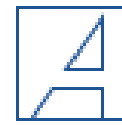




ORGANIZATION OF THE BLACK SEA
ECONOMIC COOPERATION (BSEC)



Konrad
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ENTREPRENEURSHIP RESEARCH AND EDUCATION NETWORK OF
CENTRAL EUROPEAN UNIVERSITIES

ENTREPRENEURSHIP AND SME DEVELOPMENT IN THE BSEC REGION

by

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prepared

for the

WORKSHOP

on

"Strategies of the Development of Entrepreneurship and SME Sector in the Black Sea
Economic Cooperation Region"

organized by

ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION (BSEC)

and

KONRAD-ADENAUER-STIFTUNG (KAS)

22-24 November 2007

Istanbul, Turkey

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INTRODUCTION

Since the launch of the initiative of the Black Sea Economic Cooperation (BSEC) in 1992, it has evolved into a full-fledged regional organization after adaptation of its Charter in 1999 with the Permanent International Secretariat (PERMIS) based in Istanbul and supported by the Black Sea Trade and Development Bank based in Thessalonica. Now it has 12 members - Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Ukraine and Turkey. Today the Organization represents a region of 336 million people with heterogeneous economic characteristics. See the map of the BSEC countries in Annex 1.

On 11 April 2007, the European Commission issued its communication to the Council and the European Parliament on "Black Sea Synergy – A New Regional Cooperation Initiative".¹ Taking into consideration the pre-accession strategy with Turkey, the European Neighbourhood Policy and Strategic Partnership with Russia, this document would enhance synergies and provide a framework to ensure greater coherence and policy guidance.

In the course of 15 years of activity, BSEC become a well-defined institutionally and treaty-based regional organization in the prosperous Black Sea area in the immediate vicinity of the European Union. As on 1 January 2007 two Black Sea littoral countries – Bulgaria and Romania - joined the EU, three out of its 12 members States are Members of the European community. On 25 June 2007, the Summit Meeting of the leaders of BSEC member states was held, in Istanbul, on the occasion of the 15th anniversary of the Organization's establishment.

According to the Declaration signed by BSEC Leaders "The growing role and importance of the wider Black Sea area necessitates the adaptation of the BSEC to a world of rapid change in order to assume new responsibilities in the years to come, while deepening cooperation in the priority areas of common interest such as environmental protection, trade, transport, tourism, energy, telecommunications, science and technology and combating terrorism, and all forms of organized crime, which would yield tangible outcomes to improve the quality of the daily lives of our peoples. Among these areas, energy, trade and transport could be given particular prominence."" Progress on projects in the afore-mentioned areas will require innovative solutions for financing, including a more active involvement of the Black Sea Trade and Development Bank (BSTDB) in conjunction with partner financial institutions. The recent achievements by the BSTDB are encouraging. Therefore we expect its active involvement in major regional projects. Reaffirming the importance of the role of the private sector, including small and medium sized enterprises, and public-private partnership as the driving force for the consolidation of our economic cooperation, we encourage their participation in the development and implementation of concrete projects of common interest for the BSEC Member States."²

This Report was prepared based on the discussions between the Secretariat of the PERMIS BSEC, Turkish Representative of the Konrad Adenauer Foundation and the former UNECE Regional Adviser on Entrepreneurship and SMEs, Scientific Director of the Entrepreneurship Research and Education Network among the Universities of Central and Eastern-Europe ERENET.

All experts preparing evaluation of the SME sector in geographically neighbouring countries are Members of the ERENET Network, and express their views independently from the current Government authorities or any political parties.

The aims of the study are (i) to review the current situation in the SME sector of the BSEC countries; and (ii) provide assistance to strengthening the activities of the BSEC WG on SMEs as well as cooperation between the stakeholders and SME policymakers.

¹ Commission of the European Communities: COM(2007) 160 final, Brussels, 11.04.2007.

² Web-site of the President of Ukraine: http://www.president.gov.ua/en/news/data/1_16943.html

1. SME DECLARATION AND WORKING GROUP ON SMEs ³

The core element of the political and economic transformation of any country in transition is the creation of a sound private sector and further development of SME & entrepreneurship. These are considered as the principal driving forces in economic development. SMEs promote private ownership, stimulate innovations and develop entrepreneurial. Dr. Wulf Schönbohm, former Representative of the Konrad Adenauer Foundation to Turkey, often drew attention, that “without SMEs there is no change to build a flourishing private sector.

The joint UN/ECE-CEI Informal Meeting held in Geneva on 3-6 March 2000 suggested that a Declaration on “Small and Medium-sized Enterprises at the Dawn of the 21st Century” should be elaborated and then adopted on the occasion of the 3rd Economic Forum to be held on 22-25 November 2000 in Budapest. The draft of this Declaration was elaborated by the UNECE Regional Adviser on Entrepreneurship and SMEs in consultation with the National SME Focal Points of all CEI countries. The Ministers in charge of the SMEs in the Member States of the Central European Initiative – CEI – on 24 November 2000 agreed on the main principles of the development of entrepreneurship and SMEs in the transition economies. The so called BUDAPEST DECLARATION ON SMEs AT THE DAWN OF THE 21ST CENTURY was forwarded to CEI Governments and became an important policy compass on the transformation of the former centrally-planned economy toward the market ones. ⁴

Early 2001, the Permanent International Secretary of the Organization of the Black Sea Economic Cooperation – further refers as PERMIS BSEC – requested the UNECE Secretariat to adopt this Declaration to the specialties and demands of the BSEC countries. This led to the elaboration of a very similar document entitled “DECLARATION ON SMALL AND MEDIUM-SIZED ENTERPRISES AT THE DAWN OF THE 21st CENTURY”, and the Ministers in charge of SMEs in Istanbul on 27 September 2001 adopted this document. In consequences of this high-level policy statement the subsequent establishment of the WORKING GROUP ON SMEs (WG on SMEs) on 16-17 May 2002, have been timely steps in the right direction. Today SMEs rank high in the priority list of BSEC. ⁵

The main elements of the BSEC SME DECLARATION include:

- BSEC SME DECLARATION
ISTANBUL, 2001**
- Ø creation of a favourable enabling business environment;
 - Ø improvement of legislation and regulation;
 - Ø improvement of supporting infrastructure;
 - Ø providing diversified financial systems for SMEs;
 - Ø strengthening the technological capacity of SMEs;
 - Ø strengthening the investment in the whole BSEC region, especially for SMEs, through BSEC Investment Initiative;
 - Ø human resource development;
 - Ø increase quality awareness to overcome technical difficulties to trade;
 - Ø developing stronger, more effective representation of SMEs through public-private dialogue, NGOs and women entrepreneurship;
 - Ø creation of a BSEC Working Group on SMEs for systematic exchange of information, best practices and harmonization of action towards the whole-pledge market economy and knowledge based society.

³ Prepared by Dr. Antal **SZABÓ**, UNECE retired Regional Adviser on Entrepreneurship and SMEs

⁴ <http://www.unece.org/indust/sme/cei-decl.htm>

⁵ The main BSEC practical activities in various field of cooperation are performed in Working Groups under the guidance of the country coordinator elected for two-years term. The WG on Small and medium enterprises (SMEs) is one out of the 17 permanent WGs.

It is important to mention, that parallel with this effort the OECD and the European Union also recognized, that SMEs are the backbone of the European economy. Small enterprises must be considered as a main driver for innovation, employment, as well as social and local integration in Europe. Ministers and Governmental Representatives from 47 OECD and non-OECD countries including Bulgaria, Greece, Romania, Russian Federation and Turkey from the BSEC region adopted the BOLOGNA CHARTER ON SME POLICIES.⁶

BOLOGNA CHARTER ON SME POLICIES

BOLOGNA, 15 June 2000

Acknowledged that SME competitiveness would benefit from:

- a regulatory environment which does not impose undue burdens on SMEs and is conducive to entrepreneurship, innovation and growth through, inter alia: promoting good governance and greater accountability in public administration; pursuing a fair and transparent competition policy, and implementing effective anti-corruption measures; and fostering the implementation of transparent, stable and non-discriminatory tax regimes.
- education and human resource management policies that: foster an innovative and entrepreneurial culture, including continuous training and lifelong learning; encourage mobility of human resources; and reduce skill disparities by improving the match between education and labour market demand.
- effective access to financial services, particularly to seed, working and development capital, including innovative financial instruments to reduce the risks and transaction costs of lending to SMEs.
- an environment that supports the development and diffusion of new technologies for and by SMEs to take advantage of the knowledge-based economy.
- strengthening public-private partnerships and political and social dialogue involving territorial and institutional actors as a tool for exchange of information, utilisation of knowledge and elaboration of policy.
- ensuring the cost-effectiveness of SME policies and their consistency with other national policies, as well as with existing international programmes.

The European Commission elaborated the EUROPEAN CHARTER FOR SMALL ENTERPRISES and this was approved at the Feira European Council on 19-20 June 2000.⁷ The Charter calls upon Member States – which are all market economies – and the European Commission to take action to support and encourage small enterprises in ten key areas.

EUROPEAN CHARTER FOR SMALL ENTERPRISES

FEIRA, 19-20 June 2000

- Ø education and training for entrepreneurship;
- Ø cheaper and faster start-ups;
- Ø better legislation and regulation;
- Ø availability of skills;
- Ø improving online access;
- Ø getting more out of the Single Market;
- Ø taxation and financial matters;
- Ø strengthening the technological capacity of small enterprises;
- Ø making use of the successful e-business models and developing top-class small business support;
- Ø developing stronger, more effective representation of small enterprises' interests at Union and national level.

⁶ http://www.oecd.org/document/17/0,3343,en_2649_201185_1809105_1_1_1_1,00.html

⁷ http://ec.europa.eu/enterprise/enterprise_policy/charter/index_en.htm

While comparing the BSEC and EU documents, it is clear that some of the key-areas are overlapping each other, whether it is a country with several hundred year of experience in market-economy, or it is a newcomer. However, several key areas are irrelevant to the transition economies and it was strange, that the EU forced these countries also to make an evaluation report on all requirements. The most contradictory item is the point "getting more out of the Single Market" for countries, which are not EU members.

The United Nations Economic Commission for Europe (UNECE) developed an INTEGRATED MODEL FOR THE DEVELOPMENT OF THE SME SECTOR IN THE COUNTRIES IN TRANSITION, which is successfully implemented in the majority of the BSEC and CEE transition economies. The most effective way of development of entrepreneurship is taking place when activities and assistance are integrated and aimed at three distinct levels:^{8 9}

Strategic level – policymaking (hierarchy 1)

- Task: Development of sustainable environment, commitment to promote the creation and growth of SMEs by, inter alia, elaborating policy measures and legal instruments to support small- and medium-sized industries and business entities to facilitate the access of SMEs to technological and financial resources and stimulate investment and private sector involvement in the SME sector
- Responsible: Legislative and government administrative bodies with delegated tasks of planning and implementing SME promotion programmes.

Institutional level - support institutions (hierarchy 2)

- Task: Establishment and strengthening infrastructure (independent institutions and mechanisms) to promote SMEs by providing effective services, including information on how to start up a business, how to prepare business plans, how to get partners and marketing information, access to financial resources and credit guarantees, development of a market-oriented way of thinking, support for innovation and facilitating cooperation among SMEs, etc.
- Responsible: Public and private sector institutions, chambers of commerce, non-governmental organizations, professional and social associations, training institutions, national development boards, banks.

Enterprise level – entrepreneurs and business entities (hierarchy 3)

- Task: Development of entrepreneurship and supporting SMEs within an integrated programme approach and sub-sectoral systems by strengthening entrepreneurial and managerial skills, providing direct consulting services, establishing industrial estates and business centres, developing quality awareness and promoting internationalization of SMEs, providing testing and certification possibilities, developing awareness for consumer protection, etc.
- Responsible: Small and medium-sized enterprises, entrepreneurs, universities, testing institutions, certification bodies, consumer protection body, consulting companies.

The above-mentioned levels create an SME Development Pyramid structure in which the strategic level is considered as the highest priority and is "located" at the tip of the pyramid. The institutional level is located in the middle and is interlinked with both the SME policy-makers at the top and the entrepreneurs at the bottom for whom they are created and to whom their services are offered. The third level is the base of the whole structure: they are the actors of the SME sector whose performance, behaviour, efficiency and inefficiency are reflected in the mirror of economic transformation. The whole building is sound only when there is mutual development, acceptance by each other and operative cooperation.

⁸ <http://www.unece.org/indust/region2.htm>

⁹ Dr. Antal Szabó: Development of Entrepreneurship and SMEs in SEE and CITs.
<http://unece.org/ie/wp8/documents/mayfor/Szabo.pdf>

The 2nd Conference of Ministers responsible for SMEs, jointly organised by the OECD and Turkey in ISTANBUL in June 2004, provided an opportunity to extend the policy dialogue on enhancing entrepreneurship and SME innovation as drivers of growth in a global economy.¹⁰

**2nd MINISTERIAL DECLARATION
ISTANBUL, 3-5 June 2004**

Key themes standing out as being of particular importance:

- the need to reduce barriers to SME access to global markets;
- the need to improve access to financing for SMEs on reasonable terms;
- the need to develop a strong „evaluation culture“ in Ministries and agencies responsible for SME policies and programmes;
- the need to strengthen the factual and analytical basis for policy making so that policy makers can make decisions in an informed manner based on empirical evidence.

During its First Meeting the WG on SMEs held on 16-17 May 2002 at the BSEC PERMIS Headquarters in Istanbul agreed on the Mission of this group as following:

- to help in creating an enabling business environment;
- to foster entrepreneurship; and
- to promote co-operation among SMEs in the BSEC region.

Prof. Dr. Yannis Caloghirou, General Secretary for Industry of the Greek Ministry of Development, at the inauguration of the WG on SMEs stated, that “the principal driving forces of economic development lie in the development of a sound business environment and entrepreneurship. They provide fertile ground for the development of innovation and skills, generate jobs, promote diversification of economic activities, support sustainable development and significantly contribute to exports and trade... As technological capacities are rapidly increased, and economic/financial environment is globalised, SMEs face a series of new challenges, which have an impact in the determination of relevant government policies.”

As main activities for the WG on SMEs the participants of the First Meeting agreed to focus on

- (i) barriers to cooperation and trade from the point of view of SMEs;
- (ii) exchange of best practices on SME support;
- (iii) formation of a BSEC Observatory on SMEs; and
- (iv) creation of an informational network for SMEs in the Black Sea region.

At the Eighth Meeting of the BSEC Council of Ministers of Foreign Affairs held in Yerevan on 18 April 2003, an important amendment was adopted to the Terms of Reference of the WG on SMEs. It was decided and required, that the WG on SMEs should be composed of representatives of the following institutions:

- (i) Government officials from the BSEC Member States in charge of development and national SME policies and supportive programs;
- (ii) National SME support organizations and institutions;
- (iii) Chambers of Commerce and Industry; and
- (iv) Business associations representing interests of SMEs.

From the first Meeting until now five WG Meetings were held (their dates see in Annex 2).

According to the Declaration (28) BSEC PERMIS with the assistance of the BSEC Business Council reviews regularly the implementation of this Declaration and the development of entrepreneurship and the (private) SME sector in BSEC Member States in co-operation with the UNECE based on reports collected from all BSEC Member States. The PERMIS BSEC in

¹⁰ The Istanbul Ministerial Declaration on Fostering the Growth on Innovation and Internationally Competitive SMEs.
http://www.oecd.org/document/16/0,3343,en_2649_34197_32020176_1_1_1_1,00.html

cooperation with the United Nations Economic Commission for Europe prepared a Questionnaire in order to review the impacts of the declaration on the development of the entrepreneurship and SMEs sector.¹¹ The intention was to discuss the review document in the future at the Meeting of the WG on SMEs. Unfortunately the UNECE was not able to evaluate the implementation of the Declaration due to bad attitude and lack of response of the BSEC Member States. Only Armenia, Azerbaijan, Moldova, Montenegro alone, Turkey and Ukraine fulfilled their obligation. It is very sad, because without evaluation of the implementation of this important document PERMIS BSEC and the WG on SMEs could not make an objective impact assessment.

At the Second Meeting of the WG on SMEs held on 21-22 May 2003 at the BSEC PERMIS Headquarters in Istanbul, the Turkish Delegation presented the "Information Network of SMEs" which was a presentation of "KOB•NET" (SME information network <http://www.kobinet.org.tr/>) and its services. It was explained that similar network could be designed for BSEC and that the new network could be linked with KOB•NET. The aim was to develop the business to business (B2B) e-commerce relations among SMEs. It covered the basic profile information of SMEs in seven languages. KOB•NET provided value added network services through the Euro Info Centre (EIC) at KOSGEB. Visiting this site one can be stated, that BSEC countries do not use it. It is difficult to understand what is the essence of it and how does it work.

The BSEC Business Council (BC) presented the Business Information Systems developed by the BSEC BC (www.bsec-business.org) that is a depository of important business information on each BSEC Member State. Unfortunately this side is not valid.

It was also mentioned that in parallel, the BC was operating the Black Sea Business Information Network (www.bsbin.com) administrated and hosted by the Chamber of Commerce and Industry of Romania. (BSBIN) is the Business Information Exchange System of the 12 BSEC member countries and is developed in order to gather and disseminate business information world-wide and to promote the interests of the businesspeople from the BSEC countries, mainly of the Small and Medium Sized Enterprises. This site is active and well maintained.

Following the decisions of the First Meeting of the WG on SMEs, Bulgaria presented a project proposal on the "Identification and monitoring of the barriers to cooperation and trade from the point of view of the SMEs in order of further elimination of these barriers." In this connection, the representative of the BSEC BC suggested that each BSEC country should identify 3 major barriers that its SMEs are facing when trading with the other 10 countries. This list with $10 \times 3 = 30$ barriers should be sent to the PERMIS within the next four months.

It is worth to mention that during the two years-term under the Turkish Chairmanship-in-Charge the Ministry of Industry and Trade of Turkey and the Small and Medium Industry Development organization (KOSGEB) offers their services to promote the entrepreneurship and SME development in the region. However, the final result of this project is unknown.

The Third Meeting of the WG on SMEs was held only 19 months later as the second one on 12-13 January 2005. It seems that the Hellenic Chairmanship-in-Charge was not very favour at organizing this event, which reflects also on the very poor agenda. The main activity of the Greek suggestion was invitation of the representatives of the BSEC countries to the 6th International Exhibition of Plastics, Machines and Recycling (PLASTICA 2005) aiming at

¹¹ Declaration on SMEs and the Dawn of the 21st Century – Questionnaire 2005 on the Implementation of the Declaration and Development of Entrepreneurship and SME Sector in the BSEC Member States. UNECE, ECE/TCU/2005/1 as of 10 January 2005, Geneva-Istanbul

encouraging business cooperation and facilitate know-how transfer. Greece offered the Hellenic Organization of SMEs and Handicraft S.A. (EOMMEX) to assist the WG on SMEs, however no concerned suggestion was made expect of the PLASTICA invitation.

Turkey presented the draft project proposal "BSECNET" (Black Sea Economic Cooperation Network) aiming at improve economical and cultural relations among BSEC countries.

