

PERSPECTIVES ON THE MANAGEMENT AND FINANCIAL PERFORMANCE OF SMES IN THE CONTEXT OF THE CIRCULAR ECONOMY AND THE CRISIS GENERATED BY COVID-19 IN THE EUROPEAN UNION

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Abstract: In the last 30 years, SMEs have marked the growth of the world economy. The Council of the European Union adopted The Regulation laying down the multiannual financial framework for the years 2021-2027, with a total budget of over 1,800.00 billion euro, which provides for the recovery of states following the COVID-19 pandemic and a series of long-term priorities in different areas of intervention. A big part of this investment is for SMEs. In this context, financial management and innovation within SMEs require a analysis, in order to draw a series of directions to be followed in developing financing programs so that the managerial and financial sustainability of SMEs can be closely related to the principles of the circular economy.

Keywords: financial management, financial sustainability, innovation, management, circular economy.

1 INTRODUCTION

In the context of the COVID-19 pandemic, the world economy manages to resist the challenges posed by the global medical situation due to the cooperation and financial mobilization of the most influential and powerful

international organizations and states. In order to counteract the devastating effects that this pandemic is having on the world economy, unimaginable material and financial resources have been mobilized. Unlike the previous crisis in which it relied on austerity elements, in this case massive concessions have been made

regarding the indebtedness of states as well as companies. Even in this context, due to the uncontrollable evolution of the pandemic, there is a fear about the ability of states to support the fiscal and financial incentives granted to SMEs to support the economy.

Regarding Romania, the year 2021 is overshadowed by a series of unknowns, which generates for the Romanian business environment a stagnation of the evolution and, in some cases, a significant decrease of the activity. These unknowns start from the three most important directions at European level: internally, managing the budget imbalance, and externally the fiscal policy of the European Union and the evolution of Brexit.

As we have mentioned in the previous paragraphs, the mobilization of states and large companies has led to a number of important results for EU economies. Negotiations at European level have generated a consensus on the multiannual budget, reaching over € 1,800.00 billion for the 2021-2027 financial year, which is almost double the budget for the previous financial year. The over 1,800.00 billion euros proposed to mitigate the impact of the pandemic was approved by the European Parliament on 17 December 2020, with the Council adopting the Regulation establishing the EU's multiannual financial framework (MFF) for the period 2021-2027. [8]

This regulation provides for a long-term budget of 1 074.3 billion EUR for the EU-27, which together with the 750 billion EUR Next Generation EU recovery instrument will be the financial envelope available to states for recovery.

The future EU-27 budget will cover seven areas of expenditure, providing the framework for funding almost 40 spending programs over the next seven years. The 750 billion € available to states for recovery is shown schematically in Figure 1.

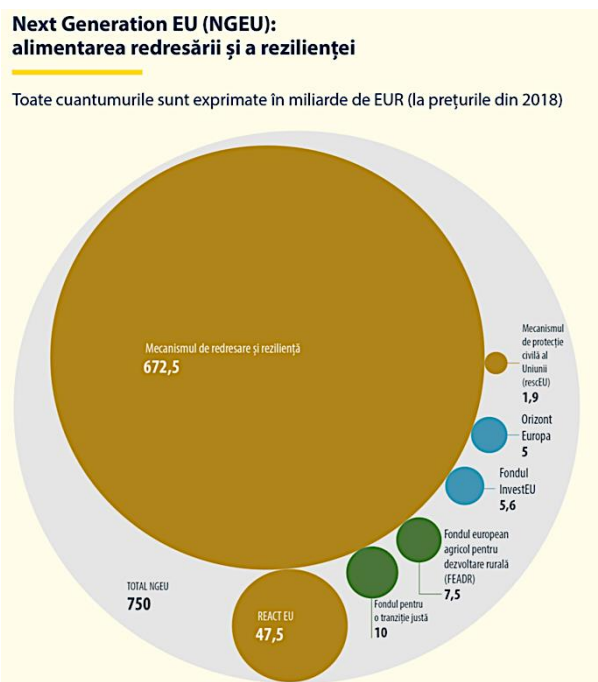


Figure 1. NGEU financial allocation [7]

2 THE IMPACT OF THE CIRCULAR ECONOMY AT EUROPEAN LEVEL

Aiming to prevent climate change, a number of targets have been set at EU level, so that climate neutrality will be achieved by 2050. Based on these politically assumed issues at European level, SMEs will be forced to change their business perspective. Thus, reducing emissions by 2030 will be a legally binding goal if the European Parliament and the Council reach a consensus on the European Climate Law. This law is an important part of the European Green Pact, ie the European Union's roadmap to climate neutrality. In December 2020, a 60% reduction in emissions was proposed by 2030, below the level of the 1990s, and European states to achieve climate neutrality by 2050.

Starting from these legislative aspects, in the case of SMEs, the life cycle of a product must be taken into account (Figure 2). Most economic

actors focus their action plans on the first four stages, the last three stages being ignored.

