

ECONOMIC AND SOCIAL IMPACT OF THE YOUNG ENTREPRENEURS PROGRAM IN ROMANIA

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Abstract

In accordance with the Entrepreneurship 2020 Action Plan, in recent years in Romania there were implemented a series of measures with the aim of creating an environment that is conducive to business development and entrepreneurial education among young people especially.

This paper focuses on the economic and social impacts of the Program for the stimulation of establishing and developing micro enterprises by young entrepreneurs (SRL-D) . The Program aims to stimulate and support the development of new firms (start-ups) by facilitating access to funding for young entrepreneurs. In addition to grants awarded to firms set up by young entrepreneurs, a range of other facilities designed to encourage young people to start up a business is also offered. In the period under review there were founded over 17.000 of Limited Liability Companies-debutante (SRL-D), of which 30% have been enrolled in the Program and 15% have received funding and facilities. The creation of over 8,800 new jobs within the SRL-Ds registered in the program has insured the coverage of fiscal facilities granted and has reduced the government spending for unemployment. In order to increase the economic and social impact of the Program, it is necessary to improve it by increasing the funds allocated and to simplify the mechanism for granting funds and guaranteeing credit.

Keywords: entrepreneurship, SRL-D, grants, fiscal facilities

Rezumat

În concordanță cu viziunea europeană de dezvoltare economică, adoptată în 2011 prin Entrepreneurship 2020 Action Plan, în România au fost implementate o serie de măsuri menite să creeze un climat propice de afaceri și să conducă, în special în rândul tinerilor, la dezvoltarea educației antreprenoriale. Lucrarea analizează impactul economic și social al derulării, « Programului pentru stimularea înființării și dezvoltării microintreprinderilor de către întreprinzătorii tineri ». Acest program urmărește stimularea și sprijinirea tinerilor în deschiderea unei afaceri prin facilitarea accesului la sursele de finanțare. Alături de ajutoarele financiare nerambursabile, acordate firmelor înființate de antreprenorii debutanți și garantarea creditelor, sunt oferite și o serie de alte facilități fiscale menite să încurajeze tinerii să înceapă o afacere pe cont propriu.

În perioada analizată au fost înființate peste 17.000 de Societăți cu Răspundere Limitată-debutant (SRL-D), din care 30% s-au înscris în Program, iar 15% au beneficiat de finanțarea și facilitățile oferite de acesta.

Crearea a peste 8.800 de locuri noi de muncă, în cadrul SRL-D înscrise în Program, a asigurat compensarea, în mare măsură, a facilităților fiscale acordate și a condus la scăderea cheltuielilor cu

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ajurorului de șomaj. În vederea creșterii impactului economic și social al programului este necesară îmbunătățirea acestuia prin creșterea volumului fondurilor alocate și simplificarea mecanismului de acordare a fondurilor nerambursabile și garantare a creditelor.

Cuvinte-cheie: antreprenoriat, SRL, finanțare nerambursabilă, facilități fiscale

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1. Introduction

The guidelines of the Small Business Act (SBA) have been implemented in Romania through the Law for the encouragement of small and medium sized businesses creation and development, approved in 2014. The expected results of this law are the significant growth of active small and medium businesses, including start-ups and spin-offs, the development of existing businesses, and the creation of jobs, as well as the easing of access to financial resources through a variety of national programs aimed at funding small and medium businesses. The national programs have had multiple objectives and target groups.

These programs have sought to:

- stimulate the founding and development of micro-enterprises by young entrepreneurs;
- develop entrepreneurial abilities among the youth and give them easier access to financing;
- develop and modernize the way in which goods and services are commercialized;
- encourage the creation and development of business and technology incubators;
- develop entrepreneurial culture among women managers working in the small and medium business sector.

In the 2011 – 2013 period, a total fund of 233.943.000 lei was allocated towards funding seven national programs aimed at promoting the start-up and development of small and medium businesses, with the total amount paid out in the end being 161.533.983 lei.

The following article wishes to analyze the economic and social impact of the Program for the stimulation of establishing and developing micro enterprises by young entrepreneurs (SRL-D).

2. The legislative framework for the operation of the Program for the stimulation of establishing and developing micro enterprises by young entrepreneurs (SRL-D)

The Program was launched 4 years ago through Government Emergency Ordinance No.6 /2011, and it was aimed at young people aged 18 to 35 with no former entrepreneurial experience.

The program aimed at new entrepreneurs is a true necessity because of the small number of young people who start businesses in our country and the high rate of unemployment among the youth. Young people often blame the lack of financial resources and entrepreneurial knowledge as the main obstacles to starting up their own businesses.

