 2005.

These measures could prove insufficient as long as judges do not spend enough time in these courts in order to get acquainted with the commercial law. The judges assigned to the Trade Registry represent an example of the “instability” of the judges. As they are changed every year (coming from fields such as criminal law), the newly appointed judges often lack knowledge of this field with direct effects on the procedures for registration of companies.

Market entry – company registration

Recently the Trade Registry, through the Ministry of Justice, has initiated a process of reforming the registration procedure. To this purpose, a new law⁹ was adopted in September 2004 aimed at simplifying the registration and authorisation procedures. The legislative proposal includes the shortening of the registration period for the enterprises not needing authorisations, but at the same time, paradoxically, provides a lengthier procedure for all other firms¹⁰. Moreover, the new proposal aims at using the silent consent approval procedure in order to strictly respect the legal deadlines for registration. It is important to mention the Government Emergency Ordinance no. 75/2004 approved on September 30th, reduces the registration time to three days, but operating no improvement to authorisation time.

The authorisations are based on the own liability statement procedure. As mentioned in the previous part – page 23 – the own liability statement is considered as being an important tool for business registration. According to the new modifications operated in the registration system, all businesses are registered on the basis of own liability statement – reducing the registration and authorisation time to three days.

Businesses that do have an important impact on health and environment need special authorisations from the respective agencies. These authorisations are no longer delivered through the One Stop Shop. Businesses have to directly approach the Agencies in order to get the licenses. The delivery time can vary according to internal procedures established by the Ministries.

To some extent, for some businesses, the One Stop Shop does not mean one centralized point for information and registration, as they personally have to go and ask for authorisation.

Market exit

The bankruptcy law has again been amended in May 2004¹¹ and the new provisions are intended to enhance the efficiency of this law. Even before this latest legislative change, the Romanian insolvency legal framework was modern and in line with most of the good practices in the field.

Programme for reducing administrative barriers for businesses

Most of the entrepreneurs are not aware of the existence of a governmental plan for reducing administrative barriers. The Action Plan is coordinated by the Directorate for Monitoring and Improving the Business Environment, within the Ministry of Economy and Commerce¹². The current *Action Plan for Developing the Romanian Business Environment* was adopted in 2003 through GD 586/2003, and it is the third such Plan, since the introduction of this instrument in 2001¹³.

The Action Plan contains several measures that have precise deadlines and are assigned to specific field ministries, which are in charge of their implementation. The ministries also have the obligation of monitoring and assessing the progress that is being made.

Some of the key elements of the 2003 Action Plan that are related also to the SME sector are as follows:

- Improving the communication between business representatives and the public policy decision makers aiming at a higher involvement of the private sector in the process of drafting laws that have an impact on the business environment;
- Simplifying and improving the administrative procedures;
- Implementing the principles of corporate governance;
- Consolidating the institutional structures involved in the reforms related to business environment improvement etc.

Anti-corruption Programme

Several initiatives have been undertaken for fighting against corruption in Romania. The most important initiative was the adoption in April 2003 of the Anticorruption Law 161/2003 regarding transparency in exercising public functions, in the judiciary and in business, and the prevention and punishment of corruption.

Certainly, the mere adoption of such legal provisions cannot curb corruption instantaneously. The process of implementing such legislation is very difficult, as it deals with mentality change and building the right set of incentives and education to deter corrupt behaviour. Although certain steps have already been taken in addressing the corrupt practices affecting the business environment (i.e. bribery, traffic of influence, etc.), much more remains to be done in order to foster “clean” ways of doing business.

Consultation on regulations that affect business

Through the “Sunshine Law” (Law 52/2003), all public institutions are obliged to submit to public debate any planned regulatory change, within a 30-day period before the actual enactment of the respective new legislation. This general provision applies to business-related regulation as well.

The Economic and Social Council, as the main institution representing the tripartite social dialogue, should be asked to endorse any legislative act affecting the social partners – mainly employers’ associations and labour unions.

Moreover, several Social Dialogue Commissions were created as means to improve the communication between governments and the business sector at all levels. For instance, each ministry and each Prefect Office at the county level has its own Social Dialogue Commission¹⁴. Within NASMEC there is a Social Dialogue Commission responsible for assimilating, quantifying and monitoring the input provided by the social partners (employers and employees’ organisations, consumers’ organisations, etc) as part of the ongoing process of drafting laws that have an impact on the business environment. In this respect the NASMEC will propose the elaboration of guidelines per sector in order to help entrepreneurs meet legislation requirements and to be able to face the rigorous monitoring of compliance with laws as done by the control and auditing authorities.

At the same time, several public institutions, especially ministries and national agencies, are organising Consultative Committees, in order to provide an additional opportunity for consultation. For example, as seen also in Section 1, NASMEC has established a Consultative Committee that has 44 members (representatives of the ministries, of business associations, of regional development agencies etc.) and aims at improving the communication between authorities and SMEs.

Last but not least, the Government has the practice of establishing Working Groups, often at inter-ministerial level. These groups, which are focused on cooperation among public authorities but also on communication with the other existing stakeholders, may also prove helpful in preparing an expert-based consultation between the Government and entrepreneurs.

Apart from these institutional ways of cooperation, SMEs may also use direct lobby channels for advocating for more focused goals. In this context, business professional associations or other business associations may become instrumental in shaping the regulatory framework¹⁵.

Labour regulations

In March 2003 the new Labour Code was enforced. Although this is a comprehensive piece of legislation and constitutes a step forward in this field, there are certain shortcomings regarding the following aspects¹⁶:

- requirement to provide a “wage guarantee fund “ to be used in case of bankruptcy;

- limitation of the workweek to 48 hours including overtime;
- documentation requirements associated with hiring new employees and dismissing existing employees that are incompetent or fail to pass probationary periods;
- requirement to pay a premium to employees who agree to a “non-competition clause”;
- requirement for employers in conjunction with their trade unions to establish “work quotas”;
- requirement to provide training for employees on an annual basis.

Following the adoption of the Labour Code, several business associations and employers associations have complained about the inflexibility of the labour market caused by the new legal provisions.

The Government has initiated consultations with the private sector for debating possible amendments, and has promised to correct some of the negative aspects identified by the enterprise sector. However, it is still unclear when the new version of the Labour Code will be adopted, and how extensive will be the amendments to the existing legislation. Several NGOs – among which CHF – announced the organisation of public debates on the Labour Code for this autumn.

Assessment

Licenses, Permits and Certificates

No major reduction/simplification of such licenses has taken place in the last year. One possible explanation may reside in the fact that there has been a marginal increase in regulatory transparency. Another explanation might be that the two instruments used for reducing the burden of issuing permits, the personal liability statement and the silent approval procedure, are better known than last year, and entrepreneurs are generally happy with their effects. However, for both procedures there are also some criticisms mostly related to their implementation.

The silent approval procedure was criticised in terms of its actual implementation. A report issued by the Agency for Governmental Strategies at the end of 2003 seems to confirm that the public administration had a rather adverse reaction to the implementation of the silent approval procedure¹⁷. The report indicates that instead of using the administrative silence in order to approve several permits or licenses, the administration prefers to answer in writing to all demands, just to eliminate any possible uncertainty related to the effects of the new procedure. On the positive side, a major effect of the procedure is that it helps enforcing the 30-day deadline for having a response from the public administration.

The personal liability statement procedure was also criticised as it allows rogue entrepreneurs to function on the basis of their own declaration, while practicing unfair competition and even being a menace for the consumer or for the environment. At the end of the day, nevertheless, the introduction of the two simplified procedures is a major step forward, widely acknowledged by the entrepreneurs.

Further improvement of the registration process is not only desirable, but also possible. Firstly, the registration duration can be reduced for a large category of firms from 10 to at least 5 days, as all these enterprises do not need anymore ex-ante authorisations, so that 5 days of paperwork just to obtain a number from the Ministry of

Public Finance and a procedural stamp from the delegated judge at the Trade Office should be more than enough.

The overall market entry duration can be reduced by at least 5 more days, if the Trade Registry and the Ministry of Public Finance would internalise their communication about the fiscal record of the entrepreneurs. Currently, the entrepreneurs are literally intermediating between the two institutions, which is unacceptable in a business friendly environment.

Moreover, the new legislation for the registration of enterprises that was published on September 8, 2004 should be re-analysed to see the rationale for the prolongations in the registration procedure for enterprises requiring ex-ante authorisation. As a result of the new regulation, for the enterprises needing ex-ante authorisation the registration duration is increasing from 20 days to 30 or even 40 days.

The implementation of the Action Plan is slightly off-track, as this instrument has lost part of its political support at the highest level¹⁸, which made it so successful in the past. Nevertheless, the Action Plan remains the only coordinating mechanism of the enterprise policy in Romania.

As reflected in the press and in the official statements of the various business associations (the Foreign Investors Council, for example), the opinion of the business community is that communication with public officials has improved in recent years. It is true that SMEs do not have the same bargaining power as the FIC, but SMEs may obtain a lot from the government if united in their professional associations.

The fact that the most recent criticism of the business community was centred on such aspects as high VAT and high costs for employment, as opposed to the regulatory environment is a sign of the heightened sensitivity of the authorities to the needs of the business community.

One shortcoming of the current consultation system is that the business representatives often do not present a unified front and that, consequently, the results achieved in terms of improved regulatory framework depend to a large extent on the relative weight and lobbying skills of the different private organisations.

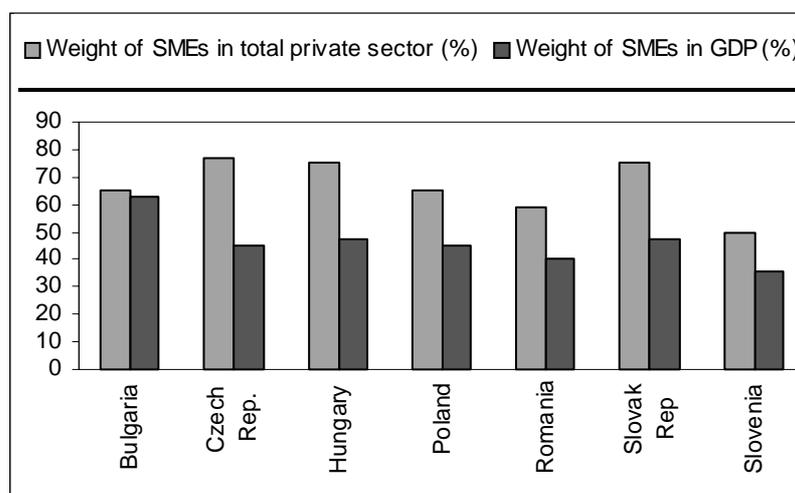
2.3. Tax Policy for Small Businesses

Situation on Tax Policy for Small Businesses

Macroeconomic framework

In 2003 the Romanian economy grew by 4.9 percent, a rate close to the initial target of 5 percent. This growth was triggered by the consumption and also by exports.

The SME sector, according to UNIDO figures in 2001¹⁹, produced 40 percent of the Romanian GDP but comprise 59% of the total private sector in Romania. This points to a high efficiency of the sector. In terms of gross value added, the SME sector occupies a weight of 56 percent of total in 2002 according to the NIS²⁰ figures, a contribution that seems rather constant over time.

