PH.D. THESIS
Cristina Alina Marghitaş

FINANCING OF THE SMALL AND MEDIUM ENTERPRISES IN THE CONTEXT OF ROMANIA INTEGRATION IN THE EUROPEAN UNION

SUMMARY

Scientific Coordinator, Ph.D. professor Mariana NEGRUŞ

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Comision of Evaluation of the Ph.D. thesis:

PRESIDENT: Ph.D. professor Carmen COMANICIU, Dean, Faculty of Economics, "Lucian Blaga" University of Sibiu

SCIENTIFIC COORDINATOR: Ph.D. professor Mariana NEGRUȘ

REFERENȚI ȘTIINȚIFICI:
Ph.D. professor associate Ramona ORĂȘTEAN, Faculty of Economics, "Lucian Blaga" University of Sibiu
Ph.D. professor Constantin ANGHELACHE, „Artifex” University, Bucharest
Ph.D. professor Dumitru NICA, „Spiru Haret” University, Bucharest
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INTRODUCTION

Small and medium enterprises (SMEs) play an essential role in developing any economy and they generate a largely part of GDP, both in the trade field and in the industry or services. SMEs are characterized by dynamism, flexibility and innovation being able to adapt the changes that occur in the economy, to refer quickly the market trends and to be promoter of the changes.

Activity of any business is oriented to the profit and maximizing the value for investors. Achieving of this objective is not something easy; the company management must consider the uncertainty generated by the fact that the economic environment is characterized by a constant change; the economic activity has a fluctuating trend over time.

The business success of an enterprise depends largely on the funding policy that it is taken. From here it appears the necessity to identify those sources of funding to ensure the expected profit and maximizing the value of the company.

The purpose and the objectives of the thesis:
The theme that I developed in the thesis entitled "Financing of the Small and Medium Enterprises in the context of Romania Integration in the European Union", is in line to concerns about finding the most effective ways of financing of the SMEs’ sector and it was realized from the double perspective, both of the funding sources and of the relationship with financial institutions.

To achieve this general purpose there were defined the following objectives:
- Knowledge of the overall situation of SMEs in the period 2009-2011;
- Presentation of the theoretical concepts relating to the financing sources of the small and medium enterprises;
- Identify the main financing sources of SMEs and how to access them, presenting the advantages and disadvantages to each;
- Development of studies and examples for each method of financing approached in this paper;
- Draw conclusions based on the results of the scientific research conducted by the thesis.

Research Methodology:
- To develop the specific objectives described above, we used the following methods and research tools:
  - **Questionnaire**, chosen as a particularly method of investigation of the economic agents and their perception on the banking financial institutions;
  - **Documentary research** was conducted through the library book fund existing at the Lucian Blaga University, the electronic databases and the book from the University of Debrecen;
  - **Direct research and discussions with the banking specialists** about the internal rules used by the bank for the lending activity;
  - **Case studies** refer to the methodology of accessing the credit by a company; methodology for accessing the grants by the entrepreneurs;
  - **Data analysis and their interpretation** using graphs, charts and figures to express the analyzed phenomena.
Thesis structure:

Through this thesis, I approach, in six chapters, a topic of great interest, both in our country and in Europe and I have structured it, in this way:

In the first chapter entitled "Introductory Notions Regarding the Small and Medium Enterprises: Defining, Tendencies and Financing Modalities", I analysed the private sector development since 1990, I defined small and medium enterprises and have shown what are their main features.

In this chapter I presented the legislative regulations for the organization and functioning of the SME’s sector in Romania, I conducted an analysis of the overall situation of SMEs in the period 2009-2011 and described their role in the economy of a country. Chapter I contains in the final part, the main trends in the evolution of the company and the financing modalities of the SME’s sector.

In Chapter II "The Financing of Small and Medium Enterprises through Own Capitals" I discussed about the modalities of financing the companies through increasing the social capital (cash contributions, in nature and by incorporating the reserves). We also presented an example for increasing the social capital due to the cash contributions.