This will only lead to the identification of very few solutions that are in line with the use of the product, the processes associated with its end-of-life (EOL) and especially those related to its elimination from the economic circuit in accordance with the objectives related to environmental protection.

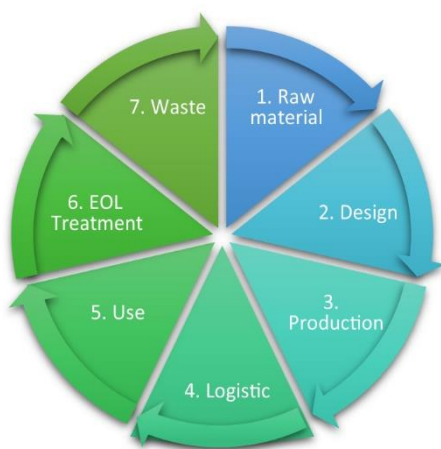


Figure 2. The life cycle stages of a product [14]

Unlike the linear economy, a circular economy is based on the principles of designing waste and pollution generated, keeping products and materials in use and regenerating natural systems (Figure 3).

To this end, the European Union has introduced a series of algorithms to market emission certificates (ETS), requiring SMEs to hold a permit for each tonne of CO₂ they emit into the atmosphere, a certificate to be purchased through auction. This scheme covers around 40% of total greenhouse gas emissions in the Union and applies to around 11,000 power plants and plants in the European Union. However, there are also sectors that are not covered by the certificate trading system, such as transport, agriculture, construction, waste management, although these sectors still produce about 60% of total emissions at European level.



Figure 3. Linear vs circular economy- according to BS-8001 standard [14]

The reduction will be achieved through negotiated targets at the level of each state based on GDP per head of inhabitant, and where incomes are low, European support will be provided. Romania has committed to promote public policies in the direction of the circular economy by adopting in 2016 the Senate Decision no. 3 on the Circular Economy Package. This approach aims to continue efforts to address the issue of waste.

The circular economy is based on a set of principles, which we review (Figure 4):

- systemic thinking;
- innovation;
- management;
- cooperation;
- value optimization;
- transparency;

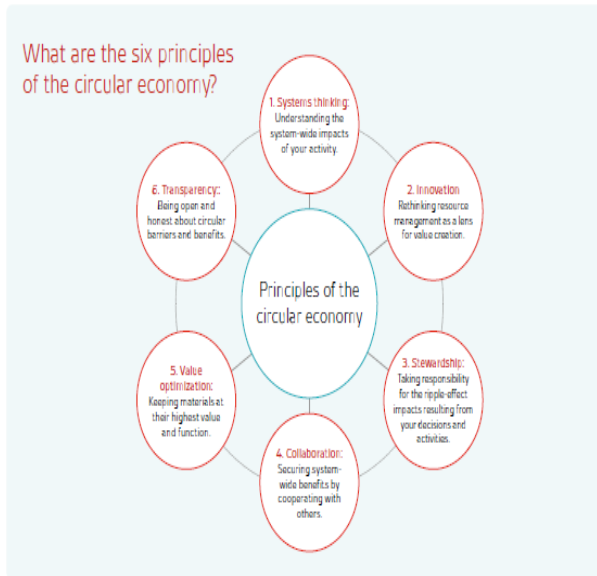


Figure 4. Principles of the Circular Economy according to the BS standard: 8001 [14]

3 APPLICABILITY OF THE PRINCIPLES OF THE CIRCULAR ECONOMY IN THE MANAGEMENT AND FINANCIAL PERFORMANCE OF SMES

Corroborating the elements presented in the previous chapters, we can say that in the next period we will expect major changes SMEs level in Europe. This perspective appears in the context of the two major elements that are currently present at European level: the COVID-19 pandemic and the objectives that must be achieved at European level by 2030 in the transition to the circular economy.

From a managerial point of view, SMEs in the sectors that involve CO2-generating activities will be forced to reorganize their plans. In this sense, we take into account the following scheme that shows us the process of transition to a circular economy starting from the use of resources in the production process or even the provision of services (Figure 5).



Figure 5. Transition process to the circular economy [15]

This circuit can be prepared in terms of management strategies at the level of SMEs, using funding provided at European level for the transition to a circular economy. This started its applicability in a somewhat imposed manner, starting with 2014, when the 2014-2020 programming period came into force. Thus, the financing programs at European level, which focused on financing SMEs, required from the design phase of the business plan the allocation of percentages from the budget to achieve objectives such as: reduction of CO2 emissions, sustainable development, environmental protection, use of computer elements / equipment to eliminate a series of pollutants (paper print, fuel, etc).

These elements are also closely linked to increasing the productivity of EU resources. According to data provided by Eurostat, in the period 2000-2016 it can be seen how it increased by 38.8%, although DMC (consumption of raw materials - measures the use of natural resources in an economy and is closely related to a country's GDP) fell amid the 2008 economic crisis, which directly affected the metallurgical industrial sector. Figure 6 identifies a process of relative decoupling between the analyzed indicators.

