

## **WILL THE ROMANIAN SMEs BE LISTED ON THE BUCHAREST STOCK EXCHANGE?**

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**ABSTRACT.** The research provides a selective overview of the existing information regarding the SMEs' trading on the Bucharest Stock Exchange. Due to the fact that the Romanian SMEs' needed a different type of financing among the ones that already existed, the discussions regarding their trading started in 2005, but with no concrete result until now. Following, a review of the facts that occurred related to this subject will be presented. The last part of the article will present the conclusions that can be drawn and the SMEs' present situation related to the Bucharest Stock Exchange.

**Key words:** SMEs', Bucharest Stock Exchange, capital market, SMEs' financing

**JEL classification:** M21, G10, G32

### **Introduction**

Even if the Romanian SMEs' benefit from a series of financing programs, in 2005 it was announced that the SMEs' will be listed on the Bucharest Stock Exchange in order to obtain more financing. From that moment on different measurements were taken so that this thing could happen, but until now there can be observed no result. A new sector was supposed to be created for this type of societies, called "new market". The idea was taken from the others stock exchanges in the region, for example the Greek Stock Exchange, where this model has already been implemented. But, as I said before, none of thing facts happened. In present, the Romanian SMEs' are not traded on Bucharest Stock Exchange, and the "new sector" does not exist, thus this societies have to already existing financing programs.

### **Material and methods**

The research, in the first part, provides a selective overview of the existing information regarding the SMEs' trading on the Bucharest Stock Exchange. The second part refers to the discussions and to the actions that were taken into considerations regarding this topic and also presents a review of the facts that occurred since 2005 (when the discussions about the SMEs' trading started). The last part will present the conclusions that can be drawn and the SMEs' present situation related to the Bucharest Stock Exchange and their trading.

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### **Discussions**

In 2005, the general manager of BVB, Stere Farmache announced that "the SMEs will be listed on the Bucharest Stock Exchange on a special market". The Bucharest Stock Exchange has met the assignees of the small and medium sized enterprises and discussed the listing of these companies on the stock market. Stere Farmache says that there will be created a special market for the SMEs, where the terms will be less restrictive than those on the regulated market, in the matter of the social capital and periodical reports that those companies must present.

The Bucharest Stock Exchange will launch, in the context of the securities sector issued by the Romanian legal entities, a new category for the small and medium sized enterprises. The new category, called "New Market", is under construction and will function in the context of the Romanian securities sector. Stere Farmache showed that the new segment will be addressed to small and medium companies that do not have a history, but represent dynamic areas of economy, with growth perspectives and credible and viable business plans.

He also added that the implementation of this category corresponds to the necessities of Romanian companies that need financing. The Bucharest Stock Exchange represents an important vehicle by which these companies can assure their financing, so that subsequently they would be able to find their place on the capital market.

In building the "New Market", a model applied on other stock markets in the area will be followed. Therefore, a memorandum with the Greek Stock Exchange (where a similar model was implemented) was concluded. "We are working on this project and it will be finalized after we will reorganize the entire stock exchange annuity that is after the merger between Bucharest Stock Exchange and Rasdaq. We have already started consulting with potential issuers", Farmache concluded.

Nowadays, the Bucharest Stock Exchange annuity is structured in three sectors, such as equities, debt securities and collective investment undertakings.

It was also said that through the agreement signed between the SMEs' ministry and Bucharest Stock Exchange, they are going to try to start a programme that will support the small and medium sized enterprises that are eligible and want to be listed on the Bucharest Stock Exchange.

Stere Farmache said that the companies listed at this category must have minimum one year of activity, and the capital limit will be established by the development level. The financial demands can't be as detailed as those for a company listed on the 1<sup>st</sup> category.

In 2007, 1500 SMEs had financial benefits from the ministry and the year 2008 brought the launch of a new programme called "Increasing of the Economic Competitiveness".

For 2008 small entrepreneurs had about 100 million lei at their disposal from the SMEs ministry funds. The development of the commerce for products and services receives the largest amount, namely 30 million lei, while supporting the foundation of SMEs receives 25.4 million lei. Also, the support through funds resulted from the reinvestment of the profit will benefit from a budget of 20 million lei.