Through the chapter I want to show the way by which the company realises the merger and absorption of the enterprise as an operation for increasing the social capital. I analyzed the small and medium enterprises financing from its own internal cash flow, here referring to the self-financing and damping as a resource of a self-financing. As regards of depreciation, I showed its main forms and exemplified the calculation of the linear one. As short-term domestic financing, I discussed about the theoretical concepts related to the net working capital.

Chapter III entitled "The Financing of Companies and Small and Medium Enterprises with the help of Banking Credits and of Capital Market’s Instruments" begins with the theoretical notions concerning the definition of the credit and functions that are fulfilled and the main types of loans granted by banks to the companies (such as credit line, cash loans, stock loans, revolving loans, leasing, factoring financing, etc.) and SMEs.

Further for the scientific endeavour of this chapter, I conducted a study about the territorial structure, with reference to the Arges County, of the loans and deposits of the economic agents from June 2010 to June 2011, based on the data published by the National Bank of Romania. In support of the scientific research, I realized a study about their perceptions about the financial banking institutions based on the questionnaire, as a method of investigation of the Arges County businesses.

In the second part of this chapter, I showed how to do the direct control of the bank credit through the monetary policy, the role of BNR in the functioning of the small and medium enterprise sector and the relationship between the bank credit and the financial crises.

Chapter III contains the theoretical aspects about the methodology of lending to a commercial bank in the Arges County and a case study conducted in a company (SC Agroaliment SRL) to obtain a short-term credit.

In Chapter IV, "Financing Sources of Small and Medium Enterprises from European Funds" I have done an analysis of the functioning mechanism of the EU funds, I presented the programming principles of the structural funding and what are the financing operational programs that are addressed to the SME sector. This chapter contains an evaluation of the absorption of the EU funds at the national level and ends with an example of SME financing for investments worth of 1.075 million lei by the Sectoral Operational Programme - Increase of Economic Competitiveness 2007-2013, Axis priority 1 - An innovative and eco-efficient production system, the major area of intervention D1.1. Productive investments and preparation for the market competition of the enterprises, especially SMEs, Operation a) -
Support for strengthening and upgrading the productive sector by the tangible and intangible investments.

In Chapter V "Research Regarding the Financing of Microenterprises in Hungary", I conducted an analysis of financing the micro enterprises and presented the banking system in Hungary, based on data and the information collected by the library of the University of Debrecen, during the doctoral training of this year.

In the study that I conducted on the micro-credit in Hungary, I analyzed the micro credit programs and organizations for financing and their guarantee, which operating at the regional and the national level.

Summarizing the analysis in this work, the scientific inquiry has enabled me to draw conclusions and personal considerations about the modalities of financing of the small and medium enterprises, which have included in Chapter VI, entitled "Conclusions and Personal Considerations".

Chapter I "Introductory Notions Regarding the Small and Medium Enterprises: Defining, Tendencies and Financing Modalities"

After 1989, switching to small and medium enterprises to the private sector has made the following ways: fostering the entrepreneurship and transfer of the state property to the private sector.

Ways of formation of the small and medium enterprises, according to the legal framework were: creation of the private enterprises, privatization of the public companies and creation of the private enterprises with the foreign participation.

The legal framework of SMEs operating in Romania includes regulations on the establishment of the small businesses, organization and performance of some economic activities based on the free enterprise, privatization of the state-owned companies, etc., which are included in a set of laws, as such as Law 31/1990, Law 35/1991, Law 58/1991, etc.

European Commission defines the micro enterprise, the small and medium enterprises through Recommendation No.361/2003/CE, after the criterion of turnover, the total assets and number of employees, placing them into three size categories: micro, small and medium enterprises;

SMEs have a number of defining characteristics, such as: the company is a unit of production and distribution and has the role of income primary distribution as the economic agent; the company decides on the main variables of the activity and it is a social cell because it operates within a given number of employees.