Nearly two years delay the WG approved the project entitled "Identification of barriers to trade that SMEs of BSEC member countries face in intra-BSEC trade, as well as proposals for country-specific policy recommendations for the elimination of these barriers". The WG submitted it to the Committee of Senior Officials for endorsement, on the condition that the authorized representatives of the project partners forward to the PERMIS within one month signed and stamped copies of the "Standard Application for Funding a BSEC Project".

The Fourth Meeting of the WG on SMEs was held on 4 July 2006 under the Russian Chairmanship-in-Charge in Istanbul. While during the previous three Meetings high-level government official chaired the event, this time the Russian Federation was headed only by a Counselor from the Economic Cooperation of the Ministry of Foreign Affairs and without any institutional support.

The main agenda of the Meeting was discussion of the Draft Action Plan for the term between the dates of 1 November 2005 – 1 November 2007, submitted by Turkey and its adaptation. The project aims to share Turkish experience and best practice in SME clustering and develop this in the BSEC region.

In the life of the BSEC WG on SMEs it was a positive element, that the representative of the International Network for SMEs (INSME) made a presentation on the INSME's structure, institutional framework and actions and considered the INSME's application for Sectoral Dialogue Partnership with BSEC.¹²

At the last, Fifth Meeting of the WG on SMEs held again the Turkish Chairmanship-in-Office on 4-5 October 2007 in Istanbul, the Project Coordinator of BSEC PERMIS made a presentation regarding the BSEC Project Development Fund (PDF), its goals and activities, the procedures of drafting, submitting, considering and financing of project proposals. The WG acknowledged the lack of project proposals in the field of SMEs for PDF funding.

The Hellenic Republic, Country-Coordinator of the Working Group on Institutional Renewal and Good Governance, highlighted the pilot project for the implementation of the regulatory reform principles in the topic of the facilitation of business action in the area of SMEs, and invited the WG on SMEs jointly implemented this project by the two BSEC WGs.

The WG took note of the willingness of the Hellenic Republic to assume the role of Country Coordinator of the WG on SMEs for the next two years period. The Working Group welcomed the willingness of Ukraine to organize the next, 5th Meeting of WG on SMEs in Ukraine in March 2008.

¹² See at <http://www.insme.info/page.asp?IDArea=1&page=partnership>.

GENERAL ASSESSMENT OF THE BSEC WG ON SMEs

Summarizing the activities of the BSEC WG on SMEs, we can make the following remarks:

- (i) It is a positive mark, that the WG on SMEs is working and provide platform for dialogue and exchange of policies and best practices concerning SME development in the BSEC Member States;
- (ii) The Chairmanship-in-Charge of the WG on SMEs is not transparent and dubious. It is not clear which Government authority and which national SME support institution is in charge of managing the WG's activities. Prior the new Meeting the newly appointed Chairman-in-Charge is searching for agenda and trying to identify project proposals, which might be interesting for the Member States. This practice has to be changed in the future.
- (iii) BSEC Member States are participating in the Meeting of the WG on SMEs not equally. Only Armenia, Bulgaria and Turkey participate in all five Meetings, while Azerbaijan, Greece, Russian Federation and Ukraine only four events, Georgia and Romania only three times, while the other only two times.
- (iv) The List of the WG on SMEs is not updated. It is recommended, that PERMIS request Member States nominee Representatives of the 4 appropriate groups in accordance with the TOR of the WG on SMEs amended at the 8th Meeting of the BSEC Council of Ministers of Foreign Affairs held in Yerevan on 18 April 2003. This List should be circulated, put on the PERMIS BSEC web-site and continuously updated.
- (v) The WG on SMEs did not fulfilled one of its major tasks: regularly review the implementation of this Declaration and the development of entrepreneurship and the (private) SME sector in BSEC Member States evaluation. This is an urgent task and PERMIS should find a solution jointly with the Chairmanship-in-Charge to carry out this task. This might be a major objective for a Ministerial Meeting during 2008 or 2009.
- (vi) In the area of the ITC it is time to look at the development of a BSEC SME Information Network based on governmental legislations, procedures on enterprise creation, doing businesses, governmental and non-governmental entrepreneurship support institutions, etc.
- (vii) Joint initiatives by BSEC member States are very weak and irrelevant.
- (viii) BSEC PERMIS by means of collaborative and cooperative efforts particularly with the Representation of the Konrad Adenauer Stiftung and its Representative for Turkey has engaged in a campaign to raise public awareness in the BSEC region of the importance of SMEs. 2006 marks the tenth year of ongoing cooperation between BSEC PERMIS and KAS. The UNECE until the retirement of its Regional Adviser on Entrepreneurship and SMEs in 2005 and from this time on continuing as a retired UN Regional Adviser, the National Institutions of some of the BSEC Member States responsible for SMEs have also contributed to those joint endeavours. Through a series of 35 Workshops that have been organized jointly by BSEC PERMIS and KAS, it has been possible to address various issues involved in the development of SMEs and reach guiding conclusions.

From the inauguration of the BSEC WG on SMEs in 2002 until now, 24 SME-related events were held including 5 meetings of the WG on SMEs, 11 specific SME oriented topics organized by PERMIS BSEC, KAS and partially UNECE, 2 workshop held by KOSGEB and 6 other high-level conferences or business forums. The list of these events see in Annex 2. To provide a transparent platform for these events BSEC Secretariat maintains a special web-site on "Areas of Cooperation – SMEs" at the following link:

http://www.bsec-organization.org/areas_of_cooperation.aspx?ID=SMEs.

2. DEVELOPMENT OF ENTREPRENEURSHIP AND SME SECTOR IN THE BSEC COUNTRIES ¹³

The Black Sea region is a distinct geographical area with strategically located at junction of Middle- and South-Eastern Europe, the Middle East, the Caucasian region, and the European part of the CIS except Belarus spreading over several thousand kilometers long territory. It is difficult to state that there is a homogenous strategic interest of its all 12 Members States except of developing human right, building democratic society in all countries, developing their economies toward the market one and promoting good governance.

It is a promising good sign, that within the framework of BSEC more confidence building measures are taking place in the region affected by conflict, like Abkhazia, Nagorno-Karabakh, South Ossetia and Transdnistria. However, new conflict area might be occurring day by day, like in Eastern-Turkey with the Kurd minority. This is why promoting entrepreneurship and economic development, this could contribute to build social cohesion, security and stability.

More than 3 million SMEs in the BSEC region employ over 21 million workers in total, while the number of unemployed amounts to more than 10 million.

Since the foundation of the BSEC WG on SMEs the transition countries continued to make progress in economic reforms. The countries in South-Eastern Europe (SEE) made the most progress, spurred on by their inspiration to join the EU. Bulgarian and Romania already succeeded. Croatia, The former Yugoslav Macedonia and Bulgaria in SEE together with Georgia from the Caucasus are in the group of the first ten top reformers in 2006-2007 in accordance with the latest World Bank Doing Business 2008 Report. ¹⁴ Eastern Europe and Central Asia, as a region, surpassed East-Asia this year in the ease of doing business. Several of the region's countries have even passed many economies of the old advance EU countries on this score.

It is the Caucasian transition economies significant positive changes have been observed in all three countries. It seems that there is a certain competition among these countries and perhaps Armenia is the leader concerning good governance and transparent support system in the field of the SME sector.

Within the Commonwealth of Independent States (CIS) only the Russian Federation and Ukraine improved their business performance. Moldova remained the poorest and unhealthiest country of the region with growing debt, lack of energy resources, problems and huge unemployment making the matters worst with the issue of Transdnistria.

The World Bank Doing Business Project provides objective measures of business regulations and their enforcement across 178 countries. The Project aims at ranking the economies on their ease of doing business, with first place being the best. A high ranking on the ease of doing business index means the regulatory environment is conducive to the operation of business. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic.

As the World Bank states ¹⁵:

"Albania introduced a new fiscal package which reduced the tax burden on firms by lowering the corporate income tax by 3% and amending depreciation rates. Labor taxes and contributions were lowered by 9 percentage points."

¹³ Prepared by Dr. Antal **SZABÓ**, UNECE retired Regional Adviser on Entrepreneurship and SMEs

¹⁴ See at <http://www.doingbusiness.org/features/Reform2007.aspx>.

¹⁵ See at <http://www.doingbusiness.org/reformers/ECA.aspx>

"Armenia's new law introduces a number of important changes to the bankruptcy procedure, increasing the range of actions available to companies in reorganization. The law also excludes the debtor's founders, shareholders and partners from voting on a reorganization plan, and sets a two-day limit for the judge to decide whether to approve a plan. A private credit bureau started operating on 1 February 2007. It distributes credit information about firms and individuals, has no minimum loan requirement and guarantees all borrowers access to their credit reports. The implementation of an electronic data interchange system ("Direct Trader Input") allows customs brokers to submit declarations electronically to the customs offices. Still in its early stage, the new process already contributed to halving the time for document preparation to now 3 days. Electronic transmission also means less opportunity for corruption. "

"Azerbaijan reduced company's profit tax by two points to 22% and social security contribution payable by the employer by 5 points to 22%, causing the Doing Business tax rate to fall by 1.2% points. While new software now makes the filing of corporate income tax faster, more detailed reporting forms have increased the time to file for labor taxes. Azerbaijan abolished the requirement to obtain approval of the company seal design by the Ministry of Justice days."

"Bulgaria. The more efficient procedure results in a decrease in time from 52 to 30 eased the tax burden on businesses and made it easier to pay taxes online. Bulgaria also introduced private bailiffs to improve efficiency in enforcing judgments. And it made building inspections less burdensome."

In the meantime "Georgia reformed in six areas. It strengthened investor protections, including through amendments to its securities law that eliminate loopholes that had allowed corporate insiders to expropriate minority investors. It adopted a new insolvency law that shortens timelines for reorganization of a distressed company or disposition of a debtor's assets. Georgia sped up approvals for construction permits and simplified procedures for registering property. It made starting a business easier by eliminating the paid-in capital requirement. In addition, the country's private credit bureau added payment information from retailers, utilities, and trade creditors to the data it collects and distributes."

"Moldova revised its Code of Civil Procedure, Law on the Status of Judges, Law on the Judiciary and Law on the Supreme Judicial Counsel. It increased judges' salaries and introduced randomly assigning court cases to increase judicial independence. Moldova also decreased several taxes, including corporate income and labor taxes paid by businesses.

"Romania lowered several labor taxes paid by the employer, including social security, unemployment and health fund contributions. It also amended provisions of the Civil Procedure Code regarding enforcement. These regulatory changes have a positive impact on because management's control of company's assets is now suspended during reorganization and the parties may agree to an out-of-court enforcement. In addition, property registration was effected by a January 2007 law that abolished the authentication tax for transfers of immovable property (amounting to 0.5% property value in our case), but replaced it with another 'income' tax on a scale. According to our hypothetical case, the applicable rate is RON 4,000 plus 1% property value over RON 200,000. The overall result is an increase in total cost to transfer property. Furthermore, after implementing the order number 752/2006 of the Ministry of Finance, the time needed to obtain a fiscal certificate from the local fiscal authority has decreased from 2-30 days to 7-11 days. However, because this procedure is simultaneous with others, the overall effect on time is nil."

"Russia, since July 2006, the Moscow Committee for State Construction supervision is responsible for both construction permits and technical compliance. A new law requires the building authority to issue permits within 10 days from the receipt of all documents. A simple

notification replaced the former requirement of a second formal authorization to begin construction after the construction permit has been granted. Companies are now required to purchase a license for connection to the electricity network, a measure to offset high demand, but resulted in a substantial increase in cost (by 3,500% of GNI). A private bureau, National Bureau of Credit Histories (NBKI), started operations in March 2006.”

“Turkey lowered its interest tax and corporate income tax to 20%, and introduced and implemented online filing. It also reduced the time required for preparing trade documentation by implementing a Customs Modernization Project.”

Please note, that no remarks are available on Ukraine.

Table 1. summarize the ranking of the BSEC economies on starting a business, dealing with licenses, getting credit, and seven other topics.

Table 1.

DOING BUSINESS 2008 IN THE BSEC COUNTRIES
by
the World Bank

	AL	AM	AZ	BG	GE	GR	MD	RO	RU	RS	TU	UA
Ease of Doing Business Rank	136	39	96	46	18	100	92	48	106	86	57	139
Starting a Business	123	47	64	100	10	152	81	26	50	90	43	109
Dealing with Licenses	168	73	159	103	11	42	153	90	177	149	128	174
Employing Workers	109	48	80	57	4	142	93	145	101	110	136	102
Registering Property	82	2	56	62	11	93	46	123	45	115	31	138
Getting Credit	48	36	26	13	48	84	97	13	84	13	68	68
Protecting Investors	165	83	107	33	33	158	98	33	83	64	64	141
Paying Taxes	118	143	141	88	102	86	111	134	130	121	54	177
Trading accross Boarder	70	118	173	89	64	65	122	38	155	58	56	120
Enforcing Contracts	74	64	30	90	42	87	17	37	19	101	34	46
Closing a Business	178	42	75	72	105	38	82	81	80	103	112	140

Remarks:

- (i) Code of country names in accordance with the ISO 3166 standard.
- (ii) The World Bank Group: Doing Business Data 2008, 2007.

In Annex 3. please find the SWOT analyses of the SME sector in each BSEC countries.

In oder to evaluate the share of the SME sector in each BSEC country, we shall use the Index of SME Development introduced by the UNECE in 1999. It is a complex economic indicator, which incorporates the share of the whole SME sector in the overall performance of the national economy based on :

- (i) Share of private ownership;
- (ii) Share of SMEs in GDP, and

- (iii) Share of the labor force of SMEs in the total labor force of a country. Index of SME Development can be expressed in terms of percentage and/or GDP per capita.

It is difficult to state that a country with the highest Index has the most entrepreneurial culture or the SME sector is the most developed and advanced one. However, it provides a good tool for comparative analysis and highlight the trend in changing the SME environment enabling or hindering and depressing the entrepreneurs.

Table 2.

INDEX OF SME DEVELOPMENT IN THE BSEC COUNTRIES
based on UNECE methodology

Country	Share of private sector in GDP ¹ [%]	Share of SME sector in GDP ² [%]	Share of labour force of SMEs in total labour force ³ [%]	GDP per capita ⁴ [US\$]	Index of SME Development [-]	Index of SME Development [US\$]
Albania	75	64	60	2,898	0.288	835
Armenia	75	40.3	35.1	1,888	0.106	200
Azerbaijan	60	26 ⁷	53 ⁷	2,336	0.083	193
Bulgaria	75	39 ⁸	51.5 ⁹	3,995	0.114	456
Georgia	70	12 ¹⁰	27 ¹⁰	1,779	0.023	40
Greece	60 ⁵	27.4 ¹¹	86.5 ¹²	27,610	0.142	3,927
Moldova	65	27	22	957	0.039	37
Romania	70	55	57	5,633	0.219	1,236
Russia	65	45	40	6,856	0.117	802
Serbia	55	65.5	56	4,220	0.202	851
Turkey	80 ⁶	27.3 ¹¹	76.7 ¹³	5,408	0.168	906
Ukraine	65	10	15	2,274	0.00975	22

Source: ERENET Database, 2007.

Remarks:

1. EBRD Transition Report 2006
2. Autors of the current report and UNECE Databank 2004
3. Autors of the current report and UNECE Databank 2004
4. IMF World Economic Outlook Database, April 2007
5. <https://www.cia.gov/library/publications/the-world-factbook/geos/gr.html>
6. 2004 Regular Report on Turkey's Progress Towards Accession, Commission of The European Communities, Brussels, 6.10.2004 SEC(2004) 1201
7. Including the agrar sector. Withouth the agrar sector only 18% respectively 24% only.
8. Annual Report on SMEs in Bulgaria prepared by the Ministry of Economy and Energy. http://www.mee.government.bg/ind/doc_eco/Annual.Report.on.SMEs.SPECIAL.EN.pdf
9. National Statistical Institute, Sofia, http://www.nsi.bg/public_e/MSP04.html
10. No official statistical data is available. Information from the Gerogian Association of Women in Business from Tbilisi.
11. Small and Medium Enterprises across the Globe , Meghana Ayyagari, Thorsten Beck and Asli Demirgüç-Kunt
12. Small and Medium Sized Enterprises Sector (AGCAS), Claire Rigby and John Trantom (Liverpool John Moores University), edited by Jamie Swann
13. SME Strategy and Action Plan, Republic of Turkey Prime Ministry State Planning Organization

3. EXPANDING SOUTH EAST EUROPE TO THE REGION THE AREA OF PEACE, STABILITY, PROSPERITY BY DEVELOPMENT OF ENTREPRENEURSHIP. - REVIEW OF THE SME SECTOR IN ALBANIA, BULGARIA, ROMANIA AND SERBIA ¹⁶

3.1 ALBANIA

3.1.1. SME SECTOR DEVELOPMENT

After the long period of isolation Albanian economic reforms of the first decade of transition were much focused on the areas of privatization, deregulation and liberalization efforts in all sectors of the economy. As result, over the last few years, growth averaged at close to 6% and for 2005, the real GDP growth rate was 5.5%. Economic growth over this period was accompanied by ongoing consolidation of macroeconomic equilibrium, being evidenced in overall stable monetary indicators, low and stable inflation rates, and in the reduction of budget deficit and public debt.

The substance of the important measures undertaken by the Albanian Government remains the reforms for the development of the private sector, especially for the SMEs. Since 2001 a national strategy paper for the development of the SMEs was drafted by the Ministry of Economy and approved by the Government of Albania. Most of the actions are related to measures which contribute to relaxing of bureaucratic barriers to the business establishment and operation, enhancing the transparency of the public administration on its relations with the private sector and improving the policy making and institutional set up in support of SMEs. Overall objective of Government SME strategy is to create a positive business development climate to allow for sustainable SME growth. Its specific objectives are: encouraging the expansion of existing businesses and the creation of new ones (Start-ups), including the transformation of traders into investors in production, while simultaneously supporting production for export and SME joint-ventures. To reach the above objectives a number of concrete measures will be taken, such as:

- Institutional strengthening and development through SME policy and program development and delivery of SME support services via intermediary institutions (such as the Chambers of Commerce, Regional Development Agencies, business associations, consultancy companies, etc.);
- Working towards a transparent legal and fiscal framework which is conducive to SMEs development;
- Improving the management of SMEs, via training programs delivered by intermediaries;
- Improving access to finance by expanding micro-finance and initiating new tools such as credit guarantee schemes, seed capital, leasing, etc;
- Achieving balanced regional and sectoral development through incentives to stimulate SMEs development in deprived areas and regions.

Taking in consideration the number of persons employed in a firm, Albanian Law No. 8957, Small and Medium Size Enterprises as of 17 October 2002 uses the following criteria for SME classification:

- Micro enterprises: up to 5 employees;
- Small enterprises: 6 - 20 employees;
- Medium-size enterprises: 21 - 80 employees;
- Large enterprises: over 81 employees.