Figure 3.1 SMEs contribution to GDP in comparative perspective, 2001

Source: NASMEC, Governmental Strategy for the Development of SME for the period 2004-2008

In the Romanian economy the highest weight in terms of GDP is that of the services sector (49.3% in 2003) and then industry (31.4%). This structure is mirrored also by the contribution of the SME sector to the total activity in the country, as around 70 percent of all SMEs are active in the services sector and only 19 percent in industry. Nevertheless, the trend over the last two years is a decline of the activity of the SME sector in the services sector and a strong increase of the SME sector in industry. This evolution is strongly linked to the diminishing number of SMEs in trade and mostly of the micro-enterprises from retail trade.

Table 3.1 Structure of SME sector on industries (% of total SME)

	2000	2001	2002
Industry	12.1	12.6	19.1
Agriculture	1.9	2.2	3.1
Constructions	3.2	3.6	5.0
Services	82.7	81.5	72.8

Source: Ministry of Public Finances

The monetary policy in Romania during the last year was successful in bringing the inflation to 14.1 percent. This target was achieved through a tight interest rates policy and a moderate real appreciation policy of the exchange rate. The monetary policy in Romania can be considered restrictive as proved by the comparison between the nominal interest rates and the nominal GDP growth, as interest rates are higher than the GDP growth, perceived as a proxy for the average return on investment.

The decision to keep interest rates up determined a low appetite for credits from the enterprise sector and especially from the SME sector. Therefore the short-term non-governmental credit of the private sector was almost unchanged over the past year in real terms and stood at 60669.9 billion ROL at the end of February 2004. On the other hand,

the moderate real appreciation and the different evolution of the two reference currencies used by the National Bank of Romania was advantageous for those importing raw materials in USD and exporting in EURO and was indifferent to those importing and exporting to the EU.

An important hindrance for the growth of the Romanian economy during the last year was the consistent presence of the arrears in all sectors be they private or state owned and irrespective of the size of the enterprise. This phenomenon tends to consolidate in the economic relations as it is widespread and tends to affect the SME sector too. Thus, in the first quarter of 2004 the arrears of 45,712 SMEs towards the state budget amounted to 37,071 billion lei (\$1.1 billion). Moreover, the SME sector seems to repeat the behaviour of the large enterprises and has overdue payments also to the social contribution funds. Indeed, in the first quarter of 2004 21,844 small and medium enterprises had arrears to the pension fund of 19,363 billion lei (\$579 million), another 17,596 SMEs had debts to the public health fund of 4,001 billion lei (\$119 million) and 15,014 companies totalled 3,519 billion lei (\$105 million) in debts to the unemployment fund.

The Romanian export activity had a vigorous development for the last three years as the growth rate of exports was in the double digit range. Exports are dominated by the textile and footwear industries as these tend to occupy around one fifth of total exports and also the exports of these industries register growth rates that are in line with the average total exports increase rate. The SME sector is very important from this point of view, as more than 90 percent of the total activities of these industries are represented by the SME sector.

Fiscal policy

The last EPPA on Romania highlighted a number of issues related to the development of the SME sector that primarily relate to the institutional framework. As in all other transition countries, building institutions and making them work effectively is a gradual and time-consuming process.

The fiscal framework over the last year was changed mostly from the institutional point of view, while tax rates did not alter significantly. Thus, the main tax rate modification was the increase in the profit tax for export activities from 12.5 percent in January 2003 to 25 percent in January 2004. This change was announced 1 year in advance and generally did not affect the exporters. However, consideration must be given to the fact that over a period of two years the rate for export activities increased on three occasions. Indeed, in 2002 the tax rate was slightly modified upwards from 5 to 6 percent, followed by the increase from 6 to 12.5 percent in 2003 and finally in January 2004 from 12.5 to the statutory tax rate of 25 percent. Such a rapid increase that practically doubled the tax rate, even if correctly advertised, creates problems mostly for SME sector since they are generally financially weaker.

There are two other developments that had an impact on the degree of taxation on the SME sector in Romania during last year. First, since January 2004 the overall tax burden for the social contributions went down by another 3 percentage points mainly triggered by the decrease in the contribution of the employees to the social funds. This positive move was offset to a certain degree by the change in the Labour Code that imposed on the employers the requirement to establish a guarantee fund for the wages.

Second, by negotiating Chapter 10 of the *Acquis*, Romania pledged not to give any tax incentives to enterprises. The only provision that is kept until the accession moment is

the tax on revenues of 1.5 percent tax of the turnover of the micro-enterprises. Many entrepreneurs have mentioned the fact that there is one tax incentive that the Ministry of Finance should have kept until the moment of accession and that is the 0 tax rate on the reinvested profit. The main reason for this position by the SME sector is that this was one of the main sources of investment capital for this sector.

Box 3.1 Romania: Structure of fiscal policy for companies in 2004

In Romania the structure of the taxes that the companies are subject to is the following:

- Profit tax: the statutory tax is 25%. In the case of micro-enterprises there is a revenue tax of 1.5%
- Tax on dividends: 10%
- VAT: 19%, except a list of products for which the VAT is 9%. Export activities are exempted from paying the VAT. However, the reimbursement of the VAT for these activities is one of the most important barriers mentioned by the representatives of the SME sector regarding the export activities.
- Excises: on mineral oils, tobacco, alcohol and other goods, such as coffee etc.
- Social contributions: 22% to the social security fund, 7% to the health fund, 3% to the unemployment fund, 0,5% as insurance for accidents, 0,75%(0,25%) as Labour Chamber commission
- Also there is a list of other 10 taxes that enterprises could be subject of depending on the field of activity, like custom duties or metrology taxes.

But probably the most important normative act is the Fiscal Code that was adopted in December 2003, followed shortly at the beginning of 2004 by the Fiscal Procedures Code. Both normative acts regrouped the bulk of fiscal legislation.

It is also necessary to mention the action taken by the SME agency: NASMEC drafted a regulation on reinvested profit. This regulation was approved by the Government through the GD no. 1461/2004, and it will start in 2005. Within the frame of this programme, with an approved budget of 245 bil ROL, NASMEC will reimburse the tax paid by investors for re-invest profit.

It is important to mention here the fiscal measures that have been taken by the newly appointed Romanian Government at the end of December 2004: By Governmental Ordinance no. 138/December 29th 2004, the corporate tax has been modified as follows:

For companies the tax was reduced from 25% in 2004 to 16%. For micro- enterprises, the 1.5% tax was increased to 3% of their turnover. These actions were correlated with the increase on income from dividends from 5% to 10%. The measure was part of the activity measures mentioned by the DA Alliance in their platform and is enforced starting January 1st 2005. It remains to be seen to what extent this measure will encourage companies to come forward in order to reduce the shadow economy and tax evasion.

Assessment

The 2004 edition follows previous assessments, as the representatives of the SME sector pinpoint the fact that the institutional framework for consultations with the authorities on the design of the fiscal policy is very weak. Some entrepreneurs have

mentioned the fact that even if they participated in the public exercise regarding the debate over the new Fiscal Code, by sending comments over the internet, their views were not considered. Moreover, the SME sector is asking for more cooperation inside the present institutional dialogue in order to participate in the process of tailoring fiscal policies and assessing its results. Indeed, the representatives of the SME sector mentioned repeatedly that they do not want any help (fiscal incentives) but only a coherent and stable fiscal policy.

The institutional relationships undoubtedly have an effect on the tax policy as the EPPA 2002 exercise policy recommendations recommended more co-operation and communication with Ministry of Finance for better understanding of the rationale of fiscal policies and for feedback on the effects of enforcing such fiscal measures.

The representatives of the SME sector underlined the fact that since the sector has an important contribution to total employment (approximately 55 percent of the total labour force works in the SME sector), their views should be considered more seriously by the authorities.

The topics mentioned by the entrepreneurs range from the provisions of the new Labour and Fiscal Codes to the discrimination between small and large enterprises and between foreign and domestic companies. For instance, some SME representatives questioned the way alterations of the policies are made primarily through the influence of the Foreign Investors Council, which by far represents the interests of large foreign companies. Although the domestic SMEs recognize the strength of this organisation in pushing some measures regarding the business environment, they feel that the issues specific to the SME sector are left aside.

From the institutional point of view there were important transformations that influenced also the way business is done by the SME sector. There are two types of changes that occurred. First, the new Labour Code and the Fiscal Code imposed significant restrictions on the business plans of the SME sector. Thus, as previously mentioned, the Labour Code contributes to the increase of the wage bill of the enterprises through the guarantee fund for the wages. Considering the high level of arrears in the Romanian economy and the low level of re-monetisation such a move deprives small and medium enterprises of important resources. On the other hand, the Fiscal Code provisions on profit tax are considered by the SME sector as cumbersome as there more effort is necessary in order to complete the paperwork.

Second, since the beginning of 2004 a new organisation was set up in the Ministry of Finance in order to deal with the collection of taxes – the National Agency for Fiscal Administration (ANAF). The role of the agency is to bring together in one place all agencies that are collecting taxes from taxpayers in order to reduce the number of papers and the time spent for paying the taxes. However, SME representatives pointed to the fact that the new agency did not reduce the paperwork but increased it while the number of institutions to be visited every month in order to pay taxes has remained the same. Moreover, the monthly payment for social security contributions needs to be divided in up to nine different payment orders, even if several contributions eventually will end up in the same account.

Overall, the evolution of the fiscal policy over the last year is considered more transparent and stable by the SME sector but not encouraging enterprises. This is mostly the result of the institutional changes that occurred in the recent period both due to introducing the new Fiscal Code and the reorganisation of the Ministry of Finance. One

can expect that once the institutional changes have been absorbed by the enterprises the new framework would encourage the development of the SME sector.

Although the EPPA 2004 sought to find out the cost of doing business by approximating the tax paid compared to the net profits, the SME representatives reinterpreted the question as to what is the level of the profit tax. Even so, they see this as rising and consider this as a barrier to their development.

The cooperation between the SME sector and the Ministry of Public Finance in defining the pillars of the fiscal policy is considered poor mainly because in this relationship the Ministry is a powerful agent that can impose on the other its opinion. Indeed, the Ministry is not seen as behaving like a beneficiary of the activities of the SME sector but more as a landlord.

Nevertheless, the SME sector considers that there is an improvement of the coordination of the fiscal policies with other policies of the government and this is mainly the result of the better mix of macro policies. Entrepreneurs consider that fiscal policy has improved mainly regarding the coordination with the social policy as this increases aggregate demand. However, since this improvement in the macroeconomic framework does not affect the access of the SMEs to financing it has only a limited contribution to the development of the sector.

2.4. Financial Instruments for New and Small Businesses

Situation on the Financial Instruments for New and Small Businesses

One of the most important constraints of the SME sector in Romania is the low amount of capital available for financing. The scarcity of the domestic capital, in addition to low entries of FDI has contributed to the current status quo. By cooperating with USAID – the CHF programme, NASMEC promoted a normative act regulating the microfinance institutions existing in Romania. This act is under ministerial approval.

The macroeconomic mix of policies offers only a stable framework but not one that can secure investment through re-monetisation, one of the problems being the arrears that force restrictive monetary policies to get inflation down. Moreover, changes in recent institutional framework (Labour Code and Fiscal Code) tend to block more resources of the companies for other objectives than financing their activities. Therefore, the performance and availability of the banking sector to finance SMEs activities is even more important.

However, it has to be mentioned that entrepreneurs still find only “satisfactory” in their rating of the bank’s interest in financing manufacturing activities but on the other hand only one fifth of total SMEs in Romania are active in industry.