The statistics on the total number of the active traders legally throughout the country, from 30 June 30, 2009 - June 30, 2011, shows that the reduction occurs with a number of 162 217 active trade in 2010 compared with 2009, because the economic difficulties experienced in full of the Romanian entrepreneurs, one of these causes is the VAT increase to 24%, which led to the de-capitalization of several companies On June 30, 2011, the active traders businesses increased by 556 persons compared to the same period of 2010, resulting a slight improvement in the business environment, as shown in the chart below:
Chart no. 1. Evolution of the number of the active traders in the period 2009-2011

Source: Own processing of data taken from the site http://www.oncr.ro/documente

Analyzing the data from the report by Global Entrepreneurship Monitor (GEM) in 2010, the entrepreneurial attitude of the Romanians to start a business, I found that they are one of the lowest positions in the ranking performed internationally, beside the Greeks, the reason is lack of education in this respect (in fact explained by the reduced number of hours in the curricula, both in the high school and in the university education), of the resources and encouragement of the fiscal order. In addition to the criterion "the fear of making mistakes," Romanians scored negative (this score including people from Hungary, Greece and Russia), explained by lack of confidence in own ability and lack of education to develop the creativity.

Regarding the evolution of the business as the economic and social organization with finality, status, resources and specific activities, will be the scene of the major changes that will affect management, functionality and integration into the society as a whole, as a result of the scientific and technical progress and the profound changes where the global and national economy is continuously undergoes.

Financing of the company can achieve its own internal sources (the proper capital, cash flow) or external: term commitments (bank loans) and grants from European funds.

Chapter II "The Financing of Small and Medium Enterprises through Own Capitals"

The own capitals are formed from the external contributions and sources or internal contributions. The external contributions include the contribution to the owners, perhaps some consideration of the State or of the specialized communities and organizations and those internal are resources that releases from the self-financing capacity of the company.
The most important types of contributions to the establishment of the social capital are the cash and environment contributions.

Increasing the social capital through the cash contribution is a means of financing and consolidation of the own capital, having as a first effect increasing the nominal value or the number of shares of the company.

On account of contributions in the kind assets increase simultaneously the own capital, the working capital remained unchanged. To ensure the exploitation of the new assets, the company may be forced to seek new means of financing to increase its cash money.

Increasing the social capital by incorporation of the reserves is a financial transaction which is not a means of financing the company. It is an operation without financial flows; it is without new financial resources. By this operation, the accumulated reserves (other than mandatory legal reserves) are transferred and accounted in the "social capital" account, generating either an issue of the new shares, or takes place increasing the nominal value of the existing shares.

Fusion is the process whereby two or more enterprises, initially separated - legally disappear, to unite in one and the new business. By merging, the firms’ assets and liabilities merge giving rise to a single property. This procedure does not lead to a real increase of the social capital, but the concentration of the capital from the companies that have merged.

Absorption of the enterprises is characterized by shifting one or more undertakings under the control of another one; this method leads to a concentration of the capital and not to its effectively increasing.

Self-financing method gives rise to the own funds and is characterized by retention of the part of the results which is released from the activity of enterprises. In terms of business development in a higher proportion, the self-financing is not sufficient but must be combined with other procedures.

Self-financing is a means of financing of the small and medium enterprises, which enable them to act through its own resources without the third parties. However, an excess of the cash flow may be a risk to the enterprise because a higher mass of capital than its current needs may have the effect of favouring the certain occupations which attract uneconomical costs, reducing the company profits.

IAS 16 defines depreciation as the systematic allocation operation depreciable amount of an asset over its useful life period (by the value depreciable asset understood the asset cost or other amount substituted for it, less its residual value, this value representing the net amount which an enterprise expects to obtain at the end of life of the asset, having been assessed the costs to sell).

IAS 16 lists the permitted methods: straight-line method, the degressive method; the accelerated method.

The net working fund is a fundamental element in assessing a company's financial structure and serves to measure the financial equilibrium conditions resulting from the confrontation between the liquidity of assets and the chargeability of the resources and allows setting the following conclusions:
- A positive net working capital is a positive signal in terms of solvency;
- A neutral net working capital expresses a tension on the liquidity and corresponding to a certain fragility, on solvency;
- A negative net working capital indicates difficulties in terms of solvency, in the absence of the corrective intervention by improving the funding stability.
Lending is one of the important activities of the commercial banks, the credit holding the largest share in all the assets of a bank.

