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# Lessons for Supporting Small and Medium Size Companies' Export.

## The Cases of Three European Countries

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*In the context of internationalization the need for competitiveness is high in all types of companies, but even more in small and medium size enterprises, if they are to go international. However, it is well known that usually SME's have smaller export capabilities and there is usually the need for supporting them to go international.*

*The present paper presents the systems of SME's export support in three European countries, two transitional countries Romania and Poland and one developed European country: Finland. For each country the situation of SME's export is shortly presented and the emphasis is put on the analysis of the key institutions and programs dealing with SME's export support. The supporting systems in the three countries are compared, taking us to the more integrated Finnish system and the more fragmented Romanian and Polish systems. The paper concludes with recommendations for improvement and reorganization in the Romanian system for SME's export support.*

### Introduction

The internationalization process has known increasing trends in the last years in many economies. At company level, going international is in many cases a requirement for development and a sign of a proactive strategy. In many instances internationalization is undertaken by medium and large companies, while small companies have less capabilities to internationalize. Issues such as low access to finance, poor management, unstable legislation, lack of skilled labour, a low technological level and the lack of foreign market information are usually aspects that diminish the SME's capabilities to export. Consequently, there is the need

for supporting SME's in their export activities, if they are to be successful. The principles and the programs for export support as well as the implementation process influence to a large extent the success of the support effort. In order to exemplify and to learn from different countries experiences, we are taking into discussion in the following sections the experiences in supporting SME's export in three countries: Poland, Finland and Romania.

**Poland: Schemes For Supporting SME's Export**

In the recent years Poland has known a growing trade deficit. Research on the export activities of SMEs, suggests that the recent trends indicate a reduction in exporting by small firms, leaving it more to medium sized and larger enterprises. Nevertheless, a total of 14,000 Polish are involved in exporting<sup>1</sup>, although 30% of these are in the trade sector, acting as agents for small exporters.

A number of circumstances have contributed to the growing trade deficit in Poland, of which the most relevant are:

- A relatively low international competitiveness, of the Polish export offer, stemming from the obsolete production assets and a traditional production structure dominated by homogeneous, easily replaceable and market sensitive products,
- The low level of export development and promotion funds provided both by the enterprises themselves and the public institutions,
- The lack of a coherent support system for Polish enterprises and entrepreneurs enabling them to identify and set aside the problems they face in their international economic activity,

In these conditions the need for supporting Polish exports is high and

authorities pretend that they do their best to ensure it.

Three main systems of export promotion and support programmes can be identified in Poland:

- (i) The Polish Agency for Enterprise Development (PAED)
- (ii) The Ministry of Economy, Labour and Social Policy
- (iii) NGOs, such as the Chamber of Commerce.

A new National Export Development and Promotion Strategy is currently being developed, with technical assistance from the Netherlands and the UK being provided to the Polish Government under a twinning covenant. As a result, the support system is currently in a state of change.

The main objective of the new national export strategy is to strengthen export development and promotion policy and its institutional framework, leading to an increase of the capacity of Polish Economy to cope with competitive pressure and market forces within the EU. The more immediate objective is to address the growing negative foreign trade balance. The other aim is to reform and upgrade economic policy, in order to create the basis for the effective functioning of a market economy capable of standing up to international competitive pressure and market forces functioning within the EU.

<sup>1</sup> Report of the Department of Enterprise Development at the Ministry of Economy of Poland, 2003.

## *(i) The Polish Agency for Enterprise Development (PAED)*

The Polish Agency for Enterprise Development (PAED) was converted from a Foundation into a government agency in 2001. The agency increased its size and scope in 2002, when it merged with the Polish Technology Agency and the Polish Agency for Regional Development. The current objectives of PAED include implementation of economic development programmes, especially in the areas of SME development; exports; regional development; promotion of modern technologies; job creation, human resources development and counteracting unemployment.

PAED administers a set of financial instruments, funded under the EU Phare (2001) Programme. The support administered by PAED includes:

a. Grants for exporters, as well as for new technology development, Internet companies for increasing competitiveness on the home market. The procedures are the same for all purposes. These grants can be used to participate in foreign trade fairs, business missions, as well as for activities related to product promotion, technical assistance for assessing competitive position, matchmaking services, market research and other selected activities with respect to the implementation of export activities. They can be used to buy in soft support. PAED also offers training grants. For example, "The ABC of exports for SMEs" includes two modules: "export marketing" and "export transactions".

Information about the financial support available is disseminated via a website, as well as through seminars and workshop and via invitations published by the Regional Finance Institutions (RFIs), which are distributed throughout the country, with one in each vovoidship (16).

b. Soft support is available to support export development from accredited service providers, through the national SME service network (KSU), which is a group of 150 co-operating business counselling centres throughout the country.

Most of the member organisations are regional and local development agencies, business support centres, industrial and commercial chambers, and local foundations and associations; all are not-for-profit entities providing services directly to SMEs. These entities operate under an accreditation system, which guarantees their maintenance of high standards in their advisory, training, information, and financial services. Since 2000, the National SME Network centres have been participating in the implementation of the Government's policy towards small and medium-size enterprises.

*The business information network* is another institution (that also functions in the frame of KSU) providing an information service. It helps to match economic partners, provides information for foreign investors, etc.