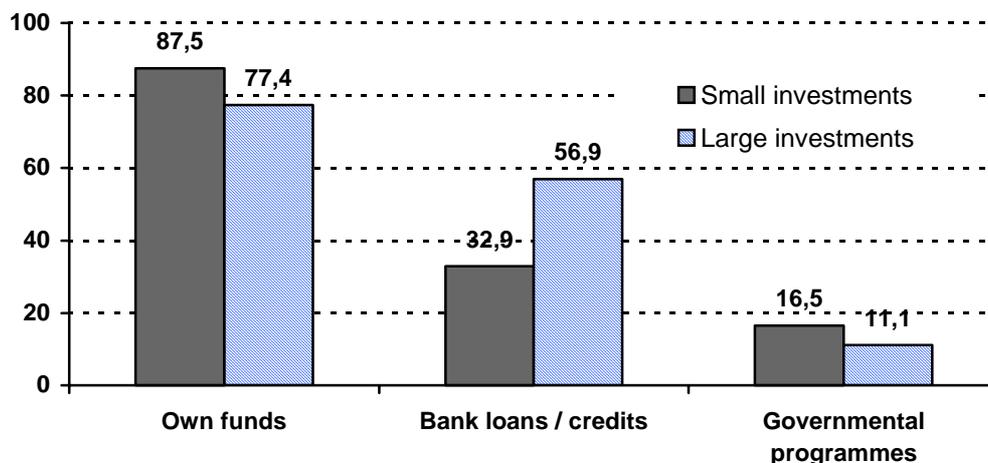
Thus, there are two factors that affect the availability of finance of the banks for the SME sector. First, the relatively reduced number of SMEs in Romania does not provide enough incentive for banks to take risks in financing such activities. Second, the banks in Romania have on one hand better margins for profits elsewhere and are more inclined to take risk only with a smaller number of large clients.

Box 3.2 Romania: Banks financing the SME sector

Romanian Commercial Bank (BCR)
 EXIMBANK
 Savings Bank (CEC)
 Banca Romaneasca
 Banca Transilvania
 Banca Comerciala Ion Tiriac
 Alpha Bank
 Banc Post
 Volksbank Romania
 Robank
 HVB Romania
 Miro Bank
 Raiffeisen Bank

Therefore, the SME sector has to find the necessary capital to finance its activities from other sources. According to the EPPA 2004 the most important source is the own/family capital. Obviously the shortcoming is that such capital cannot secure big investment in technologies but can only provide for the working capital. The result is that SME sector is trapped in a sort of low-level equilibrium that can sustain itself but which cancels chances of development.

Poor access to financing was one of the main findings of the opinion poll undertaken by NASMEC between April-June 2004, within the technical assistance Programme PHARE-RO.01.08.01. The survey shows (according to the figure below) that most planned investments are supported from internal funds (87.5% for small investments and 77.4 % for large ones). Bank loans follow, but at long distance, particularly in the case of small investments, whilst governmental funding is, as expected, a supplementary and not a basic source.

Figure 3.2 Funding Sources for SME Sector Investment

Most of the small investments are financed exclusively from internal funds (59.7%), but as the investments grow larger, the mix of internal funds and bank loans gains ground (38.9%). SMEs' capacity to use more diversified financing portfolios is still very low (4.9%) and there are no investments financed from the capital market.

Venture capital

Venture capital usually means investment in shares of companies, which are not listed at the stock exchange. The investment is usually on the medium term and has a high degree of risk by its very nature. Such features make venture capital very important when it comes to financing innovative research, which takes time and has an unpredictable outcome. In Romania only general investment funds exist, in an insufficient number and with rather low level of portfolio investments financing only occasionally innovative enterprises.

The Romanian venture capital market is still very young. The capital available for private equity investment is raised abroad and as a result the market is heavily dependent on how Western institutional investors perceive the country. Private equity funds committed to Romania were estimated in 2000 at around \$300m²¹. In the last three years, the venture capital market has had a positive evolution, although modest in relative terms if compared to the banking sector.

Regional venture funds are becoming more active compared with country funds, particularly with respect to large deals. However, competition is not very intense. Neither is competing with banks, as they are not yet prepared to provide long-term development finance.

Table 3.2 Venture capital funds active on the Romanian market

Venture capital company	Financing target	Amount
Advent International Romania	Stable companies, which can prove their profitability	min. USD 5 mil.
AIG New Europe Fund	Existing lucrative companies	approx. USD 10 mil.
Global Finance International Ltd.	Mature companies, with turnover over USD 6 million.	USD 2-3 mil.
Danube Fund	Companies able to assimilate the minimum amount available	min. USD 500000, max. USD 2-3 mil.
Environmental Investment Partners	Companies with minimum 3 years of activity and turnover over USD 800000	USD 1-3 mil.
ORESAs Ventures Romania	Private companies with competitive management and growth potential	USD 1 mil.
Romanian Investment Fund (Cyprus) LTD	Medium and large companies with growth perspectives	USD 1 mil.
Romanian Post Privatisation Fund	Medium companies with growth potential	USD 1 mil.
Baring Private Equity Partners (Romania) SRL	Market leading companies	min. USD 7 mil.
Romanian American Enterprise Fund	All companies with growth perspectives (including SME for which loan programmes are also available)	USD 50000 – USD 500000

Source: www.basepoate.ro

On the Romanian market there are ten venture capital funds that have been active in the last few years. It is worth noting that with the exception of the Romanian American Enterprise Fund (RAEF), no other venture fund provides financing for smaller companies. Moreover, most of the available venture capital is conditioned by a minimum amount of financing, which is an important barrier for smaller scale- businesses.

Another important aspect is related to the experience of the company requiring venture capital. Most venture funds do not consider new firms or start-ups as eligible for financing. Instead, they tend to focus on stable and mature companies, which are key players on their respective markets. Smaller companies are eligible for financing only if they can prove their potential leadership in terms of market share and profitability.

The bottom line is that on the Romanian market there is no venture capital designed for the SME start-ups, but more for the expansion of the company, usually in an extensive way (e.g. expanding the market from local to country level). This is not only a result of lack of competition, available funding and underdevelopment of the financial market in general, but also the consequence of the concerted action of other factors such as the level of risk propensity, the capacity for technical evaluation or the dynamics of the knowledge transfer processes.

Being highly sensitive to the risk, the private venture capital is exponentially connected with the quality of the business environment. The Romanian business environment is still far from being business friendly, in spite of the important progress in the last couple of years.

The need to ensure flexibility of the financial environment had been included in the Lisbon Strategy mainly by introducing the Financial Services Action Plan, which recognized venture capital availability as a priority for the future. Romanian enterprises, potential innovators, still suffer from basic under-capitalisation, although the functioning of the banking system significantly improved recently. In this respect, NASMEC will have a twinning programme to promote new financial instrument for SMEs in the next period.

Banking Sector

In Romania, the banking sector is going through a profound transformation. Large foreign banks have opened branches in the country and several smaller private banks are expanding, creating a stronger banking sector. There are signs that bankers are becoming more interested in establishing relationships with Romanian companies and getting to know more about their businesses than just their current monthly cash flow²². The banking sector may challenge the equity investments made by venture capital funds in the years to come.

The banking sector was and continues to be reluctant in mobilising resources for SME investment. The reason for such behaviour is threefold. First, investment in SME, is considered risky, especially in the case of Romania, where the regulatory framework is so fickle and SMEs are more vulnerable than larger companies. Second, the interest rates are very high, mainly due to high inflation and risk premium. Third, the National Bank of Romania (NBR) has sterilized most of the resources of the commercial banks by offering higher-than-market interest. All the above have caused a rather passive behaviour of the banking sector regarding SMEs.

The last two negative factors affecting the financing patterns of banks are most likely to disappear in the following years, as the structural reforms will be completed and NBR will adopt inflation targeting policy.

In Romania, both the interest rate and the required guarantees are influenced by the state guarantee policy and the funding and guarantees provided through foreign assistance.

The National Agency for SMEs and Cooperation (NASMEC), as the main governmental authority designing the policy towards SMEs, coordinates a public guarantee fund called the National Guarantee Fund of Credits for SMEs (NGFCSME). The fund is rather limited in its size, and in 2003 it supported only 158 guarantees with a total value of around EUR 10 million. The fund has two instruments of providing guarantees to banks, in order to support their loans to SME: the risk sharing agreement and the guarantee agreement.

The risk sharing agreement allows the banks to obtain 50% of the credit from the guarantee fund immediately, if the beneficiary does not repay the loan. An additional amount may be given to the bank later, in order to compensate the remaining difference after the judicial execution of the debtor. Unfortunately for the banks, the liquidation procedure may last quite long, and often it takes more than one year to settle the account with the guarantee fund.

The guarantee agreement provides the bank with immediate 100% reimbursement of the credit at request. This is more attractive for the banks, but at the same time requires a bank provision of 100%, according to the regulations of the National Bank of Romania (NBR). Moreover, the commission for this scheme is up to 3%, which is significantly higher than for the first instrument.

The banks are not very enthusiastic about the guarantees available through the public fund. The duration, procedures, fees and level of mandatory provisions, all of these have often discouraged banks from signing agreements with the National Guarantee Fund.

The usefulness of the fund is unarguable. In order to increase the efficiency of public guarantees, it may be advisable to make the procedure more flexible and easy to implement for the banks. Moreover, the idea of creating an entire network of guarantee funds, following the Polish example, seems to be worth exploring. The knowledge of such decentralised funds would allow adapting the guarantees to the specific financing patterns required at the local level²³. One can notice that the future policy of NASMEC is to support establishment of a local network of Guarantee Funds for which National Guarantee Fund of Credits for SME will become a co-guarantee fund.

Another interesting idea is that of creating private guarantee funds under the management of the business associations, which can provide more credibility when asking banks for financing²⁴. Unfortunately, business associations are still underdeveloped in Romania, and it will take a while until they become powerful enough to create guarantee funds.

Apart from the public guarantees, a significant factor in facilitating bank financing is foreign assistance. Several foreign financial institutions such as the EBRD²⁵, KfW²⁶, EU-PHARE²⁷, EIB²⁸, EIF²⁹ etc. provide reimbursable and non-reimbursable financing with low interest rates or guarantees. Most of the foreign assistance is intermediated by local banks, through special agreements. The financing provided by foreign assistance schemes is conditioned upon certain eligibility criteria, which define the type of beneficiary, the activities eligible for financing and the minimum/maximum funding available. External conditionality is often more rigorous than the conditions asked by local banks, which limits somehow the access to this type of financing. Nevertheless, foreign assistance contributes in a positive way to make available more and better financing on the market, and to enrich the know-how of local banks in addressing the needs of the companies.

But even in these conditions, when public guarantees and foreign assistance encourage financing, banks still do not provide adequate financing for SME investment.

Financing for investment remains low in Romania, even though its share is increasing each year. Banks have started to see the potential for supporting investment, and to some extent, technology transfer, but they still lack incentives for focusing entirely on such activity. The sterilisation policy of the National Bank often proves more attractive in terms of placing bank resources than financing investment of domestic companies. The status quo will change in a few years, but perhaps the banks should consider more seriously reorienting themselves to the market, instead of taking advantage of the comfortable opportunities provided by the National Bank in its quest to maintain monetary equilibrium.