¹⁶ Prepared by Dr. Eriq DEJAN, Associate Professor School of Economics, University of Belgrade, Belgrade Banking Academy

The following data represents some indicators of SME sector in Albanian economy, according to data of Albanian Institute of Statistics:

- The share of SMEs sector in total number of enterprises was more than 99%, both for 2004 and 2005.
- Until the end of 2004. the number of the enterprises reached the figure of approximately 55.000 enterprises (micro 93%, small 4%, medium-sized 2%, according to the criteria for SME classification above).
- The business natality rate for 2005 was 19%, so in 2005 number of SMEs exceeded 65,000.
- SME sector contribution to GDP is 64% (2005).
- SME sector contribution to employment is 60% (2005).
- The most important sectors for SME activities are trade and services, which contribute to total number of enterprises and private sector employees with 73.5% and 45.2%, respectively, and generate 74% of total turnover.

3.1.2. LEGISLATION AND STEPS OF DOING BUSINESS

The Albanian government has applied a set of liberal fiscal policies during the last few years, drastically reducing fiscal burden, social security, and health contributions. These policy measures consist of:

- Reduction of corporate and personal income taxes, implementing a "Flat tax" of 10% by the end of 2007.
- Unification of the simplified profit tax and the tax on small business as defined in the new Law No. 9632, "On local taxes in the Republic of Albania", dated as of 30 October 2006. According to this law, local authorities are now responsible for the collection of the new tax.
- Reduction of the fiscal burden of social security paid by employers from 29% to 20%.
- A 30% reduction of electricity rates for businesses.
- A tax exemption of dividends designated for investments.

On 28 July 2003, the law No.9121 "On the Protection of Competition" was approved by the Albanian Parliament. This law entered into force by 1 December 2003 abrogating the law No. 8044 dated as of 7 December 1995. The Competition Law No. 8044 dated as of 7 December 1995 applies to all investors, domestic or foreign, private or state-owned, who supply or demand goods, the acquisition or consumption of which is subject to their own free will and initiative. On the basis of this law, every business, consumer or association has the right to complain to the Competition Department regarding any violation of the law. This law represents a deep reform in the field of competition in Albania. Differently from the former law, „the Law on the Protection of Competition", is a pure antitrust law, dealing with the abuse of dominance, the control of concentrations and illegal agreements, such as cartel agreements. The approach in dealing with these issues is the same with the one pursued in European Legislation.

Incentives are regulated by the „Law on State Aid" approved by Albanian government and parliament with the primary aims of promoting the implementation of important projects, facilitating the development of certain economic activities, and promoting culture and the heritage conservation. Law No. 9374, dated on 21 April 2005. "On State Aid" applies to all sectors of manufacturing and services and all measures undertaken by central and local governments, as well as other entities acting on behalf of the State, that confer benefits to particular enterprises, except those acting in the sectors of agriculture and fisheries. The State Aid may take the form of subsidies or grants; exemptions, reductions, deferrals or tax credit and other fiscal contributions; writing off of overdue fees and penalties; debts write offs or offsetting of losses; loan guarantees or loans at reduced rates; reduction in the price of goods supplied and services provided, including sales/leases of public property below market price or

buying products or services at higher than the market price; increase of state-owned equity at enterprises or increase of its value.

The law No. 8636, dated on 6 July 2001. "the Law on Free Zones" regulates the establishment, functioning, supervision and control of free zones. The National entity of Free Zones is established for the purposes of licensing, establishment and administration of free zones, as the sole authority in Albania, responsible for the pursuance of development and functioning of free zones.

Table 3 contents list of some measures of business regulations and their enforcement related to Albanian economy:

Table 3.

Economy	Year	Ease of Doing Business Rank	Starting a Business				Dealing with Licenses				
			Rank	Procedures (number)	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)	Rank	Procedures (number)	Time (days)	Cost (% of income per capita)
Albania	2007	136	123	10	36	20.9	34.3	168	24	331	461

Employing Workers							Registering Property			
Rank	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Nonwage labor cost (% of salary)	Firing costs (weeks of wages)	Rank	Procedures (number)	Time (days)	Cost (% of property value)
109	44	40	20	35	22	56	82	7	47	3.5

Getting Credit					Protecting Investors					Paying Taxes						
Rank	Legal Rights Index	Credit Information Index	Public registry coverage (% adults)	Private bureau coverage (% adults)	Rank	Disclosure Index	Director Liability Index	ShareholderSuits Index	Investor Protection Index	Rank	Payments (number)	Time (hours)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
48	9	0	0	0	165	0	5	3	2.7	118	44	240	18	24.5	4.6	46.8

Trading Across Borders							Enforcing Contracts				Closing a Business			
Rank	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)	Rank	Procedures (number)	Time (days)	Cost (% of debt)	Rank	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
70	7	21	745	9	22	750	74	39	390	31.8	178	no practice	no practice	0

Source: <http://www.doingbusiness.org/customquery/ViewCustomReport.aspx>

In the framework of Regulatory Reform, businesses in Albania are only required to register once with the country's tax authorities. A new Law on business registration reform was enacted by the Parliament on 3 May 2007. Law No. 9723 "*Law on the National Registration Center*" establishes the **National Registration Center (NRC)** as a new central public institution. The National Registration Center has opened in September 2007, and all business activity can be registered in one day with a cost of 1 Euro at the One-Stop-Shop Office.

Albania's entire legal business licensing system is under revision. The purpose of this process is to adjust licensing legislation to the "*Acquis Communautaire*" as well as to reduce administrative barriers for businesses operating in Albania. The Albanian Parliament has already ratified the revised licensing legislation on mining and public works while those of other sectors are still in progress.

Table 4 summarizes the procedures and costs associated with setting up a business in Albania:

Table 4.

No:	Procedure	Time to complete:	Cost to complete:
1	Search for a unique company name	1 day	no charge
2	Deposit the initial capital in a bank and obtain a bank statement	1 day	no charge
3	Notarize the incorporation documents	1 day	Lek 10500
4	File the documents with the Office for the Registration of Companies in the District Court of Tirana and obtain a registration number	18 days	Lek 1500
5	Register for taxes and obtain the VAT number and Fiscal Certificate	10 days	no charge
6	Register the company with Labor Inspectorate Office	1 day	no charge
7	Register for the membership with the Chamber of Commerce and Industry	1 day	Lek 20000
8	Pay the local fees and tariffs and obtain a final statement on the payment of local fees and tariffs to the office of Alba Post SHA	1 day	Lek 25000
9	Register with the Public Institute of Social Security for social security and health insurance	1 day	no charge
10	Make a company seal	1 day	Lek (3,000 - 5,000)

Source: <http://www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=3>

3.1.3. SME SUPPORT INFRASTRUCTURE

An institutional framework for SME is generally in place. SME Agency has been established by Law No. 8597, in 2002. The Agency has a major role in implementation of the SME strategy of the Albanian government. This strategy has an overall purpose to create of positive climate for business development aiming at the promotion of SMEs.

- Support of new business start-ups
- Encouragement of tradesmen to invest in production
- Export promotion
- Support of Joint-Ventures in SME sector.

In order to ensure the implementation of these objectives, the measures below would be adopted:

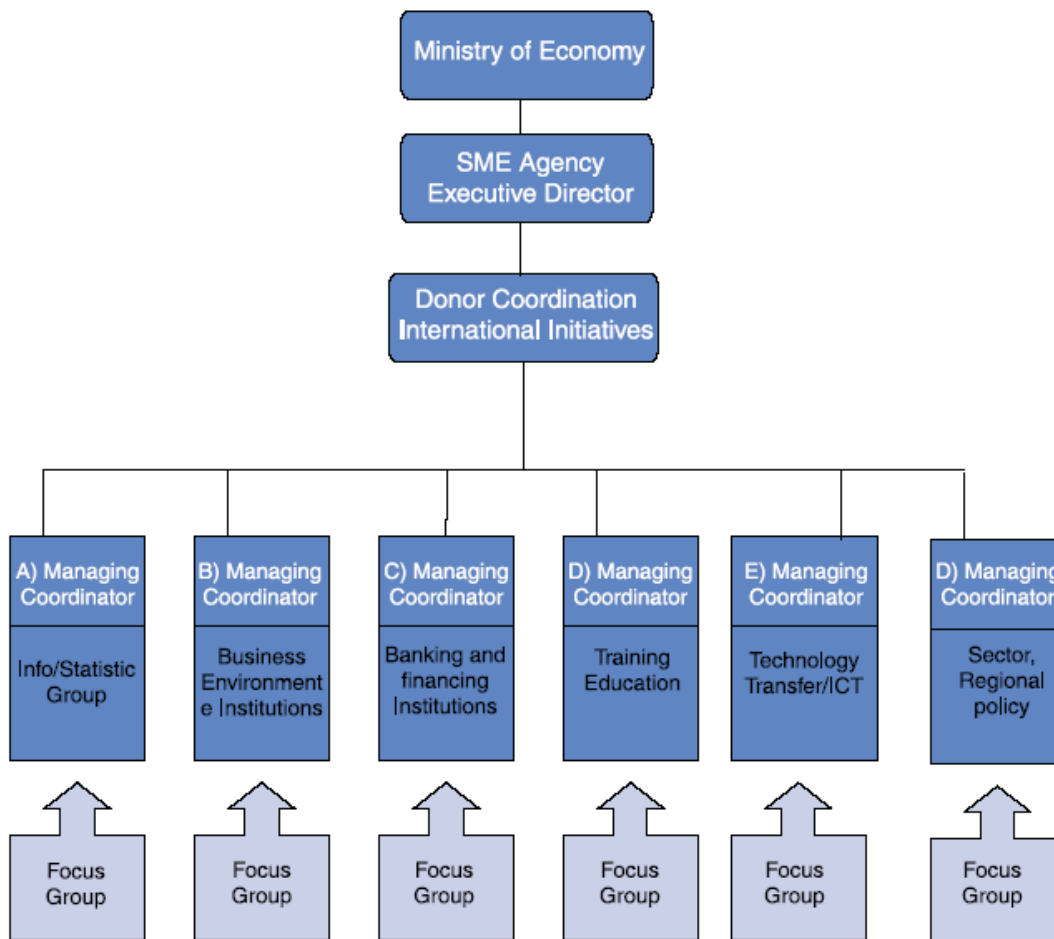
- Institution strengthening and development
- Development of legal and fiscal framework
- Improvement of SME operation management
- Improvement of credit system for SMEs
- Support of a harmonized development of localities and sectors.

The SME Law defines the concrete benefits that SME-s would enjoy support of the government and such support is:

- Financial supports and credit risk guarantee
- Technical supports
- Information and consulting
- Education, training and professional qualification
- Employment promotion programs
- Renting facilities for state assets
- Infrastructure development

- Industrial zones/Business incubators.

The Ministry of Economy is the responsible Institution for SME Policy and legislation and has the leading role in the process of program development and monitoring. The Ministry of Economy has established the SME Agency as an executive body for Policy and Strategy implementation. In order to carry out this role, the SME Agency will play a coordinating function of the SME Development Program. This coordination scheme would be the following:



Each area of policy of SME Development would be directed by a focus group structured according to the specific objectives. It will consist of a variety of different institutions that represent their direct or indirect interest and commitment to the SME program. There are 6 policy committees plus one committee for the donor coordination. These ad-hoc committees will be conceptualized as partnerships groups between government, business and society with corporate responsibility at promoting and contributing to the continuous development of SME-s in Albania. This entire network is to develop government dialog in parallel with business-to-business dialog. Thus, the Agency serves as intermediary for government, business, social partner, NGOs and Society aiming at bringing for an active partnership policy to advertise and optimize its efforts towards creating an efficient synergy needed to bring the undertaking to completion.

Information Services - Priority: To monitor SME development by:

- Reviewing available sources of data on SME-s;
- Introducing a system of SME performance indicators;
- Developing sector/cluster based SME information systems and reporting; Estimating the proportion and numbers of firms operating in the informal sector;
- Adopting international SME reporting standards; and
- Preparing an annual report on the state of SMEs in Albania.

Development of Human Resources – Priority tasks are to raise the level of knowledge of entrepreneurship and improving the professional standards of business service providers by:

- Introducing entrepreneurship into university and pre-university curricula;
- Developing graduate enterprise programs and training;
- Raising the professional standards of trainers and business consultants through accreditation;
- Improving the quality of training and service products delivered to SMEs;
- Increasing support for young people and women entrepreneurs.

Financial Services - Priority: To improve SMEs access to credit and other financial services by:

- Extending loan guarantee schemes;
- Introducing new regional micro-credit schemes;
- Improving the capacity of banks and non-bank financial institutions to offer SME credit services;
- Offering 'softer' lending conditions to priority sectors;
- Extending leasing schemes for capital equipment purchasing;
- Accelerating land registration procedures; and
- Simplifying procedures for executing collateral.

Legal, Taxation and Regulatory Framework – Priority: To reduce the taxation, legal and administrative barriers constraining the development of SMEs by:

- Simplifying business registration and licensing procedures based on best practices;
- Increasing the number of businesses operating in the formal sector;
- Minimizing the tax burden on SMEs;
- Stabilizing the taxation environment; and
- Conducting ongoing research on the effects of administrative, legal and tax barriers on SME development.

Business Infrastructure and Technology – Priority: To improve the efficiency and quality of infrastructure, utilities and technology available to SME-s by:

- Extending business and industrial parks;
- Promoting the increased use of ICT in SMEs;
- Supporting research and development centre;
- Upgrading the technology used by SMEs;
- Improving the availability of utilities for SMEs.

Regional and Sector SME Development - Priority: To develop SMEs in the regions by:

- Expanding SME projects in North-Eastern Albania;
- Conducting regional/sector research and analysis.

Donor Coordination - Priority: To maximize the efficiency of donor support by:

- Coordinating donor activities through regular contacts to avoid duplication and overlap;
- Holding regular donor coordination forums organized by the SME agency;
- Encouraging donors to support projects in key SME priority areas.

3.1.4. FINANCING SMEs

Prof. Dr. Selami Xhepa and Msc. Mimoza Agolli from Institute for Contemporary Studies/Albanian Center for International Trade (ISB/ACIT) in their paper "Small and Medium Sized Enterprises Development", (Tirana, 2004), access to finance for SME sector describes as following.

3.1.4.1. General description of the banking sector

Banking sector in Albania continues to be underdeveloped primarily due to the legacies of the pre-transition heritage. With the starting of transition, it was in mid-1992, for the first time a two tier banking system had to be established and a totally new banking industry had to be developed based on market principles. The reform package on the banking sector included measures of reforming state owned banking system, through a process of mergers and splits and the encouragement of the entry of new private banks. With the privatization of Savings Bank in January 2004 by an Austrian bank, the Government of Albanian totally withdraws from the banking business. Actually the banking sector is composed of two joint venture banks, 12 privately owned by foreign investors and 2 owned by local investors.

However, due to the dominant position of the Savings Bank, with 60 per cent of total deposits and 80 per cent of T-bill holdings, competition on the banking sector remains rather limited.

Banking legislation was visited frequently during the '90s, mostly due to the effects of the 1997 crisis and the need to strengthen the environment on which they function. In addition to establishment and function of the industry, other important legal reform included the strengthening of the financial infrastructure. Special attention was paid to legislation on secured transaction (enacted in 2001); strengthening of the bankruptcy legislation with a new law enacted in 2001. and reviewed (2003.) to comply with the EU directives; development of the deposit insurance schemes (2002.) where the deposits of up to 5,000 USD are ensured by the established agency and development of legislation on money laundering, etc. Increasing the banking system transparency has been the focus of the reporting requirement procedures developed by the supervisory authority. On that respect, the Bank of Albania adopted a new accounting system consistent with the International Accounting Standards. Another important area of development is that of payment system, with a new RTGS (real time gross settlement) in operation by early.

In terms of the funds intermediated through the system to the private sector, the role of banking continues to be very modest, albeit the very impressive dynamics registered during the last two years.

The total loans to GDP continue to be at very low levels, reaching the highest 7.4% of GDP by end 2003 or a more 14.9% of total deposits on the system. While the deposits of the residents placed in the banking system rose from 29% of GDP in 1995 to 44% of GDP by November of 2003 they share extended to private sector loans varied between 8-14% during this period.

Several surveys of resource financing firms' economic activities confirm that the banking system has played a highly limited role. The data obtained from interviews of firms (EBRD, 1999 & 2000) show that more than 20% of the large enterprises interviewed in Albania refer to state funds as their principal resource of financing. 5% of large enterprises and 2% of the SMEs interviewed confirm that they have got hold of financing resources only through the banking system. 2% of the SMEs list local banks as providing

credit for their activities and another 2% mention foreign banks. The country coverage with the banking services is rather limited. Especially after the restructuring of the Savings Bank which had a country wide network, this is a real issue, particularly for the rural areas.

The positive trend is that private banks are expanding their regional network. This is a clear trend observed during the last two years. The system today operates as indicated on the following table 5:

Table.5.

	1996	1997	1998	1999	2000	2001	2002
Banks	6	8	10	13	13	13	14
Non bank financial institutions				1	2	4	5
Forex bureaus				10	19	38	58
Savings-credit associations							113
Savings-credit associations unions							2

Source: Banking Supervision, Annual Report, 2002

The lack of the competition on the banking system is also reflected on the high spread on interest rates. However, due to a combination of domestic factors and developments on the international financial markets, the interest rate spread has narrowed. The detailed data are presented on the following table 6.

Table 6.

	1996	1997	1998	1999	2000	2001	2002	2003
Lending-Deposit rate differential	10.1	-3.2	10.2	11.4	16.7	7.9	6.7	3.5

Source: calculations based on Bank of Albania statistical reports; various issues

The following are the citations from the legislation in force regarding the collateral and the risk management regulations adopted by the Bank of Albania applicable by the commercial banks operating in Albania.

A loan is well protected if the collateral or guarantee is sufficient to protect the bank in case of nonpayment of principal and interest. Sufficient collateral or guarantee entails the existence of a legal documentation, which ensures that the execution of collateral or guarantee will cover the amount of principal and interest, as well as its collection or collateral execution costs.

Collateral or guarantee is considered sufficient if one of the following conditions is fulfilled:

- the loan is secured adequately (100%) with a guarantee in Lek by the Albanian government or the Bank of Albania, for loans denominated in Lek;
- the loan is secured by government securities. The loan amount does not exceed 80% of the collateral or guarantee;
- the loan is secured adequately (100%) by international financial institutions;
- the loan is secured adequately (100%) by central governments or central banks of countries of zone A in their own currencies (such countries are listed in the regulation "On Capital Adequacy");
- the loan is guaranteed from another solvent bank, for branches of foreign branches, other than the parent bank. The loan amount shall not exceed 70% of the collateral or guarantee;

- the loan is secured with movable property pledged by the borrower or the guarantor. The loan amount does not exceed 70% of the market price of the property pledged;
- the loan is secured with a real estate mortgage by the borrower or the guarantor. The loan amount does not exceed 70% of the market price of the collateralized real estate; the real estate must be inscribed in the bank benefit.
- the loan is secured by a specialized financial institution. The loan amount does not exceed 50% of the guaranteed amount;
- the loan is secured by an escrow deposit in Lek or foreign currencies. This deposit shall be at least 25% higher than the amount of granted loan when they are in different currencies, and 20% higher when they are in the same currency.

As it has been already noted, the credit activity from the banking to the private sector remains at very modest rate. However, in the last two years there have been impressive growth rates of the loans extended in the economy. The outstanding credit increased by Lek 11.9 billion in 2003. New credit was Lek 92.6 billion in 2003 (48% higher than in 2002).