Technically, the lending relationship may arise in three ways: sale of goods and services on credit, the bank credit and the credit-based on the financial documents (e.g. bond loan, the loan by issuing the commercial paper).

The main types of loans, by type of customer, are those granted to the companies, the second addressing to the SMEs. As regards the loans given by the companies, we have described and exemplified the main types of loans in this category: line of credit, term loans with unique maturities (cash loans, loans on stocks, loans on documents, loans for the production of the export, the global credits for exploitation); multiple loans with a maturity (revolving loans, bridge loans, overdraft loans, leasing) factoring financing, syndicated loans, loans to buy shares of securities (by issuing the shares, bond loans).

Loans to the SME sector: this type of loan has played a marginal role in the lending activity of banks in Romania, some giving credit for new businesses - start-up loan - only after 2000, accepting the companies that have 5 - 6 months of operation. Other banks did the relaxation of eligibility conditions so that companies could receive the credit although they may not present the balance sheet (on 3 years). Some banks have rethought the credit request sheet were included and the data related to the business (main suppliers, competitors in the market, potential customers, market potential), as are banks that only grant start-up loans for the companies-customers who already have a business and want to develop it in a new area.

According to a poll conducted by the National Council of the Private Small and Medium Enterprises in Romania (NCPSMER) in October 2010, the main difficulties faced by entrepreneurs in dealing with the banks are about: bureaucracy, high interest rates, indicators of creditworthiness rigidity analyzed, many fees and charges, lack of transparency in dealing with the banks (hidden charges, inefficient communication), lack of the real negotiations between banks and customers (type contracts and refusing any changes/additions); the unreasonable clause and unfair practices that create a disproportionate position in the operations bank between the parties (unauthorized transactions in accounts, bank fraud), errors in processing the transactions.

Proposals to improve the relationship banks - SMEs, which are found in the NCPSMER survey, coming from entrepreneurs, refers to the favourable and flexible loans for SMEs and young entrepreneurs on fees and interest of the conditions of credit and guarantees required, eliminating unfair terms and practices and punish the banks that practice, ensuring an appropriate transparency in relationships with clients, real negotiating of the lending contracts according to the principles of the business ethics, of the lending contracts, bank liability for errors committed and payment of some damages.

In the case study that I conducted, on the territorial structure (Arges County) of loans and deposits of the economic agents in June 2010 - June 2011, I found that:

- The credits given to the economic agents, in lei, in 2011 registered a decrease of 143.7 million lei, due to the currency depreciation and successive increases of the interest on loans, which led to the increase the overstanding loans in lei. Compared with 2010, the number of the outstanding loans increased by 41.9 million lei in 2011 (chart no. 2)
The share of the foreign credits in the total credits in the foreign currency in 2010 for the economic agents was 36.68%, while the percentage of the population was 63.27% in the Arges County. In the year 2011, the share of the foreign currency loans in the total loans to businesses in foreign currency was 36.78% and for the population was 63.13% (chart no. 3).

The cash demands in lei were reduced in 2011 compared with 2010; they were 85.6 million lei.
The cash foreign demands of the economic agents fell considerably in 2011, with 132.3 million compared with 2010, due to shifting economic formation of the deposits in lei currency with maturity over two years and purchase of the government securities.

We can say that this year, compared with 2010, the economic agents keep money in the bank and give up at the investment, which offer attractive interest rates on the term deposits in lei. This appears in 2011, when there is the tendency for the individuals and businesses to save, due to damage of the economic situation in all fields of activity.

In 2011, the Arges County economic agents made term deposits in the foreign currency 22.15% of the total, compared with 2010, when they accounted for 23.11% of the total. There is thus tend to shift to saving of the businesses, to protect the amounts held, due to the uncertain financial prospects.