Given the tight monetary policy, NASMEC, in cooperation with CHF Romania³⁰ have already drafted a regulation allowing the creation of micro-finance institutions. This initiative has a lot of potential; nevertheless it should be acted upon with prudence, and only in accordance with existing NBR regulations, in order to avoid capital concentrations of a dubious nature instead of genuine private micro-financing schemes.

Last but not least, a new programme of NASMEC, called START, is worth mentioning as an initiative meant to encourage entrepreneurship and to increase the appetite of young entrepreneurs to launch new businesses. The programme includes a micro credit scheme, in cooperation with the Romanian Commercial Bank, and backed by a guarantee from the EIF. Through the financing scheme, up to 100 business plans may receive start-up credits. Although the programme does not offer venture capital, but only micro credits, such initiatives may prove the benefits of financing start-ups, and develop the existing support opportunities.

Assessment

The EPPA exercise for Romania in 2003 has revealed the fact that entrepreneurs appreciated the professionalism of the banking sector but were unhappy about the availability of financing for the SME sector, which is rather restrained. The EPPA 2004 observes an improvement of the performance of the banking sector but the main source for financing the SME sector remains own resources.

There are two main changes that have been mentioned by the SME sector representatives in the EPPA 2004. First, the SME sector overall see an improvement in the stability, competitiveness, and provided services of the banking sector. This is mostly the result of the increasing number of banks that are ready to finance SME activities. However, such an evolution does not offset the main barriers perceived by the SME representatives in their relation with the banks – the high level of interest rates and guarantees.

The second interesting finding is that SMEs find more appetite for financing SME activities with the small banks than with the large banks. Usually, the SME sector representatives consider that the big banks have strong ties with large enterprises and are not interested in taking risks for a large number of small companies. On the other hand, small banks are credited as more flexible and more open to build a lasting relationship with a small business.

There is a low awareness by SMEs of the existence of foreign assistance programmes backing up bank financing. As regards the National Guarantee Fund for Credits to SME, it seems that existing guarantee schemes are limited in their amount and flexibility. Perhaps the involvement of the private sector in reforming or even taking over such guarantee schemes would be advisable. Until then, business associations should be better

consulted as regards the most suitable way to design and manage the guarantee schemes, and should become more active in disseminating the current guarantee schemes and in advising SME on their use, in order to contribute to the streamlining process of guarantees delivery.

The commercial banks still prefer to work with large customers, and still show some reluctance in working with SMEs. However, the bank attitude towards small enterprises is constantly improving.

The financial market is not very complex in Romania, as there are not many alternative sources of finance beside the banking sector. There is a lot of potential to develop micro-finance institutions, but this process should be carefully regulated in order not to compromise such good practice. At the same time venture capital should be further encouraged, in order to support the creation of new enterprises.

Last but not least, in terms of territorial approach, the rural areas should not be neglected anymore. The existing Guarantee Fund for the Rural Credit proved to be inefficient and commercial banks are still avoiding prioritising rural financing.

2.5. Advisory Services for New and Small Businesses

Situation on Advisory Services

The market of advisory services for SME in Romania has evolved in the last years, but it still remains at a low level especially in the case of quality and expertise. The main reason for this situation is the underdevelopment of the associations of entrepreneurs and Chambers of Commerce as the main consulting services suppliers. The actors on this market are: the different agencies of the government, the private companies, the international donors and NGOs.

The entrepreneurs' associations fail to play a more important role on this market because of the weak system of interaction and communication. This weakness can also be observed in the poor power of representation at the national level.

Nevertheless, the National Council for Private SME in Romania (CNIPMMR), the only employers' association representing entirely SMEs at national level, offers a range of consulting services at the national level. CNIPMMR organizes training actions and workshop to disseminate the results of different projects. The employers' association also offers consultancy services on local economic development, unemployment, restructuring and developing the private sector in Romania, local authorities relevance for supporting the private capital management, legislation and juridical matters, business plans, feasibility studies, SWOT analysis, restructuring and privatisation.

As regards the activity of the Chambers of Commerce, their participation on the advisory services market depends on their ability to adapt and compete. Over the last two years the Chamber of Commerce has increased the range of services provided to SMEs. A particularly important step has been the opening within the local Chamber branches of six Euro Info Centres, out of a total network of 8 centres, providing information on EU standards and regulations and promoting awareness on European integration challenges among the business community. The transfer of the Trade Registry activity from the Chambers to the Ministry of Justice, with the related loss of revenues, appears, therefore, not to have undermined the activity of the Chambers.

The main governmental provider of advisory services for SME is NASMEC. The Agency's services include, among others:

- Database with the legislation affecting SME;
- Database on SME performances;
- Instrument for needs assessment for SME (CATI unit);
- Information on SME facilities and financing;
- Guidelines for setting up of an SME;
- Advisory services provided by certain donors or other institutions.

Another important set of public actors is the network of Regional Development Agencies. They have an important role, as the agencies are responsible for administering an important part of the European pre-accession funds³¹. Therefore, they can provide SME with information related to the PHARE programme (financing opportunities, requirements and documentation).

The network of Euro Info Centres is supported by the European Commission – DG Enterprise in partnership with Romania, is also present in Romania, with 8 offices. This network offers information on a variety of aspects related to the European Union business environment, business opportunities, legislation, etc.

In a recent report, NASMEC³² argues that the business-consulting sector is formed mainly by non-profit associations, which do not have high expertise in providing services and are focused on legal expertise, accounting and audit. Therefore, the range of services specific to SME is quite narrow.

On the NASMEC website, there are registered 267 consulting centres, companies providing training and information services. Out of the total, 17 firms provide training services, 64 provide consulting services, 2 provide information services, and the rest provide combined services of the three categories mentioned above. The market segment of specialised business consulting services is rather underdeveloped. There are also several counties where there are no advisory services. This is the case for Mehedinti, Giurgiu, Calarasi și Tulcea (SME Strategy 2004-2008).

Table 3.3 Distribution of consulting centres for SMEs on development regions (2002)

Development region	Symbol	No. of consulting firms / region	Nr. SME	SMEs distribution/Consulting institutions
North-East	ARD1	33	37.991	1151 SME / Institution
South-East	ARD 2	28	42.304	1511 SME / Institution
South-Muntenia	ARD 3	15	37.622	2508 SME / Institution
South-West Oltenia	ARD 4	19	26.949	1418 SME / Institution
West	ARD 5	19	29.623	1559 SME / Institution
North-West	ARD 6	30	44.809	1494 SME / Institution
Centre	ARD 7	40	39.942	999 SME / Institution
Bucharest-Ilfov	ARD 8	83	69.205	834 SME / Institution
TOTAL		267	328.445	1230 SME / Institution

Source: NASMEC, Governmental Strategy for the Development of SME for the period 2004-2008

The Romanian Government has established a set of priorities for supporting SME development for the period 2004-2008. One of these priorities is the development of the competitive capacity of SME. In order to fulfil this goal, the strategy outlines Measure B5: *improving SME access to high quality consultancy services*. Two actions are planned within this measure:

- Financial assistance for economic organisations involved in SME support (Chamber of Commerce, national or local SME associations) for development of SME support services, complying with the standards and norms established by the coordinating authority.
- Implementing a “voucher” consultancy scheme in order to facilitate SME access to consultancy in certified business.

Advisory services and support for obtaining quality advisory services provided by the public authorities – European Charter

In accordance with the Law no. 76/2002, National Agency for Labour force Employment grants, on request, provides consulting and assistance services for starting an independent activity or a business to persons seeking employment, in a form of juridical, marketing, financial services, efficient management methods and techniques, and of other consulting services.

The National Agency for Workforce Employment, through active measures co-financed from the IBRD loan and budget of unemployment insurance, grants both assistance and consulting services for small and medium enterprises, and business incubator services. From the beginning of this programme (1998 to present), 27,491 people benefited from assistance services, out of which 4,147 started their own business.

(Also, as part of this programme, business incubator services have been implemented in Alba, Maramures and Suceava counties. As a result of finalising those services, 168 people were effectively assisted, 148 of them were starting their own business).

The National Agency for SMEs and Cooperatives promoted the national multi-annual programme on 2002-2005 period, for supporting SMEs access to consulting and training. The programme consists of awarding grants, which cover up to 60% from the effected eligible expenses (exclusive VAT), but not exceeding the ceilings established for each eligible activity, and up to maximum 80 million lei, per beneficiary, during two consecutive years.

The Programme has as its objective to affirm and capitalise SMEs production and service potential, by diminishing the training gap between the Romanian and EU SMEs decision-maker and executive staff and to facilitate the SMEs access to counselling.

The main NASMEC objective consists currently in creating a database, at national level, regarding consulting, training and/or information service providers, able to offer entrepreneurs quality services at accessible prices. The database could be accessed free of charge on NASMEC’s website (www.animmc.ro), and consulting, training and information firms can register by filling in an online form available on the same website.

Assessment

Although there are many concerns regarding the market of consultancy services, the majority of the focus group participants made good use of professional business advisory services. The main sources for these services are private consultants, as they are credited

as more efficient than the public ones. In spite of this aspect, medium and large-sized companies form the overwhelming part of customers for consultancy services. Given the size and the costs of such services the micro and small-size companies do not use them. This situation is undesirable, because these services should aim at SMEs, in general, micro and small size companies in particular.

The development of advisory services will lead eventually to an increased market competition and competitiveness. Given the low competitiveness of Romanian firms, it is very important to develop the above-mentioned sector, especially in the European accession context. Therefore, the development and range extending of the consultancy services for SMEs should be a priority for the authorities. However, this process is on a positive trend as the EPPA focus groups' results suggest.

2.6. Business Incubators

Situation on Business Incubators

Business incubators have become an important policy instrument in the OECD member countries in the last decades. This tool is preferred because it can provide fertile conditions in order to foster new business ideas, innovation, encourage the entrepreneurial spirit, outline and assist companies with the practical steps for obtaining the necessary facilities to ensure implementation of action. (OECD, 2003)

In general, business incubators are perceived as providers for new firms and entrepreneurs of physical facilities and a variety of business services to help them increase their chances of surviving in the early stages of development. (OECD, 2003)

Regarding the structure of the incubators, there is no single model for a business or a technology incubator. The incubation of new firms is a highly flexible process with multiple stakeholders maintaining differing objectives. (OECD, 1997)

In Romania the process of establishing business and technology incubators is at the beginning. At the national level, NASMEC has initiated the National Programme for setting up and development of business and technology incubators. The main goal of the programme is to stimulate business development and innovative initiatives, the development of SMEs and the creation of new jobs.

Although there are no specific regulations covering the creation and existence of incubators, by the end of 2003, in Romania there 19 incubators were recorded.

According to the Governmental Strategy for the Development of SME for the period 2004-2008, in the next period there is a plan for the establishment of around 20 more business incubators. Three of those will be created under the National Multi-annual Programme for the Setting up and Development of Technological and Business Incubators, a programme developed by NASMEC, together with the United Nations Development Programme. This project has a budget of 10 billion Romanian lei. According to the law on state budget, the agency's contribution is 1 billion lei.

The business and technology incubators provide low costs services and facilities such as: ensuring independent production spaces for a certain period; access to utilities (electric power, water, natural gas), secretarial services, guard services, communication services (fax, telephone, e-mail, internet), information and documentation services.