*Euro Info Centres* (which also operate in the framework of KSU) deal with basic export information. They provide information on conditions of running

a business in the EU countries, products standards and norms compulsory in the EU, SME support programmes, help to establish cooperation with firms and EU institutions from the EU.

An *Infoline*, which could deal with basic export information (among other requests) is available through Advisory and Information Points, which have annual contracts with PAED covering the scope of advice offered and consultants employed. In Warsaw, info-point is promoted through newspaper, articles about programmes, conferences.

**Regional Finance Institutions (RFI's)** are PAEDs partners in the process of implementing policies towards SMEs, representing the main entry point for SMEs into the support provided by PAED.

The ease with which firms are able to access the support available is an issue with any public sector programme. PAED is seen as not being 'user-friendly' and being time-consuming to complete.

***(ii) The Ministry of Economy, Labour and Social Policy***

The Ministry of Economy, Labour and Social Policy has its own financial support programmes for exporters, such as for group events and grants to firms towards the cost of participating in exhibitions.

*Department of Foreign Investment and Export Promotion*

Within the Ministry of Economy, Labour and Social Policy, the contribution of this newly created Department of Foreign Investment and Export Promotion to Poland's export support and promotion is focused on:

a. Commercial attaches (78), attached to Polish Embassies abroad, which are a prime source of information for Polish exporters. These positions are staffed by the Ministry of Economy, separate from the Ministry of Foreign Affairs.

b. An export Internet portal, is in the process of being established by the Department ([www.exporter.gov.pl](http://www.exporter.gov.pl)), containing microeconomic information about the Polish export offer, as well as information about market trends in foreign markets.

c. The Department also subsidised training for export e.g. on export techniques, where the Ministry of Economy pay 50% of a firm's costs.

*Department of Enterprise Development*

The Department of Enterprise Development offers financial support from the state budget in a form of subsidies for firms to:

- participate in trade and exhibition events,
- obtain quality certificates,
- finance training costs linked to obtaining quality certificates.

***(iii) Polish Agency for Information and Foreign Investment***

The Ministry of Economy has recently set up the Polish Agency for Information and Foreign Investment, in order to separate policy making from implementation. The Agency for Information and Foreign Investment has two main tasks: firstly to act as a one-stop shop for inward investors; and secondly, to promote Poland abroad (in all aspects). The Agency is not involved in export promotion per se.

#### ***(iv) The Polish Chamber of Commerce***

The Polish Chamber of Commerce is a non-government organisation, which organises trade missions, undertakes surveys and undertakes a lobbying function, although their information provision was reported to be weak. They appear to mainly represent medium and large companies. They also participate in the social dialogue; for example, by commenting on draft legislation.

The Polish Chamber of Commerce is an umbrella organisation, whose members include both regional and bilateral chambers (e.g. Polish and British) and some trade associations: a total of 161 organisations. Individual companies are members of associated organisations.

The process of choosing countries for foreign missions varies. In some cases, embassies may initiate; on other occasions it might be individual companies or the Chamber who make the initial suggestion. The cost of such missions is born by participants, although 20-30% can be reclaimed

from the Ministry of Economy. The process of obtaining these funds involves the Chamber approaching the Ministry of Economy 2-3 months before a visit to see if they will support it. If approved, companies can claim a contribution to the cost of the visit afterwards.

#### ***(v) Polish Confederation of Private Employers***

Led by a former Minister, the Polish Confederation of Private Employers is an influential organisation, operating as part of the social dialogue. However, their orientation is neo-liberal rather than interventionist, which means they are not strong supporters of export promotion initiatives.

#### ***(vi) National Association for Trade and Services***

The National Association for Trade and Services (NATS) is a confederation, involving 40 regional associations. It has a total of 70,000 members who are mainly small firms and self employed, although there are a few medium size firms. Most of its members are trade and service sector firms, although a few are in manufacturing (e.g. food).

The activities of the Association include commenting on new laws and regulations, sent by Ministry of Economy and Finance, as part of the social dialogue. The main topics considered in this process so far have been concerned with the removal of barriers e.g. to start-up and level of taxation.

**Finland: Schemes For Supporting Sme's Export**

With a total population of 5.2m, Finland is one of the smaller economies in the EU and one of the most export oriented, with exports accounting for 40% of GDP and a total value of Euro 47.1bn in 2002<sup>2</sup>. Although dependent on imports of raw material, energy and some components for manufacturing industry, there was a strong positive trade balance in 2002 of Euro 11.7bn. More than 80% of total exports are from three sectors: electronics and electrotechnical goods, metal and engineering products and forest industries. With a small domestic market, the development of international markets is necessary for many Finnish companies, if they are to survive and grow.

As in most mature market economies, the Finnish government has recognised for some time that in the face of highly competitive international markets, it has a role in contributing to a supportive environment for successful internationalisation. Since there are few large firms in Finland, in practice export promotion and support involves mainly SMEs, although the contribution of a minority of large firms to total employment remains important (41% compared with 34% in the EU as a whole).

Approximately 8000 out of a total of 200,000 businesses were reported to

be involved in export markets, although these are particularly concentrated in manufacturing e.g. food, textiles and engineering.

Following an international evaluation of the Finnish Foreign Trade Association in 1996<sup>3</sup>, the approach to export promotion and support in Finland has been more strategic, recognising the dependence of a small country, such as Finland, on international trade, as well as the need to support a change in the structure of Finnish exports, towards more technology, knowledge based activities.

