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**THE MINIMIS AID, A POSSIBLE ALTERNATIVE
FOR SUPPLEMENTING THE BUDGETS OF
SMEs FOR ENHANCING COMPETITIVENESS
THROUGH THE CAPACITY OF INNOVATION -
THE ROMANIAN CASE**

FLORIN TUDOR, PH.D.

Faculty of Law, Social and Political Sciences
“Dunarea de Jos” University of Galati, Romania

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Key words: Innovation, the minimis aid, financial crisis, competitiveness.

Abstract: The latest Scoreboard of the European Commission regarding the state aid shows that the Member States are using increasingly more opportunities offered by EU rules on state aid. This paper comes to clarify the benefits of accessing the minimis aid by traders, as capital contributions, guarantees, risk capital measures in the innovation process, to create a new product, introducing a new method of manufacturing, entering in a new market or creating a new market, calling for a new raw material.

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Introduction

According to the definition of the English economist Schumpeter the innovation is the action whose outcome is to produce something else or to produce in a different manner. It is recognized that under the principles of Schumpeter the innovation implies the following activities: creation of a new product, introducing new manufacturing methods, entering in a new market, using a new material, a new organization of business, creating a new image of the company.

Of the several types of innovation mentioned, the first is aiming the technological innovation, and the rest of them have only an economic meaning. An innovation, to be effective, must have an accurate goal and be simple. When creating an innovation is wrong to believe that this can revolutionize the entire domain. The market success can also be obtained by using small steps, but firms.

To identify the way in which the change should be made is necessarily to follow some stages and as result to obtain the materialization of new ideas. Innovation, according to known principles, is materialized in a series of activities more or less interrelated: a movement upstream: (knowledge → research → new product, new technology), a movement of horizontal transfer (innovations → new applications), a new form of organization (management) company activity → a new image. Therefore, the innovation is the specific instrument of the entrepreneur, the means by which it exploits change as an opportunity for a given activity.

Romania, the country who recently joined the European Union, must achieve a number of improvements to be able to meet European competitiveness, to develop their innovation capacity, to support effective organizations by encouraging the process of acquiring knowledge.

Innovation¹ is a global process of technological creativity and business, the transfer of new ideas or a new concept until the final stage of a new product, process or service accepted by the market. All dealers who prove their innovative ideas, can access minimis aid which can be an alternative to

supplement budgets for increasing competitiveness through innovation capacity.

Minimis aid (or de minimis aid) is a measure of support accorded to enterprises, regardless of its size, which does not exceed 200 000 Euro over three years for tax purposes (100 000 Euro for any company operating in the transport sector). Minimis aid is a threshold value, more exactly a total amount, rather than a threshold percentage of project costs. It may be granted by any public institution. Therefore, in the purpose of administrative organization, it is essential that the aid provider to require from the potential beneficiaries to report any form of de minimis aid received from any source, in the last three years.

State aid in response to financial crisis

In 2007 and 2008 Member States have allocated on average 80% of their aid to horizontal objectives, compared with about 50% in mid 1990. Faced with ongoing financial crisis, coordinated action by Member States and the Commission has ensured the mobilization of some fast mechanisms to support financial sector in accordance with EU rules on state aid.

The exceptional situation of the market and the large number of notifications provided are a significant challenge for the Commission, which is required to resolve these cases quickly, while ensuring that the measures are proportionate and avoiding discrimination between companies. With good cooperation with Member States and establishing a rapid procedure, the Commission has succeeded to respond to notifications and to take decisions in record time, sometimes even within 24 hours (see, for example, Bradford & Bingley²).

¹ See definition under the OECD Frascati Manual, 1981.

² The European Commission has authorized, under EC Treaty state aid rules, the UK authorities' package of measures designed to ensure financial stability, protect retail depositors and support the orderly winding down of Bradford & Bingley, the UK mortgage bank. The Commission was in contact with the UK authorities to support in the design of measures that could comply with competition rules. It received a formal notification on 30th September, and was able to decide within 24 hours that the state aid measures comply with EU rules on rescue aid. The UK authorities

The latest scoreboard European Commission on state aid shows that the financial crisis has multiplied the total aid to EUR 66.5 billion or 0.52% of EU27 GDP in 2007 to 279.6 billion or 2.2% of GDP in 2008. Excluding the crisis measures, the total aid in 2008 was EUR 67.4 billion or 0.54% of GDP (Table 1).

Coordinated measures adopted on time for Member States and the Commission have helped maintain financial stability. Commission authorized the rapid implementation of measures to support unprecedented, but at the same time, has protected the single market against disproportionate distortions of competition. This support is unrelated to the crisis and remained generally stable and oriented towards objectives of common interest.