Table 3.4 Indicators of Business Incubators on Regions

Region	Number of functioning incubators	Number of incubated firms	Number of employees	Number of new incubators
North East	3	118	270	1
South East	2	65	603	0
South Muntenia	2	37	80	2
South West Oltenia	5	56	266	1
West	0	-	-	8
North West	1	64	200	5
Centre	4	19	255	3
Bucharest	2	41	228	0

Source: NASMEC, National Development Plan 2004 – 2006

Box 3.3 List of Romanian Business Incubators

- Technology and Business Incubator Centre – CITAF, Bucharest
- Business Incubator for Dismissed Military Personnel, Bucharest
- Business Association Incubator ARDELIE PRO, Argeş
- INCAF Association Brăila
- CILDA – Centre for Local Initiative and Business Development Association Călăraşi
- Business Incubator Lafarge Medgidia, Constanta
- IPA CIFATT Craiova, Dolj
- Business Centre for SME Development, Gorj
- Social Dialog Foundation – Local Development Centre, Gorj
- Association Centre Harghita for Innovation and Incubation in Business, Harghita
- ECHO Business Incubator Association Centre – Ghiorgheni, Harghita
- Centre for Consultancy and Assistance for Micro-enterprises Initiating and Developing – Iaşi
- Business Incubator Baia Mare, Maramures
- Promotion and Assistance Centre for SME Mureş
- Centre for Creative and Innovative Incubation, Neamţ
- Business Incubator Europa, Olt
- Centre for Business Initiation and Promotion – CIPA, Sibiu
- Business Incubator DOMUS, Suceava
- Business Incubator Flandra – Râmnicu Vâlcea, Vâlcea

There are also specific services available such as: consultancy and assistance services for elaborating business and marketing plans, management training, accounting and legal assistance services, assistance for developing national and international partnerships, assistance for contracting financing sources, facilitating the SME's access to databases, as well as relying on the experience of universities accredited by the Ministry of Education and Research. (SME Strategy, 2004). In addition to the characteristics presented above, in the case of technology incubators there should be an increased focus on technology commercialisation. This element should foster both research activities and the competitiveness of the companies.

The Romanian Government has established a set of priorities for supporting SME development for the period 2004-2008. One of these priorities is the development of the competitive capacity of SME. In order to fulfil this goal, one of the measures stipulated at this point is the Measure B6: *to sustain business incubators in manufacturing and high value added services fields*. The objective of this measure is to stimulate entrepreneurial and innovative initiatives, to set up SMEs at the local level in the two above-mentioned fields. This programme will also be the responsibility of NASMEC.

As it is mentioned in the Governmental Strategy, very important issues for the success of incubators are their administration and the selection of the companies which will be incubated. Therefore it is necessary that selection procedures and requirements should be clear and in full accordance with the regional development potential and innovation capacity.

Box 3.4 Case Study - Business Incubator and Technological Transfer Centre in Software (a newly established incubator)

One of the best initiatives in the field of encouraging SME development is the recently opened Business Incubator in the western city of Timisoara (one of the largest Romanian cities). The “Business Incubator and Technological Transfer Centre in Software” is the result of the joint effort of the Timis County Council, Timisoara Local Council, Timisoara Politechnical University and the IBD/GTZ – Programme of the Government of Germany aimed at Promoting Economic Growth and Reducing Unemployment in Romania. The working capital of the incubator for the first three years is EURO 160,000.

The incubator is mainly addressed to fit the needs of students and young graduates of the Politechnical University that wish to start their own business in the field of software creation. The incubator will be hosted by the University, the area set aside for this project being 400 sqm (the entire third floor). The facilities provided through this project include subsidized rents (the rents are 75% below the market price), business consulting (including advisory services offered before the establishment of a company, assistance on how to elaborate an attractive business plan), administrative services (a manager and an assistant, employed by the centre, will provide administrative support), telephone, fax, Internet, software licenses, organising of business meetings, access to conference rooms, and accounting, legal and marketing assistance at affordable prices. Also, the incubator will try to establish contacts and to attract domestic as well as foreign project financing. However, it is expected that the companies will play an active role in finding financing sources.

The companies that take part in this project are selected on the basis of competition –enhancing principles. The winning start-ups are allowed to benefit from the services provided by the incubator for a maximum of three years. It is likely that after a successful launch, the companies will move on to the Technological Park that is currently under construction just outside Timisoara. Companies that after three years have failed to deliver the desired outcome and are unable to survive on their own, will be replaced by new start-ups.

Apart from supporting business incubators, the Romanian government has initiated two other support schemes: the industrial parks and the technological and scientific parks.

Currently, there are about 50 industrial park projects in Romania, at various stages of development. Around 16 parks are already functioning. These parks are initiated both by public and private sectors: 13 industrial parks are private and 35 parks are initiated by the public sector (county and local councils).

Table 3.5 Regional distribution of industrial parks initiated by the public sector

Region	Number of functioning industrial parks
North East and South Muntenia	6

South East	2
South West Oltenia	2
West	3
North West	5
Centre	5
Bucharest	5
South	9

Source: NASMEC, National Development Plan 2004-2006

Both of these structures are regulated in Romania by the Law no 490/2002 for the approval of the Government Ordinance no.65/2001 regarding the set up and the functioning of industrial parks.

The second support scheme was introduced through Law no 50/2003 for the approval of the Government Ordinance no 14/2002 regarding the set up and the functioning of technology and scientific parks. There are currently only four functional technological parks in Slobozia, Braşov, Galaţi and Brăila. All four parks are focused on software and telecommunications.

The regulations are vague when defining the two structures:

- The industrial park represents a delimited area, where economic activities and scientific research, industrial production, services and commercially applied scientific research and/or technological development activities take place in a regime of special facilities, in order to fully realize the human and material potential of the region; (Law no. 490/2002)
- The technology and scientific parks represent an area, where education, research, scientific know-how transfers and applying the research results through economic activities are concentrated (50/2003).
- Vague provisions of the laws create confusion among entrepreneurs when analysing the three structures presented in this subchapter. These laws also stipulate several fiscal facilities for the parks' creation. Some of the parks were created on the infrastructure of old and closed down companies. This is one of the important causes of the distrust of the entrepreneurs.

Assessment

According to the research report on focus groups, the SME participants do not use the services of the business incubators and, furthermore they are not informed on this topic. The representatives of the SME mainly associated the idea of business incubators with two other institutional structures: industrial parks and scientific and technologic parks.

Due to this lack of information, the ratings obtained to various questions on this subject are low. For example the value of business incubators for new entrepreneurs is rated as "poor", as long as only 20% of the interviewee responded. However, in the discussions with the SMEs they agreed that incubators could be useful for certain types of SMEs provided these structures will be well developed and supported by regulations. A very important aspect that was revealed in the discussion with the entrepreneurs was the distrust in the government-financed structures.

In order to reap all the benefits that can be brought by the analysed structures (business incubators, industrial, technology and scientific parks) there should be a well

elaborated strategy for advertising of the parks and incubators as well as of the governmental strategies and policies.

Furthermore, instead of building 20 new incubators, it may be much better to present at least a success story in order to show the profitability and self-sustainability of the project. At the end of the day, business incubators are not cohesion schemes, but innovation and growth poles of the economy. In the Governmental Strategy for SME development, two measures aimed at stimulating competitiveness of SMEs are mentioned: “Supporting business incubators in the productive sector and in the higher added value service sector» and «Supporting the development of industrial parks».

In the European Union the understanding of business incubators and industrial parks issues are different. It is necessary for Romania to adjust its concept on industrial parks to the European one. NASMEC will establish, starting 2005, under a multi-annual programme, five business incubators aimed at improving the creation of start-ups, at stimulating innovative SMEs, and at making the liaison between R&D and entrepreneurial culture.

2.7. Entrepreneurship, Vocational Education and Access to Technology

Situation on Entrepreneurship, Vocational Education and Access to Technology

Entrepreneurship and education

This new dimension of good practice is extremely important for Romania. Its importance derives not only from the commitments assumed regarding the implementation of the European Charter for Small Enterprises, but also from the more general objectives of economic development and convergence.

Romania needs to invest in its human capital, in order to increase the value-added of the economy and capitalize on productivity gains. This is why it is so critical to emphasize the role of education in preparing the new generation of entrepreneurs.

Formally, entrepreneurship-related competencies are taught in optional courses as early as from the primary school, within the subject “Civic education”. In the lower secondary education (gymnasium, grades V-VIII) entrepreneurship elements are taught within the subject "Technological education". Furthermore, in upper technical secondary education, “Entrepreneurship Education” is an optional course, as part of the curricular area “Man and Society” ; it is a one hour per week course for all profiles and specialisation classes.

However, both expert interviews and the focus groups suggest that there is a serious lack of method and tutors related to teaching entrepreneurship. Moreover, the cancellation of a significant part of the vocational/training schools makes the situation even worse. The educational offer has not yet adapted to the market demands and to the demands of a future entrepreneurial society.

Training schemes for small entrepreneurs

Upgrading the educational system will take several years, and a new generation of educated entrepreneurs will then follow. Meanwhile, a large majority of the Romanian small entrepreneurs can use training schemes in order to boost their businesses.

NASMEC has already developed the National multi-annual programme on 2002-2005 for supporting the access of SMEs to training and consulting services. The objective of the programme is to decrease the training gap of Romanian SMEs staff related to European Union SMEs staff and facilitating the access of SMEs to training services.

The costs regarding the activities from each selected beneficiary are partly supported from the state budget, representing 60% from each eligible cost (excluding VAT) but without exceeding the maximum ceilings for each eligible activity and within the limit of a maximum 80 million lei for one beneficiary – approximately EUR 2000.

The activities for which budget allowances are granted are :

- Training the SMEs staff/ executive board on priority subjects;
- Consulting for eligible SMEs for adopting business and marketing plans, accessing financial sources, training in standard systems, attesting the quality according with the EU standard, in the area of internal and international cooperation.

Another important aspect related to the quality of staff's training is the framework of labour relations. The Labour Code proves to be quite ineffective in protecting the investment of the entrepreneur in training courses. As a result, the employer cannot stop its employees leaving the company, even if he/she has invested significantly in their training.

Programmes promoting the technological capacity of SMEs

Very few SMEs are aware that the Ministry of Education and Research (MER) has initiated several programmes for facilitating the technological upgrade of the enterprise sector, within the framework of the National Plan for Research, Development and Innovation, as follows:

- Programme for stimulating the implementation of inventions – INVENT. Objectives: constructing and testing demonstrative models, constructing and putting into production phase the new products, technologies and services.
- Programme for economic re-launching through innovation and research – RELANSIN. Objectives: increasing the competitiveness of the economic units and groups; adapting the economic units' activity to market needs and entering new market segments;
- Programme on quality and standardisation – CALIST. Objective: creation and development of the procedures of the testing tools that allow exact assessment of the products' characteristics, while maintaining a competitive price and observing quality standards.
- Programme on IT-based society – INFOSOC. Objective: realisation and consolidation of the necessary condition for developing the IT-based society in Romania; development of the technological and scientific support needed to achieve specific IT-based society structures and services; increasing the degree of use and the impact of the IT-based society structures and services.
- Programme on bio-technologies – BIOTEH. Objectives: the development of the scientific knowledge in the field of life sciences in order to stimulate and support innovation; the development of multi-sectoral research with a broad potential to disseminate information; promoting the inter-organisational co-operation at national

and international level; strategies to support the ethical and socio-economic problems, as well as intellectual property, innovation and technology transfer issues.