We are going to discuss now the key institutions and agencies that contribute to export support in Finland:

**(i) *Finpro***

The main export promotion agency in Finland is Finpro, which is an association founded by Finnish companies, with currently more than 500 members (although the number of members is reported to be in decline). It includes organisations such as the Finnish Confederation of Industry and Finnish Association of Entrepreneur (ITI), as well as individual (mainly larger) companies. Although a membership organisation, it receives financial support from the Ministry of Trade and Industry and thus its activities represent a private-public partnership. In fact, 60% of Finpro's income is currently from government, with 35% from earned fee income and 3-4% from members.

<sup>2</sup> 'Foreign Trade and Promotion of Internationalisation' in Finland 2003: Focus on the Economy and Technology, pp: 26-27.

<sup>3</sup> Ministry of Trade and Industry, Finland (1996) 'The Finnish Foreign Trade Association: an International Evaluation', Publications 9/1996

Finpro is more than an export promotion organisation, since it seeks to assist the globalisation of Finnish companies as a route to competitiveness and profitable growth. Finpro is a service organisation of professional consultants in international matters. Because of the degree of state funding it receives, its services must be available to all Finnish companies. However, extensive company specific services are charged to the user.

Finpro currently has 51 trade centres in 39 countries, strategically located in markets in which Finnish companies have a competitive edge<sup>4</sup>, and staffed by a combination of Finnish and local specialists. Finpro has a total of 350 staff worldwide, two thirds of which are outside Finland, in the Trade Centres (i.e. consultants/analysis and admin staff). Finpro recruits its staff (e.g. Heads of Trade Centres) from industry, which contrasts with staff in TE Centres, who are mainly bureaucrats.

Finpro's *current 'offer'* has 3 key components:

- a. Innovation programmes, which seek to capture changes in the international business environment that have implications for groups of Finnish companies.
- b. Consultancy services to companies: including both strategy and operational advice.
- c. Information and networking services, which are mainly free of

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<sup>4</sup> The countries in which these centres are located represent 90% of Finnish exports.

charge. Examples include E services and a call centre, which is staffed by knowledgeable and experienced staff, who are able to deal with 80% of enquiries themselves.

Finpro does not offer financing itself, but instead partners with TEKES, and others to finance projects.

## ***(ii) Ministry of Trade and Industry***

The Ministry of Trade and Industry offers financial subsidies for companies internationalisation projects, which can be used to assist in opening new markets or strengthening an existing market position. Support for SMEs is administered by the Employment and Economic Development Centres (TE Centres), which are located around Finland (15).

## ***(iii) Employment and Economic Development Centres (TE Centres)***

TEs are government agencies, established jointly by three Ministries i.e. Ministry of Trade and Industry; Ministry of Labour; Ministry of Agriculture and Forestry, following a Cabinet level decision to adopt an integrated approach. They form a regional network with a brief to work directly with SMEs, 'to support the establishment, expansion and development of SMEs with competitive potential'. This is achieved through the provision of business support services, consultation and advice, as well as finance.

They represent general business support agencies rather than export promotion organisations as such,

although approximately 20% of the applications from SMEs for financial support were reported to be for export aid. The current funding regime is mainly EU sourced so there is a questionmark about the future once Structural Funds ceases throughout Finland. In addition, TE Centres help local SMEs access a variety of funding programmes and sources, including FINNVERA, in the case of loans for internationalisation.

The role of foreign trade advisers in TE Centres is identifying the needs of SME and then channeling public sector support to help address them, but mainly delivered through the private sector.

TE Centres appear to have good market penetration: 35% of all SMEs nationally.

There has clearly been much debate in Finland concerning the role of government agencies in business support, compared with services supplied through the market. The role of these Centres is to provide a service for which most SMEs are not willing to pay i.e. identification of support need, which private providers would be unwilling to offer free. In this sense, it can be argued that they are contributing to the development of the market. It is widely recognised that SMEs often need help to diagnose their own 'support needs'. Moreover, once the needs are identified, SMEs often need help in identifying those sources and types of assistance most appropriate to them.

All consultants used by the T&E Centre must be accredited by the Ministry. Day rates are limited to Euro 1000 per day, which means that top consultancy companies are excluded. However, since most clients are SMEs, who are unwilling to pay more, these large consultancy firms would tend to be excluded anyway.

#### *(iv) TEKES*

Although not involved in export promotion per se, Tekes is a key institution affecting the ability of Finnish companies to develop and exploit international competitiveness.

Tekes plans, finances and administers R&D projects that promote the development and utilisation of technology. They provide funding and expert services for R&D projects at companies registered in Finland, as well as at Finnish research institutes and universities, promoting national and international networking.

Tekes support is not confined to Finnish companies, since the key point is that the support offered must benefit the Finnish economy.

The activities of Tekes involve two modes of operation:

a. Project support for individual companies. SME clients are typically technical entrepreneurs, who may be involved in product development with 3-5 years time span. One of the main support needs of this type of client is to get help in assessing what the market will be like by the time the



product hits market, because of ongoing technological and market change.

b. Technology programmes: There are currently 30 ongoing national technology programmes operating. These typically emerge following discussions with trade associations and other partners. Each would typically involve a feasibility study over 12-18 months, some of which are undertaken in-house whilst some are outsourced.