Most of the money came from the European Union. For 2008, the SMEs' ministry announced that over 800 million euros were available through the "Increasing of Economic Competitiveness" programme. A great part of this amount came from non-refundable funds. For the region Bucharest – Ilfov, the amount of the non-refundable financial allowance came up to 60% of the investment value for the small enterprises, while in the other regions the percentage was of 70%. For the medium sized enterprises the allowance decreased by 10%, respectively 50% for Bucharest – Ilfov and 60% for the others. The expenses related to the development strategies, to the financial analysis, to the feasibility studies and to the development plans could be also settled through this programme. It is very important the fact that, once a project was approved, the money had to be used according to the investment plans assumed; otherwise EU does not reimburse the investments. The rule, after which these funds are given, is that first the investments are made from their own funds and than the European money get discounted. The own funds that are necessary can be obtained from bank loans, which are guaranteed from the National Loan Guarantee Fund for Small and Medium-Sized Enterprises.

In 2007, more than 1.500 small and medium sized enterprises received financial support through financing programs of 75 million lei. "The programs of financial support developed by the ministry aimed the entrepreneurial spirit development, the investments in modernization and technological upgrade, the export support and quality implementation system, as well as to facilitate the access of the small and medium sized enterprises to the training and consultancy services", as stipulated in an official statement of the Ministry for Small and Medium Sized Enterprises, Commerce, Tourism and Liberal Professions. Most of the money was used for the investments program of the new created companies and for modernization. This program received 43.6 million lei. In order to achieve this, the ministry had concluded cooperation agreements with nine banks that will ensure the financing, and nearly 2.200 companies handed projects in order to obtain the non refundable financial allowances. Moreover, the ministry assigned other 9.6 million lei for the payment of some amounts regarding the reinvested profit. The development of the activities of commerce with products on the market has beneficiated of funds of 6 million lei, while for the support of the SMEs in developing their exports; 8 millions lei have been assigned.

An important step for the SMEs was the announcement made by Ovidiu Silaghi, the SMEs minister, according to whom five such companies want to be listed on the Bucharest Stock Exchange in 2008. "I believe that the listing on the stock exchange for the first Romanian SMEs will be possible at the end of January or early February 2008. I think that because the Stock Exchange has no restrains, they were interested in this process. The only ones who put obstacles are the entrepreneurs who do not understand that they can also get capitalization from the stock market or that the association is beneficial", recently told Silaghi. For this step, a team from the ministry went to Poland in order to learn from their experience related to

small companies. The conditions to be listed are the following: at least three years of economic activity, a relevant business background that they must be a joint stock company, and they must have in their instruments a segment according to the NACE code. From the failures of the year 2007, may be mentioned the Sectoral Operational Programme “Increasing of Economic Competitiveness”, with funds from the European Union. This programme should have been launched in 2007, but the decisions from the European Commission arrived only in 2008.

On the other hand, there can be some obstacles too. For example, listing on the stock market of the first Romanian SMEs it was said that it would be possible at the end of January or early February 2008, but this didn't happen even if the Bucharest Stock Exchange didn't have restraints. The only ones who put obstacles are the entrepreneurs who do not understand that they can also get capitalization from the stock market or that association is beneficial.

Five medium-sized enterprises have registered for listing on the stock exchange. The ministry for small and medium sized enterprises, commerce, tourism and liberal professions, Ovidiu Silaghi, declared that so far five Romanian SMEs want to be listed on the Stock Exchange. The process is complicated, but there is permanent contact with the Stock Exchange, in order to achieve this process. The fields of activity for the five companies are textile, mineral water and IT.

The SMEs minister stated that at the beginning of October 2008, a national tour should have began in order to conclude an agreement with Bucharest Stock Exchange and to encourage the small and medium enterprises to be listed on the stock exchange.

For this to happen Bucharest Stock Exchange said that would reduce the listing costs.

The privatization of the companies from the different ministers' portfolio should be transparent, so that any doubt regarding the operations correctness shall be eliminated. The minister of Small and Medium Enterprises, Commerce and Business Environment, Constantin Niță, sustains that it was a mistake the fact that the privatization and the public acquisitions weren't done through the Bucharest Stock Exchange. In order to support the listing of the new companies, but also the development of some little enterprises that have potential, Niță specified that the Ministry wants to elaborate a law project through which the SMES will be supported in listing at Bucharest Stock Exchange. There is a project talking about this at the Business Environment Direction. It would be very good if the SMEs could be listed on Bucharest stock Exchange. A similar project was proposed in 2007 by the minister at that time, Ovidiu Silaghi, but without any finalization.