- Programme for developing new materials, micro- and nanotechnologies – MATNANTECH. Objectives: development of scientific knowledge in the fields related to new materials, micro- and nanotechnologies; developing new technologies and advanced materials.
- Inov Programme – In-house innovation within SMEs, programme initiated by the State Office for Inventions and Trademarks (OSIM) and intended to provide new products and technologies, in accordance with the development prospects of those applicants (website: <http://www.osim.ro>).

Moreover, the National Agency for SMEs concluded with the Ministry of Education and Research, a *Co-operation Protocol* for transferring the results of scientific research and technology to SMEs. In addition, the Government has prepared an Action Plan regarding technology transfer from the research institutes to SMEs. At the initiative of the Ministry of Education Research, the National Network of Innovation and Technological Transfer will also be established. Also, in Romania it is operating The Innovation Relay Centre, developed under the Framework Programme FP5, which creates the interface between the offer and the demand of the research results.

At the same time, a number of independent institutional initiatives were started, setting up structures such as the following:

- *National Institute for SMEs*, established at the initiative of the National Council for Private Small and Medium Sized Enterprises from Romania and of the Excellence in Business Board's members, which makes researches, project analysis and training for SMEs. This institute introduces activities for increasing entrepreneurs' competitiveness, creation of a favourable environment for research and development activities, innovation and technological transfer in SMEs sector, creation of a national network which will permit obtaining information and facilitation of achieving partnerships in Romania or abroad.
- *Technical Centre for SMEs*, set up together with Bucharest Polytechnic University, which offers technical assistance for SMEs.
- *Centre of Assisted Training and Information Management for SMEs* - set up as part of Technical Centre for SMEs. The project is implemented in partnership with Microsoft Romania for IT training of SMEs, Business Forum of French Speaking Community, LG Company – Automation Division.

Assessment

While the social attitude in Romania towards entrepreneurship is not always positive, among the young generation more and more individuals are planning to set up their own firm. Due to the fast polarisation of wealth in the transition years, and to the emergence of a new class of "nouveau riche" who have succeeded in their businesses in a rather unorthodox way (e.g. by taking over undervalued state property through less transparent procedures), the public opinion is still reserved in accepting entrepreneurship as a virtue.

However, most of the Romanian population acknowledges the benefits of entrepreneurial action, if not for the economic development of the society, at least for the opportunities for individual prosperity and wealth. The media in Romania is playing an important role in shaping the attitude towards entrepreneurship. One of the most effective

ways to encourage start-ups is the presentation of success stories in terms of setting-up and developing businesses.

Although there are several initiatives for promoting entrepreneurship, their impact on increasing the awareness of the society is still low. The involvement of mass-media is insufficient as well. Moreover, training on the importance and benefits of entrepreneurship is needed especially in rural and remote areas, which without local entrepreneurs have little chances of development.

As regards research, development and innovation, the awareness of entrepreneurs about the existence of the National Plan for RDI and its programmes is very low. Training on the importance of technology upgrade is another aspect that needs a special focus in the future

Another important aspect is the low awareness regarding the funds available from the EU, through channels such as FP VI and other community programmes meant to support research and development.

The same applies to funding and other incentives available for innovation, which should be encouraged in the future. The creation and fostering of an entrepreneurial and innovative spirit in Romania should be seen as a long-term investment, to which considerable resources need to be allocated.

2.8. Report on the implementation of the 2002 EPPA Policy Recommendations

<i>EPPA 2002 Recommendations on the Institutional Framework</i>	<i>Assessment of progress since EPPA 2002³³</i>
<p><i>Communication and Consultation</i></p> <ul style="list-style-type: none"> • Encourage all SME representatives organisations to improve their communication with members and ensure good distribution of policy information • Strengthen and further develop the work of Tripartite Council • Improve the coordination mechanisms in place with other ministries and bodies • Set up forums and seminars to ensure better consultation, information dissemination and meetings • Publish and disseminate more widely reports and information <p><i>SME Development Strategy</i></p> <ul style="list-style-type: none"> • Consult with SMEs before finalising the strategy • Publish the revised strategy for SMEs • Arrange regional seminars to explain and publicise the strategy • Circulation of key policy information among SMEs is crucial – awareness campaign among SME representatives 	<p>Limited Progress</p> <p>No Progress</p> <p>Limited Progress</p> <p>Significant Progress</p> <p>Limited Progress</p> <p>Limited Progress</p> <p>Significant Progress</p> <p>Significant Progress</p> <p>Significant Progress</p>
<p><i>EPPA 2002 recommendations on the Regulatory Environment</i></p> <ul style="list-style-type: none"> • Undertake an assessment to establish whether the transition to 	<p><i>Assessment of progress since EPPA 2002</i></p> <p>Significant Progress</p>

<p>consolidation of the one stop shop system under the dept of Justice is going smoothly regarding:</p> <ul style="list-style-type: none"> - reduction of licensing system procedures - simplification of pre-registration documentation - enhance one stop shop capacity to deal with new rules and regulations <ul style="list-style-type: none"> • Use the silent consent procedure more and eliminate the multiple interpretations of procedures and regulations • Move away from using fees for licenses to fund Ministries and develop a central system of funding 	<p>Limited Progress</p> <p>No Progress</p>
<p><i>EPPA 2002 Recommendations on Tax Policy for Small Businesses</i></p> <ul style="list-style-type: none"> • Produce a report for Ministers by NASMEC on the effect of proposed changes to encourage SME development • Evolve and adjust fiscal policies in coherent predictable ways • Communicate the logic of the direction of fiscal policy to SMEs • Develop the Tripartite Council's role – include consultation with SME on fiscal policies 	<p><i>Assessment of progress since EPPA 2002</i></p> <p>Significant Progress</p> <p>Limited Progress</p> <p>No Progress</p> <p>No progress</p>
<p><i>EPPA 2002 Recommendations on Financial Instruments for Fostering New and Small Businesses</i></p> <ul style="list-style-type: none"> • Allocate the management of the State Guarantee Fund to the private sector • 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 at 1% interest. • The National Bank should amend this regulation. 	<p><i>Assessment of Progress since EPPA 2002</i></p> <p>No Progress</p> <p>Limited Progress</p> <p>Significant Progress</p>
<p><i>EPPA 2002 EPPA Recommendations on Advisory Services Supplied to New and Small Businesses</i></p> <ul style="list-style-type: none"> • Link the EPPA to the MSME's plans to support a network of Business Advisory Centres • Prioritise supporting SMEs especially start-ups • Give consideration to the introduction of a system of certification and accreditation for advisory bodies • Require advisory bodies to publish and develop a customer chart • Further develop training and development of advisory body staff • Development of joint initiatives between local and municipal bodies and the Chambers of Commerce and other bodies to provide support and advisory services to SMEs 	<p><i>Assessment of progress since EPPA 2002</i></p> <p>Limited Progress</p> <p>Limited Progress</p> <p>Limited Progress</p> <p>No Progress</p> <p>Limited Progress</p> <p>No Progress</p>
<p><i>2002 EPPA Recommendations on the Implementation of Business</i></p>	<p><i>Assessment of progress since</i></p>

<i>Incubators</i>	<i>EPPA 2002</i>
• Nature of Business incubators explained and promoted to Romanian entrepreneurs	No Progress
• Romanian Government to support and expand the existing network of business incubators	Limited Progress
• Particular attention to the issue of financial sustainability of existing and new business incubators	No Progress

Notes

- 1 NASMEC's budget for 2004 is ROL 474.600 million, which is the equivalent of EUR 11,58 million, at an exchange rate of 1 EUR= 41.000 ROL. According to official statistics (National Institute of Statistics quoted by NASMEC), in Romania at the end of 2002 there were approx.343000 active SME;
- 2 From a total of 19 sub-priorities;
- 3 In 2004, sub-priority C4 gathered more than 50% of all budgetary resources for supporting SME;
- 4 Law 346 / July 14, 2004;
- 5 In this respect, NASMEC decided through Protocol concluded with the National Chamber of Commerce of Romania, National Council for Private SME in Romania and National Guarantee Credit Fund for SMEs on October 21st, 2004, that territorial centres for information, assistance and training should represent NASMEC's territorial offices.
- 6 NASMEC concluded Agreements with all Regional Development Agencies. RDAs have mission to identify the local needs in cooperation with all local actors in connection with agreements signed and in their new role in the field of Structural Funds «implementing body. This cooperation will help NASMEC in elaborating its strategies, policies and financing programming for the SME sector.
- 7 Adopted through GD 586/2003;
- 8 Foreign Investment Advisory Service – a partner institution of the World Bank Group;
- 9 Law 359 / September 8, 2004;
- 10 In is true though that, according to the Trade Registry statistics, the firms needing ex-ante authorisations are less than 20% from the total number of companies. Nevertheless, an increase of the registration duration is contrary to OECD good practices;
- 11 Law 149/2004 amending Law 64/1995 on judicial reorganisation and bankruptcy with its subsequent amendments;
- 12 Formerly located in the disbanded Ministry for Development and Prognosis;
- 13 In November 2001 the Government elaborated the first version of the aforementioned Plan (Government Decision No 1187/2001, the “*Programme for removing administrative barriers*”), mainly as a response to the conditionalities involved in the World Bank PSALII programme. The Plan has been enriched and updated in 2002 (GD No 209/2002) as the “*Action Plan for removing administrative barriers from the business environment*”, with the support of a Phare assistance programme. Therefore, the 2003 Action Plan is the third edition of this governmental initiative.
- 14 As specified in the Labour Code.

- 15 It is necessary to emphasize the role of the Academy of Advocacy, based in Timisoara, that is very active and a very strong dialogue partner.
- 16 Foreign Investors' Council (2003), Short Term Measures to Attract Foreign Direct Investment to Romania.
- 17 Given the fact that the mentioned report was issued only a couple of months after the adoption of Law 486/2003 introducing the silent approval procedure, it is possible that it has captured the "normal" hostility of the bureaucracy when it is pressured to reform. Unfortunately, no other investigation on the implementation of the silent approval has been pursued since, in order to gauge if currently the public administration has become more comfortable in applying the new procedure;
- 18 An brief overview on the institutional weakness of the coordinating body, the Directorate within MET, was already provided in Section 1 of this report;
- 19 UNIDO 2002, "A Comparative Analysis of SMEs Strategies, Policies and Programmes in Central European Initiative Countries, Geneva
- 20 National Institute for Statistics, "Statistical Yearbook of Romania"
- 21 According to the data provided by Oresa Ventures Romania (<http://oresaventures.com/romania.html>);
- 22 According to the analysis provided by Oresa Ventures Romania (<http://oresaventures.com/romania.html>);
- 23 As suggested also by Mr.Eugen Ovidiu Chirovici, President of NASMEC, in the interview published in Piata Financiara, SME Financing special focus, March 2004;
- 24 Idea pointed out by Ms. Silvia Ciornei, President of the National Guarantee Fund of Credits for SME, Piata Financiara, SME Financing special focus, March 2004;
- 25 European Bank for Reconstruction and Development;
- 26 Kreditanstalt für Wiederaufbau – German Government assistance;
- 27 PHARE is one of the pre-accession funds provided by the EU;
- 28 European Investment Bank;
- 29 European Investment Fund;
- 30 Community Habitat Finance Romania;
- 31 The Economic and Social Cohesion Component within the PHARE instrument;
- 32 Governmental Strategy for SME 2004-2008;
- 33 **Recommendation implemented** i.e. law / policy approved and implemented, effective strategy approved and being implemented efficiently or agency fully operational and achieving results on the ground; **Significant progress** i.e. law / policy approved, preparatory work for implementation completed and progress made on the ground; **Limited progress** i.e. some preparatory work done, legislation drafted or agency beginning implementation; **No progress** i.e. no progress since last EPPA