Allocations between sectors and technologies are decided internally. This has made it easier for Tekes to maintain its proactive, strategic activities. Project funding for universities research must be applied for annually, but company project funding is normally for UK cycle of project. Two thirds of expert positions are now recruited from industry, which means that salaries must be sufficiently competitive to recruit from the private sector.

### *(v) Finnvera*

Finnvera is a state-owned, financing company administered by the Ministry of Trade and Industry. It was established in 1999 as a result of the merger of the Export Credit Guarantee Agency and the Regional Development Fund. The latter is purely SME orientated and is used to promote internationalisation, amongst other purposes. Finnvera have a wide range of financial products for SMEs, as part of their domestic portfolio.

The distinction between Finnvera's domestic business and export credits is a key one because the operating parameters are different. Its domestic business, delivered through the Regional Development Fund is pure subsidy and is controlled by EC Competition Policy. It is almost entirely SME oriented because the European Commission prevents subsidies for large businesses. Finnvera's export credit and export insurance activity, on the other hand, operates under WTO rules.

### *(vi) Technology Industries of Finland (TIF)*

Technology Industries of Finland is a trade association with 1170 members in the electronics, electrochemicals, mechanical engineering and metal industries. Members include large firms such as Nokia, but are mainly SMEs. Members of the Association account for 90% of total sales in the listed sectors in Finland, which are mainly concerned with investment goods.

The main mission of TIF is to improve operating conditions for its members in Finland. Its activities are mainly lobbying and organising/facilitating services, rather than direct delivery.

### *(vii) Finnish Central Chamber of Commerce*

The Central Chamber of Commerce is an umbrella organisation for 21 regional Chambers, involving a total membership of 17,000 member businesses. Membership includes the

500 largest companies in Finland, as well as SMEs (but typically not micro-enterprises).

The key task is to promote the interests of members. In this context, the Central Chamber is involved in export promotion through supporting regional Chambers. However, Finpro was the main source of information for exporting companies and the level of Chamber activity in this regard varies considerably between different regions.

The Chambers movement is under-resourced and a small player alongside organisations such as Finpro. In this context, a few Chambers are more active in terms of the dynamism of individuals and history, rather than institutional factors.

The main role of the national Chamber is to lobby on behalf of its members e.g. on legislative barriers. It is not really active with respect to export services and members do not look to Chamber as a major source of export support.

### **Romania: Schemes For Supporting SME's Export**

After the Romanian political transformations of 1990, changes took place in the economic life including the development and structure of firms operating in the market (see *Table no. 1*):

- the number of autonomous regies has decreased with 62.5%
- the firms with state capital have decreased with 71.9%
- the percentage of private capital firms in total increased, so that in 2001 they represented 99.5% of the total number of companies
- the number of family associations has increased 5 times, from 24.942 to 142.537
- at the same time not all companies that were registered were also active. While in 1992, 66.9% of the private commercial companies were active, in 2001 only 42.3% of the private commercial companies were actually active. However the number of the active commercial companies increased 2.4 times in between 1990-2001.

Table no. 1.

#### **Number of companies after the ownership form**

|  | 1992   | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   | 1999   | 2000   | 2001   |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Autonomous regies  | 390    | 494    | 486    | 354    | 293    | 299    | 190    | 153    | 154    | 146    |
| Commercial companies registered to the Commerce Registry, total, | 220284 | 323309 | 437710 | 493824 | 606619 | 670850 | 642253 | 677376 | 710612 | 751733 |

|   |        |        |        |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| of which:   |        |        |        |        |        |        |        |        |        |        |
| - state capital                                     | 7885   | 8397   | 6963   | 6515   | 4815   | 3180   | 2218   | 2224   | 2155   | 2208   |
| - private capital                                   | 199902 | 308795 | 421676 | 482809 | 536648 | 582411 | 653232 | 673115 | 703364 | 748303 |
| <b>Active commercial companies total, of which:</b> |        |        |        |        |        |        |        |        |        |        |
| - private capital                                   | 151248 | 237022 | 291070 | 314494 | 323833 | 328749 | 330625 | 330725 | 320337 | 232147 |
| - private capital                                   | 133848 | 214045 | 278130 | 302787 | 314326 | 318677 | 321153 | 324426 | 314252 | 317274 |
| Private entrepreneurs total, of which:              | 144709 | 160416 | 200800 | 226407 | 255030 | 263940 | 318037 | 367173 | 394868 | 403333 |
| Family associations                                 | 28942  | 32084  | 38346  | 64205  | 82533  | 90944  | 120043 | 128265 | 133610 | 142573 |
| Individuals   | 115767 | 128332 | 162454 | 162202 | 172496 | 172996 | 197924 | 238908 | 261258 | 260796 |

Source: White Book of SME's in Romania, The National Council of the Private SME's from Romania, 2003, p. 44.

The companies' concentration has known a shift from the microfirms (0-9 employees) towards medium companies (15-249 employees) in the last years, as presented in table no. 2. In 1996 microfirms (0-9 employees) accounted for 95% of the total number of firms, in 2001, they

accounted only for 88%, while the small and medium firms increased from 0.8% in 1996 to 2.2% in 2001. At the same time the percentage of the small and medium sized companies in the turnover increased from 40% in 1996 to 49% in 2001.

Table no. 2.