Conclusions regarding to the investigation of the public opinion about the perception they have about the banking financial institutions, initiated among the economic agents of the Arges County, using the questionnaire as the work method, are:

- a rate of 52% of subjects had a low opinion of the financial banking system in our country and the remaining of 48% have a good opinion or fairly good (chart no. 4);

![Chart no. 4 Assessment of the Romanian banking system](chart)

Source: Own processing of the data based on questionnaire

preferences for subjects to funding the company or to use another bank's product / service that turns to the Romanian Commercial Bank at a rate of 38%, followed by the Romanian Development Bank 32% and Raiffeisen Bank 21%;

As a source of information for choosing the bank’s product / service, 45% of subjects used the consulting services of a loan, 35% chose the bank for information on the optimal product for their company and 18% said that the first source of information was the Internet. Only 2% of the subjects interviewed were not informed at all the banking products that they intended to acquire;

At the degree of satisfaction criterion of the expectations regarding the product/service banking in particular: of all respondents in Arges County, 49% were very
high satisfied by the chosen the product/services of the bank, 5% were high satisfied in it and the remaining of 46% were low satisfied or were unsatisfied.

- evaluation criterion in choosing the currency's opinion to make a loan indicated that the legal entities the subjects surveyed in the Argeş County preferred a loan in lei, considering it is better than the foreign currency, the reason being given by the increased of the credit cost, which would make it difficult to be repaid and interest rates related to the uncertainty evolution of the foreign currency, not least, the negative perspective about unemployment;

Aware of the important role of SMEs in the economy, the National Bank of Romania aims their development and ensuring the macroeconomic stability, by reducing the level and volatility of the inflation and reaching the central bank's objective of the price stability.

The economic and financial analysis carried out on SC AGROALIMENT GD SRL indicates that the company has a good economic activity at present but may occur the adverse disturbances due to the difficulties in the payment of the interest on the loans because their increasing and decreasing in sales due to the general economic instability, etc.

The economic and financial analysis done in the presented case study provides the "ABC" Commercial Bank guarantee that the company is profitable and has the resources needed to repay the loan and the interest accrued thereon to the terms established in the credit agreement.

To increase the success in the business, the company must find ways to attract new customers and retaining current ones, by increasing the supply of textiles sold retail in its shop, primarily considering the quality/price and the similar offer on the market in order to increase the profits.

The manager of the company could attract new customers and boost sales using the written commercial advertising (newspapers, magazines), audio (radio, TV), via the Internet (a website presentation of the principal products sold, sales prices, the benefits of the acquisition from the company store, for example offering a 3% discount on a product worth 50 lei, the promotional offers, using the loyalty card, discounts on the special occasions: holidays, events, etc.), by post, attending the local or the regional fairs.

If the firm manager will be able to develop business and to open a different point of sale of the textiles it will strengthen its market position with the greater opportunities to increase its profit.

Chapter IV "Financing Sources of Small and Medium Enterprises from European Funds"

The SME sector has the largest share in all the EU economies, contributing to the creation of added value and creates new jobs; however, it faces, most times, with the difficulties in obtaining the capital or credit especially in the start-up phase.

The economic situation of SMEs is quite bad. This is due to more difficult access to finance, the high requirements for reporting or the double taxation (corporate tax and dividend tax).

SMEs, especially micro-enterprises were most affected by diminishing access to finance; banks are perceived as having the higher credit risk of the larger companies. SMEs have generated most of the bad loans, the rate exceeding 10%.

The biggest problem currently faced by SMEs due to the above problems when seeking a loan for working capital is the lack of guarantees and the insufficient values of them. In the case of the investment credit, companies must have and a sum of money to participate at the investment, but also the guarantees to the bank borrowing.

Even the companies that have guarantees are facing to the problems because the market value oh those have declined since 2009.
The NFGCSME President says that: "as long as the banks and the companies do not understand that the risk must be divided and not thrown into the yard to another, the SME sector lending will not resume. The SME sector wants to make profit, but it must understand that banks seeking the same thing".