3.1.4.2. Specific credit lines for SMEs

In 2004, there are no specific credit lines designated to the SMEs. Data on the Strategy for the development of the SMEs, indicate that total committed financing for the SMEs from the donor amounted at USD 177 millions, of which only 86 millions were spend. Although they might have been provided by donors not on commercial terms, they were actually converted on commercial terms when extended to SMEs. There is no information available regarding the success rates of these loans.

As above indicated, there is actually a new credit line approved by the Government of Italy for a total fund of USD 30 millions to be used for the SME development. At this time, the modalities on terms and conditions the funds will be provided to SME are not yet specified.

Considering the very family type of business which is mostly present in Albania, other forms of financing other than banks remain the most important source of finance. In particular, the non-bank financial institutions, such as credit and loan schemes, have grown rapidly during the last years.

The expansion of activities of non-bank credit institutions has been note worthy. These organizations have succeeded to establish their presence in rural areas, especially in the mountain regions. Figures in the following table 7. highlight the increasing role of these institutions.

Table 7.

(Figures are in US dollars)

	2000	2001	2002	2003	2003/ 2002, %	2003/200 0, %
MAFF*						
Credit Outstanding	1.400.000	1.800.000	4.100.000	7.536.060	184%	538.29%
Average Credit	447	576	1.100	1.772	161%	396.42%
Active Clients	3200	3100	3700	4253	115%	132.91%
RFF**						
Credit Outstanding	2673.760	3.685.186	5.427.917	7.715.590	142%	288.57%
Average Credit	767	939	1176	1.310	111%	170.80%
Active Clients	4423	5277	6380	7.621	119%	172.30%
BF***						
Credit Outstanding	4.973.482	6.936.598	10.417.637	12.118.869	116%	243.67%
Average Credit	1.886	2.030	2.321	2.255	97%	119.57%
Active Clients	2637	3417	4488	5375	120%	203.83%

* MAFF: Mountain Area Financing Fund

**RFF: Rural Finance Fund

*** BF: Besa Foundation

Source: Progress report on implementation of the national strategy for socio-economic development during 2003 - Objectives and long term vision - Priority action plan 2004-2007; April 2004

In addition, own and family finance is used by SMEs to finance their activities. In particular, repatriated funds from the emigrant have helped individuals start and finance small business activities. Surveys reveal the primary importance of this source of finance. The following ratings refer are taken from the publication "Albania Enterprise Policy Reforms Assessment", prepared by the OECD and the EBRD, June 2003.

Relative Importance of Main Financial Sources Accessed by SMEs

Financial Sources	Rating	Rank
Family or individual capital	2.8	1
Micro-finance	2.3	2
Repatriated capital	2.2	3
Commercial bank loans	2.0	4
Other (e.g. credit unions)	1.9	5
Leasing	1.5	6
Venture capital	1.4	7

The same conclusions can be drawn from the BEEPS Study, 2002. The most import source of finance both for working capital or new investment are internal funds.

Working Capital		New Investment	
Internal funds	83.7%	Internal funds	80.6%
Family/Friends	5.4%	Family/Friends	6.9%
Supplier credit	2.8%	Supplier credit	3.0%
Foreign banks	2.3%	Foreign banks	2.6%
Government	2.0%	Other	2.4%
Money lenders	1.3%	Private local banks	1.4%
Private local banks	1.1%	Government	1.4%
Customer credit	0.6%	Money lenders	1.1%
Other	0.5%	Equity	0.3%
Credit cards	0.2%	Customer credit	0.2%
Equity	0.1%	Leasing	0.1%
State-owned banks	0.0%	State-owned banks	0.0%
Leasing	0.0%	Credit cards	0.0%

Source: BEEPS, 2002

3.1.4.3. Mutual and loan guarantee funds

There have not been so far any mutual or loan guarantee fund operational. Some of the projects with a component of loan guarantee are reported as follows:

- Land O'Lakes (LOL) is a USAID small loan guarantee fund for covering lending risk to small dairy farmers or processors;
- IFC Loan guarantee risk sharing agreement with ABA - for a total of US\$ 2.5 million. To date no projects have been approved for coverage by this facility.
- DEG SME Loan guarantee risk-sharing agreement with BIA – Both parties have now terminated it, since it never became fully operational as intended. The principal reason being a lack of bankable projects;
- Albanian Small Business Credit and Assistance Program (ASBC) is a new USAID funded program providing credit and TA to existing SMEs in production sectors. It also has a small SME loan guarantee facility, but this is not operational as yet. There is a project, as mentioned, of 2.5 millions of USD to support the establishment of a loan guarantee fund. However, up to now this is still an idea and no concrete proposal is so far discussed by the authorities.

The Enterprise Policy Development in the Western Balkans, Report on the Implementation of the European Charter for Small Enterprises in the Western Balkans 2007, concerning financial matters, focuses on the credit environment and the range of financial products available to SMEs. Restructuring of the banking industry has started to have a positive impact, in terms of diversification of banking services and improvement of lending conditions. Sectors such as leasing are growing, with relevant legislation in place and progress being made in implementation. Collateral requirements remain high. Credit Guarantee Schemes, particularly those based on a mutual system, still play a marginal role. The legal and operational credit environment needs to be further developed.

3.1.5. TASKS FOR IMPROVEMENT AND FURTHER DEVELOPMENT OF SME SECTOR

Albania has made relatively good progress in building institutions responsible for elaborating and delivering SME policy and completing the relevant legal and institutional framework. However, policy is still at an early stage of development in the broad regulatory area, particularly with respect to company registration, where Albania actually lags behind the rest of the region. Albania is committed to reforming the company registration process, but concrete results still need to be demonstrated. In the next stage of reform a focus on further progress with respect to one-stop shops, licenses and permits, and the establishment of an

electronic company register, is needed. Progress is still too dependent on donor support, raising questions about the medium-term sustainability of a number of programs. Once these issues are addressed, Albania has the potential to move quickly to the next stage of policy development, where the focus will be on implementation more than elaboration.

The legal and operational credit environment needs to be further developed.

Taxation and financial matters represent the lifeblood of SMEs, especially in the early stages of their operations. Progress in these two sub-dimensions has greatly improved. The assessment of taxation focuses on total tax payable and on tax administration. Substantial progress has been made in reducing the tax burden on all classes of enterprises, and this has benefited SMEs. In particular, there is room for improvement in tax administration, especially the reduction of compliance costs for small enterprises. The tax system continues to be inimical to stimulating start-ups and growth of small enterprises. It is generally perceived as being unfriendly vis-à-vis small enterprises (too many taxes, pre-payments, unclear rules), and appears to be designed and administered with large enterprises in mind, rather than SMEs. There has been some progress on establishing a dialogue with the business community in relation to changes in taxes, rates and other regulations, particularly during the preparation of the 2005 budget measures. However, the government should undertake a wider and more systematic consultation process, engaging more directly the small business sector, (even if the sector it is fragmented in several trade and industry associations) on issues such as tax administration reform and the fight against the informal economy. Finally, procedures such as centrally predetermined tax revenue collection targets, non-payment of legitimate VAT refunds and direct access to firms' bank accounts fuel resentment and flight by small business into the informal economy.

The Ministry of Economy's Business Promotion Department and the SME Agency will nevertheless need to work on raising entrepreneurs' awareness of their activities, and to ensure that SMEs obtain information and are capable of contributing to the policy making process. Over the next year the SME Agency needs to complete this phase and move to the implementation of specific SME support programs, focusing in particular on the less developed regions, as indicated in the SME strategy. In parallel, the Government should review and update the current SME strategy, adjusting priorities and targets in line with demand and available resources.

It will take a few more years for effective representation of SME interests to reach EU standards. More remains to be done in areas where the Government could act decisively, e.g. the reform of Chambers of Commerce and the establishment of real consultative channels. The Government should ensure that SMEs have specific forums where their interests are represented, with real mandates to influence policymaking. The capacities of Chambers of Commerce and business associations should improve over time.

SMEs technological capacity, essential for competitiveness and innovation, is slowly being strengthened. Areas such as dissemination of new technology, creation of links between SMEs and research centers to foster co-operation, establishment of research and technology centers, and initiatives to encourage the formation of clusters in key economic sectors are still in the early stages. It is encouraging for foreign investors that Albania has introduced appropriate legislation to protect intellectual property rights.

Like technological capacity, e-business solutions can further improve the efficiency and competitiveness of SMEs. They provide more effective approaches to purchasing and sales, facilitating access to European markets. Donor funding has been important for the development of support facilities and services and provision of information services. However, there is a strong need for greater clarity, for quality standards in regard to service provision, and for better coordination of business support strategies. While basic legislation is in place on the

introduction of e-signatures, only Albania hasn't introduced a full range of secondary regulations and hasn't moved towards their increasing acceptance in on-line transactions.

Application of Regulatory Impact Analysis (RIA) is still in its infancy. Using an effective RIA approach to legislation that directly affects SMEs has high priority, and progress is being made.

Opportunities for small enterprises to take advantage of the Single Market could be improved through export promotion programs and policies to enhance SMEs' competitiveness. The development of export promotion and competitiveness programs has been limited, with fragmented initiatives that do not follow an overall strategy for export promotion and increased competitiveness. Albania needs to better prepare small enterprises to benefit from EU markets, with concrete support in areas such as the adoption of international and EU technical and phytosanitary standards and associated company certification systems. To ensure that there are effective co-ordination and implementation, these actions should follow a clear strategy and be supported by an export promotion agency.

3.2. BULGARIA

3.2.1. SME SECTOR DEVELOPMENT

In recent years Bulgaria registers progress in maintaining macroeconomic stability. GDP per capita is on a positive trend and in the period 1997–2005 it doubled in amount to EUR 2,771. Major drivers of growth in the country are a thriving private sector and increasing investments. Private sector's share in the economy is up, to 68.2 % of GDP. Accelerated investment activity contributes to a dynamic development of industry which in 2005. registers growth of 7.3 per cent and generates now over 30 per cent of the value added in the economy. In January 2007 Bulgaria became full EU member and has obtained large opportunities for further economic development

Due to the macroeconomic conditions the role of small and medium-sized enterprises (SMEs) in the Bulgarian economy is steadily increasing. In the period from 2002 to 2006, the Bulgarian Government played active role in SME sector fostering, based on National Strategy for Encouragement of Small & Medium Enterprises Development for 2002–2006. Creation of favourable environment and conditions for development of a competitive SME sector, which will accelerate the economic growth of the country through preservation of macro-economic stability is introduced as main objective of the Strategy. According to this objective, the Bulgarian Government recognized following priorities:

- Simplification of administrative and legislative environment for SMEs;
- Financial environment improvement;
- Innovations and technological development support;
- SME europeization and internationalization;
- Improvement of the access to information and services;
- Provision of conditions for SME development in regional aspect;
- Encouragement of the entrepreneur spirit and skills.

The role of SMEs in Bulgarian economy and achievements of Strategy implementation can be summarized as follows, according to data of Ministry of Economy and Energy, Republic of Bulgaria, issued in Annual Report on the Condition and Development of SMEs in Bulgaria for 2006 (data ¹⁷ are related to year 2004):

¹⁷ Data are based on survey of Ministry of Economy and Energy, which includes only population of non-financial private enterprises in the • to • sections range of the National Classification of Economic Activities

- SMEs represent 99.3% of all 222,714 enterprises
- Number of private SMEs exceeds 221,000 (99.7 % of total private enterprises): 198,727 micro SMEs, 18,855 small-sized SMEs and 3,574 medium-sized SMEs;
- In the period 2001 – 2004 number of micro-enterprises grew with 5.5%, small enterprises grew with 54.8% and medium-sized enterprises grew with 28.8% .
- The most of SMEs (77.9% of total SMEs) participate in following sectors: wholesale and retail trade; repair of motor vehicles, motorcycles and personal and households goods – 54 %; manufacturing industry – 12.7%; real estate, renting and business activities – 11.2%.
- Number of employees in SME exceeds 1.18 million including: 458,000 in micro SMEs, 369,000 in small-sized SMEs and 353,000 in medium-sized SMEs.
- The most of employees (78.2% of total employees in SMEs) belong to the following sectors: wholesale and retail trade; repair of motor vehicles, motorcycles and personal and households goods – 34.7%; manufacturing industry – 33.5%.
- Private SMEs generate 72.7% of the total private sector's turnover.
- Two sectors with highest share in total SME turnover are: wholesale and retail trade; repair of motor vehicles, motorcycles and personal and households goods – 59% and manufacturing industry – 21.4%.
- Contribution of SMEs in total gross value added created by private sector and entire economy amounts 58.4% and 22.2%, respectively.
- SME contribution to gross domestic product of the country in 2004 is 19.2%.
- Labour productivity of private SMEs (which is calculated as the ratio between the added value, expressed in BGN, of factor expenses and the number of people employed) amounts 6,200 and it is almost twice as low as the one in large enterprises which is 15,700.
- Profit per employee (which is calculated as the ratio between the gross operating surplus, expressed in BGN, and the number of people employed) amounts 3,400.

The analysis of Strategy's implementation shows many positive changes but also a lot of problems which still impede SME development. Notable among achievements is the harmonization of Bulgarian with the European legislation on entrepreneurship regulation and SME promotion. OP "Development of the Competitiveness of the Bulgarian Economy" also provides good development opportunities for the SME sector. The Ministry of Economy and Energy has been working recently on a program for presenting OP "Competitiveness" to the business, in particular to SMEs in all Bulgarian regions. Analyses show that serious measures need to be taken to improve entrepreneurs' capacity to draw successfully money from the EU Structural Funds. To that end, efforts need to be focused on providing more information, which is up-to-date and understandable, and on explaining the essence and the role of the EU Structural Funds, on targeted education and training in project development and implementation and strategic planning, on work in partnership.

3.2.2. LEGISLATION AND STEPS OF DOING BUSINESS

Main components of the regulatory reform for the business environment, based on regulatory principles of the Lisbon Strategy are:

- Reform of the public administration and improvement of the quality of public services: Administrative Procedure Code (APC), promulgated in SG, issue 37/2006, is an important step in the process of Bulgarian judicial system and administration reform. The expectations to this code are concerned with the recognition of the supremacy of law as the most reliable guarantee for protection of the rights of citizens in their contacts with the administration as well as with achieving a simpler, quicker, approachable, and comprehensible administrative procedure.

The Code of Conduct for Civil Servant operates together with the Civil Servant Law and further develops the rules of conduct of civil servants. Its objective is to increase public confidence in the professionalism and ethics of civil servants and to enhance the prestige of public service.

An important step towards a favorable business environment is the Conception for improvement of the administrative service in the context of the one-stop-shop principle and the Basic Model of one-stop-shop service. The Conception has been elaborated in fulfillment of the Strategy for Modernization of Administration. The organizational principle of the one-stop-shop service is implemented in one way or another and at a different level of development in the greater part of the central and district administrations. In a number of municipal administrations a practice is imposed, based on the one-stop-shop principle, to relieve and optimize the service rendered by the "Centers for Information and Services" set up with the support of the American Agency for International Development (USAID). Similar is the principle of operation of the set up "Entrepreneurs` Information Desks".

- Implementation of e-government and e-signature:

In Bulgaria the term e-government is perceived mainly as services provided by the state to the citizens and the business in an electronic way by using the achievements of the modern information and communication technologies. The role of the e-government is to answer the requirements of the business and the public for qualitative and easy accessible administrative services. Setting up of an electronic government is called for also by the need to curb corruption practices. The services will be provided in a manner, place and time convenient for the public and the business. Apart from the traditional communication channels all new environments and devices will be used, for example, the one-stop-shop service.

In accordance with the Law for the Electronic Document and Electronic Signature (Promulgated in SG, issue 34 dated on 6 April 2001, in force since as of 7 October 2001, subsequent amendments SG issue 80/2006.), the electronic document is an electronic statement written on a magnetic, optic, or other carrier enabling reproduction. The written form shall be considered complied with if an electronic document is compiled. The electronic statement shall be considered received if the addressee confirms the receipt.

- Protection of competition:

The Law on Protection of Competition is fully harmonized with the European legislation in the sphere of competition with regard to the prohibited agreements, abuse of monopolistic and dominant positions in the market and concentration of economic activities.

- Resolving commercial disputes:

The problem with the judicial reform dates back to the beginning of the transition period and irrespective of the enormous efforts in this area considerable progress is not perceived. The latest sociological surveys of leading Bulgarian agencies report a very low level of trust of the entrepreneurs in the judicial system. The low level of trust in courts may be overcome by distributing out-of-court mechanisms for resolving commercial disputes. Despite the apparent advantages of these mechanisms their application currently is very limited as they are unknown among the business and the citizens. The first steps are taken for recognizing mediation as a procedure for out-of-court dispute settlement. The Law on Mediation (Promulgated, SG, issue 110 as of 17 December 2004) was passed together with three implementing regulations. Uniform Register of Mediators was set up.

- Public procurement

The good knowledge of and the strict compliance with the Public Procurement Law (PPL) is of extreme importance as by its procedures considerable cash flows are distributed.

- Improvement of the tax and insurance legislation

The Government is making efforts to improve the tax environment. The reform which started in 2003 in the tax and insurance administrations lead to the establishment of the National Revenue Agency (NRA), which started its operations on 1st of January 2006. The purpose of the Agency is concentration of tax and insurance issues within one body by implementing a unified tax and insurance registration. The aim of the legislator with setting up NRA is to facilitate the business and the citizens as well as to create a functioning and stable system for collection of public receivables (taxes and insurance installments) in accordance with the requirements of the EU and the recommendations of the International Monetary Fund. The Law on NRA (Promulgated in SG, issue 112 as of 29 November 2002; amendments issue 114 as of 30 December 2003; amendments and supplements issue 105 as of 29 December 2005 in force since 1 January 2006) regulates the statute and the competences of NRA.

Table 8. contents list of some measures of business regulations and their enforcement related to Bulgarian economy:

Table 8.

Year	Ease of Doing Business Rank	Starting a Business					Dealing with Licenses			
		Rank	Procedures (number)	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)	Rank	Procedures (number)	Time (days)	Cost (% of income per capita)
2007	46	100	9	32	8.4	56.3	103	22	131	499.9

Employing Workers							Registering Property			
Rank	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Nonwage labor cost (% of salary)	Firing costs (weeks of wages)	Rank	Procedures (number)	Time (days)	Cost (% of property value)
57	17	60	10	29	23	9	62	9	19	2.3

Getting Credit				Protecting Investors					Paying Taxes							
Rank	Legal Rights Index	Credit Information Index	Public registry coverage (% adults)	Private bureau coverage (% adults)	Rank	Disclosure Index	Director Liability Index	Shareholder Suits Index	Investor Protection Index	Rank	Payments (number)	Time (hours)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
13	6	6	25.4	3	33	10	1	7	6	88	17	616	6.6	27	3.5	37

Trading Across Borders						Enforcing Contracts			Closing a Business					
Rank	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)	Rank	Procedures (number)	Time (days)	Cost (% of debt)	Rank	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
89	5	23	1,329	7	21	1,377	90	40	564	22.2	72	3.3	9	32.4

Source: <http://www.doingbusiness.org/customquery/ViewCustomReport.aspx>

Table 9. summarizes the procedures and costs associated with setting up a business in Bulgaria.