The law guarantees a series of facilities for start-ups by new entrepreneurs:

- non-reimbursable financial allowances representing as much as 50%, but not more than 10.000 Euros (or the equivalent in lei), of the total value of eligible business plan expenses;
- exemption from the payment of social security contributions for up to four employees on permanent contracts, up to the level of the previous year's national gross average salary;
- a state guarantee for up to 80% of credits contracted to finance the business plan, up to a maximum threshold of 80.000 Euros or the RON equivalent.

SRL-Ds are also exempt from payment of registration fees at the trade registry

In order to register a new business as an SRL-D, the new entrepreneur must fulfill the following conditions:

- The enterprise may have a single shareholder or up to 5 associates, all of whom must be no older than 35 at the date of its incorporation in the trade registry.
- The business must be a microenterprise, as defined under Law 346/2004.
- The owners/associates must be setting up a limited liability company for the first time, and must not be shareholders/associates/members of another company in the European Economic Area.
- The enterprise may have a maximum of 5 groups of activities as defined in its CAEN Code (Romanian official classification of companies' activities).

Certain activities are excluded, such as financial and insurance intermediation, real estate transactions, gambling activities and some others.

• The enterprise must have at least two employees on permanent work contracts at the time it receives the facilities.

• The enterprise must reinvest at least 50% of the profit derived from the previous fiscal year on an annual basis

Law nr. 97/2014 eliminated the age limit for entrepreneurs who wish to start their first business.

Starting with the 31st of December 2014, SRL-s belonging to new entrepreneurs (SRL-Ds) that were founded in 2011 have lost their right to privileges given by the Government Emergency Ordinance No.6 /2011 on incentives granted to young Entrepreneurs who set - up and develop small enterprises.

The Program for the stimulation of establishing and developing micro enterprises by young entrepreneurs (Government Emergency Ordinance No.6 /2011) has been held up as a standard of good practices at an European level, has been adopted in similar forms by other states, and has been included in the framework document of the largest organization of young entrepreneurs - Young Entrepreneurs of the European Union – JEUNE (“European Economic Eco system”).

3. The economic and social impact of the SRL-D Program

Since the Program's debut in 2001, youth interest in the facilities offered has been high. In the program's first year, over 4000 LLC-Ds were founded. Starting with 2012, over 6000 SRL-Ds have been registered each year, with 24706 SRL-D registered as of November 2015. The evolution of the number of SRL-Ds registered at the National Trade Register is shown in table no. 1.

Table 1. The evolution of the number of SRL- Ds

Nr.	Date	Total number of SRL- Ds
1	30 June 2012	5.341
2	30 January 2013	6.860
3	31 December 2013	10.777
4	31 December 2014	17.019
5	30 November 2015	24.706

Source: National Trade Register office statistics

At the same time, there is a constant increase in the percentage of newly founded SRL- Ds to regular SRLs (from 6% in 2013 to 14% in 2015).

The youth's interest in the program has been constant from 2011 to 2015. The performance of SRL- Ds registered through the Program in the 2011 – 2014 period is represented in table nr. 2.

Table 2. SRL-D results

Year	Nr. of SRL- Ds registered	Accepted applications		Signed contracts		Paid applications		
		Nr.	%	Nr.	% Of admissions	Nr.	% Of those admitted	% of those registered
2011	1256	626	49,84	410	65,49	370	59,10	29,45
2012	1332	922	69,21	735	79,71	581	63,01	46,61
2013	1176	575	48,89	539	93,73	440	76,52	37,41
2014	1231	565	45,89	415	73,45	415*	73,45	33,71
Total	4995	2688	53,81	2099	78,08	1806	67,18	36,15

Source: Own calculation based on data from ONRC

* The numbers for 2014 represent signed contracts. Payments are still being made through to 31.12.2015.

- From the presented data we can observe a relatively low level of competition, and the fact that over 20% of the accepted applications never get to sign the contracts and even fewer actually get paid.

- In 2015, due to delays and modifications made to the program, interest in the program has decreased.

- Out of 580 submitted applications, 262 were admitted and 165 contracts were signed, thus making the funds absorption rate in 2015 smaller than 35%.

The main changes to the program in 2015 that led to the lowest rate of absorption are:

- the business plan's time frame has been reduced from a year to 30 days;

- some eligible expenses can't be implemented in such a short time frame, and a new entrepreneur needs a much larger period to launch his business. The Program is no longer destined for people with no business experience;

- the non reimbursable 10.000 Euros financing is offered as a reimbursement, the beneficiary having to first make the expenses, then get reimbursed from the state budget ;

- in order to have his business plan approved, the beneficiary must prove he has the entire requested sum plus the co-financing part and the VAT (which is considered a non eligible expense) ;

- the employees' salaries may no longer be reimbursed, since the period has been reduced to 30 days.