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ANNEX 1

Selected Legislation

Law no. 346/2004 on stimulating SME creation and development and GEO no.75/2004 for its completion;

Law no. 359/2004 on simplifying the registration and authorisation procedures;

Law no. 149/2004 amending Law 64/1995 on judicial reorganisation and bankruptcy with its subsequent amendments

Law no. 161/2003 on the transparency in exercising public functions, in the judiciary and in business, and the prevention and punishment of corruption

Law no. 571/2003 on the Fiscal Code

Law no. 53/2003 on the Labour Code

GEO no. 92/2003 on the Fiscal Procedure Code

GD no.1280/2004 for approval the Governmental Strategy for Sustaining SME Development

GD no. 1461/2004 regarding Programme for supporting the SMEs development through reimbursed the amount of taxation paid for the reinvested profit

Law no. 486/2003 on the silent approval

GD no. 586/2003 Action Plan for Developing the Business Environment;

GO no. 14/2002 regarding the set up and the functioning of technology and scientific parks

GO no. 65/2001 regarding the set up and functioning and industrial parks

Law no. 52/2003 on transparency of the decision-making process in public administration (“sunshine law”)

Law no. 50/2003 on Technology and scientific parks

Law no. 490/2002 on Industrial parks

Romanian Constitution / October 2003

Government Emergency Ordinance no. 138/2004 regarding the modification of tax

ANNEX 2

Web Sites

American Chamber of Commerce in Romania - <http://www.amcham.ro>
Chamber of Commerce and Industry of Romania and Bucharest - <http://www.ccir.ro>
EBRD - <http://www.ebrd.com/country/country/romania/index.htm>
European Commission - <http://www.europa.eu.int>
Foreign Investors' Council of Romania - <http://www.fic.ro>
Government of Romania - <http://www.gov.ro>
Investment Compact South-East Europe – <http://www.investmentcompact.org>
Parliament of Romania - legislation – <http://www.cdep.ro>
Ministry of Education and Research - <http://www.edu.ro> and <http://www.mct.ro>
Ministry of European Integration - <http://www.mie.ro>
Ministry of Public Finance – <http://www.mfinante.ro>
Ministry of Economy and Trade – <http://www.minind.ro>
National Agency for Small and Medium Enterprises and Cooperatives - <http://www.animmc.ro>
National Bank of Romania – <http://www.bnro.ro>
National Institute of Statistics - <http://www.insse.ro>
National Council for Private SME of Romania – <http://www.cnipmmr.ro>
National Trade Register Office - <http://www.onrc.ro>
Oresa Ventures Romania - <http://oresaventures.com/romania.html>
Organisation for Economic Co-operation and Development – <http://www.oecd.org>
Romanian-American Enterprise Fund - <http://www.raef.ro>
Romanian Centre for Economic Policies – <http://www.cerpe.ro>
Romanian Foreign Trade Centre - <http://www.traderom.ro>
Romanian State Office for Inventions and Trademarks – <http://www.osim.ro>
Young Entrepreneurs Association – <http://www.basepoate.ro>
World Bank Office in Romania - <http://www.worldbank.org.ro>
World Bank – <http://www.worldbank.org>

ANNEX 3

EPPA Methodology

I. The EPPA methodology has been designed to provide input and assessments related to the performance in the implementation of policies related to the improvement of the business sector investment environment. 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 the following:

- A question template derived from extensive case study work on good practice in transition economies and OECD countries (OECD – UNIDO, 1999) and used in this research
- Country based experts and consultants selected for their knowledge and experience related to enterprise policy
- Focus Group research: five focus groups held with MSME representatives
- Individual MSME interviews: to validate the focus group discussions and to provide input on important issues
- Expert interviews: to cross reference from the focus groups and add valuable information to the study
- Desk research: examination of existing reports, databases, documents and studies related to Moldova
- Expertise from the OECD, EBRD and the OECD member countries.

III. Under the guidance of OECD, the Focus Group research with representatives of the private sector in Romania was carried out by local consultants – CEROPE – the Romanian Centre for Economic Policies, on the basis of a structural synthesis and template of questions developed by the OECD and EBRD. The research has been carried out between February (when the Focus Groups started) and went through May 2004 with accumulation and processing of information from questioned parties, collection of relevant information sources, analysis and discussion of the working hypothesis, writing and discussion of the texts prepared for the Country Report. It focuses on seven dimensions of good practice in the following policy areas:

- Institutional Framework for MMSME 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
- Business Incubators
- Entrepreneurship, Education and Access to Technology.

IV. The Focus Group discussions took place in 5 locations: Bucharest (capital city and centre of the country) and the cities: Craiova (south), Brasov (Centre), Cluj (Centre north) and Bacau (east) distributed according to the economic role, social and economic environment and the concentration degree of private enterprises. Those group discussions involved all in all 52 participants, who were selected beforehand from a sample agreed with the supervising organisation and considered to be relevant to the priorities of the study proper: area of activity (manufacturing, production, services and trade companies). The participants included representatives of micro, small and medium-sized companies, ranging from start-ups to established firms. Standard templates were used for the Focus Group discussions and the collection of ratings. The study includes comparisons made with the ratings derived from Focus Group Discussions carried out in September – November 2002 when 53 businesses attended six Focus Groups discussions. The 2002 ratings appear in this report as background information. Together with the last questions for each dimension of good practice, addressing the direction of change in the preceding year, the ratings provide an indication of the direction of change in perceptions.

V. Individual interviews with 15 MSME experts were carried out, in order to add to the input given by the focus groups and to cross reference information obtained during the discussions. Among the organisations interviewed were – National Agency for Small and Medium-Sized Enterprises and Cooperation (NASMEC), Ministry of Economy and Commerce - Direction for monitoring and improving business environment, Ministry of European Integration, Ministry of Public Finance, Competition Council, Chamber of Commerce and Industry of Romania (CCIR), Ministry of Justice – National Trade Register Office (NTRO), World Bank Office in Romania, Cooperative Housing Foundation Romania (CHF), Academy of Economic Studies Bucharest, Foreign Investors Council, South-West Regional Development Agency *etc.*

VI. The analysis presented in this EPPA is founded on the information collected by the local consultants, using the methodology described above (focus group research, expert interviews, and secondary data collection) and is complemented by the EPPA 2002 results. All information supplied by the local consultants has been analysed by the OECD and EBRD, resulting in the assessment presented in this EPPA.

Note: The notation MMSME and small enterprises in this report also includes micro-enterprises, which according to the EU Definition (http://europa.eu.int/comm/enterprise/enterprise_policy/MSME_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 enterprises 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 . In Romania, SME definition is to a large extent compatible with the EU one, with the significant difference that there are no maximum thresholds for the turnover or balance sheet asset value. As a result, only the number of employees is taking into account for the Romanian classification of SMEs.

ANNEX 4

Attainment of Charter for Small Enterprise 2003 Targets¹

Field of the Charter: 1 – Education and Training for Entrepreneurship

&

Field of the Charter: 4 - Availability of Skills

I Fair for SMEs (TIMM)

Objectives/Benchmarks: “**promoting entrepreneurial spirit, stimulating the development of businesses and of employment through facilitation of contacts between potential entrepreneurs/SMEs and other enterprises/public or private enterprises, improving the access to information, as well as increasing the economic performances of SMEs**”²

Type of measures to be undertaken to achieve this: “**promotion of entrepreneurial culture and development of entrepreneurial spirit through exhibitions - logistic organisation of the Fair for SMEs, drawing up and printing promotional brochures and materials**”

Deadline/period of realisation: **every year, 2002-2005**

EPPA Comments:

In 2004 NASMEC successfully organised the third edition of TIMM. The Programme has potential, and is useful in increasing awareness on the SME sector. Another positive feature is the organisation in several locations, covering most of the country regions. Nevertheless, as the EPPA focus groups have shown, not many SME representatives are in fact aware of the existence of the fair. It might both be fact that the PR campaign behind this event lacks resources and a certain lack of interest from the SME side. An additional observation may be made related to the unclear benchmark for evaluating this activity. For example, a benchmark may be the number of SME managers trained, or simply the number of SMEs present at the Fair, which became aware of training opportunities. Obviously, the benchmarks should be set in a progressive evolution for each year e.g. 40 SMEs in 2002, 60 SMEs in 2003, 80 SMEs in 2004 etc. More complex benchmarks can also be imagined, by using a survey during the Fair and analysing the perception of the participant SMEs on the effectiveness of the event.

¹ This material is based on *Section 3: Plans and Benchmarks* of the *Implementation Report- Romanian Contribution* of the questionnaire filled in by the Romanian Government in September 2004, reporting the progress in the implementation of the European Charter;

² The quotations are reproduced exactly as found in the *Implementation Report*.

II National multi-annual program for the period 2002-2005 for supporting small and medium sized enterprises for developing export

Objectives/Benchmarks: **“facilitating the access of Romanian SMEs to foreign markets and increasing the share of SMEs in Romania’s export, increasing SMEs sector’s export with an annual average rate of 10%”**

Type of measures to be undertaken to achieve this: **“improving SMEs access in the foreign market/financial support for SMEs (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: 2003-2005

EPPA Comments:

The aim of the programme is commendable, but the available resources are insufficient for attaining the over-ambitious benchmark of an annual 10% increase in SME export. Therefore, the impact of the programme was very reduced, and never evaluated in a rigorous way. A possible recommendation would be to focus more on the training of entrepreneurs in the area of export promotion techniques, for which NASMEC should cooperate more with the Commerce Directorate within the Ministry of Economy and Commerce (also see coordination/institutional problems described in Chapter 4 of the EPPA).

III National multi-annual program for the period 2002-2005 for supporting the access of small and medium sized enterprises to training and consulting services

Objectives/Benchmarks: **“affirming and capitalising production and service potential of SMEs through reducing the gap between training of Romanian SMEs’ staff and that of European Union SME’s staff and facilitating the access of SMEs to consulting services.”**

Type of measures to be undertaken to achieve this: **“ensuring business infrastructure needed for increasing SMEs competitiveness/building up the consulting networks (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

The programme is welcomed, given the fact that it would contribute to the increase of quality of advisory services. Nevertheless, the absence of a clear benchmark makes the evaluation of the programme very difficult. NASMEC has already created an open list of consultants on its website, which may be checked by SME representatives. Moreover, NASMEC has co-financed, as part of a limited budget, a certain number of SMEs applying for support in obtaining advisory services and/or training. A possible recommendation for NASMEC would be to shift from co-financing a small number of SMEs and focus more on supporting the formation of local and national associations and networks of consultants. Afterwards, such associations may choose to provide internal certification of quality standards in supplying consulting services.

IV National Multi-Annual Program for the period 2003-2005 for Supporting Traders

Objectives/Benchmarks: **“facilitation of the access of traders, authorized natural or legal persons, to training and professional specialisation courses, for ensuring quality services to consumers in the area of trading market products and services”.**

Type of measures to be undertaken to achieve this: **“ensuring business infrastructure needed for increasing SMEs competitiveness/building up the consulting networks (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

The first comment is related to the types of measures planned, which seem to be out of context. Secondly, there is no clear benchmark for evaluating the progress of the programme. Thirdly, the awareness about the existence of this programme is very low. Last but not least, the resources available are limited, allowing but a small number of SMEs to benefit. The programme should be better coordinated with the Ministry of Agriculture, Forests and Rural Development, the National Authority for Consumer Protection and with business associations in the food industry.