Alternatively, the consultant on the European issues says that "banks should provide to the companies the alternative financing through the European funds and the co-financing loans. Among the problems faced, at present, SMEs are increasing loans and low costs of returning to their capacity. In addition to the allocated funds from the national budget and those obtained through the loans, the small businesses can obtain the grant funds through the post accession EU funds".

The small and medium enterprises benefit from a range of the operational programs for the financing of the structural funds, such as:
- Sectoral Operational Programme "Increasing the Economic Competitiveness";
- Regional Operational Programme;
- Sectoral Operational Programme for Human Resources Development;
- National Rural Development Programme (RDP);
- Operational Programme 2007-2013, Axis 4 - Strengthening the regional and local businesses.

For example, I presented a case study conducted in the operation framework "Support for the strengthening and modernization of the productive sector through the tangible and intangible investments" where are financing the small investments for SMEs (up to 1.075 million lei) and large investments for SMEs (between 1.075 million and 6.450 million lei).

The study is based on the economic and financial analysis at the SC CRYSTAL Ltd., in order to obtain a grant from European funds for expansion of the production departments in order to produce the textiles, totaling 345,324 lei.

In the project to expand the existing production department, the sole associate will ask for help to the European Structural Funds, its funding is above to the profit achieved in 2010 at the net worth of 29,404 lei.

Following the estimates calculation, the company needs a budget of 345,324 lei to finish the project, which can support 23 million lei; the difference of 322,324 lei is needed from the external financing in this example, the European Structural Funds.

After the analysis based on the balance sheet and profit and loss account result that the company falls within the eligibility criteria of the project because:
- SC CRYSTAL Ltd. is a small enterprises, that has 10 to 49 employees and has an annual net turnover or has total assets of up to 10 million euro;
- The company operates in Romania and has CAEN code for the project for which requests the grant financing entered in the found certificate;
- The applicant held a legally economic activity during the previous financial year.
- The company achieved profit or operating profit in the last financial year before the date of submission of the application.
- It is requested financing for a single economic activity identified by a single eligible NACE code.
- It is requested financing for the economic activity: F - Construction 4120 Construction of residential and nonresidential buildings.

The SC CRYSTAL Ltd. prepared the files for financing with the documents provided and after the online registration on the site www.mimmctpl.ro, submitted the project at the Office Territorial for SMEs and Cooperatives (OTIMMC), in this case in Targoviste, Radu Vărgaru Armasu Street no. 7A, where it was technically and financially evaluated and received a score of 86 points, according to the evaluation grid.
The Management Authority has approved the project. The financing contract was an agreement between IO of SME and SC CRYSTAL Ltd., within the prescribed period of 15 working days from the date of endorsement by the AM POS CCE.

By signing the financing contract, the company accepted the terms and conditions that will receive the grant financing and is committed to implement the project on their own responsibility for receiving funding in compliance with national and EU legislation.

The nationally measures taken to support the SME sector covers:

- **The Guarantee Fund and the Counter-Guarantee Fund of the SME** – The Counter-Guarantee Fund is a financial specialist institution, whose sole object of activity is the counter-guarantees of the guarantee provided by the guarantee funds. Its creation is part of the anticrisis plan initiated by the Government and aims to significantly increase of the capacity of the guarantee funds. If the Guarantee Fund works directly with the small businesses, the Counter-Guarantee Fund is not in contact with them, but to the guarantee funds in the market, three in number, FNGCIMM, RCGF (Rural Credit Guarantee Fund) and RFCGPE (Romanian Fund of the Credit Guarantee for the Private Entrepreneurs).

The criteria for granting of this additional guarantee are also different. While the Guarantee Fund assessing the entrepreneurs project who needs a bank loan, the Counter-Guarantee Fund assesses conditions under which was awarded the first guarantee.

- **The minimis support** – The state supports the SMEs and with the minimis aid, cash grants, until to 200 thousand euros. The minimis scheme aims to attract the labour force from the surrounding areas, using the local resources, support the craftsmen from the rural areas and the small towns, supporting the small and medium enterprises that working in any field, except as provided in Art. 2 of EC Regulation no. 1998/2006 on the application of Articles 87 and 88 of the Treaty to de Minimis Support, to rise to the European standards;

- **The National Credit Guarantee Fund for Small and Medium Enterprises (NCGFSME)** - can benefit from the guarantee fund any microenterprises, the small and medium enterprise that is going to invest and co-financed by the European granted funds and meet the eligibility criteria.