Table 9.

No:	Procedure	Time to complete:	Cost to complete:
1	Check if chosen name is available at the IS /information services; get certificate for the registered name	1 day (15 – 30 minutes)	BGN 100 BGN or 102 BGN (by phone)
2	Execute the minutes of the constituent meeting of the shareholders in the DOO; obtain a notary certified statement of consent and signature specimen of the manager, a non-competition statement of the manager vis- <i>f</i> -vis the DOO, and two certified copies of	1 day (30 min.)	BGN 3 per signature, BGN 2 for the first page of a document and BGN 1 for each following page
3	Deposit paid-up capital in a bank	2 days	BGN 10 - 30 BGN (depending on the bank)
4	Pay the court fee at the to the bank account of Sofia City Court	1 day	BGN 121.50 - state fee for court registration
5	Register at the Commercial Register at the District Court	12 days	Included in procedure 4
6	Publish in the State Gazette	15 days, up to approximately 3 months	BGN 30 - state fee for standard procedure
7	Make a company seal	1 day	BGN 40
8	Register with BULSTAT within 7 days of court registration	1 day (30 min.)	BGN 60
9	Register for VAT	1 day (filing), about 12 days for final registration	no charge

Source: <http://www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=30>

3.2.3. SME SUPPORT INFRASTRUCTURE

A number of public institutions and non-governmental organizations support the small and medium-size enterprises in their business. Over the recent years non-governmental organizations play a very active role both in the formulation of the policy for promotion of SMEs and in the organization of public debates on the problems in the SME sector. Business associations set up in support of SMEs still do not protect actively the interests of SMEs and do not adequately perform one of their major functions – to inform their members of legislative changes affecting the SME sector, European requirements to small and medium-size enterprises and available programs on national and supranational level in support of the sector.

The main institutions in the governmental sector working in support of SMEs are:

- Executive Agency for Promotion of SMEs

The new Bulgarian Small and medium-size Enterprises Promotion Agency (BSMEPA) was set up in September 2004. It is the successor of the former Agency for Small and Medium-size Enterprises and the Executive Agency for Promotion of Trade. An important element in the activities of the Agency is the active role of the regional units, which at the moment are 26. The main purpose is an adequate response from those units as to the entrepreneurs' needs for quick and qualitative services. A good decision is the partnership between the public and private sector including nongovernmental business organizations, which could be delegated certain rights as to the private offering of public services to SMEs.

- Bulgarian Export Insurance Agency (BAEZ)

The Bulgarian Export Insurance Agency provides services that allow Bulgarian exporters to offer their international customers deferred payment at a reduced risk. It was established in October 1998, the government being the major shareholder with 99 per cent capital interest. The goal of BAEZ is to support Bulgarian exports on international markets. BAEZ has signed cooperation agreements with over ten commercial banks. It is an analogue of the agencies for export insurance in developed countries that have been in existence for decades.

- InvestBulgaria Agency (IBA)

The InvestBulgaria Agency is a government body with the Council of Ministers for coordination of government institutions activities in the area of investments. IBA renders assistance for the encouragement, attraction, and support to investors and priority investment projects. IBA supports the activities of central and local authorities, Bulgarian and foreign individuals and legal entities in the implementation of investment projects; it keeps and maintains the Unified Information System on Foreign Investments where data is collected on the foreign investments in the country. IBA maintains a database with projects of Bulgarian SME looking for foreign partners.

- Employment Agency

The Employment Agency is a body for the implementation of the government policy for encouragement of employment, protection of the labor market, professional information and consulting, vocational and motivation training of unemployed and employed, as well as for intermediation for information and job finding.

The main business organizations in the non-governmental sector working in support to SME are:

- National Association of Small and Medium-sized Business

The Mission of the National Association of Small and Medium-sized Business is to assist for the establishment of favorable economic environment for development of small and medium-size enterprises and raising their competitiveness. In the course of accomplishing its mission, the Association represents its members in the dialogue with the central and local authorities as well

as with all non-governmental organizations. Parallel to this the Association provides various services to its members like training and qualification raising for managers, information services, marketing studies, development of business plans and investment projects, tax, accounting and legal advise, consultations in borrowing applications etc.

- Bulgarian Chamber of Commerce and Industry (BCCI)

The Bulgarian Chamber of Commerce and Industry offers a wide range of services to companies like registration of foreign trade operations, consultations on foreign trade regimes, tax and finance consultations, preparing of quotations, assistance for visa issues for business trips, issue of ATA carnets. BCCI is particularly active towards integrating Bulgarian business in the country's EU integration processes.

- Bulgarian Industrial Association (BIA)

The Bulgarian Industrial Association supports, encourages, and represents the interests of its members, and at the same time it works for the development of international economic cooperation. It is based on the principles of voluntary membership, independence and self-financing. The Association works for the promotion of ethics in business relations.

- Bulgarian Association of Regional Development Agencies and Business Centers (BARDA)

The Bulgarian Association of Regional Development Agencies and Business Centers was set up on 1 July 1997 by 7 agencies for regional development as a uniting organization of independent regional agencies and business centers to assist small and medium-sized enterprises and regional development in Bulgaria with the support of EEC/ILO/GOPA. Currently BARDA comprises 33 agencies and business centers (18 regular and 15 associate members) located in all regions throughout Bulgaria. It works in close contact with the government and other public and private organizations on issues related to regulatory framework on small and medium-sized enterprises, competition policies, regional development, investment policies, support to businesses, restructuring of production etc.

- National Chamber of Crafts (NCC)

The National Chamber of Crafts was established in 1998 by national and regional branch organizations with the objective of coordinating and implementing a common policy among its members, giving opinions and proposals to competent institutions and participation in regulations drafting, assistance in vocational training and qualification of craftsmen and promotion of the prestige of crafts, facilitating links among its members and government and public bodies in national and international terms.

The Law on Crafts regulates the status of the NCC¹²⁷. The amendments to the Law on Crafts, promulgated in SG, issue 10/2006 refer to the order of entering craftsmen into the Register of Craftsmen by the Regional Chambers of Crafts, the judicial control on the decisions of the National Chamber of Crafts and the Regional Chambers of Crafts as well as the administrative and criminal responsibility of violators of law.

A number of research centers and institutes from the non-governmental sector work in support of SME. The most active are:

- Center for Economic Development (CED)
- Foundation for Entrepreneurship Development (FED)
- Entrepreneurship Development Center (EDC)
- Center for the Study of Democracy (CSD)
- Institute for Market Economy (IME)
- Economic Policy Institute (EPI)

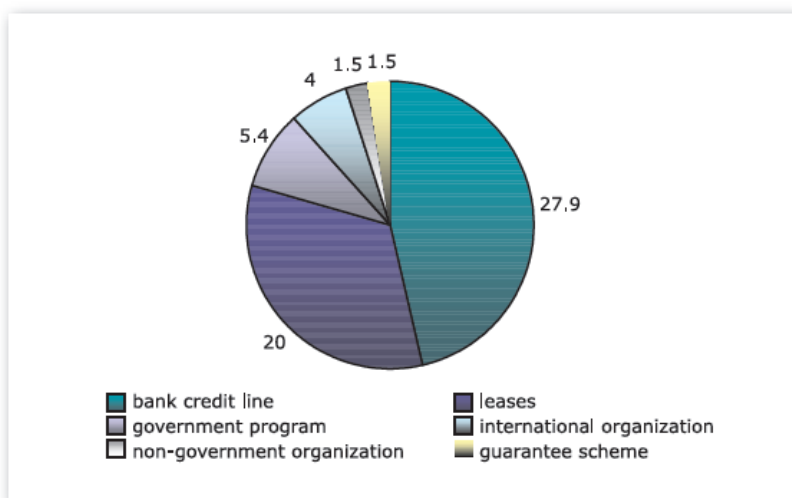
3.2.4. FINANCIAL ENVIRONMENT

Access to financial is a crucial factor for SMEs start-up, current operations and growth. These SMEs, whose owners have more capital of their own and, therefore, have wider access to financing through borrowed capital, have also a better opportunity to receive grant financing from EU Structural Funds.

The condition of the lending market has changed considerably since 2002. and today it can be referred to as lending boom. As a result of such a boom, interest rates went down and the palette of various forms of lending and banking services became much richer. Thus, SMEs access to the lending market is a reality.

Bulgarian entrepreneurs usually finance their start-up businesses with their own capital. These account for 67% of all the entrepreneurs and only 27% of them borrow a loan. Grant schemes account for about 2% of financing of start-up businesses, and 11% use another type of financing. In this respect, women entrepreneurs prefer better security – 80 percent of them rely on their own financial resources to start a business, while men entrepreneurs, relying on their own funds to start a business account for 61%.

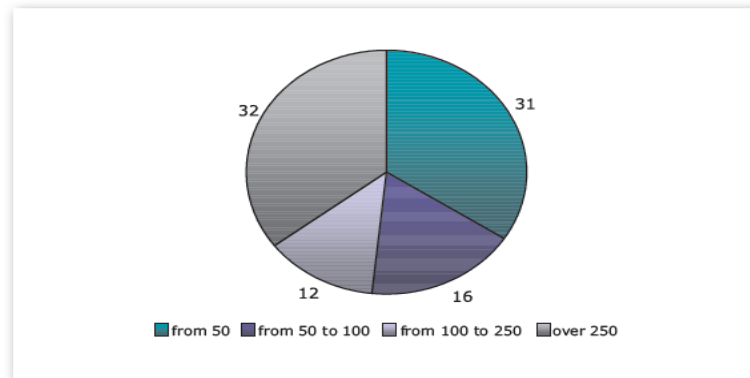
Figure 6. Origin of capital for financing start-up businesses in Bulgaria (in %)



Source: ESTAT Agency, specialized survey among the population

On the grounds of the questionnaire survey of ESTAT Agency among businesses, over 2/3 of Bulgarian SMEs need additional capital, and for each third SME an amount less or close to BGN 50 thousand would be enough. Additional capital in the range of BGN 50 to 100 thousand is needed by about 16 per cent of SMEs. SMEs seeking between BGN 100 and 250 thousand are 9 per cent, and those needing over BGN 250 thousand are close to 12 per cent. It is interesting to note the relative share of SMEs that do not need additional capital – nearly every third one.

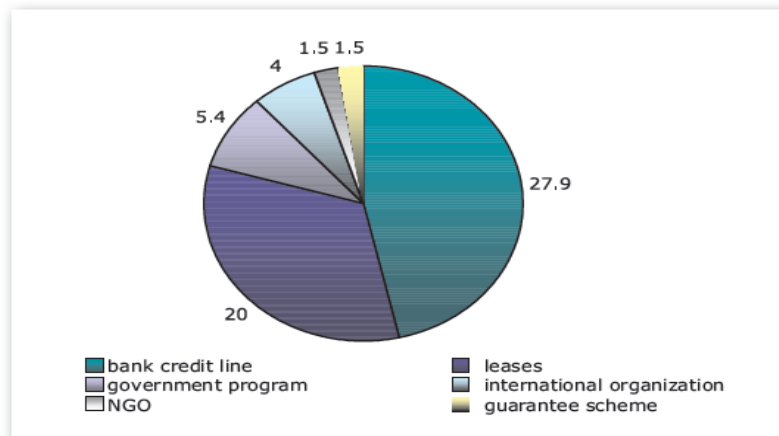
Figure 7. Relative share of SMEs (%) according to their need for additional capital (BGN thousand)



Source: ESTAT Agency, survey among businesses

Bulgarian SMEs obtain additional capital from several sources: bank credit lines, government program, NGOs, leases, international organizations, guarantee scheme.

Figure 10. Summarized picture of SME financial structure (%)



Source: ESTAT Agency, survey among businesses

What is indicative of SMEs probability of success when applying for a loan is that hardly 13% of submitted projects are approved. On the one hand, this shows inadequate financial training and unwillingness (inability) of SMEs to pay to financial consultants. On the other hand, those SMEs that have overcome the “credit barrier” and courageously apply for borrowed capital are usually too much indebted and banks do not lend to them. According to ESTAT Agency surveys the major reasons for the high number of rejections are: inadequate collateral, poor financial condition, lack of clarity in the project. Figure 9 presents a quantitative allocation of rejections to bank loan applications by SMEs.

Bank lending remains a costly and hardly accessible source for most of Bulgarian SMEs. For this reasons, some of them have borrowed consumer loans for the needs of the business, i.e. smaller loans at considerably higher interest rates at the expense of lower collateral requirements. About 37 per cent of SMEs have used commercial loans over the last three years (the ceilings of such loans are about BGN 70 thousand). The share of borrowed investment loans is about 18 per cent of SMEs and maximum amounts of investment loans are as an average about BGN 78 thousand. High interest rates, unaffordable for SMEs, are the major

reason for not borrowing bank loans. Other reasons include high requirements for collateral, “concealed” interest on loans, complicated documentation, etc.

Some of the Bulgarian banks currently focused on programs for SMEs are:

- Allianz Bulgaria
- HVB Bank Biochim and Hebros Bank
- DSK Bank
- Piraeus Bank
- DZI Bank
- European Bank for Reconstruction and Development (EBRD)
- Encouragement Bank

Funding is provided at costs much lower than these of lending through institutional and project financing. Non-banking sources, in particular international programs, provide more relaxed conditions – for example, financing of a substantially investment project in the form of short term financing. Such funds are undoubtedly attractive for SMEs and provided this source is actively promoted SMEs would focus on it. An objective need is in place for such non-banking resource. It would help overcoming a definitely risk point in the operation of SMEs. Some of the effective programs for SMEs are, as follows:

- Project 100

Project 100 is implemented by the Ministry of Economy in cooperation with and assistance from United Nations Development Program (UNDP) through the network of business centers and business incubators of the Job Opportunities through Business Support Project (JOBS) – Memorandum of Understanding between ME and UNDP of 22 December, 2003. The project aims to foster a sustainable and competitive private sector by providing comprehensive and targeted assistance for the start up and development of micro- and small enterprises in Bulgaria, in the sectors Production or Services.

This project enables people with viable and promising business ideas to start up their own business through self-employment, set up of a family company or a small enterprise. Priority is given to the support of business ideas that involve the use of information technology and electronic communications equipment, implementation of alternative energy sources and measures in the area of energy efficiency, development of new products and technologies and such of environmental focus.

- National Innovation Fund

In the course of Bulgaria's accession to the European Union, Bulgarian enterprises need to enhance their competitiveness and their capacity to stand the competitive pressure and market forces. The rationale of the Ministry of Economy and Energy is based on the understanding that competitive advantages in industry can be achieved through development, implementation and dissemination of innovations. A targeted policy needs to be pursued to encourage innovations and R&D. Economic growth and increased productivity, respectively, depend crucially on the pace and efficiency of spreading innovations in an economy. Innovative solutions need to penetrate all areas.

To this end, the Council of Ministers adopted the Innovation Strategy of the Republic of Bulgaria. Measure 1 of this Strategy provides for the establishment of a mechanism to support innovative enterprises in the research and development of new products, technologies, services or their substantial improvement, referred to as the National Innovation Fund.

The strategic goals set by the Fund are to increase the competitiveness of the Bulgarian economy through encouraging market-oriented applied research for the industry and creating conditions to attract private capital for financing of innovations in accordance with the Innovation Strategy of the Republic of Bulgaria and the measures for its implementation. Support to enterprises shall be provided through subsidies (grants).

- Project BG 2004/016-711.11.04 - Support for increasing the competitiveness of Bulgarian enterprises

Regulatory basis: Financial Memorandum (FM) under PHARE National Program, Bulgaria, 2004. Project purpose: to increase the competitiveness of Bulgarian productive sector SMEs in relation to their preparation for doing business in a highly competitive environment within the EU. The project includes three phases; funds for Phase I, total EUR 12 m, are negotiated with Financial Memorandum 2004. Funds for Phase II (indicative EUR 10 m) are to be negotiated within FM 2005 and for Phase III (indicative EUR 8 m) – within FM 2006, respectively. Total project value is EUR 30m.

- Micro financing program of CRS/Bulgaria

The program was launched in 1999 in four regions of the country. It is aimed at supporting the development of small business in Bulgaria through the provision of fast and permanent access to micro loans to entrepreneurs. The objective is expansion of their business and increase of their incomes, at the same time relationship of partnership and mutual assistance is encouraged among them. So far, about 7 100 loans have been extended at a total amount in excess of USD 4 m. It is implemented with the financial support of CRS (Catholic Relief Services) and USAID (US Agency for International Development).

- Program of FAEL Foundation through the United Bulgarian Bank for SME promotion

The Swiss Government adopted in 1995 a program in support of small and medium-sized businesses in Bulgaria. This program is implemented by the Swiss foundation FAEL. The foundation supports the development of independent small and medium-sized enterprises in the field of processing and services, accompanying the production and marketing of agricultural and forestry produce. Within the framework of this program and the agreement signed between the United Bulgarian Bank and the Swiss Development and Cooperation Agency (SDCA) a credit line was launched under a project in support of small and medium-sized enterprises in the semi-mountainous regions of the Central Balkan range - Lovech, Gabrovo and Veliko Turnovo regions. It supports the development of independent small and medium-sized enterprises in the area of processing of agricultural and forestry products and services accompanying their production and marketing. The amount of the credit line is CHF 1 m for the first three years of the start of the project.

- JOBS (Employment through business support)

It is a project of the Ministry of Labor and Social Policy supported by UNDP. A network is created within the project of 40 business centers, including 10 business incubators around the country. In addition to business consultations, training and information JOBS project supports the setting up and strengthening of micro and small businesses by providing easy access to financial resources in the form of financial lease in two schemes – up to BGN 25 thousand and up to BGN 5 thousand for purchase of equipment for production and services. Over 13 thousand jobs were opened under this project for 4 years.

- Cooperative Union “Union of Popular Banks” was established in 1994. The cooperative makes loans to its members.

- EU financing

With the country's EU accession, EU funds and programs are increasingly being discussed. Factors that impede SMEs involvement are numerous and of varied nature. First of all, SMEs are impeded by the voluminous documentation required under EU projects. In addition, fears exist that procedures are not sufficiently transparent and this will additionally hamper obtaining of funds under EU programs.

A significant problem is the low level of awareness of SMEs of the possibilities provided by EU Structural Funds. The survey of Vitosha Research makes it clear that about 41 per cent

of SMEs are not informed at all of the opportunities presented by the Structural Funds, and only 1.7 per cent of the respondents answered "I am fully informed". 45 per cent of respondents are informed to a low extent, and hardly 10.6 per cent – to a significant extent.