Coordinated action by Member States and the Commission and the introduction of specific rules for the crisis allowed the rapid implementation of several aid schemes and ad hoc measures which do not undermine fair competition in the EU.

Total funding crisis made available by Member States and approved by the Commission in 2008 was 3 361 billion. The nominal value of crisis funds actually engaged by Member States in 2008 was much lower and amounted to 958 billion (Table 2). The state aid element of this amount is estimated at EUR 212.2 billion or 1.7% of GDP EU-27. The aid element is significantly less than face value, especially because aid element of state guarantees is normally only a small part of the guaranteed amounts. Also, actual budget expenditure materializes only when a State guarantee is effectively enforced.

In addition to financial crisis measures, Member States continued their efforts to properly redirect aid towards horizontal objectives of common interest. Approximately 88% of the aid to industry and services is now directed to horizontal objectives of common interest while the rescue and restructuring aid without regard to the crisis decreased greatly. The rescue and restructuring aid are governed by the same set of guidelines, because in both cases the public authorities are facing with a firm in difficulty. In particular, the Commission notes a greater focus on regional aid and aid for research, development and innovation which, in turn, is expected to encourage job growth in the future.

Minimis aid able to simplify the state aid

Following the reforms launched in 2005 through the Action Plan on State aid, a growing number of aid measures are now exempt from *ex ante* control of the Commission by the de minimis regulation, or by the General Block Exemption Regulation (the see IP/08/1110 / July 7, 2008). This allows the Commission to focus on the most serious cases of distortion of competition. Already in 2007, before the simplification rules, aid measures exempted categories accounted for 65% of all measures compared with 40% in 2002, although this is not

have committed to submit a restructuring and/or liquidation plan within six months, which will be examined by the Commission under its rules on restructuring aid. Reference: IP/08/143701/10/2008-
<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1437&format=HTML&aged=0&language=EN&guiLanguage=en>

yet reflected equally in the costs: 13% of total aid granted by the block exemption in 2007 (compared with 6% in 2006). Because of the simplification rules the Member States are now granting more easily, the right type of aid and, in particular, they facilitate the access to finance especially for SMEs, enabling a more effective approach to financial and economic crisis current.

The simplification rules authorize aid for SMEs, research, innovation, regional development, training, employment and venture capital. It also authorizes the environmental aid, those aid measures promoting entrepreneurship, such as aid for young innovative enterprises, aid for newly created small enterprises in assisted areas, and measures tackling problems, like difficulties facing female entrepreneurs in terms of access to finance. The simplification rules are encouraging Member States to focus the state resources on aid that will be of real benefit to job creation and competitiveness, reducing the administrative burden for public authorities, the beneficiaries and the Commission. This new general block exemption regulation consolidates and harmonizes into one text the rules previously in five separate Regulations, and enlarges the categories of State aid granted exemption. It will take effect 20 days after publication in the Official Journal, allowing Member States to grant better targeted aid immediately.

Also, this regulation is an important and immediate contribution to the Small Business Act adopted by the Commission in June 2008 (see IP/08/1003). It will allow Member States to support SMEs in different stages of their development. All of the 26 categories of aid covered by Regulation can be granted to SMEs. To the extent that such aid is available to large companies, SMEs will benefit from a special.

Categories of aid authorized by the general block exemption regulation are aid for: investing and protection jobs in the SME, providing risk capital, research and development, technical feasibility studies, the costs regarding the industrial property rights, the obtaining of patents/licenses for inventions and innovations, innovative enterprises, innovation advisory services and support services for innovation.

Romania: The description of the current situation

In the current economic climate there is increasing number of economic operators facing difficulty supporting their own sources of investment for modernization and development activities, including difficulties in accessing credit in the financial market.

So far, the cooperative sector was not included in the state aid scheme on the minimis aid regarding the development and modernization of enterprises, despite that this area was extremely affected and did not receive grants or facilities from the government.

These changes are determined by the interest shown by the development and modernization of the economic operators' cooperatives, and the signals received from operators regarding the high costs of these technical and economic studies which can not be settled as eligible expenditure related to the investment projects.