**The structure of the private commercial companies after the number of employees and turnover**

|                                   | TOTAL | of which:             |                         |                           |                            |
|-----------------------------------|-------|-----------------------|-------------------------|---------------------------|----------------------------|
|                                   |       | Micro (0-9 employees) | Small (10-14 employees) | Medium (15-249 employees) | Large (over 250 employees) |
| 1996                              |       |                       |                         |                           |                            |
| % from total commercial companies | 100   | 93.1                  | 5.7                     | 1.0                       | 0.2                        |
| % from total turnover             |       | 40.9                  | 24.8                    | 15.6                      | 18.7                       |
| 1997                              |       |                       |                         |                           |                            |
| % from total commercial companies | 100   | 92.2                  | 6.5                     | 1.1                       | 0.2                        |
| % from total turnover             |       | 37.2                  | 27.4                    | 17.9                      | 17.7                       |
| 1998                              |       |                       |                         |                           |                            |

|  |     |              |              |             |             |
|--|-----|--------------|--------------|-------------|-------------|
| % from total commercial companies<br>% from total turnover         | 100 | 91.3<br>32.5 | 7.2<br>27.0  | 1.2<br>19.9 | 0.3<br>20.6 |
| 1999<br>% from total commercial companies<br>% from total turnover | 100 | 90.3<br>27.2 | 7.7<br>25.61 | 1.6<br>21.6 | 0.4<br>25.6 |
| 2000<br>% from total commercial companies<br>% from total turnover | 100 | 88.5<br>24.3 | 9.0<br>25.3  | 2.0<br>22.3 | 0.5<br>28.1 |
| 2001<br>% from total commercial companies<br>% from total turnover | 100 | 87.8<br>23.0 | 9.5<br>24.8  | 2.2<br>23.8 | 0.5<br>28.4 |

*Source:* White Book of SME's in Romania, The National Council of the Private SME's from Romania, 2003, p. 47.

Table no. 3.

#### **The first 10 activities (CAEN) after the business turnover**

| CAEN Activity               | Rank | Turnover volume (bill. Lei) | Rank | Turnover/company (mill. Lei) | Rank | Turnover/employee (mill. Lei) |
|-----------------------------|------|-----------------------------|------|------------------------------|------|-------------------------------|
| Wholesaling                 | 1    | 412000                      | 3    | 7606.54                      | 1    | 1947.21                       |
| Retailing                   | 2    | 193000                      | 10   | 1070.24                      | 5    | 466.83                        |
| Food industry               | 3    | 100000                      | 2    | 9420.63                      | 3    | 558.28                        |
| Building                    | 4    | 87100                       | 5    | 6534.48                      | 9    | 286.76                        |
| Textile industry            | 5    | 61500                       | 4    | 6862.20                      | 10   | 145.36                        |
| Retailing of gas            | 6    | 56700                       | 6    | 6307.40                      | 2    | 1114.17                       |
| Transportation              | 7    | 47600                       | 8    | 3169.99                      | 4    | 542.56                        |
| Other services to companies | 8    | 43300                       | 9    | 2056.83                      | 7    | 360.82                        |
| Metallurgical industry      | 9    | 39400                       | 1    | 9523.81                      | 6    | 376.11                        |
| Wood processing industry    | 10   | 35400                       | 7    | 4379.93                      | 8    | 321.84                        |

*Source:* White Book of SME's in Romania, The National Council of the Private SME's from Romania, 2003, p. 95.

Wholesaling has the highest total turnover, as well as work productivity. While the textile industry ranks the fifth as the total turnover in term of work productivity ranks the tenth.

Looking at the financial state of the companies, it can be noticed that the micro-companies have the lowest financial results from all categories of companies, as presented in table no. 4. Most of the SME's , around 70% and

more (excluding the micro companies) obtained profit in 2002.

Table no. 4.

**The structure of companies on size and financial status, 2002**

| Category | Percentage of companies |        |       | TOTAL |
|----------|-------------------------|--------|-------|-------|
|          | zero                    | profit | loss  |       |
| Micro    | 19.6                    | 39.8   | 40.8  | 100   |
| Small    | 0.18                    | 71.8   | 28.02 | 100   |
| Medium   | 0.12                    | 77.2   | 22.68 | 100   |
| Large    | 0.14                    | 74.18  | 25.68 | 100   |
| TOTAL    | 17.87                   | 42.57  | 38.56 | 100   |

*Source:* White Book of SME's in Romania, The National Council of the Private SME's from Romania, 2003, p. 101.

The indicator density of SME's at 1000 inhabitants gives the intensity of the entrepreneurial phenomena development. In Romania as compared to the UE countries the density of SME's/ 1000 inhabitants is 3 times lower, as it accounts for 13.64% as compared to 52.69% on average in UE. Even if we compare it with less developed countries from UE the SME's density/ 1000 inhabitants is still low: Greece (75.46%), Portugal (68.01%), Spain (68.24%), these being the actually the countries with the highest density of SME's in Europe.

Only a small number of SME's (of the over 400.000 total number) have export activities. The SME sector in Romania is currently more polarised than that in a mature market economy, between the strong exporters on the one hand (with good management and political connections) and the rest.

In terms of activities, clothing, wood processing, furniture and construction are sectors in which SMEs are involved in export activity. However,

in clothing this was described as typically involving subcontract-type activity, which is very price sensitive, with a tendency to be very volatile. Since the design element is typically located with foreign partners, this means that the competitiveness of Romanian firms is typically focused on low labour costs.