Two third of the Romanian IMM have problems with their financing, but neither the governmental measures nor the financing sources available on the market don't seem to encourage the entrepreneurs to steady their business with money. While the Government asks the banks to ease the access to loans, the banking institutions affirm that the enterprising don't submit investment plans and projects in order to

get the necessary financing. So, there is a vicious circle, where the SMEs passively assist at the ping-pong game between Government and banks, choosing not to touch the leasing, bank loans or European funds. Ion Glisca, the vice-president of the National Assembly of the Small and Medium Enterprises from Romania declared that “In order to survive, we have to make it on our own account and our own forces, because we have been waiting for 6 months so that the Government would take some measurements to diminish the crisis effects, but we were disappointed because nothing happened. Also, we were expecting some support from the banks where we deposited our projects more than 2 months ago, but we didn’t receive any answer”.

He specified that they will like to appeal to some European funds as a last hope of salvation, but even here there are problems concerning the financing. Glisca also added that “In this period of crises the financial resources must be conserved, the investments tend to decrease and one can’t afford to extend their investment due to the lack of a cheaper lending

At his turn, Florin Jianu, the president of the Young Entrepreneurs Patronage, declared that a big part of the entrepreneurs don’t want to hear about banks or banks’ loans. They rather preferred to appeal at European funds in order to avoid the bank loans and to encourage the young entrepreneurs to access European money because these are the cheapest financing sources, and they also offer the necessary money for this period of crises.

The SMEs minister, Constantin Niță considers that it will be great if we could impulse the SMEs activity on stock exchange. The privatizations and the public acquisitions should be done through the Bucharest Stock Exchange because any suspicion regarding the operations correctitude shall be eliminated. They should use Bucharest Stock Exchange for these operations because this is one of the most transparent institutions and there will always be people claiming the correctness of the privatizations and public acquisitions. On the other hand, the law project through which the SMEs shall be sustained to be listed on Bucharest Stock Exchange is a working one since 2005 and until now nothing concrete has been done. Regarding the SMEs impulsion, Niță announced that a second anti-crisis plan will be operational in the second semester of the year 2009, and will include both the CEC and Eximbank’s capitalization, the development of a Loan Guarantee Fund for the SMEs and of a risk investment fund. The plan isn’t finished yet and the government is thinking of a new way of supporting the SMEs.

Only a few of the Romanian SMEs can be listed on the Bucharest Stock Exchange, even if the Ministry of SMEs, Commerce, Tourism and Liberal Profession discussed the adoption of some measurements which could facilitate the annuity of these enterprises at the Bucharest Stock Exchange.

“The attempt of SMEs ministry to facilitate the listing of the small and medium enterprises at the Bucharest Stock Exchange is a good one, but, a small number of enterprises will succeed to be listed. They have to fulfill the performances demanded by Bucharest Stock Exchange. They also have to want to be listed, as

they have to adopt a special behavior, to report any change that might occur and to offer reports regarding the financial results and the decisions taken in the society. The SMEs ministry proposed to the assignees of Bucharest Stock Exchange to reduce the 1 million euro limit regarding the registered capital needed for the companies that are listed. “By this proposal, we try to create an exercise market for the small and medium enterprises, in which the costs are more reduced. The capitalization that can be obtained on the Bucharest Stock Exchange represents an important source for the development of the SMEs area”, said Ovidiu Silaghi.

Once the SMEs will be listed they have to become joint stock companies.

### **Conclusions**

Even if in 2005 it was announced that the SMEs will be listed on the Bucharest Stock Exchange on a special market and that a new category, called “New market”, for the small and medium sized enterprises will be launched, until now none of these things happened. For the Romanian SMEs, their listing on the Bucharest Stock exchange can be seen as an alternative financing programme, among the bank loans or the European funds. In order to be listed the SMEs have to fulfil Bucharest Stock Exchange requests: to adopt a special behavior, to report any change that might occur and to offer reports regarding the financial results and the decisions taken in the society and to become joint stock companies.

Another reason for which the SMEs listing didn’t happen could be the financial crises. Thus, for the second semester of the year 2009, an anti-crisis project is in a working stage.

In conclusion, nowadays, the Romanian SMEs can obtain better financing from the European funds than from their listing on the Bucharest Stock Exchange, due to the fact that the investors in this crises period are watching more carefully every step that is made on the capital market and, especially, the companies in which they invest.

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