There are a number of obstacles in accessing the structural funds after the field of activity of the company, from which we can mention:

- Excessive bureaucracy and instability of regulations and documentation is an obstacle that affects mainly trade companies (70.02%), and depending on the country areas where it operates, which is located in the north-eastern of Romania;

- Companies that work in tourism believe that the biggest obstacle in obtaining the funding is the insufficient information on the available funds (57.14%);

- Companies from the private industry consider as an obstacle in the structural funds, the eligibility criteria disallowed (25.67%) and insufficient equity to ensure co-financing (38.70%).

There are a number of difficulties in accessing the European funds; however, the grants financing stimulate investment in the economic sectors less attractive, creating jobs and additional revenue locally, eventually stimulating the national economic growth.

**Chapter V "Research Regarding the Financing of Microenterprises in Hungary"

During the period of documentation that I made at the University of Debrecen, I conducted a study through I wanted to introduce the micro-credit - as one of the methods of micro financing of the microenterprises and about the microcredit programs and of the microcredit funding in Hungary and the banking system of this country.

Regarding the modern banking system in Hungary, it took place before the period 1850-1860 and the radical changes began with the Austro-Hungarian Empire (in 1867), the modern banking system is complete only in 1880.
The nowadays Hungarian financial sector is well integrated into the European economy. This integration is visible through the high level of the foreign ownership of banks, and through the participation in the Budapest Stock Exchange (BSE). According to the EU acquis, the financial services have been fully realized.

Hungary has one of the well-developed financial sectors of the new EU member states. The banking sector is able to fulfill its mission properly, if the adequate capital is satisfactory, the possible negative shocks, not forcing it to reduce the lending activities. Adequacy the capital from the domestic banking sector is considered good compared to the international level.

The organization is similar to the banking system in Romania: the first is located at the Magyar Nemzeti Bank - National Bank of Hungary - and the other is the commercial banks and specialized institutions.

The latest developments in loans to SMEs through the credit institutions, in September 2010, published by the State Supervisory Authority for the Financial Institutions in Hungary, shows that the credit institutions that operating as the shares commercial societies, in a total number of contracts worth of 191.592 billion HUF were awarded of 72.24% of microenterprises loans as a percentage of 20.89% to the small and medium enterprises lent rate of 6.87%.

HDB (Hungarian Development Bank), Hungarian Bank of Import-Export and Központi Elszámolóház és Értéktár (Budapest) Zrt or in translation, Central House of Compensation and Storage (Budapest) gave a total of loans worth 2.046 billion HUF as follows: from the total amount, a percentage of 70.23% was given to microenterprises, to the small enterprises 20.82% and 8.95% to the medium-sized enterprises.

In the credit institutions, branches of the foreign companies, from the total of loans amounting to 4.024 billion HUF, a rate of 40.36% were for the microenterprises, 47.14% to the small enterprises and 12.5% to the medium-sized enterprises.

The cooperative credit institutions have granted 49,807 billion HUF in total loans, a rate of 88.75% of micro, small and 9.70% to the small enterprises and 1.55% to the medium-sized enterprises.

**Chart no. 5 Loans given by the credit institutions at the end of September 2010**

*Source: own processing of the data, taken from the Credit Institutions first time in Three Quarters of 2010, www.pszaf.hu / en / pszafen publication / creditdata.html*
Financing of the microenterprises presents a real importance because of the total of 533,240 by the companies in Hungary, in 2009, a total of 503.171 were the microenterprises, those producing an added value of 9 billion euro in the total value added of 49 billion euro. Also, microenterprises contribute to employment in a percentage of 35.4% compared with the European Union, where the average labour employment in the microenterprises is 29.7%.

Backwardness of the Hungarian SME sector is significant, compared to the average development of the EU, but the difficult situation of this sector (and not only in Hungary but also throughout Europe) in 2008 was exacerbated by the financial crisis.

