

STIMULATION OF THE BUSINESS ENVIRONMENT THROUGH LLC-DEBUTANT

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ABSTRACT: *The important contribution of SMEs to the economic growth is a fact widely recognized due to the social and economic effects which have influenced the classification of SMEs as an engine of the national economy. Thus, in the first part of the paper we have presented, in addition to the defining characteristics of SMEs, legislative aspects with regard to the start-up and the development of LLC-D in Romania, as a stimulus of SMEs to develop entrepreneurial attitudes. Further on we have highlighted the benefits of setting up such companies, advantages that cover both organizational and financial aspects, namely tax exemptions and facilities to finance the activities of the LLC-D. At the end of the paper we have made a statistical analysis on the evolution of the number of LLC-D based on various criteria, such as: the number of companies/inhabitants, the number of companies within a county, the number of companies according to the main object of activity, etc.*

KEY WORDS: *entrepreneur, SMM, entrepreneurial phenomenon, SRL-D, tax advantages.*

JEL CLASSIFICATIONS: *D21, L26.*

1. INTRODUCTION

The economic development of a country is closely linked to the dynamics of the SME sector, the only sector able to contribute to the increase of employment, to the materialization of the existing innovational potential and to the improvement of economic performance at system level, in spite of the economic crisis that affects the entire world economy.

The important contribution of SMEs to the economic growth is a fact widely recognized due to the social and economic effects which have influenced the classification of SMEs as a strategic sector for the economy.

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Thus, specialists consider that a "management" of the distinctive elements of entrepreneurial management is highly necessary, being indispensable for the scientific nature of the managerial work conducted within SMEs, with immediate consequences regarding the performance achieved and the dynamics of economic processes nationwide.

Small and medium sized enterprises present a series of *defining features* that reflect their size and its consequences in development and operation of incorporated activities. Thus, *the distinctive features of the existence and operation of SMEs with direct implications in their management processes* can be reviewed in the following approach:

- *the small size of SMEs; the dynamics* of the SME sector reflected by indicators specific to the start-up and closing down of the enterprise during the reference period;
- *SME's specialization*, dictated by the productive potential and their small size;
- *holding a modest market position* due to previous characteristics – low productive potential and high specialization;
- *difficulties in overcoming the barriers when entering/exiting the market; high innovation capacity of SMEs; high flexibility of work*, a feature dictated by the small size of the enterprise, etc.

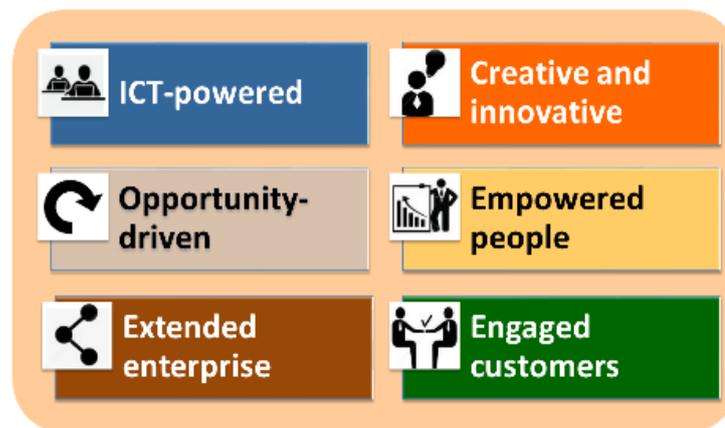


Figure 1. Key features of Modern SMEs

Although the set of examined features shapes the management of SMEs, it is generally recognized that the essence of managerial processes, fundamental concepts and methodological apparatus in operation maintains its validity regardless the size of the companies concerned.