In terms of key institutions dealing with SME's support in general in Romania, there are the following:

**(i) Ministry of Economy and Trade**

The Ministry's SME support involves grant schemes for investment, credit lines and support schemes for training and consultancy, as well as business infrastructure projects, such as exhibition halls and industrial parks.

Whilst not specifically targeted at exporting firms, support available under Phare 98 and Phare 2000 may be used by SMEs to improve their competitiveness and access to foreign markets. In addition to regional infrastructure

projects (e.g. industrial parks, exhibition halls, roads), support has been available to SMEs in the form of investment grants, credit lines and schemes for training and consultancy, with small firms (<50 employees) becoming a particular target group since 2000.

**(ii) The National Agency for SMEs and Co-operatives (formerly the Ministry of SMEs and Co-operatives)**

The National Agency has taken over the four programmes for SME's, previously managed by the Ministry for SMEs and Co-operatives, namely:

- a. The multi-annual program for companies and entrepreneurship;
- b. The national multiannual program for 2002-2005 for supporting the SME's access to training and consultancy services;
- c. The national multiannual program for 2002-2005 for supporting SME's in the export development and
- d. The national multiannual program for 2002-2005 for supporting investments of SME's in the early stages and investments for the technological upgrading of SME's.

**(iii) The General Union of Industrialists of Romania (GUIR)**

The GUIR is one of the Confederations represented in the Economic and Social Council, with power to sign national contracts with trade unions. Although not a specialist SME organisation, it was reported that in practice most of its members are SMEs.

**(iv) The National Council for Private Small and Medium Enterprises**

The National Council for Private Small and Medium Enterprises in Romania is a non-governmental organization, non-profit organization that represents the interests of SME's in negotiating with the government. It was set up in 1992 at the initiative of a group of entrepreneurs. In the past 11 years it developed in national wide network with 75 branches in the country and with 55.000 members (SME's). The mission of the Council is to promote and defend the economic, production, commercial, juridical and any type of interests of SME's at international, national, regional and local level.

The main aim of the National Council is to protect the interests of members through social dialogue, for example, through the Committee of Social Dialogue, where issues such as vocational training, health and the negotiation of collective labour agreements dominate. The National Council claims a membership of 55,000, which includes direct members through branches but also those who are members of the NC's own member organisations. The representativeness of the NC is an issue.

The NC also lobbies on behalf of its members, for example, through the

Parliamentary Support Group for SMEs. Other activities include providing services, such as vocational training courses, organising workshop and seminars, as well as limited consultancy services and providing information about IT.

## (v) The Fund for SME Guarantee

The Fund for SME Guarantees has recently been established in order to plug a gap in the supply of finance caused by banks seeking collateral from SMEs greater than most are able to fulfil. In June 2003, the Fund was supported by 234bn lei (Euro 6m) from the state budget, which could be used to support projects up to Euro 36m. A current priority is to attract (foreign) private investment in order to increase the size of share capital, associated with increased operational flexibility, although the latter is also dependent on privatisation of the banking sector, with a commensurate reduction in the role of the state with respect to lending policies and regulations.

SMEs can access the Fund following an approach to a bank for a loan. If the project is judged by bank staff to be potentially viable but insufficiently backed with collateral, it may be referred to the Guarantee Fund. At the time of writing, the Fund had acted mainly on projects referred by a bank, without any direct contact with SMEs. This means that banks are effectively the gatekeepers for entry to the scheme, which means that SMEs that are not inclined to approach a bank for finance will not access it.

However, if the Fund's regional offices are successful in disseminating information about it to entrepreneurs and their representatives at a local level, this may help to increase the level of effective demand for access to the Fund from entrepreneurs, rather than totally relying on banks as intermediaries.

Considering the types of specific export support provided to SME's in Romania there are the following:

## (i) The Romanian Foreign Trade Centre (RFTC)

Established in 1996, the RFTC is the only foreign trade centre in Romania, offering services to both importers and exporters. These are available to all firms for a modest charge, with subsidy from the state budget, although some services are targeted at SMEs.

The main activities currently include:

- a. *Specific support services*: These include foreign trade missions; promotional programmes; market research on different countries; producing and distributing foreign trade statistics. Market research projects were reported to be often linked to specific trade missions for maximum impact. Target markets include those in the EU but also to regain former markets in China, Latin America and North Africa.
- b. *Tradepoint* is a project within the RFTC that is specifically focused on providing assistance to

SMEs, focusing on 3 main areas:

- c. *Advice*: on all aspects of how to trade, through the provision of an on-line database containing information about all regulations relating to foreign trade in Romania.
- d. *Providing information about business opportunities*: both for Romanian companies and for foreign companies interested in importing from Romania.
- e. *Developing virtual exhibitions*: this is based on a contract from government to support the development of virtual exhibitions for 12 sectors, as part of a wider government export initiative.

### **(ii) The National Council for Private Small and Medium Enterprises in Romania (NC)**

The National Council for Private Small and Medium Enterprises provides some export support for Romanian enterprises by organising foreign business trips for its members, as well as meetings with potential foreign investors in Romania itself. In 2003, trips were organised to Mexico and Cuba and in 2004 visits are planned to Australia and Israel. However, these activities are organised without government support.

### **(iii) Export Guarantees**

Exim Bank is responsible for export guarantees. However, these guarantees are to be avoided if possible, because of the 4% surcharge.

### **Comparison Of The Three Countries**

The strengths and weaknesses of the export support systems in the three countries differ with a more integrated and client oriented support system in Finland and with more disperse and in a permanent reorganization systems in Poland and Romania.