3.2.5. TASKS FOR IMPROVEMENT AND FURTHER DEVELOPMENT OF SME SECTOR

Some of the weaknesses of the small and medium – sized enterprises are the following:

- Low labor productivity – twice lower compared to big enterprises
- Underused information technology and e-commerce
- Poor quality of marketing strategies
- Lack of specialization of small-scale production; lack of unique products
- SMEs are under active in the patenting of products and services
- Powers and authority concentrated in top managers; underused professional management staff
- Insufficient organization and collective lobbying

As we already pointed out, access to financial is a crucial factor for SMEs start-up, current operations and growth. The money and the capital markets penetration in the area of SMEs is very low. This is proven by the data that almost half of the Bulgarian SMEs have never applied so far for a loan (45 per cent of SMEs). This may be caused either by SMEs owners' fears related to inadequate financial training, or by considerations of avoiding financial risk, in particular with sole proprietors. This results in higher level of security, but also in lower return on equity. It is indicative of SMEs probability of success when applying for a loan is that hardly 13 per cent of submitted projects are approved. According to ESTAT Agency surveys the major reasons for the high number of rejections are: inadequate collateral, poor financial condition, lack of clarity in the project. Bank lending remains a costly and hardly accessible source for most of Bulgarian SMEs. Also, there is poor awareness of the opportunities provided by European funds among SMEs and lack of capacity to develop projects and draw money from EU funds. Therefore, it is important to extend the rank of the alternative financial sources.

Bulgarian SMEs are still passive in penetrating the international market and dealing with competitive pressure. The reasons for this could be sought in their insufficient experience (many companies are comparatively new and are trying to establish themselves on the internal market first as establishment on international markets takes time), as well as their production orientation (most companies, especially small and micro-enterprises, are engaged in trade, services and construction, which are internal market oriented), and also in low competitiveness because of labor, material and energy intensive production and low technological level.

The business community's general opinion is that the level of knowledge and skills acquired by students throughout the system of education, including secondary vocational schools, fails to meet their needs. It is both necessary to introduce more business-related disciplines in school curricula and use modern forms and methods of teaching and to ensure the active partnership between businesses and educational institutions in order to improve the quality of entrepreneurial education and training and create incentives for business start-up. Setting up and implementing a policy of targeted and efficient training in entrepreneurial skills in Bulgaria represents a complex process which requires, among other things, pooling together the efforts of all interested players: the state, educational institutions, the business world and students themselves. The clear distribution of responsibilities for each of these groups of stakeholders, and the establishment of an effective system to ensure their motivated involvement are necessary and important prerequisites for a successful policy.

There is a need to enhance the public-private partnership in providing information and consulting services to the small and medium-sized business. Organizations in support of business are not very popular and trustworthy among their members and beneficiaries; the

business is not approaching them often for solving problems in the respective sector and does not rely on their support and cooperation.

In the last years, the corruption level in Bulgaria is comparable to the corruption level in Central Europe. Despite the efforts of the Government, the civil society, the business and the mass media, a large part of the society continues to believe that considerable results are not yet achieved in the anti-corruption practices. Very serious is the criticism of the European Union in that respect. In the EU monitoring report dated 26 September 2006 a conclusion has been made that despite the progress made in combating corruption the latter continues to be a problem for the country.

Among the other problems related to the business environment, the managers of SMEs pointed out the tax system.

3.3. ROMANIA

3.3.1. SME SECTOR DEVELOPMENT

Romania's transition, starting in 1990, was in many respects more difficult than in the other countries of Central and Eastern Europe. This was partly because by the late 1980s, the country's economy was on the verge of collapse after 40 years of rigid central planning that emphasized self reliance, an excessive focus on heavy industry and large, uneconomic infrastructure projects. Since 2000, the Government has implemented macroeconomic policies which are supportive of growth. Over the last years Romania has made significant progress towards macro-economic stabilization; rates of economic growth achieved higher values, inflation and interest rates declined steadily, the fiscal deficit was brought under control, foreign exchange reserves increased to historic highs, and the external balance was held to comfortable levels. Export growth remained vigorous, fuelled by private investment and the initial competitive depreciation of the currency. The competitiveness of the enterprise sector was boosted by productivity gains.

As a result of greater political and economic stability and of the implementation of economic reforms, the investment climate has started to improve and international investors are looking at the region with a much more positive attitude, seeing Romania as a possibility for increasing their trade on the regional market. The Romanian Government recognized the importance of the SME Sector as the basis for establishing and developing a modern, dynamic knowledge-based economy and supported its development through Governmental Strategy for Sustaining the Development of Small and Medium-sized Enterprises in 2004-2008. The priorities of the Romanian Government in support of SME development in the period 2004-2008 are:

Priority A: Creating a business environment supportive to SME establishment and development through:

- Improvement of the regulatory framework and elimination of administrative and technical barriers
- Development of the institutional capacity of NASMEC
- Improving the public - private dialogue with SME representative organisations and other relevant stake holders.

Priority B: Developing SME competitiveness through:

- Supporting innovation and improving the access of SMEs to new technologies
- Supporting the introduction of quality standards and quality management systems
- Promoting e-business

- Facilitating access to the available assets of state owned enterprises and to public procurement
- Improving access to business support and information services
- Supporting business incubators in the productive sector and in the higher added value service sector
- Supporting the development of industrial parks
- Decreasing regional disparities through targeted support to SMEs.

Priority C: Improving SME access to finance through:

- Improving productive SME capitalization
- Sustaining a national network of SME Guarantee Funds development
- Financing SME start-ups in priority sectors
- Pilot innovative instruments for financing SMEs.

Priority D: Improving SME access to external markets through:

- Stimulating the development of cross-border cooperation and regional business partnerships
- Improving the access of SME to external markets
- Promoting an entrepreneurial culture and strengthening management performance
- Developing an entrepreneurial culture
- Training and consultancy services for managers and entrepreneurs.

The following data role represents some indicators of SME sector in Romanian economy, according to National Agency for Small and Medium Enterprises and Cooperation (NAMSEC), issued in Annual Report on SME sector in Romania 2005:

- Number of private SMEs amounts 402,996 (99.7% of total SMEs): 358,242 micro enterprises, 36,080 small enterprises and 8,674 medium-sized SMEs.
- Share of private SMEs by sector of economy: agriculture 2.8%, industry 13.6%, construction 6.2%, services 77.4%.
- Number of employees in private SMEs amounts 2,349,725 (56.6% of total employees): 733,230 in micro enterprises, 726,953 in small enterprises and 889,542 in medium-sized SMEs.
- Share of employees in private SMEs by sector of economy: agriculture 3.3%, industry 34%, construction 10.7%, services 52%.
- SMEs turnover (in million Euros) amounts 65,055.
- Labour productivity (as turnover in Euro over employee) amounts 27,686.
- Export of SMEs in millions Euro amounts 6,755.
- Profitability of SME sector (as ratio net profit over turnover, in %) amounts 4.7: 8.6% for micro, 3% for small and 2.6% for medium-sized enterprises.

3.3.2. LEGISLATION AND STEPS OF DOING BUSINESS

Law no 359/2004 of 13 September 2004. (simplifying the official procedures for the registration to the Trade Registry of natural persons, family associations and legal persons, along with their tax registration and the legal persons' authorization for operation, amended and completed through GEO No. 75/2004) simplifies the registration and authorizing procedure in the following sense:

- It reduces the duration for issuing the registry certificate and the remarks certificate to 3 days and 5 days.
- It authorizes the operation of a trading agent based on the latter's statement that he/she does not carry out that particular activity or that the requirements stipulated in legislation for that activity have been met.

Law no 300 of 28 June 2004 (authorizing natural persons and family associations which carry out independent commercial activities brings in the following:

- Romanian citizens are recognized the professional experience acquired as a result of practicing a certain activity for 2 years;
- The tax record replaced the criminal record-on behalf of the applicant, the Mayor must book the applicant's company's name with the Trade Registry and the tax record;
- Simplification of inspection and checking of natural persons and family associations' operation on the market by setting up a notification procedure, by which the City Hall must notify the competent inspection authorities on the authorizations they issued on a particular trading agent or another.

Law no 346 of 14 July 2004 regarding the stimulation of Small and Medium Sized Enterprises setting-up and development. Due to the important role of SMEs, cooperatives and home trade enterprises for the creation of new jobs and for industrial restructuring and economic growth, Law 346/2004 regarding the stimulation of SMEs setting up and development sets up a well designed legal framework, Romania 116 which may be applied for the stimulation of SMEs setting-up and development, this being an essential element of sustainable economic growth and of the requirements for Romania's accession into EU

Government ordinance No. 27/2006 for that modification of the Law No. 346/2004 regarding the simplification of the SME setting up and development

Following the European Commission Recommendation No. 2003/361/CE NASMEC harmonized the SME definition with the one from EU through GO No. 27/2006, SME are classified after the average number of employees and gross annual turnover or the total assets which they own in the following categories:

- micro enterprises - 0 - 9 employees with an annual gross turnover or total assets of 2 million Euros equivalent in RON;
- small enterprises - 10 - 49 employees with an annual gross turnover or total assets of 10 million Euros equivalent in RON;
- medium enterprises - 50 - 249 employees with an annual gross turnover of 50 million Euros equivalent in RON or total assets;
- of 43 million Euros equivalent in RON;

Table 10. contents list of some measures of business regulations and their enforcement related to Romanian economy:

Table 10.

Employing Workers							Registering Property			
Rank	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Nonwage labor cost (% of salary)	Firing costs (weeks of wages)	Rank	Procedures (number)	Time (days)	Cost (% of property value)
145	78	80	40	66	31	8	123	8	150	2.8
Getting Credit			Protecting Investors			Paying Taxes				

Rank	Legal Rights Index	Credit Information Index	Public registry coverage (% adults)	Private bureau coverage (% adults)	Rank	Disclosure Index	Director Liability Index	Shareholder Suits Index	Investor Protection Index	Rank	Payments (number)	Time (hours)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
13	7	5	4.1	10.9	33	9	5	4	6	134	96	202	11	34	2.1	47

Trading Across Borders						Enforcing Contracts				Closing a Business				
Rank	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)	Rank	Procedures (number)	Time (days)	Cost (% of debt)	Rank	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
38	5	12	1,075	6	13	1,075	37	32	537	19.9	81	3.3	9	28.9

Source: <http://www.doingbusiness.org/customquery/ViewCustomReport.aspx>

According to the survey of NAMSEC entitled Health and Needs of Small and Medium Enterprises in Romania based on a number of 1,031 companies, per various sectors and size classes within the SMEs of Romania. SMEs opinions are distributed as follows:

- The quality of legislative amendments in 2004 was under-satisfactory, and the taxation base is quite high.
- Irrespective of their sector of activity, SMEs support each other in assessing the clarity of regulations and of new taxation levels. The assessments stick to an average as long as opinion differences related to sectors of activity are very small.
- There is a unitary view point with regard to investigated aspects, irrespective of size category. In other words, no matter how big the enterprise is, the assessments stick around the average.

Table 11. summarizes the procedures and costs associated with setting up a business in Romania.

3.3.3. SME SUPPORT INFRASTRUCTURE

The National Development Plan is a document similar to the scheduling made up by the EU Member States for the "Convergence" Objective in the Structural Funds, with the purpose of promoting structural development and adjustment of those slightly under-developed states/regions, by providing them with basic infrastructure and by encouraging investment in productive activities. NPD 2007-2013. was started in May 2004.

The preparatory project of the NDP 2007-2013. Development Strategy was structured in six main national priorities for development:

- To increase economic competitiveness and to develop knowledge economy
- To develop and modernize the transport infrastructure
- To protect and improve the environment
- To develop human resources, to increase employment and to fight social exclusion
- To develop rural economy and to increase productivity in Agriculture
- To support a balanced development of all regions of the country

Table 11.

No:	Procedure	Time to complete:	Cost to complete:
1	Obtain a certificate from the Trade Registry proving the availability of the proposed company name and make a reservation of the name	1 day	RON 50
2	Deposit funds in a bank and obtain a document confirming bank deposit of sufficient funds	1 day	Bank commission ranges from zero to 0.5% of capital.
3	Obtain a fiscal record for the company associates and the legal representatives from the public finance department of the municipality	5 days	RON 5 for standard process, 20 for expedited process
4	Register with the Unique Office (Biroul Unic) of trade registry Registrul Comertului (BASC), Bucharest Tribunal. Also obtain court registration, publication of notice, and registration for statistical purposes and social security	3 days	RON 39 (stamp duty) + RON 120 (registration fee) + RON 30 for each mandatory element of the basic information of the company to be registered, such as social capital, firm, associates, administrators, headquarters, main object of activity + RON 90/32 line
5	Register for VAT	3 days	No charge
6	Register the employees contracts with the Territorial Labor Inspectorate (TLI)	1 day	No charge

Source: <http://www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=158>

Government Decision No. 1179 of 29 July 2004. the National Agency for Small and Medium Sized Enterprises and Cooperation (NASMEC) is assigned as intermediary body within the "Increase of economic competitiveness and the development of knowledge economy" Sector Operational Program.

Main functions of the National Agency for Small and Medium Sized Enterprises and Cooperatives are:

- Strategic function – defining, developing and implementing development strategies, studies and programs for small and medium-sized enterprises and cooperatives, as well as domestic trade development and harmonization strategies;

- Regulating function – creating the legal and institutional framework required for achieving objectives and implementing programs in its sector of activity;
- Management function – managing state budget and non-budget funds and distributing such funds for the development of the SMEs, cooperatives and domestic trade sectors;
- Representation function – representing Romania nationally and internationally in its field of activity.

State authority – supervising the enforcement of legal provisions in its field of activity

Regional Development European Fund (FEDER) provides the states/regions with support for local and regional integrated economic development and for sustainable development, by engaging local capacity and by diversifying economic structures.

Taking into account both possibilities to improve the competitiveness of Romanian SMEs into making them cope with new challenges, and the eligible intervention areas supported by FEDER, NASMEC identified the following measures and actions:

Measure 1 - To support productive investments and to prepare Romanian enterprises to cope with the competition on the internal market.

Sub-measure 1.1. To support direct productive investments, especially in the area of Industry and Services

To support tangible investments:

- Investments for procuring new equipment, machines and other tools for production;
- Investment for procuring new technologies;
- To support non-tangible investments regarding the procurement of the following:
- Patents, marks, licenses, know-how;
- To support the development and the accreditation of certifying and testing laboratories.

Measure 2 - To develop enterprises', especially SMEs', access to funding

To set up and develop local guaranteeing funds, for the support of enterprises, especially of SMEs;

- To set up and develop risk funds, for the support of SMEs high-tech;
- To develop the capacity of co-guarantor of the National Fund for Credit Guaranteeing for SMEs

Measure 3 - To develop business and support service infrastructure for business

Sub-measure 3.1. - To develop and support the management of business incubators and that of the latter's institutional capacity, clustering, SMEs business development centers (institutional support), investments, software' (procurement of equipment), exchange of good practices, the support of mentoring and coaching, know-how transfer, seminars, workshops etc;

Sub-measure 3.2. - To support "support services" (including consultancy), guidance to the requirements of the market by supporting the development of institutionalized business infrastructure (setting up a network of local partners);

Sub-measure 3.3. - To support the integration and development of SMEs competition capacity within business infrastructures with the help of a set of measures designed for seed/capital/Start-up enterprises investments and for providing the necessary training for this type of actions.

Measure 4. - To increase enterprises', especially SMEs', access to international markets and to support the efforts to internationalize enterprises, especially SMEs.

- To support participation in international fairs and exhibitions;
- To support company promoting activities;

- To support participation in economic missions;
- To support access to third markets (setting up representative offices and branches);
- To support the preparation of internationalization studies, of plans for long-term export etc.

The most recently, NASMEC has launched The national multiannual programme (2005-2008) to develop the entrepreneurial culture among manager women from the SMEs sector. The main objective of this programme is to promote a system that facilitates women mobility on labour market and help them to get involved in private economic structures and also maintain the balance between family and work. Its tasks are:

- To stimulate self employment,
- To develop the entrepreneurial spirit among women,
- To raise the level of information about women entrepreneurship,
- To raise the number of women entrepreneurs within the business community,
- To create new start ups,
- Equal access to the knowledge based economy.

3.3.3.1. Business support services for SMEs

Business support organizations have the objective of assisting companies to set up and prosper through a wide range of services that might be provided at subsidized rate, or at market rate. For ease of exposition, Romanian business support services are grouped into three broad categories, according to the type of services provided to SMEs. In particular, these categories are: reception, facilities and basic information; advisory services and training; and premises and environment.

Reception, facilities and basic information

NASMEC is the main governmental provider of information regarding the SME sector, in terms of sector statistics, publications, and databases. Beside this public informative service, NASMEC also disseminates, through its web site (www.animmc.ro) or through specific publications, important information on sources of financing and donors' support for SMEs, how to set up an SME, laws affecting SMEs, impact of EU accession, quality standards and ISO certificates, and on initiatives related to SMEs development at national and international level.

As far as aspects related to EU accession are concerned, the European Commission has supported, in 1995. the establishment of Euro Info Centers in Romania. The Romanian Euro Info Center Network is made up of eight structures located in every economic development region. Euro Info Centers are specialized in information, assistance, consultancy and documentation on European matters for helping Romanian enterprises, especially SME, in competing successfully in the enlarged market. They provide information on various issues such as business opportunities, source of finance for SMEs, EU legal acts for business, regulations and standards. Euro Info Centers also make available information and advise SMEs in the process of performing the documentation for the Quality Management System certification.

In 2003-2004. Euro Info Centers were conducting an awareness campaign, seminars and workshops targeted to SME on crucial topics related to enlargement of EU, access to European funds, taxation issue, and funding programme for the companies interested in implementing the quality system within their business. As a result of this campaign, thirteen large public events were organized by several EICs to provide information on the economic impact of Enlargement and on the need to prepare for the future competition they will face in an enlarged European market. In order to promote innovation, the National Patent Office has launched the programme InovIMM® that is directed to ease access to a database of patents

and new technologies. Information provided consists of a comprehensive literature on patents, specialised studies on innovation trends and latest developments, and innovative solutions for enterprises. The service is provided from the national contact point in Bucharest against payment.

Advisory services and training

At national level there are few providers of advisory services that can ensure a widespread presence in the country. NASMEC planned to set up local offices to provide an easy to access help desks/contact points for SME. These offices are meant to provide basic advisory services, and to assist entrepreneurs with applying for national grant schemes.

Another governmental body very active in this field is the National Agency for Labour force and Employment (ANOFM), which is managing a special programme, "Business consultancy", for providing consulting services to unemployed persons or youngsters that intend to start their own business. The program is delivered through ANOFM local branches, where special consulting units have been set up.

Because of their widespread presence in the country, Chambers of Commerce might also play effectively the role of business support organizations for SME. In Romania, there are 42 Chambers of Commerce, established as non-governmental and non-profit organizations with free membership. Entrepreneurs' associations are also involved in delivering support services for their members.