2. LLC-DEBUDANT – LEGISLATIVE ASPECTS, ADVANTAGES, IMPLEMENTATION

Small and medium-sized enterprises (SMEs) play a key role within the economic and social sectors, due to their share in the economic structure and in creating new jobs. The development of SMEs offers numerous possibilities especially for creating new jobs, and it may contribute to the reduction of the unemployment rate, being a stimulating factor for competitiveness and productivity, thus increasing the overall revenue and the revenue per capita. For these reasons, in 2011 the Government adopted the Emergency Ordinance no. 6/2011 stimulating the setting up and the development of micro-enterprises by young entrepreneurs and in 2014 this Ordinance was amended by Law No. 97/2014.

The LLC-D program (Limited Liability Company Debutant) addressed entrepreneurs up to 35 years of age who want to set up their first business. The Law No. 97/2014 stipulates no age limit for entrepreneurs but it is necessary for them to start their first business. The aim of the program is to stimulate the creation of new micro-enterprises, to improve the economic performance of existing ones, to increase the potential for accessing financial sources and to develop entrepreneurial skills of young people in order to include them in private economic structures.

Another advantage regarding these regulations refers to duration and costs, thus the setting up of an LLC-D takes three days and does not require any fees, except for a stamp tax of 4 lei, provided the activity object of the company is made up of only 5 groups of NACE codes.

It is mandatory to notify within 30 days the Department for Small and Medium Sized Enterprises about the setting up of a LLC-D and the Business and Tourism Department by sending several documents on line, i.e. a copy of the entrepreneur's identity card, a copy of the Registration Certificate and a written notice, signed and stamped. The status of LLC-D is lost on December 31st of the third year of activity. From fiscal point of view, it is compulsory to reinvest 50% of the profit, and to submit a report of the financial results obtained.

As a source of funding one may use the "Program for stimulating the setting up and the development of micro-enterprises by young entrepreneurs" which provides access to 10,000 Euros non-refundable financial allowances, on condition the value does not exceed 50% of the project value and to a credit of maximum 100,000 Euros, 80% of which is guaranteed by the program.

After accessing non-refundable financial allowances or a loan guaranteed by the State, the company is required to have at least 2 employees with a contract of employment for an indefinite period.

The methodology for financing projects is transparent and a model for calculating scores is presented in the annex.

Other facilities granted to debutant entrepreneurs are:

- The loans contracted in order to finance business plans are guaranteed by the National Credit Guarantee Fund for Small and Medium-sized Enterprises, in a share of no more than 80% of the loan value within the limit of 80,000 Euros;

- exemption from social security contributions for a maximum number of 4 employees provided they have indefinite labour contracts, their wages do not exceed the gross average salary per economy from the previous year and the employer's contribution is calculated in accordance with the 3rd category of work;
- tax free registration of the micro-enterprise at the National Trade Register Office and no tax required for the publication in the Official Gazette of Romania;
- Advisory services, training and support from the Territorial Office for Small and Medium-sized Enterprises and Cooperation.

There are also situations when the facilities granted by the program may be considered groundless in which case they will be recovered, for example: when the LLC-D reaches 3 years of activity or declares insolvency; when the micro-enterprise that belongs to the debutant entrepreneur has less than 2 employees and reinvests less than 50% of the profit from the previous fiscal year; if the debutant entrepreneur or any of his associates commit criminal offences for which they are sentenced by final judgment and decree, in order to benefit from the facilities provided by the Government Emergency Ordinance no. 6/2011; when the guarantee/security granted by the National Credit Guarantee Fund for Small and Medium-sized Enterprises has been executed.

The law also refers to cases in which the status of micro-enterprise of a debutant entrepreneur may be lost, for example on December 31st after 3 years of activity since the date of registration with the National Trade Register Office, in case of non-payment within 45 working days of a liability or whether the turnover for the current year has reached an equivalent in lei of EUR 500,000.

3. STATISTICS REGARDING LLC-D

According to statistics made by the National Trade Register Office, until May 31st 2014, there were almost 13.700 operational LLC-Ds, most of them being in Cluj County (a total of 1.871 companies), followed by Bucharest with 1.480 such companies.