In Finland the strengths and the weaknesses of the SME's export support system are the following:

Strengths:

- a. The integrated approach to the delivery of business support to SMEs is a good principle, although differences in culture between the collaborating agencies are resulting in tensions in practice.
- b. The accreditation of external advisers used by TE Centres is a form of quality control offering SME clients a degree of quality assurance concerning what they can expect to receive from consultants
- c. In Finpro, the key export promotion agency, consultants/analysts have business experience. In the case of foreign trade centre staff, this experience is usually in a Finnish company operating in the country in question.
- d. High penetration levels by business support system; for



example, TE Centres claim a 35% market share of all SMEs as clients. Moreover, an estimated 80% of their customers are reported to apply for export aid at some point.

- e. The separation of Finpro foreign trade centres from Finnish Foreign Ministries overseas staff is a source of strength and independence for the export promotion effort, although in many countries, these centres are actually co-located with the Embassy.
- f. The emphasis on the principle of customer orientation throughout the system.

The weaknesses:

- a. The integrated approach to business support depends on effective networking between support organisations on the supply side.
- b. Variation in performance within the business support system, illustrated by the varying experiences between TE Centres in their ability to generate clients for Finpro.
- c. Although Finpro are staffed mainly by people from private sector backgrounds and Tekes is prioritising business experience in its recruitment, core TE staff are predominantly civil servants without business experience. Finpro representative alleged that low public sector salaries

affect quality of advisory staff recruited.

- d. Working relationships on the supply side are not entirely smooth e.g. Finpro's relationship with the TE Centres. Until 1995, Finpro had its own network of export advisers, but when the TE Centres were established (by 3 Ministries combining efforts), TE Centre staff became responsible for promoting Finpro's products and services and its former staff were incorporated into the TE Centres. However, Finpro would clearly prefer to employ its own staff and maintain its own brand with client companies directly.
- e. Access to business support varies spatially, affected by factors such as variations in business densities, as well as in the supply of private sector business services and influence of EU structural funds on demand.
- f. Outstanding issues include the future of the TE Centres after 2006 when the level of EU structural funds money going to Finland will be significantly less than it is now. There is also a need to continue to improve the focus of activity of the TE Centres and to raise ability of their staff to develop long-term relationships with SME client, which may require more

training since are long term public sector employed.

- g. TE Centre staff have had modest success in establishing long term relationships with individual clients, which are arguably at the heart of good practice business support.

In Poland and Romania, the main weaknesses of the systems that need improvement are:

- a. Export promotion and support for SMEs appears fragmented, lacking in cohesion and strategic vision; in other words, many details but little strategy.
- b. The Polish and the Romanian systems lack customer orientation because there is no agency with strong links to companies. Moreover, the fragmentation on the supply side makes it difficult for SMEs to find their way through the system. As in many other post-socialist countries, the approach appears legalistic and institutional rather than customer driven.
- c. Shortfalls in delivery and improved dissemination of information about the support that is available.
- d. The issue of the extent to which export promotion should be proactively delivered to companies.
- e. Allocating sufficient resources to enable the support system to operate effectively.

### **Conclusions And Reccomendations For Romania**

The support needs of SMEs with respect to the development and diversification of export markets may be divided into two groups: firstly, those that are associated with addressing the factors influencing their competitiveness in export markets; and secondly, those that are more narrowly focused on export promotion. The two aspects are highly inter-related.

#### *General Needs*

As in other transition economies, **access to finance** remains a problem for Romanian SMEs, for a combination of supply and demand-side reasons. On the supply side, a combination of high expectations by the financial institutions, with respect to the collateral required from client firms (120%), together with high interest rates (27%-30% pa in the case of loans in lei) limits financial opportunities for SMEs from bank sources.

Although a Loan Guarantee Fund has recently been introduced in an attempt to increase the supply of debt finance to SMEs, only 92 enterprises have so far benefited since the inception of the Fund, with an average loan size of Euro 69,000. Whilst the principle of loan guarantees is a good way to address the collateral gap, the impact of the Romanian scheme so far is very

limited. Nevertheless, it is a step in the right direction and in combination with the developments described below, can help to increase the supply of investment finance to Romanian SMEs.

**Poor management in SMEs** is another constraint on their ability to export. At the same time, it must be recognised that small firms particularly, face considerable internal resource constraints that can affect their ability to actively search out and use information.

A **'lack of stability in government legislation'** and **'high levels of taxation'**, including social taxation, combined with an overly complex tax regime. There are currently 220 taxes in existence in Romania, although not all are actually paid in practice.

Additional barriers include the low technological level with outdated equipment in common use, particularly in manufacturing. This can be expensive to rectify, since equipment often needs to be imported, with customs duties and import taxes reported to represent up to a third of the purchase price. In addition, informants referred to the lack of skilled labour, with limited financial resources available in firms to be allocated to training them. **This combined with the low technological level contributes to low product quality, which is often below that of imported goods.**

*Specific Needs with respect to Export Development*

Access to detailed **information about foreign markets**, which goes beyond broad macro level data.