In 2007-2013 the main purpose of the Business Development Policy is to improve the performance focusing on solving the following problems:
- Access to finance;
- Improving the professional knowledge and management;
- Market strategy.

The most common reasons of the financing problems: high taxes and fees, low capital equipment, chronic underfunding, the increasingly poor willing to participate in the projects.

The most micro-enterprises (the ineligible businesses in terms of bank) can be satisfied only with the special programs for microcredit.

These programs are more flexible than the regular banking programs and granted to the enterprises not only subsidies but also, innovation and counseling.

The main participants in the microfinance sector in Hungary are:

1. In the Government sector:
   - Ministry of National Development and Economy of Hungary (MNDEH) - the governing body;
   - Labour inspectors.
2. Non-profit sector:
   - Hungarian Foundation for Enterprise Development - a non-profit organization;
   - Hungarian Microfinance Network created by the the county and city foundations for development of enterprises (Hungarian Microfinance Network) - non-profit network of the nonprofit organizations.
3. Profit-oriented sector:
   - Banks;
   - Credit institutions specialized;
   - Cooperative credit institutions: cooperative savings and credit cooperatives;
   - Financial enterprises.

The practice of micro-credit in Hungary began in the early of 1990s. Then the sector emerging was hit mainly by lack of experience and capital. This problem could not solve without the government intervention.

The main microcredit programs in Hungary are:
- National Microcredit Scheme – NMS;
- Local Funds for the microcredit loans;
- Új Magyarország Microcredit Program with EC co-financing;
- Microcredit Plus Program;
- The Széchenyi Card Program.

And guaranteeing funding organizations are established at national, regional and county levels.

1. At the national level work the following organizations:
   - Hungarian Foundation for Development the Enterprise;
   - Hungarian Development Bank (HDB);
   - MAG Zrt (Hungarian Society of means of subsidies for Economic Development);
Chapter VI, "Conclusions and Personal Considerations"

In the last year, 70% of SMEs have been self-financed, 41% had obtained bank loans, 15% used leasing, 13% applied for the credit supplier and almost 6% used as a source of funding grants.

Firms older applied to more diversified forms of financing and bank loans and obtained more easily the bank credit. For example, SMEs have turned to bank lending over 15 years old in 45.65% of cases, and the young companies (which were established in the last five years) rather they were self-financed (74%).

Also, the higher the firm size is, the forms of financing are more diverse, while the micro-enterprises using mostly the self-financing (73.5%). Also, by the type of organization, the share societies turn to the bank loans (60%) than the firms with other forms of organization.

After the activity, the bank loans are most commonly accessed by the enterprises in industry, transport and construction, and firms in services, tourism and commerce soon turn to the self-financing.

However, in terms of performance achieved in 2010 compared to 2009, access to the bank money is not necessarily the key to success. Companies that have turned to the credit claim they have had worse performance (47%), while those who self-financed have performed much better (65%).

Take into account of the importance of SME sector in the economy of a country that would be necessary to consider the proposal of measures for SMEs after the Hungarian model (Szechenyi Card) of a guaranteed state funding, with the developer to pay suppliers and to ensure a balanced of the cash flow. This may be a solution to reduce corruption and revive the lending; it was taken by many countries.

The advantages are that this program is expensive because the cost of the subsidies the credit offered by the state, is rapidly and encourage the cooperation between associations with different profiles to promote the SME development.

Personal Considerations:

PhD thesis "Financing of the Small and Medium Enterprises in the context of Romania integration in the European Union" was designed in an original approach, seeking to highlight the main sources of financing of the small and medium enterprises and the relationship between them and financial institutions, through numerous examples and case studies showing the steps of the methodology of accessing of the bank credit and European grant funding.

In the study I conducted in the chapter five, I present the micro-credit in Hungary, and the operation of the microcredit programs based on the documentation of literature at the University of Debrecen.
All the studies that I conducted were published in the scientific sessions and the contents of the ISI publications, + B and B.

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