Most LLC-Ds operate in areas such as motor vehicles maintenance and repair - 638 companies; construction works of residential and non-residential buildings - 551 companies, restaurants - 512 firms etc.

According to legal regulations, by December 31st 2014, 3224 companies would have lost the status of micro-enterprise owned by a debutant entrepreneur as a result of operating for more than 3 years from the start-up date while the representatives of such companies must make arrangements to change the name LLC.-D into the LLC, or to decide on a different legal form.

As shown in the following figure, among the first 15 counties from the classification regarding the number of LLC-D in each county, 8 are from the Central and Western area of the country. Of the total of 11906 companies within the 15 counties, more than 50% have been set up by debutant entrepreneurs.

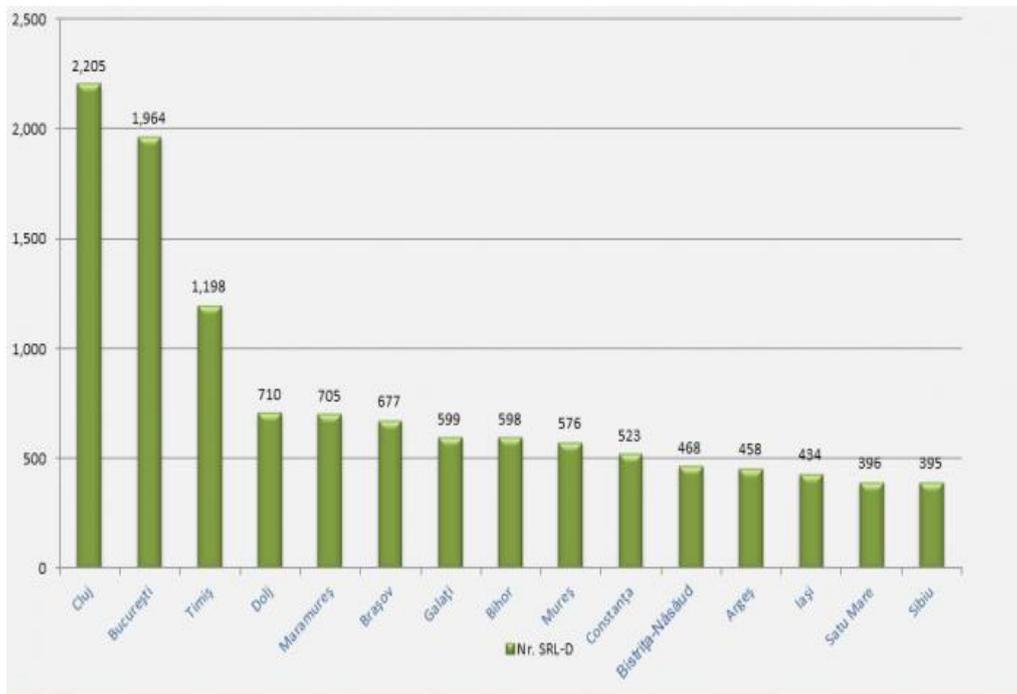


Figure 2. Classification of counties according to the number of operational LLC-D between 2011 and 2014