The situation regarding the program's implementation in the 2011 – 2014 period is presented in table 3:

Table 3. SRL-D Program implementation in 2011-2014

Year	Number or registerd SRL- Ds	The turnover of SRL- Ds registered in the program -lei-	Total profit of registered SRL- Ds -lei-	Jobs Created by the Program	Total jobs created by the SRL- Ds
2011	1256	149.775.145	11.019.062	3217	13069
2012	1332	107.922.033	11.764.236	2583	4070
2013	1176	134.469.815	8.327.877	2187	4000
2014**	1231	56.000.000	3.500.000	830	6400
Total	4995	448.166.993	34.611.175	8869	27539

Source: AIPPIMM statistics

* The numbers for 2014 represent signed contracts. Payments are still being made through to 31.12.2015.

** Estimated dates

From 2010 to 2020, the Program seeks to offer non reimbursable financing for at least 1.100 SRL- Ds per year in the 2010-2012 period, and at least 550 SRL- Ds in the 2013 – 2020 period. (HG nr. 186/2013).

The authorities consider that the SRL- Ds program had the most impact compared to all the other programs. They cite the 8800 new jobs financed by the program, which represent approximately half of the total number of jobs created by all the other similar programs put together over the last 6 years.

However, the program is still far from reaching its objectives and efficiently using its funds.

Over 45% of the SRL- Ds that apply to the program only promise to create 2 new jobs, and the real situation regarding the creation and continuation of these jobs is not exactly known. The level of reinvested profit is lower than the one foreseen (a minimum of 50%) and a significant number of SRL- Ds have recorded losses.

The program's delayed funding over the past 2 years has led to important changes in its implementation which reflect negatively on its results.

The level of absorption of funds allocated from the state budget for the SRL- Ds Program has never surpassed 60% and is estimated to fall below 35% in 2015. In the 2011 – 2013 period we can consider that these funds have been insufficiently used, since funding for the projects has been approved based on the order in which the projects were submitted, as opposed to the scores accorded to the business plans. However, the selection criteria and the scoring for the business plans aren't totally conclusive and do not guarantee an objective selection for the SRL- Ds applying to the program.

The necessary procedures for accessing and implementing the programs are relatively cumbersome, which leads to less funding for the SRL- Ds and the need to bring in specialty consultants (with a part of the consulting costs being reimbursed by the program).

The results obtained by the SRL- Ds which received financing through the program haven't always been consistent with the estimates made when the financing was requested.

In some cases, the times needed to implement the projects haven't been properly correlated with the nature of the SRL- Ds work, and this has led to the SRL- Ds failing to access the needed funds. In this way, the overall efficiency of the program has decreased, with some SRL- Ds not accessing all the requested funding and the program ultimately supporting a smaller number of beneficiaries than those who had initially signed funding contracts.

A significant number of projects were failed to be implemented due to them not obtaining the necessary co-financing credits from the banks.

The lack of a clear yearly schedule for the program stops the entrepreneurs for creating a realistic and well established business plan.

The program has failed to provide the needed conditions for country-wide access, given how most of the projects which received funding came from the north-west and Bucuresti-Ilfov regions.

During 2011 – 2013, the programs for sustaining and developing small and medium sized businesses failed to provide the necessary conditions for balanced growth in all the sectors of the economy, since most of the funding went to businesses operating in the commerce and services sectors, to the detriment of those in the industrial sectors. Monitoring for the program has been lacking and has failed to evaluate the program's real impact on the economic growth of the small and medium sized business sector.

4. Conclusions

Numerous national programs were created to support the growth of the small and medium sized business sector, allowing young entrepreneurs to choose the best options for starting their businesses. The difficulty in choice comes from the multitude of sources, the extreme fragmentation of financing for the small and medium business sector, and the frequent changes to the ways and conditions under which the non-reimbursable funds are accessed. The program for young entrepreneurs started off as a good initiative, only to fail in 2015.

From the start of the project and up to 2015, over 24.000 SRL- Ds have been registered with the Trade Registry, of which 5575 (24,1%) applied for non-reimbursable funding. Out of all the SRL- Ds that registered, only 8,5% received funding from the

program.

Evaluating the degree to which the funds allocated by the programs have been used is impossible, since the payments are only tracked at a program-wide level, and not analytically.

The lack of performance indicators in the financing contracts makes evaluating the efficiency of public funds usage difficult from the cost benefit perspective and it makes the overall program impact on the activity of small and medium businesses hard to judge.

The financing program must be reanalyzed and adapted to the real needs of small and medium businesses. An increase in funding for the program is necessary for obtaining significant economic results, and the ways in which funding is accessed and implemented must be simplified and improved.

Starting funding for the program at the beginning of the year and ensuring a constant stream of applications would be particularly useful to entrepreneurs who wish to create realistic business plans. At the same time, money unused by some beneficiaries could be rapidly redistributed.

In order to increase the efficiency of fund usage, the Program could provide inexperienced entrepreneurs with courses and free consulting for the creation and implementation of business plans.

The program needs to stimulate the creation of more micro-enterprises working in research and development, in order to encourage innovation and the initiation of new projects in this field.

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