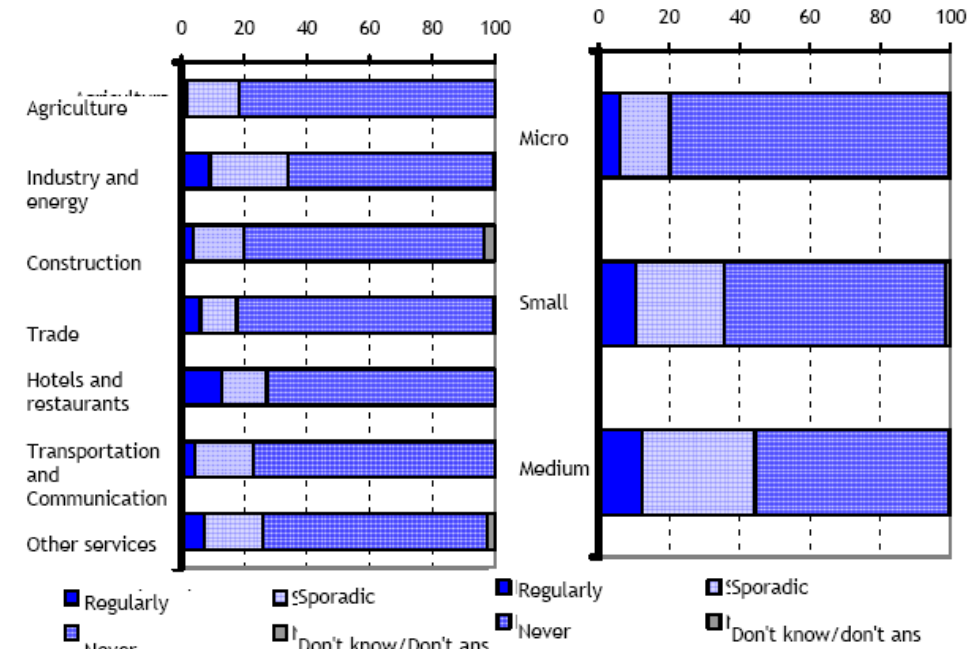
Besides these nationwide structures, there are also some local business support centers, offering a range of business development services to a local clientele of businesses. Many were established as not-for-profit organizations upon donors' support, they targeted SME, but their sustainability was doubtful. Furthermore, they were much inclined to supply very general business services with a low degree of specialization, failing thus to address more sophisticated needs. On the contrary, the market of private business consulting companies is quite dynamic and has recently developed. It is now to this market segment that governmental and PHARE programs have turned their attention, in order to help these companies to deliver quality services for SMEs in view of EU accession.

On the other hand, demand for business advisory services is still weak among Romanian SMEs, as the results of the survey conducted by NASMEC in 2005 reveal. The chart below clearly says that the proportion of SMEs that never made use of advisory services is quite impressive (more than 60%).

Company size seems to be positively correlated with the demand for advisory services, since larger companies have sufficient financial means to procure these services from the market. On the contrary, there are not remarkable sector differences, although it might be deduced that the manufacturing sector is the most advanced in making use of business consulting services.

The following chart describes sector differences in procuring consultancies by type of services used. Obviously, sectors display different patterns that are linked to very specific companies' needs. However, it can be deduced that SME are mostly making use of training services and of advice on functional area of business activity such as finance, marketing, production and design. The share of companies that were asking for assistance in the field of safety and quality standards and certificates is rather low, excepting the construction sector where safety regulations are very restrictive.

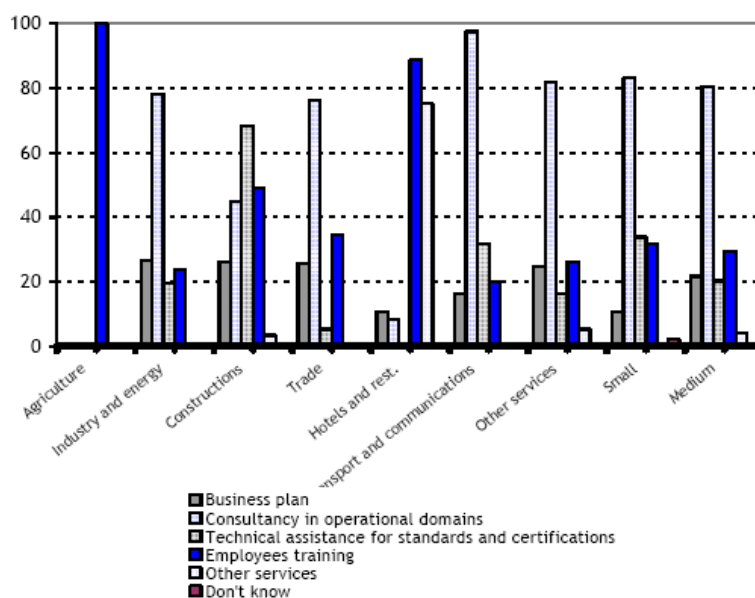
Chart 4.1.a Share of SMEs that procured advisory services in 2004



Source: NASMEC, survey on “Health and Needs of Small and Medium Enterprises in Romania”

In 2004, the National Institute of Statistics conducted a research on activities of business services for enterprises by collecting data on turnover by type of clients. The research showed out that micro companies spent more than half of their budget for business advisory services such as fiscal advice, bookkeeping services, business planning and management services, while IT services absorb 26% of the expenditure. On the contrary, small and medium enterprises allocated the largest share of their budget to procure IT services, due to fact that these companies tend to have more sophisticated system in place, and to outsource their maintenance. The budget allocated to procure other services is negligible compared to the two categories mentioned above. Micro enterprises used only 5% of their budget for purchasing market research and studies, while other companies only allocated for the same services a mere 3%. The expenditure for recruitment services is larger for medium enterprises, since they have more structured internal organization and they recruit from the market instead of using informal channels.

Chart 4.1.b Type of services procured by SME in 2004



Source: NASMEC, survey on "Health and Needs of Small and Medium Enterprises in Romania"

Premises and environment

Business support organizations offering premises and environment services are of two types: business incubators and industrial and technology parks. Out of the analyses made by NASMEC, it was seen that the support granted to SMEs and start-ups through business incubators is a useful economic development instrument to promote new business, encourage SME innovation, and create new jobs. At the same time, by promoting and supporting business incubators, local authorities for governmental authorities can easily show their commitment to support entrepreneurs.

In Romania there are 214 business incubators or special managed workshops located throughout the country.

NASMEC interviewed business incubators of Romania, in order to have an accurate picture of the current situation of the sector and of the type of services provided for SMEs and start-up. Data were collected for 17 incubators out of 21, and the major findings are presented in the table and chart below.

Table 4.1.a Statistics on SMEs hosted within business incubators

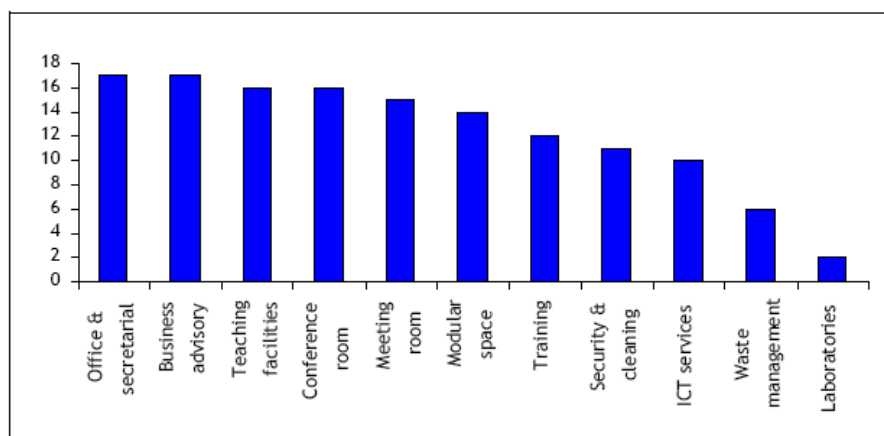
Number of incubators by number of companies assisted in 2004			Number of SME assisted by sector in 2004		
1 to 5	6 to 15	16 to 25	Industry	Trade	Services
3	6	8	60	48	111

Source: NASMEC, survey on business incubator, industrial and technology parks

Incubators host on average 11 SME, which is lower than the EU BIC average of 34 enterprises hosted. Most of SMEs hosted belong to the service and industry sector, and there is not a clear sector targeting of potential tenants.

All incubators provide business consulting services, such as advise for company set up and business planning, and they contribute thus to enlarge the offer of advisory services. Three incubators do not provide office space 5, although they have conference and training facilities and they offer office and secretarial services. Ten incubators provide ICT services, and only two incubators have laboratory facilities. These figures will probably change as soon as more technology-specific incubators are established to promote innovative enterprises working in high value added sectors.

Chart 4.1.e Type of services provided by business incubators, 2004



Source: NASMEC, survey on business incubator, industrial and technology parks

A second survey was carried out by ANIMMC to analyze the management of business incubator. The survey's findings show that only 16% of the incubators' managers have attended a specific training course. Incubators' managers think that their success relies on renting appropriate and well-equipped office space, and they do not consider the supply of advisory services as their core business.

Incubators' managers declared that their priorities for the next future focus on better promoting their image among potential clients, and on diversifying the type of services offered. They also expect to receive more support from public authorities, since they deem there is much scope for improvement. Interviewed persons see Romania's accession to EU as a catalyst for new investments in the SME sector, and they also think that this will lead to a more competitive business environment.

According to the OECD recommendations, "2004 Enterprise Policy Performance Assessment Romania" and to the Governmental Strategy for developing the SME, and, based on the findings of "Study regarding the situation of Business Incubators in Romania", NASMEC made important progresses in elaborating the "Strategy for developing the incubators network in Romania". This strategy aims at making more dynamic the business environment and supporting start-ups through specific financial instruments directed to local level, and supported stained by local and governmental authorities. The strategic objectives are:

- Collaboration in Innovation and technology with research centers and universities, to launch innovative products and services;

- Regional development, promoting balanced development by channeling resources to disadvantaged regions and weak sectors;
- Supply chain development, offering specialized components and creating spin-offs, through linkages with key manufactures, facilitating the downsizing of big industrial firms;
- Internationalization, supporting foreign companies willing to enter the local market in partnership with local businesses, or using the BI as a basis for exporting to third markets;
- Specialized development addressing specific industrial sectors.

Industrial and technology parks are relatively new concept in Romania. The Governmental Decision 65 as of 30 August 2001 sets the administrative framework for the establishment and functioning of industrial parks, while the Governmental Decision 14 as of 24 January 2002 rules the establishment of industrial and technology parks. The decision states that industrial park infrastructure can be created as independent business and they can receive financial support either from local public administrations or from Governmental authorities. Responsibility for choosing the most suitable location, establishing and developing the industrial park is with the company that is administering the park. Tax rate deductions are applicable to the amount of profit, in order to promote the creation of new infrastructures or to expand the existing ones.

By supporting the creation of this infrastructure the government aims at:

- ^ Creating new job opportunities,
- ^ Attracting more free direct investment,
- ^ Creating knowledge based society.

The Ministry of Administration and Internal Affairs officially registered 30 industrial parks, and the full list is enclosed to this publication as an Annex E. Few of them are operational, and most of them are working well below their capacity. The functioning parks housed on average 18 companies within their premises, out of which 98% are SMEs. Most of companies located in industrial parks belong to the manufacturing sector, while firms in service and trade sector take a smaller share.

All industrial parks provide modular and functional space, and most of them provide security, cleaning, meeting room and office services. Some of them also provide business advisory services. It is remarkable that only two parks have technically equipped laboratories that are usually available in technology parks.

The geographical distribution of industrial parks follows an inverse pattern than those observed for business incubators. Indeed, industrial parks, being mainly driven by private sector investment, tend to locate in wealthier area of the country close to big industrial hub where foreign direct investments also prosper.

The Government is continuously promoting the concept of Industrial parks. Its decision (GD) No. 406/2003 is concerning the approval of specific methodological rule about constitute, function, methods of evaluation and accredit entities from innovation infrastructure and technological transfer, also about the method of sustaining them. The GD No. 128/2004 is concerning the approval of National Plan "The Development of innovation infrastructure and technological transfer – INFRATECH". In 2004. was adopted GD no. 1232/2004 for approval the Protocol between NASMEC Romania and United Nation Program regarding National multi-annual program for setting up and development of technological and business incubators during 2002 – 2005. The procedure of implementing the program was approved by the President Order of NAMSEC (PONAMSEC) no. 215/2004 and completed with PONAMSEC nr. 197/2005. In 27. July 2005. the program was official roll on by the State Minister for coordinating the activities of business environment and SMEs, NAMSEC, UN Development

Programs. The program is implemented with 390,000 RON, contribution of Japan Government. The entire amount of the program is 13,321 million RON. Next location for future incubators was selected and will be Brasov and Sfantu Gheorghe. The most recently law adopted about BI is the GD. Nr.290 / 2006 regarding the approval of National Strategy for Stimulation and Development the National Business Incubator Network.

3.3.4. FINANCING SMEs¹⁸

In the most cases, Romanian enterprises perceive financing as an important compulsion concerning the start or development of their business. To fight-back this situation, a series of measures and financing instruments, like communitarian programs and credit access, were elaborated.

In the period 2000-2006, Euro 16 billion of structural funds were allocated for the financing of SMEs oriented projects. Approximate a third of this amount was allocated for a consulting and a business services, like incubators, networks and clusters.

It is a significant and hard to satisfy demand for financing SMEs trough credit. Thus, is necessary to continue and supplementary extend the present credit lines at which SMEs are aiming, by using the example of different financing schemes implemented so far, (especially through MIROBANK, BERD credit line, USAID help for credit and Kew credit line). In order to support the SMEs for demanding credits, it is recommended the possibility of practicing attractive interests credits granted from the unemployment insurance budget, by the National Agency of Work Force Occupation (Ministry of Work, Social Solidarity and Family) as well as granting such credits for other categories of potential enterprisers that could initiate and develop business, as, for example, students.

For the improvement of SMEs access to financing, the following actions will be taken:

- The continuance of obtaining financial allowances for SMEs, from the state budget and external sources, for the development and implementation of multi-annual financing instrument of the SMEs sector at national level (credit and granting schemes for supporting the investments of start-up firms and of the existing ones, promotion of export, investments in priority economic sectors, innovation, transfer of technology and know-how, sub-contracting);
- Promotion of Multi-annual Program, with national applicability which corresponds to the firms development stage, by: implementing multi - granting schemes; implementing scheme of granting associated with; promoting schemes of micro-credit;
- The continuing of apply the credit program for SMEs and its monitoring;
- Promotion of setting-up and developing risk capital funds;
- The development of a permanent system of monitoring and periodic evaluation of the way of finance use and fiscal facilities received by SMEs;
- The efficient promotion of present financing programs;
- The assurance of Romania's participation - in the communitarian programs, - within Financial Instruments component of the Multi-annual Program (2001-2005) for Firms and Enterprising, especially for SMEs, with the support of EC;
- Creating a database with information on financing opportunities for SMEs, guarantee funds; commercial banks, risk capital funds;

¹⁸ This chapter is based on “*Financing Opportunities and Constrains for Romanian for SMEs*”, Ana Popa, Laura Giurca Vasilescu, Mirela Cristea; University of Craiova, Faculty of Economics. source: http://www.opf.slu.cz/pb2000/cz/2005/proceedings/2005_p08.pdf

- The elaboration of the action plan for improving the SMEs access to financial services, as a part of the Technical Assistance – Institutional Construction program, financed through Pare 2001 program;
- The elaboration of banking settlements due to encourage SMEs financing by the financial-banking institutions, the opening of special departments within banks which can offer such services.

National Credit Guarantee Fund for Small and Medium Sized Enterprises – NCGFSME has the mission to support the development of SMEs sector in Romania by facilitating the access of SMEs to financial instruments offered by commercial banks and other financing institutions. The Fund offers guarantees to banks for credit, in lei and foreign currencies, requested by SMEs in order to finance their production and/or services. NCGFSME gives guarantees for maximum 75% of the value of a medium term and long term credit, 65% of the value of a short term credit, and 80% of the value of credits granted by banks to start-ups. Until now NCGFSME granted guarantees in value of 350 billion lei (about 8.8 million EURO) to a number of 136 SMEs.

3.3.5. TASKS FOR IMPROVEMENT AND FURTHER DEVELOPMENT OF SME SECTOR¹⁹

Although improved and streamlined in comparison with a couple of years ago, the tax regime is still perceived as a burden by entrepreneurs, both from the perspective of the tax levels, and from the viewpoint of the procedure for completing tax returns. VAT refund continues to be one major issue that is constantly raised by the representatives of the business environment. Despite the adoption of an Emergency Procedure for VAT refund, the situation does not seem to have improved since 2002. With the adoption of the Fiscal and Fiscal Procedure Codes however, essential reform steps have been taken.

Whereas commercial banks have started to develop products for SMEs, the other finance institutions, such as state/private guarantees, venture capital funds or microfinance institutions are still under developed. There are a significant number of financial instruments that private banks are offering to SMEs, but absence of collaterals and guarantees seem to impede their access to financing. It is important to mention here the law on micro financing that has already been drafted and is to be approved in the near future, in order to create the legal framework. This effort needs to be continued, also regarding SME access to funding.

There is a considerable gap between the needs of the private sector and the range of advisory services. Sometimes, advisory services are perceived as non-reactive and not sufficiently adapted to the current development of the SME sector. The results of the survey carried out by NASMEC in 2005 shows that Romanian SMEs express little interest in making use of advisory services. The main reasons for such a gloom picture might be found into the low quality attributed to the services supplied, or to the very general low propensity of SMEs to allocating their scarce financial resources for procuring advisory or training services. If this sector has to grow rapidly, it is evident that public support has to play a crucial role. The aim of policy support for business development services is to improve the performance of SMEs by responding to their operational needs. Therefore, the scope for public intervention is twofold. In one hand it has to address the lack of adequate skills and competences within the existing providers, on the other it has to promote a culture within SMEs for making good use of consultancy and training services.

Concerning the development of business incubators, the Government has been unsuccessful in promoting this good practice, and consequently the awareness of this business

¹⁹ This chapter is based on *Enterprise Policy Performance Assessment*, 2005.

development instrument is extremely low among entrepreneurs. The new plan for opening 20 new incubators in the next four years may change this perception, but with quality and not just quantity of the business incubators being the deciding factor.

Romania has a long way to go in order to bring the entrepreneurs image with the general public to European and international standards. Another gap to be filled in is the lack of information on the SME sector on existing training programmes that NASMEC and other public institutions are developing. Communication and cooperation need also to be strengthened in this field. Training is vital for a solid SME sector in Romania.

In spite of a solid economic growth, Romania has made little progress in the field of human resources, given that economic growth needs to be sustained by an increase in the number of employees, within labor productivity growth. The evolution of employment rate is influenced by the flow of foreign investments, which are most likely to produce new jobs, and by the continuation of the restructuring and privatization process that is putting pressure on employment. Also, in spite of a relatively high economic growth, the labor market is still strained, mostly due to structural unemployment. In this context, new solutions are needed to improve entrepreneurs' performance.

3.4. SERBIA

3.4.1. SME SECTOR DEVELOPMENT

During the 1990s SMEs in Serbia faced many economic problems: unsolved property relations according to the previous legal regulations, chronic lack of funds and instability of regulations on transactions and investments in economy, undefined macroeconomic coordination, non-entrepreneurial management of economy, undefined subjectivity of risk, motivation.... As a result, the position of small and medium enterprises and entrepreneurs became unfavourable in this region. Democratic changes at the end of 2000. led to conduction of many reforms, establishment of macroeconomic stability, achievement of sustainable economic growth, beginning of privatization and restructuring processes and co-operation with the European Union. During the period from 2001 to 2005 Serbian economy obtained high rate of gross domestic income growth – average annual rate of growth was about 5.5%.