**There is a need to raise the knowledge level of Romanian entrepreneurs about the export process and the requirements associated with it.**

Alongside a need for specific market information and greater knowledge of the export process, export support also has a wider business development aspect. For example, one of the ways in which SMEs in transition and developing countries can overcome some of the internal resource constraints, which can limit their ability to exploit foreign market opportunities, is through co-operation with other firms. A minority of SMEs are currently interested in joint ventures, because they fear a loss of control. Such firms have typically used internal/family resources to start and develop their ventures and do not want to share or lose control by becoming involved in co-operation arrangements.

In this context, the main recommendations for improving SME's support for export in Romania are<sup>1</sup>:

**1. A national strategy for export development and promotion should be developed**, led by the Ministry of Economy and Trade, whilst involving all key stakeholders. The overall objective of such a strategy would be to increase the volume and value of

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<sup>1</sup> Smallbone David, „Strengthening Romania's export capacity”, Report, Centre for Enterprise and Economic Development Research, London, UK, 2003.

Romanian exports and the number of exporting companies. The strategy should seek to address the needs of firms at different stages of foreign market development, with subsidised assistance focused on SMEs. There is a need for a short, medium and longer-term strategy, working towards an effective integration of export support and promotion into a well developed and effective business support system.

**2. Romania should consider setting up a single export promotion agency,** which could be combined with an FDI function. It should have an internationally viable brand name, illustrated by the case of Trade Partners UK in Britain. Its services should be available to all Romanian companies, although any financial support offered should be limited to SMEs. The agency should operate in a business like manner, be result rather than procedure oriented and be staffed by people with relevant, practical business experience. It should seek to be customer-oriented and include private sector representation on its management Board.

Based on good practice in existing EU member states, the establishment of such an agency will separate policy making from policy implementation. Policy making will be undertaken at the national government level, via the Ministry of Economy and Trade. Implementation of the policy will be carried out by the new agency under contract to the Ministry of Economy and Trade to develop and promote Romanian exports. Export promotional budgets will be allocated nationally,

linked to operational targets, such as the number of companies contacted, number of EDP support packages delivered.

**3. Ideally, the current RFTC could form the basis of an enhanced Romanian foreign trade resource and information centre, within the new agency.** The Centre should draw together information from trade journals and other publications, Internet databases, and the network of commercial attaches from Romanian embassies abroad. The goal should be to make the foreign market information database available to businesses through the Internet. A comprehensive foreign market information package should include a telephone helpline facility, to deal with queries that cannot be answered from the Website.

**4. An Internet export portal should be established, which brings together all relevant information for (potential) exporting companies.** It should contain information about the package of support available to (potential) exporters in Romania, including where to go for information on specified aspects of exporting; who to approach for export-related training; how to obtain detailed market information; the financial support measures available to Romanian exporters and how to access them. The portal should be backed by a telephone helpline.

**5. Specific export promotion instruments should include the provision of information to companies and financial support, but also ad-**

vice since the experience in other countries is that this is a necessary part of increasing the impact of other measures. As a result, policy for export development should focus on three key areas: firstly, information, advice, consultancy and training for SME management and business development, including export development; secondly, information and advice for (potential) exporters; and thirdly, financial instruments. In terms of the first, exporting should be an integral part of the assistance offered to Romanian entrepreneurs through business advisory centres, wherever applicable. With regards to information, the starting position of exporters in foreign markets is heavily dependent on the exporter's knowledge of the export markets and their existing contacts in that market. Whilst some of the required know-how may be acquired informally and/or from formal market-based sources, for many foreign markets, such information may be difficult to obtain or access, being spread over many sources and not always up to date.

It is recommended that up-to-date information on foreign markets is offered through a foreign trade and resource centre in the new agency, together with export advisory/consultation services under a single brand name. The agency should have a presence in each of the country's main regional centres, and should ideally be co-located with business advisory centres.

**6. It is recommended that a comprehensive programme is designed for first time and inexperienced exporters,** as this is a good way to increase the total number of exporters. The starter's programme should include advisory support accessed through the regional centres, training and/or financial support for training, for specific market research and/or market entry activities.

**7. Proactively target SMEs with export growth potential.** The level of effective demand for government export support programmes is dependent on the way in which information about this support is disseminated and how it can be accessed by firms. Hence underspend on allocated budgets does not necessarily reflect a lack of real need or interest on the part of firms. It may also reflect deficiencies on the supply side.

Whilst reliance on the Internet to provide information to companies about export support may seem a commonsense, low cost solution to bureaucrats, who may argue that firms really interested in such information will actively seek it out, this is not a view that is grounded in experience with companies, nor one that is likely to lead to a significant increase in the volume and value of Romania's exports. Developing a comprehensive Internet portal for exporters is a necessary but not a sufficient condition for reaching all potential exporters.

**8. The aim should be for customer focused delivery of business support services (including for export**

development), which is ideally reflected in 'One-Stop Shops' enabling businesses to access all government services in a single location. Services available to companies through these 'One Stop Shops' should include: information on foreign markets; advice and training for firms that want to expand their markets; support for foreign market entry, market research, missions and contacts; ongoing support for firms in the process of exporting; application point for available financial support schemes. To achieve this effectively, requires an agency, or network of agencies, with strong links to companies, as well as effectively facilitating co-operation between government departments and agencies on the supply side.

**9. The services which Romanian companies can expect to receive from embassies abroad should be stipulated in 'service level agreements' and widely publicised.** This is a key potential source of current and specific market information for Romanian exporters, although its quality is likely to be reflected in the commercial knowledge and orientation of the people gathering it and its impact dependent on firms being able to easily access it.

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