VENTURE CAPITAL – OPPORTUNITIES AND LIMITS IN FINANCING THE SMES

CAPITALURILE DE RISC - OPORTUNITĂŢI ŞI LIMITE ÎN FINANŢAREA IMM-URILOR

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Abstract: *The small and medium enterprises (SMEs) can act as main factors for development, helping economies to restructure quickly in response to changing economic, social and market conditions. The financial crisis restricted the availability of finance for firms and this could slow down an economic recovery. The limited access to the banking credits determined the SMEs to orientate more and more towards alternative financing sources, such as venture capital. Therefore the obstacle removal and setting appropriate framework conditions are a critical determinant for SME financing.*

Key words: *venture capital, financing, SMEs, financial crisis*

INTRODUCTION

The small and medium enterprises (SMEs) face numerous difficulties in accessing the financing for development and growth and to fight against the increasing competition on the international markets. In the circumstances of the international financial crisis the access to the banking credits were limited, that determine the firms to orientate more and more towards alternative financing sources.

The venture capital represent a type of private capital used for financing firms that are at the initial stage for elaboration of new products and services or at the development stage. The investors for venture capital are partners that comprise individuals which have financial capital and institutions that have a high volume of available capital such as private/ state funds, pension funds, donations, insurance companies, mutual funds.

MATERIALS AND METHODS

The financing of the innovative SMEs is considered by the investors as a non attractive activity because the high transaction costs and low incomes, taking into consideration the high risks involved. Anyway, the reticence of the investors to invest in sectors with an increased risk, such as the SMEs sector, is not the only barrier in accessing the funds for the small firms. The European market of the venture capital is fragmented and this aspect limits the capital offer for development of the innovative SMEs.

The European industry for venture capital is very diversified regarding the size of funds, capitalization level, management strategies and investment, even the European venture capital funds present some similitude and confront with similar problems.

In European Union, the financing and investments are concentrated in a limited number of regions and the access to the properly financing sources for innovative SMEs is distributed evenly on the European Union. The innovative companies have difficulties in getting the capital, especially in those areas where the market of venture capital is less developed or it is at the begging of the development.

By definition, the venture capital is a risky and volatile business because the dimension of the venture capital fund as well as the problems of the venture capital. In this respect, the following aspects can be considered as important factors for investing in a starting up firm and for focusing the investment for operations abroad:

- the size of the venture capital transactions: the European transactions of the venture capital are not sufficient for the innovative SMEs; the market segmentation act as a splitting of the early stage investment and initial investment.

- the size of the venture capital: even some of the venture capital European markets reach the maturity stage, they supply only a limited number of high funds and success. The majority of venture capital funds from Europe are small, even there is registered a high variation.

- the size of the venture capital market (and country size): the limited size of the venture capital markets in many member states lead to the necessity that venture capital funds should to operate abroad in order to get a sustainable size.

At the European level there were identified numerous barriers against the integration of the venture capital markets, concerning the offer and the demand, too.

Regarding the offer, the venture capital funds confront with obstacles when they invest abroad, in Europe, as long as they are forced to register separately or constitute in every member state, that suppose the increase of costs and time used to the fund's structuring.

Regarding the demand, many innovative firms confront with difficulties in accessing the financing through shares. Even the participation with external capital is an important source for financing only for a limited number of innovative firms, the understanding of its importance for financing is essential for entrepreneurs.

RESULTS AND DISCUSSIONS

The structures of venture capital funds in Europe should be suitable for the national investment and investors and for the foreign ones. The encouragement of the investment in risk capital through creation of a favorable politic environment is a task that implies the cooperation between the European Commission, the member states and other different participants from this industry, in order to face the challenges regarding the improvement of the financing demand and offer. Taking into consideration these aspects, the following solutions should be considered:

1. Harmonization at the European Union level (a long term solution) would be a solution for increasing the investments in venture capital abroad.

2. The mutual recognition of the structure of the private investment funds transparent from fiscal view and that offer the same conditions for all managers and investors of the fund.

3. The regulated framework. This should be more receptive at the market's request and in this respect, a fund should be created and registered in the national jurisdiction and should be recognized by other member states.

4. The taxes' transparency. The mutual recognition imply the fact that if a fund is considered transparent from fiscal view in the original country it should be considered transparent from the taxes reasons in the

country where is done the investment. The purpose of a full transparent structure would be the avoiding of double taxation.

CONCLUSIONS

At present, in Europe there is not a single venture capital market, because this does not beneficiate by the same integration level as other financial markets. In a single venture capital market could obtain benefits both the venture capital funds as actors from the offer side and the SMEs that need financing, from the demand side. The innovative SMEs benefit by the increased availability of the risk capital, in particular, through the existence of a high volume of capital for starting a business.

As well, the venture capital that act abroad, in an extended geographical area could realize scale economies more easier, develop a specialized sectorial expertise, diversify the portfolio and increase the incomes.

For investors, the improvement of the coordination between the member states and the mutual recognition of the structure of venture capital could make the abroad investment easier and less expensive. A uniform approach at the European level means that the venture capital investors to be treated in the same manner as the direct investors in every company where is done investment.

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