TABLE 1. STATE AID TOTAL AS PERCENTAGE SHAR OF GDP (EU-27, EXCLUDING THE ANTI-CRISIS MEASURES)

	State aid (billion) in 2008		State aid as% of GDP, 2008		The tendency of aid to GDP ratio, 2003 - 2008, in% points of GDP (1)		The share of aid to horizontal objectives as% of total aid to industry and services, 2008	The tendency for the share of aid to horizontal objectives as% of total aid, 2003 - 2008, in points %)
	Total state aid less railways	Total state aid for industry and services (i.e. less agriculture, fisheries and transport)	Total state aid less railways	Total state aid for industry and services (i.e. less agriculture, fisheries and transport)	Total state aid less railways	Total state aid for industry and services		
EU 27	67.4	52.9	0.54	0.42	- 0,05	- 0,05	88	10,8
EU 15	57.1	45.8	0.50	0.40	- 0,03	- 0,02	88	4,3
EU 12	10.3	7.1	1.05	0.72	- 0,46	- 0,50	87	48,1
Belgium	1.6	1.2	0.46	0.36	0,08	0,09	99	- 1,0
Bulgaria	0.4	0.0	1.30	0.12	0,60	- 0,20	91	38,4
Czech Republic	1.4	1.2	0.97	0.78	- 0,47	- 0,51	94	65,3
Denmark	1.9	1.7	0.80	0.71	0,01	0,02	94	1,2
Germany	15.7	14.2	0.63	0.57	- 0,09	- 0,08	87	7,5
Estonia	0.0	0.0	0.29	0.09	0,00	- 0,02	100	0,0
Ireland	1.9	0.7	1.05	0.38	0,30	0,06	84	11,4
Greece	1.0	0.8	0.42	0.33	- 0,04	0,06	98	1,5
Spain	5.2	4.4	0.48	0.40	- 0,02	- 0,04	79	8,1
France	10.3	7.6	0.53	0.39	- 0,04	- 0,01	96	18,7
Italy	5.5	4.5	0.35	0.29	- 0,07	- 0,06	85	- 10,4
Cyprus	0.1	0.1	0.65	0.47	- 1,12	- 0,90	95	61,1
Latvia	0.2	0.0	0.88	0.20	0,32	0,03	100	10,1
Lithuania	0.3	0.2	0.82	0.53	0,18	0,10	100	54,2
Luxembourg	0.1	0.1	0.20	0.15	- 0,11	- 0,04	100	0,0
Hungary	2.5	1.9	2.38	1.81	- 0,10	0,21	81	19,0
Malta	0.1	0.1	2.00	1.74	- 0,78	- 0,86	2	- 2,1
Netherlands	2.2	1.5	0.36	0.25	- 0,04	0,03	98	3,0
Austria	1.3	1.1	0.46	0.38	0,06	0,07	99	- 20,7
Poland	3.7	2.9	1.02	0.80	- 0,84	- 0,82	93	67,1
Portugal	1.6	1.5	0.93	0.92	0,15	0,19	16	- 3,5
Romania	0.9	0.3	0.64	0.18	- 0,55	- 0,99	53	15,6
Slovenia	0.2	0.2	0.66	0.47	- 0,10	- 0,09	89	8,7
Slovakia	0.4	0.3	0.53	0.42	- 0,04	- 0,07	84	21,1
Finland	2.1	0.8	1.13	0.44	- 0,13	0,02	98	- 0,2
Sweden	3.0	2.7	0.92	0.82	0,15	0,16	100	- 0,3
UK	3.8	3.1	0.21	0.17	- 0,04	- 0,02	91	- 4,8
Norway	2.3	1.7	0.74	0.56	n.a. (2)	n.a.	n.a.	n.a.
Iceland	0.02	0.02	0.21	0.21	n.a.	n.a.	n.a.	n.a.
Liechtenstein	0.001	0.001	0.03	0.03	n.a.	n.a.	n.a.	n.a.

Source: State Aid Scoreboard, 2009. Commission Staff Working Document, Brussels, SEC(2009) 1638, http://ec.europa.eu/competition/state_aid/studies_reports/annex_2009_autumn_en.pdf

State aid is provided in the form of grants and is subject to regulations of the European Commission Regulation No. 1998/2006 in the application of the Articles 87 and 88 of the Treaty to de minimis aid. Consequently, support measures are not subject to the notification and authorization by the European Commission under the Regulation. Recently, the Government has amended the legal provisions on de minimis aid. Maximum aid for a company is 200 000 Euro by 2011. The maximum budget of the de minimis scheme has increased from the equivalent in Romanian Lei of 5 million Euro to the equivalent of 100 million Euro, with the annual limit budgetary set by 2011.

The objective of this aid is to modernize or develop business enterprises operating in certain sectors. Selecting the aid recipients assumes the criteria such as: supporting businesses that need small amounts of development or modernization activity, attracting labor from surrounding areas, the use of local resources, support craftsmen from rural

areas and small towns, support businesses that have the object of services, development or upgrading business service enterprises to rise to European standards.

Regarding the accounting-tax component, the amount of aid is expressed in raw form, before deduction of direct taxes, according to the Romanian Fiscal Code provisions. The aids payable in several installments are updated to their value at the grant date.