V National Multi-Annual Program for Supporting Crafts and Handicrafts

Objectives/Benchmarks: **“stimulating traditional artistic crafts, protecting and re-launching production of popular art objects with traditional specific, increasing the number of jobs in the area”**

Type of measures to be undertaken to achieve this: **“improving SMEs access to foreign markets/financial support for SMEs (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

Although the programme is beneficial to the crafts and handicrafts sector, it is not clear how it fits into Fields 1 and 4 of the Charter, as the Romanian Government suggests. There is no training programme whatsoever. Moreover, there is no clear benchmark for evaluating the results of the programme. The programme may be included in Fields 1 and 4 of the Charter if it will contain useful training courses on how to develop businesses in the crafts and handicrafts sector.

VI Programme for supporting SME development from food industry unfolded in co-operation with United Nations Industrial Development Organisation (UNIDO)

Objectives/Benchmarks: **“introducing the system of quality assurance, setting up information technology and consulting centres, as well as increasing the skills of SMEs from the area of food industry”**

Type of measures to be undertaken to achieve this: **“supporting SMEs in priority economic sectors, increasing their competitiveness, and increasing product and service offer in the market”**

Deadline/period of realisation: **18 months (starting from September 2003)**

EPPA Comments:

This programme seems well organised and focused, benefiting from UNIDO expertise. However, during the first 12 months of the project, the awareness related to this programme remained very low. Not even a brief presentation of the project may be found on the official website of NASMEC. Although no clear evaluation is possible with the existing information, it seems that the initial objectives of the project will only be partially fulfilled.

VII CURAS Program – Increasing the level of quality assurance in SMEs sector from horizontal auto industry and setting up supplier link (co-operation program between Romania and Flemish Government)

Objectives/Benchmarks: **“local SMEs suppliers of automotive parts to consolidate their position, in the first phase, in front of Romanian automotive manufacturers and, after a period, to meet the needed requirements to perform outsourcing activities in the foreign market”**

Type of measures to be undertaken to achieve this: **“supporting SMEs in priority economic sectors, increasing their competitiveness and increasing product and service offer in the market”**

Deadline/period of realisation: **2003-2004**

EPPA Comments:

The programme has organised so far several training sessions, involving 10 representatives of automotive enterprises. The training included ToT³ sessions, in order to ensure the dissemination of knowledge after the end of the programme. In the second stage of the programme, currently in progress, additional training will be provided to 40 enterprises of the automotive industry. However, the most important outcome of the programme will be the establishment of the Suppliers Chain Centre, as an NGO aimed at clustering the automotive main and secondary suppliers. So far it is not clear if the programme will indeed succeed to attain this important benchmark or not.

³ Training of Trainers;

Field of the Charter: 2 - Cheaper and Faster Start-Up

I National multi-annual program for setting up and development of technological and business incubators

Objectives/Benchmarks: **“stimulating business development and innovative initiatives, development at the local level of SMEs, increasing SMEs competitiveness and creation of new jobs”**

Type of measures to be undertaken to achieve this: **“ensuring business infrastructure needed for increasing SMEs competitiveness/support services for sustaining innovative SMEs and technological transfer to SMEs (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

This ambitious programme will benefit from UNDP assistance and expertise. Although the *Implementation Report* does not include a clear benchmark, the official declaration of NASMEC stated that the programme aims at opening 20 new incubators in the period 2004-2008. As mentioned in the EPPA assessment, a better benchmark should be related to the quality of the incubation process e.g. number of profitable incubated enterprises, rather than having only the number of incubators as a performance target. Among the existing 19 incubators in Romania, several are not sustainable on the longer run, and it would be advisable if the Romanian Government would think about transferring them to the private sector, in order to become lucrative businesses.

Field of the Charter: 7 – Taxation and Financial Market

I National Credit Guarantee Fund for Small and Medium Sized Enterprises

Objectives/Benchmarks: **increasing the access of SMEs to financing (through guarantee scheme)**

Type of measures to be undertaken to achieve this: **“encouraging Romanian banks that already approach SMEs sector, through guarantee scheme, to increase the volume of the credits or to give credits to clients that, otherwise, would be perceived as too risky or as having too weak guarantees”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

Although the National Guarantee Fund has adopted several measures in order to increase the effectiveness of its support, the success of the programme is shadowed by the low level of resources and by the reluctance of banks in concluding risk sharing conventions and implementing the guarantee programme. For instance, in 2003, only 120 SMEs have benefited from the guarantees provided by NCGFSME. The programme should continue, as SME access to finance is critical for the development of the economy. The private sector should be invited to cooperate in this programme, eventually allowing private management over several local and national guarantee funds.

Field of the Charter: 8 – Strengthen the Technological Capacity of Small Businesses

I National multi-annual programme for the period 2002-2005 for supporting small and medium sized enterprises for developing export.

Objectives/Benchmarks: **“facilitating the access of Romanian SMEs to foreign markets and increasing the share of SMEs in Romania’s export, increasing SMEs sector’s export with an annual average rate of 10%”**

Type of measures to be undertaken to achieve this: **“improving SMEs access in the foreign market/financial support for SMEs (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

Although the Romanian Government suggested that this programme addresses also Field 8 of the Charter, the proposed objectives have little, if anything, to do with the technological capacity of the SMEs. The link between technological upgrade and competitive exports is clear, however, by simply encouraging exports the Government will not directly strengthen the technological capacity of small business.

II Programme for supporting investments in priority industrial sectors

Objectives/Benchmarks: **“increasing the SME’s volume of activity and competitiveness and creation of jobs”**

Type of measures to be undertaken to achieve this: **“supporting SMEs in priority economic sectors/increasing the offer of products and services in the market (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

The programme provides co-financing for investment, including technology investment, for SMEs acting in selected sectors of the economy. Thus, the programme is more of a financial nature, combining a non-reimbursable allowance with bank credit and self-funding. The benchmark is unclear, thus hindering the evaluation of the programme.

III. National multi-annual programme for setting up and development of technological and business incubators.

Objectives/Benchmarks: **“stimulating business development and innovative initiatives, development at the local level of SMEs, increasing SMEs competitiveness and creation of new jobs”**

Type of measures to be undertaken to achieve this: **“ensuring business infrastructure needed for increasing SMEs competitiveness/support services for sustaining innovative SMEs and technological transfer to SMEs (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

Besides the general comments regarding the situation of business incubators in Romania (see Field 2 of the Charter and the EPPA assessment), a possible recommendation would be to monitor and benchmark the technological innovation or value-added brought by incubating hi-tech enterprises. Several business incubators in Romania are focused on software or electronics, sectors that have a high potential for RDI activities. A possible benchmark can refer to the number of patents obtained by enterprises benefiting from incubation.

IV Programme for supporting SME development from food industry unfolded in co-operation with United Nations Industrial Development Organisation (UNIDO)

Objectives/Benchmarks: **“introducing the system of quality assurance, setting up information technology and consulting centres, as well as increasing the skills of SMEs from the area of food industry”**

Type of measures to be undertaken to achieve this: **“supporting SMEs in priority economic sectors, increasing their competitiveness, and increasing product and service offer in the market”**

Deadline/period of realisation: **18 months (starting from September 2003)**

EPPA Comments:

The programme aims also at supporting technology transfer in milk, meat, vegetable and fruit processing and distribution. So far it is difficult to evaluate the results of the project in this respective, but possible benchmarks would be the adoption of quality standards and the increase in sectoral productivity.

V CURAS Programme – Increasing the level of quality assurance in SMEs sector from horizontal auto industry and setting up supplier link (co-operation programme between Romania and Flemish Government)

Objectives/Benchmarks: **“local SMEs suppliers of automotive parts to consolidate their position, in the first phase, in front of Romanian automotive manufacturers and, after a period, to meet the needed requirements to perform outsourcing activities in the foreign market”**

Type of measures to be undertaken to achieve this: **“supporting SMEs in priority economic sectors, increasing their competitiveness and increasing product and service offer in the market”**

Deadline/period of realisation: **2003-2004**

EPPA Comments:

One of the main aims of the project is to plant the seeds for a possible cluster of the main and secondary suppliers in the automotive industry. The know-how transfer from CZK Limburg to the Romanian enterprises in the automotive sector has already begun, through adequate training. This programme has high potential in spite of its small budget.

VI Programme “Development of towns through stimulation so SME activities” (Ministry of European Integration)

Objectives/Benchmarks: **“creation of new jobs, increasing the competitiveness of domestic products”**

Type of measures to be undertaken to achieve this: **“supporting SMEs in priority economic sectors/increasing the product and service offer in the market (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2004**

EPPA Comments:

It is unclear how this programme may address Field 8 of the Charter. This support scheme is more of a social nature, as it is conditioned by the unemployment rate of the small towns

VII Programme for increasing industrial competitiveness (Ministry of Economy and Trade)

Objectives/Benchmarks: **“increasing competitiveness of industrial products (main objective in the National Plan of Development)”**

Type of measures to be undertaken to achieve this: **“supporting SMEs in priority economic sectors/supporting SMEs for introducing quality standards (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

This programme is the only concrete action of a NDP⁴ component meant to enhance industrial competitiveness. Although it clearly lacks a benchmark, and its budget is rather limited, the programme is useful in addressing important problems such as the adoption of quality standards and the protection of industrial property. The Ministry of Economy and Commerce should increase the awareness of the enterprise sector about the resources provided through the programme, and also try to collaborate closer with business associations in order to involve more SMEs and disseminate good practices.

Field of the Charter: 9 - Successful E-Business Models and Top-Class Small Business Support

I National multi-annual programme for the period 2002-2005 for supporting the access of small and medium sized enterprises to training and consulting services.

Objectives/Benchmarks: **“affirming and capitalising production and service potential of SMEs through reducing the gap between training of Romanian SMEs’ staff and that of European Union SME’s staff and facilitating the access of SMEs to consulting services”**

Type of measures to be undertaken to achieve this: **“ensuring business infrastructure needed for increasing SMEs competitiveness/building up the consulting networks (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

⁴ National Development Plan;

EPPA Comments:

Although the programme does not explicitly focus on e-business models, it may provide training or consulting on how to develop SMEs using electronic platforms. In the future, NASMEC should encourage specific training and business advisory services on how to develop e-business models as part of a separate programme with distinct benchmarks and performance indicators.

II National Multi-Annual Programme for Supporting Crafts and Handicrafts.

Objectives/Benchmarks: **“stimulating traditional artistic crafts, protecting and re-launching production of popular art objects with traditional specific, increasing the number of jobs in the area”**

Type of measures to be undertaken to achieve this: **“improving SMEs access to foreign markets/financial support for SMEs (through budgetary allowances included in the Law of the state budget)”**

Deadline/period of realisation: **2003-2005**

EPPA Comments:

The Government has included this programme also under Field 9 of the Charter as it aims at supporting website creation in order to help the beneficiary SMEs to present their activity and promote their unique products. This component should receive more attention in the future, as it may prove very lucrative and beneficial for the crafts and handicrafts sector and overall for the SME sector. Moreover, NASMEC should think about cooperating with SMEs specialized in web design in order to create and promote a pool/network of available resources and service providers ready to respond to SME demands in terms of Internet web-sites.

ANNEX 5

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