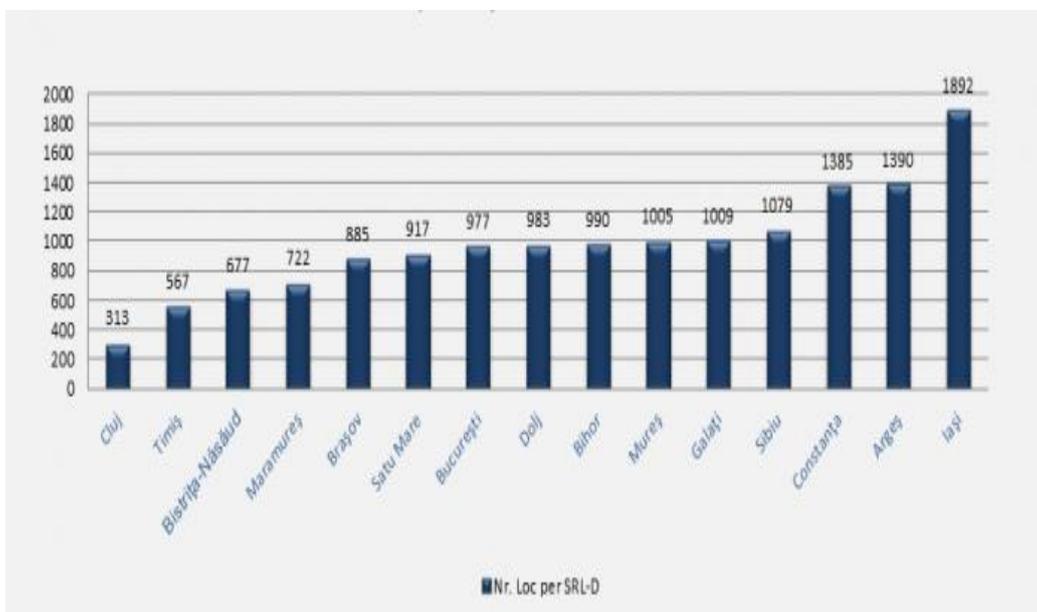


Figure 3. Classification of counties according to the number of operational LLC-D per capita

Further on, the ranking highlights 3 counties with a number between 1000 and 1100 companies/capita and 4 counties with a number between 900 and 1000 companies/capita. For the remaining counties, this number is reduced to 50 companies/capita.

Considering a statistical analysis of the number of LLC-D per capita, the chart below reveals that most companies per capita can be found in Iași County (1892 companies/capita), followed by Argeș and Constanta with a relatively equal number of 1385 companies and 1390 respectively.

4. CONCLUSIONS

At European level and beyond, small and medium-sized enterprises (SMEs) are considered a key factor for the economic growth, for innovation, employment and social integration. Flexibility and adaptability of the SME sector are essential features during periods of economic crisis, being highly relevant to the present period of recession.

SMEs represent 99% of the existing companies on the local market, and they generate two-thirds of the Romania's turnover, as well as over 60% of job vacancies. In this context, in order to stimulate the economic environment, both the banking sector and the State, one should attach greater importance to SMEs.

Moreover, one should ensure a proper business environment, access to expert advice and funding sources necessary for those who have high growth potential. All these measures could be important steps in reviving economic growth in Romania in a sustainable manner.

In conclusion, considering a constantly changing economic environment, SMEs are flexible and possess a great capacity for adaptation, favored by their small size and quick decision-making process.

They adapt easily to the requirements and demands of consumers, being closer to the market and they are able to form regional networks more easily than large firms. The creativity of small firms represents the catalyst of entrepreneurship and economic growth.

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Appendix

Criteria	Points
Field of activity	
Programming, IT, production	30
Tourism	20
Services	15
Commerce and other activities	10
The business plan yields new permanent jobs within microenterprises of LLC-D type	
The number of permanent jobs (new jobs) is higher or equal to 4	20
The number of permanent jobs (new jobs) is higher or equal to 3	15
The number of permanent jobs (new jobs) is higher or equal to 2	10
Weight of investments in expenses related to the business plan	
Weight of investments of more than 60%	20
Weight of investments of more than 40%	15
Types of expenses related to the business plan	
The share of technological equipment exceeds 60% of the value of the business plan	10
The share of technological equipment exceeds 40% of the value of the business plan	5
The associate attended entrepreneurial courses	
The associate attended/is attending entrepreneurial courses	10
The associate did not attend entrepreneurial courses	5
The associate is unemployed at the date of enrolling or graduated a year before enrolling in the programme	
The associate is unemployed at the date of enrolling or graduated a year before enrolling in the programme	10
The associate is not unemployed at the date of enrolling or did not graduate a year before enrolling in the programme	5
Total score (minimum score of 50 points, maximum score of 100 points)	