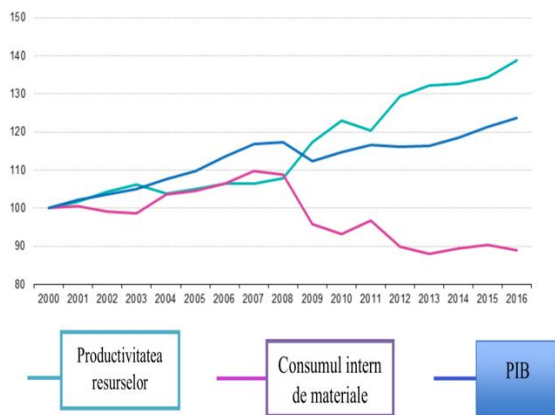


Figure 6. Internal consumption of materials (DMC) - resource productivity and GDP, 2000-2016 (Eurostat) [17]

Making an x-ray of the calls for projects in Romania, which financed SMEs, we drew attention to a program through which over 9000 companies were established. By setting up the 9000 SMEs, in the period 2018 - 2020, and allocating a non-reimbursable budget of approximately 40 thousand euros / SME, the impact that could have been achieved in terms of transition to a circular economy, at least at the level of Romania, would have been larger. Unfortunately, analyzing the Guides and documents on the basis of which these start-ups were financed, as well as following the analysis of over 100 business plans financed by this program, we did not identify any aspect that would generate a model of management plan anchored on the principles of the circular economy, and also very few technical solutions to facilitate the financial performance of SMEs. As mentioned before, although the obligation to allocate money for various actions to help the transition to a circular economy existed, unfortunately the method of allocation and the rules for spending these amounts were not clear.

It is extremely important that for the next programming period the financing of SMEs is carried out in the context of following a series of

clear and concrete measures in the field of circularity, otherwise the objectives assumed for 2030 will not be met. In this sense, it is necessary to follow a very complex representation that the ELLEN MACARTHUR Foundation made to explain the cycles of the circular economy (Figure 7).

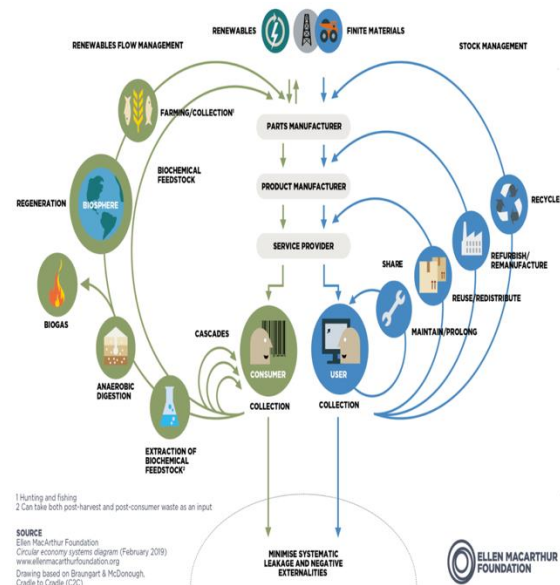


Figure 7. The diagram of the Circular Economy system [16]

This diagram illustrates the continuous flow of technical and biological materials based on the “value center”, a diagram that could be the starting point for SMEs in the process of transition from classical to circular economy.

At the same time, the second aspect that should facilitate the achievement of the proposed targets for 2030, is related to the volume of financial resources that has been allocated at European level to combat the COVID-19 pandemic and the economic recovery of Europe. Through the programs that Member States can implement to finance industries affected by the pandemic, it is mandatory to set clear objectives and results to ensure the real transition to a circular economy, otherwise the allocation of over € 1.8 trillion would be another fiasco.

4 CONCLUSIONS

Considering that in this article there are elements related to the authors' own research (118 business plans and budgets of some SMEs financed in the period 2018 - 2020 through the Start-up Plus program were analyzed), elements related to studies and research at European level in the field of SMEs as well as of the objectives proposed at European level, a series of conclusions are required to provide a clearer vision in terms of approaching and allocating the necessary budgets for the development of SMEs, so that a transition to the circular economy can be made in the next period.

The transition to the circular economy will be extremely deep and will be systemic, not only at the level of the European Union, and most likely some of the SMEs that will not adhere to this trend will suffer losses or even disappear. As we have seen from all the elements put together in this article, an unprecedented alignment and cooperation of all parts involved in this process will be needed.

It is also imperative that in order to ensure a transition to a circular economy, without very large losses for SMEs that will have to rethink production processes and the basis for establishing technical and financial management strategies, the responsible institutions both from EU Member States and internationally, to achieve continuous communication with entrepreneurs and citizens. Moreover, the circular economy being practically a new global economic model, financial and technical resources will be needed to prepare entrepreneurs for this.

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