Regarding the eligible expenses, the investment in tangible assets (constructions with industrial purposes for carrying out the activity for which funding was requested, technological equipment, machinery and equipment for measurement, control and regulation, transport unregistered vehicles, for support business enterprise), have been also accepted as being eligible expenses.

TABLE 2. STATE AID MEASURES ON CRISIS (2008, IN BILLION EURO)

	Total volume approved in 2008	Total volume approved in 1.1. - 31.3.2009	Total volume approved in 2008 to 31.3.2009	Total volume approved in 1.4. - 11/11/2009	Total volume approved in 2008 to 11/11/2009	Grants	Purchase of shares		Soft loans		Guarantees		Total aid crisis in 2008 reported		Total aid given crisis as% of GDP	The share the banking sector as% of total economy
							Nominal value	Aid	Nominal value	Aid	Nominal value	Aid	Nominal value	Aid	%	%
Belgium	255.15	7.80	262.95	25.36	288.31		16.40	11.70			30.40	6.08	46.80	17.78	5.17	5.4
Denmark	585.44	13.50	598.94	0.82	599.75		0.50	0.50	2.35	2.35	0.00	0.00	2.85	2.85	1.22	5.4
Germany	545.23	20.00	565.23	23.90	589.13	8.86	11.20	11.20	23.78	3.17	137.10	27.90	180.94	51.14	2.05	3.6
Ireland	376.00	5.00	381.00	7.50	388.50						355.76	35.58	355.76	35.58	19.16	10.9
Greece	28.00		28.00		28.00											4.0
Spain	250.00		250.00		250.00		-	-			99.13	0.93	99.13	0.93	0.09	5.1
France	341.25	4.70	345.95		345.95		11.50	11.50			31.40	4.98	42.90	16.48	0.85	4.7
Italy	20.00		20.00		20.00											4.8
Cyprus				3.00	3.00											7.8
Latvia	7.44		7.44		7.44				0.96	0.96			0.96	0.96	4.17	6.2
Luxembourg	7.00		7.00	0.26	7.26		2.50	2.50			1.50	0.30	4.00	2.80	7.64	29.1
Hungary		5.99	5.99	0.04	6.03											4.0
Netherlands	217.75	22.79	240.54		240.54		10.75	10.75	3.00	3.00	3.34	0.33	17.09	14.08	2.37	5.6
Austria	90.00		90.00	0.10	90.10											5.6
Poland				10.00	10.00											5.1
Portugal	20.00	0.45	20.45	4.00	24.45						4.30	0.43	4.30	0.43	0.26	8.2
Slovenia	12.00		12.00		12.00											4.3
Finland	50.00		50.00	4.00	54.00						0.12		0.12			2.9
Sweden	150.52	4.80	155.32		155.32		0.25	0.25			1.14	0.11	1.39	0.36	0.11	3.6
UK	405.15	11.25	416.40	95.77	512.17	5.02	46.47	46.47	2.86	0.43	146.93	16.83	201.28	68.75	3.79	7.6
Total UE- 27	3360.92	96.28	3457.20	174.74	3631.94	13.89	99.57	94.87	32.95	9.92	811.12	93.48	957.52	212.15	1.70	-

Conclusion

The Reforms from the Action Plan regarding the State aid must show results. Exemption from ex-ante control of the Commission or by the de minimis Regulation (see European Community Press Release - IP/06/1765), or by the recently adopted General Block Exemption Regulation Aid (see - IP/08/1110), it means the reduction of the administrative burden without affecting the level playing field. Regarding the volume of aid, approximately 19% of it is provided through block exemptions. In addition, another segment of 76% of aid is assessed by the Commission under aid schemes. Such schemes or programs, once approved by the Commission, allows Member States to grant aid for a large number of beneficiaries, without requiring further consideration by the Commission. The measures which are subject to individual assessment regarding the beneficiary himself are only 5% of total aid. This gives Member States a high degree of flexibility, while the compatibility criteria safeguards single market.

In our view, the application of the de minimis scheme has the direct stimulating impact on economic growth through development and modernization of small and medium business, with effect in relation to the maintenance or creation of new jobs.

The grant of minimis aid can have a high impact on increasing product quality, raising the quality-price-ratio by expanding or modernizing the production line. It has a positive impact in long-term average by the possible increase of the employment rate of labor, the increase of the competition between entrepreneurs in Romania and also between entrepreneurs of Romania and those from the Member States.

Regarding the impact on business, we believe that supporting investment and innovative processes initiated by SMEs, may be enough to overcome the current haphazard and unfavorable situation.

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