Due to the macroeconomic conditions, importance of SME activity has been constantly growing in the last six years. The Serbian Government adopted Strategy for Development of Small and Medium-Sized Enterprises and Entrepreneurship in the Republic of Serbia 2003–2008. The establishment of framework for sustainable, international competitive and export oriented sector of small and medium enterprises and entrepreneurship in the next five years was set as an objective of the Strategy. According to this objective, the Serbian Government defined the main strategic goals of SME development:

- Increase in total number of small and medium enterprises and entrepreneurs from 270,000 (in 2002.) to 400,000 (in 2008).
- Creation of over million new workplaces in SME sector.

The role of SMEs in Serbian economy and achievements of Strategy implamentation can be summarized as follows, according to data of Ministry of Economy, Republic of Serbia, issued in Report on Small and Medium Enterprises and Entrepreneurship for 2005:

- Number of SMEs (including both – companies and enterpreurers) exceeds 276,000 (97.5% of total enterprises): 266,000 micro SMEs, 8,000 small SMEs and 2,000 medium SMEs. According to the latest data of the Agency for Commercial Registers 93,428 enterprises (large, medium-sized, small, micro) and 198,547 entrepreneurs

were operating in September 2007. The number of 6,500 new enterprises and 22,274 new entrepreneurs was registered in the first half of 2007.

- The most of SMEs (69% of total SMEs) participate in following three sectors: wholesale and retail trade; repair of motor vehicles, motorcycles and personal and households goods – 42%; manufacturing industry – 16.1%; transport, storage, communications – 10,9%.
- Number of employees says, that out of 2,068,364 employed people in 2005, over 1.1 million worked in the SMEs sector, which amounts over 56% of all employees: 477,000 in micro SMEs, 265,000 in small-sized SMEs and 368,000 in medium-sized SMEs.
- The most of employees (73.2% of total employees in SMEs) belong to the following sectors: wholesale and retail trade – 34.4%; manufacturing industry – 31.2%; construction – 7.6%.
- Share of SME's turnover in total turnover amounts 65.5%.
- Contribution of SMEs in total gross value added amounts 54.1% .
- Contribution of SMEs in total profit of Serbian economy amounts 50.4%.
- SME sector is the most profitable part of Serbian economy; rate of SMEs profitability is 40% (rate of large companies profitability is 32.7%.

The analysis of SME's development level shows that SME sector became the important part of implementation structural reforms, specially related to creation of new workplaces and fostering economic growth. Above the average business activity and achieved results of SME's business had great impact on improvement of efficiency of Serbian economy as a whole. But, the processes of reforms, besides positive trends, didn't eliminate multiannual cumulated problems and negative effects of key restriction (long-term stagnation of investment activity and insufficient level of investments in maintenance of producing capacity etc.). Because of unfinished process of privatization and restructuring of large business systems, cumulated problems moved to SME sector (mostly in medium enterprises), which is specially emphasized in field of liquidity and rentability of this sector.

According to research of World Bank about condition of SMEs' business activities (2007), Serbia improved its rank significantly. Among 175 analyzed countries, Serbia takes place 68 (last year 95). Comparing to the countries in the region, Serbia obtained the greatest improvement of business conditions for last two years. The results of this research encourages the further efforts on improvement SME's business and at the same time is a proof of safety for foreign investments.

3.4.2. LEGISLATION AND STEPS OF DOING BUSINESS

The separate legislative procedure does not exist for the sector of SME's, so the solutions effective for the commercial entities as a whole are applied. The Company Act, The Law on Social Enterprises, Law on Entrepreneurship, Law on Accounting and Auditory, Law on Commercial Register, Law on Agency for Commercial Register are the most important for regulating the legal position of SMEs. These laws precisely define forms of organization, models and procedures of management and administration, authorisations and responsibilities, foundations, models and conditions and criteria for classification of enterprises according to their size. The activities of the Agency for Commercial Register, started in 2005, enabled faster and more efficient foundation of commercial entities. In order to enable easier users' access, the Agency developed a wide net of local offices which act within municipal administrations and it also initiated the procedure for eliminating the non-active commercial entities from commercial register, providing the unique up-to-date electronic data base on all commercial entities in Serbia.

The Law on Accounting and Auditing comprises the criteria for classification of commercial entities on small, medium and large. This law also introduces the obligation of registering and auditory. The registering obligation was introduced according to international

accounting standards, including medium enterprises, as well as private individuals registering double accounting. Small enterprises and entrepreneurs may, but do not have to be obliged to registering according to international accounting standards. From the aspect of SME sector, the introduction of obligatory auditing for medium enterprises is important, while the control of financial operations of small enterprises and entrepreneurs will be under the supervision of Tax Authority.

The Law on Mortgage fastens the market development and makes the access to financial sources easier, as the mortgage is the most common way of secured loan in our conditions and which are necessary for financing the business operations

By the Law on Competitiveness Protection the Council on competitiveness protection was founded, which main task is to promote the struggle against monopoly and monopoly behaviour. The penalties, regulated by the law, for monopoly behaviour (up to 10% of realized total annual income) should affect the strengthening of SME,s market position.

The Law on Foreign Trade Operations offers the solutions for national and foreign trade equalization and methods for national economy protection from disloyal foreign competition.

The Law on Free Trade Zones creates the conditions for bringing the foreign direct investments, higher employment level, and development of undeveloped or insufficiently developed regions. The main advantages of operations in free trade zones are duty-free and tax-free, aimed at strengthening the national economy competitiveness.

The modifications of Law on Contributions for Obligatory Social Insurance and the Law on Citizens Income Tax enabled the fiscal disburdenment of all tax payers and selective employment stimulation along with the protection of most vulnerable old-age population and social groups. The employment of young people up to 30, older than 45, that is, 50 years old, handicapped was especially encouraged. The tax-free deadline for farmers has been extended.

The Law on Enterprise Profit Tax defines the tax rates of 10% on an enterprise profit and 18% of VAT, which are among the lowest in Europe, but the effects are devaluated by other tax duties, various taxes, and administrative procedures.

Table 12. contents list of some measures of business regulations and their enforcement related to Serbian economy:

Table 12.

Year	Ease of Doing Business Rank	Starting a Business					Dealing with Licenses			
		Rank	Procedures (number)	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)	Rank	Procedures (number)	Time (days)	Cost (% of income per capita)
2007	86	90	11	23	8.9	8	149	20	204	2,713.10

Employing Workers							Registering Property			
Rank	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Nonwage labor cost (% of salary)	Firing costs (weeks of wages)	Rank	Procedures (number)	Time (days)	Cost (% of property value)
110	67	40	30	46	18	25	115	6	111	5.4

Getting Credit					Protecting Investors				Enforcing Contracts				
Rank	Legal Rights Index	Credit Information Index	Public registry coverage (% adults)	Private bureau coverage (% adults)	Rank	Disclosure Index	Director Liability Index	Shareholder Suits Index	Investor Protection Index	Rank	Procedures (number)	Time (days)	Cost (% of debt)
13	7	5	0.1	51.3	64	7	6	3	5.3	101	36	635	28.4

Paying Taxes							Trading Across Borders						Closing a Business				
Rank	Payments (number)	Time (hours)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)	Rank	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)	Rank	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
121	66	279	11.7	20.2	4	35.8	58	6	12	1,240	6	14	1,440	103	2.7	23	23.1

Source: <http://www.doingbusiness.org/customquery/ViewCustomReport.aspx>

3.4.3. ESTABLISHMENT OF SMEs

The process of founding business organisations in the Republic of Serbia is defined in the provisions of the Company Law (Official Gazette 76/2004, as of 22 November 2004). In accordance with this Law, legal forms of companies that can be registered in the Republic of Serbia are: partnership, limited partnership, limited liability company and closed held

corporations and open held corporations. All companies must have a founding act that can have two forms:

- The form of a Memorandum of association in case there are more founders or
- The form of a Decision in case of one founder.

A company becomes legal entity when its data are entered into the Register in the Agency for Commercial Registers. Data about all commercial associations, their total number, as well as the results of their financial transactions can be found in the Agency.

The Law does not prescribe minimal amount of share capital for entrepreneurs, partnerships and limited partnerships, so the founding costs are relatively low founding of entrepreneur with one founder, the simplest form of SMEs. In the case of founding a limited liability company or a corporation the Law prescribes minimal amounts of share capital so higher amounts of initial financial resources are necessary in order to found these legal forms of SMEs. Minimal share capital for limited liability company amounts to Euro 500, for closed corporation Euro 10,000, and for open held corporation Euro 25,000.

That is to say that before establishing the Agency for Commercial Registers, company founding was effectuated in commercial courts. Minimum time needed for registration was 51 days on average, while USD 5,000 were required for founding the most frequent and the most popular legal form – limited liability company. By enacting the Law in 2004 and founding the Agency for Commercial Registers in 2005 not only has the procedure of founding new companies been simplified in the Republic of Serbia, but the time needed has also been considerably shortened. Depending on the required documents, particularly the above mentioned documents relating to particular approvals the time needed ranges from several days to no longer than one month. Table 13. summarizes the procedures and costs associated with setting up a business in Serbia.

Table 13.

No:	Procedure	Time to complete:	Cost to complete:
1	Obtain registration forms, form RJR-1, form OP, forms M1 and M4	1 day	CSD 5 (form OP)
2	Notarize the Memorandum of Association and lease contract at the Basic Court	1 day	see comments
3	Open a temporary bank account; pay founding deposit or its part and all other fees	1 day	no charge
4	Obtain the registration certificate Business Registers Agency (SBRA)	3 days	RSD 5060 (RSD 3600 + RSD 1460)
5	Make Stamp and seal	1 day	RSD 2500
6	Obtain PIB – tax identification number at the Municipal Hall; certify the signatures (3 copies) for opening bank account	6 days	no charge
7	Register with local tax authority	5 days	no charge
8	Open a permanent business account with the commercial bank	1 day (less than half a day)	RSD 400 (signature certification and republic tax)
9	Register the employment contracts with the Employment Organization/Fund	1 day	no charge
10	Obtain certificate from the PIO Fund (pension fund)	2 days	no charge
11	Obtain certificate from the Health Fund	1 day	no charge

Source: <http://www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=206>

3.4.4. SME SUPPORT INFRASTRUCTURE

The Council for Development of Small and Medium Enterprises and Entrepreneurship was established by the decision of the Government of Republic of Serbia, No. 05-02-7692/2006 dated 17. August 2006. (Official Gazette No.69/06). The Council's tasks are to discuss, monitor and analyses the situation in the field of small and medium enterprises and entrepreneurship, to give suggestions, opinions, initiatives and expert explanations on creating and carrying the support policy for small and medium enterprises development and conditions improvement for foundation and operations of small and medium enterprises and entrepreneurship. The Council is also expected to follow and initiate the activities among ministries, that is, the Ministry and other organizations and institutions. The members of the Council are the appointed representatives of ministries of: economy, science and environment, labor, employment and social policy, finance, trade, tourism and services, education and sport, agriculture, forestry and waterpower as well as the representatives of Chamber of Commerce of Serbia and the Union of Serbian Employers.

The Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship was established by the Law of the Agency for Development of Small and Medium-sized Enterprises (Official Gazette 65/2001, as of 23 November 2001) with the basic aim to support (assist, advise and protect) the development and interest of SME sector, which in long term should contribute to the harmonization of economic structure and faster economic development and of Serbia. The main goal of Agency is to support the regional economic development and change of Serbian economic structure in order to:

- Solve unemployment problems more efficiently;
 - Substitute import and intensifying SMEs competitiveness;
 - Stimulate various forms of cooperation with big enterprises;
 - Introduce modern technologies and enhance innovations (entrepreneurs incubators, innovative centres);
 - Utilize business premises and equipment more economically;
 - Quality upgrade; automation and computerisation etc.
- According to the Article 7 of the Law the main activities and mandate of Agency are:
- Participation in the preparation of the strategy of development and proposal of the economic policy measures for the stimulation of the development of SME's and entrepreneurs in cooperation with the competent ministry;
 - Preparation and performing the professional assistance for the co-ordination of special programs and investment funds as well as for financial support for the stimulation of creation of new and development of existing SMEs and entrepreneurs;
 - Performing the professional assistance necessary for the realization of local and foreign investments in SME's;
 - Performing professional assistance necessary for improving the operation, the development of innovations as well as their application in SMEs;
 - Creation of unique data base system of statistical data and information relevant for the development of SME's and entrepreneurs;
 - Preparation and delivering programs of education of instructors and consultants for the development needs of SME's and entrepreneurs;
 - Performing other services as provided by the law.

The core activities of the Republic Agency include strengthening of the Republic Network of technical support for SME development (which covers more than 80% of the territory of the Republic of Serbia), assistance and support in the establishment of new regional agencies and centers as centers for information, consulting and education, Realization of different educational processes for SME sector, initiating and organizing different events aimed at

promoting SME sector, cooperation with international organizations and institutions and initiating numerous project of importance for SME development and organizing and providing a wide range of consulting services.

In the Republic of Serbia, for the last couple of years, a great deal has been done in the field of development of business information, advisory and consultancy services. One of the features related to these services in the previous period was inaccessibility to information and unreliability of data which could be found in different places and with different institutions. Since there was no proper cooperation, coordination and information links among the institutions, obtaining reliable information was a big problem.

In the field of information and consulting the Agency for Development of SMEs had an important role; it developed the, so called, "entrepreneurial service" through the network of its regional offices. The main purpose of the service was to provide legal and financial consulting services to potential and existing entrepreneurs. In 2005 the largest number of questions related to the possibilities of obtaining financial assets, credits, resources for privatization, agricultural credits, Guarantee Fund services, assistance in drawing up financial parts of business plans, etc.

The field of legal consulting provided by the Agency for Development of SMEs concerns the following questions:

- offering information about legal business form,
- acquiring the status of an entrepreneur and enterprise establishing,
- necessary documents for registration,
- special preconditions for particular business activities,
- possibility of foreign trade,
- foreign exchange regulations,
- import charges,
- tax relief,
- Labour Law,
- social issues, etc.

The other services in the field of information and consulting, worth mentioning are:

- providing information about the choice of business activities,
- possibilities of market research home and abroad,
- possibilities of providing business premises under favourable conditions,
- purchasing of machines and equipment, etc.

One of the particularly important services offered to entrepreneurs and owners of SMEs that should be pointed out are the education programmes. They are organized by many institutions – Agency for Development of SMEs, Serbian Chamber of Commerce through the network of its branch offices, The National Employment Service, Serbian Investment and Export Promotion Agency (SIEPA) and several scientific institutes. Educational programmes have very diversified concepts depending on the foreknowledge and needs of the participants.

Serbian Investment and Export Promotion Agency – SEIPA must be pointed out as a particularly important body for providing information and consulting services – it provides numerous services to foreign as well as domestic entrepreneurs in considering possibilities of investing in Serbia and opportunities for exporting Serbian products into foreign countries.

The National Employment Service has main aim to increase the competitiveness and employability of labor force and employment through the system of active labor market policy measures. It also must be pointed out as an important body for giving incentives for entrepreneurship development. The activities on initiating and development of

entrepreneurship in National Employment Service are realized through the activities of Business centers. The activities of Business centers are based on development of complete entrepreneurship culture, through entrepreneur and business training, advisory and information activities, acquainting with economic structure changes, innovations and flexible forms of operations, competitiveness, efficiency in production and service sector.

The Business Centers offer the following services:

- Motivational training for entrepreneurship
- Information and consultations on:
 - the most favorable legal form of entrepreneurship
 - registration procedure of shop/enterprise
 - sources of financing
 - tax obligations
 - expert assistance in making the business plan (for foundation or development)
- Business training for unemployed and surplus of employees (organizing of information and education seminars for future entrepreneurs)
- Information on necessary documentation and forms which are to be delivered to National Employment Service and how they should be filled in)
- Consultations between the employers and individuals seeking for job on regulations in the filed of work and employment (Article 30 of Law on Employment)
- Expert conference of entrepreneurs who used subventions of NES aimed at sustainability and promotion of entrepreneur operations.

The business centers of National Employment Service offer the following professional information and advice on:

- corresponding laws
- sub-law regulations
- collective agreements
- job agreements
- rights, duties and responsibilities of employers and employees, and their associations.

The Entrepreneurs Society of the Serbian Chamber of Commerce was founded in 2003. The main activities of the Society are mainly to protect the interests of its members – entrepreneurs. So far, the Society was mainly occupied by the issues relating to promotion of business activities conditions of entrepreneurs and necessities for their development: entrepreneurship development and financing programs for entrepreneurs , work improvement of general associations of entrepreneurs, employment capacity conditions improvement in economy, competitiveness and domestic manufacturers protection, return of public authorization to chambers, discussion on economic policy measures, development of information system of Society, connecting the activities different participants on entrepreneurship improvement and entrepreneurs promotion, promotion of their associations and Society. Besides this, Serbian Chamber of Commerce provides wide range of advisory services.

Ministry of Economy's Policy of Entrepreneurship Growth provides easier access to funds for business start – up, growth and development. Development fund of the Republic directs over 90% of means to SMEs. Development fund was established by the Law fund for development for Republic of Serbia (Official Gazette 20/92 and 107/05), with the basic aim to enhance dynamic economic growth, provide even regional development, improve competitiveness, promote employment, and develop capital market. Therefore, its main targets are small and medium-sized enterprises.

The Development fund provides loans:

- for companies (short-term loans, loans for reconstruction, building construction and equipment purchase, loans for current assets, National Bank of Greece credit line)
- for converting the innovation into final product

- for unemployed (micro credit)
- for entrepreneurs
- for those who start a business (start-up loans)
- for business promotion and development in the undeveloped regions
- Financing of SMEs through the Development Fund in 2006:
- Long term credits for SME and entrepreneurs – Euro 99.6 million
- Short term credits for craft and service businesses and entrepreneurs Euro 8.6 million s
- Start –up credits Euro 25.8 million
- Special programs for regional development Euro 42.1 million.

Although there is a noticeable increase of interest of business banks for SMEs, terms of approval of credits for small and medium companies and entrepreneurs are substantially unfavourable. According to the adopted strategy of development of small and middle sized companies and enterprises in the Republic of Serbia, Guarantee fund was established (by the Law on Guarantee fund, Official Gazette, No 55/03) to support the access of domestic small and medium sized enterprises, entrepreneurs and agriculture producers by guarantying a portion of the loan that is extended by banks to SMEs, and entrepreneurs. The goal of the Guarantee fund is to influence a significant increase in the accessibility of credit, as well as lowering of the interest rate due to the lessening of the financial and commercial risk. The business and private entrepreneurs qualifying as small and medium sized enterprises in accordance with the Republic legal provision (the Law on accounting and auditing, Official Gazette, No 71/02), entrepreneurs and agriculture producers are eligible to apply. The extended cover of the guarantee can reach up to 90% of the issued bank loan. Enterprises can apply for guarantees in respect to the following different types of loans:

- Working capital loans
- Complementary working capital loans
- Investment and development loans
- Entrepreneur's credit lines
- Start-up projects etc.

In 2006, Dinar credits for economy increased by 20%. The share of short term funds in deadline fund structure of private sector economy is decreasing. Credits to the economy of the private sector in GNP for 2006 were 28%.

According to National Investment Plan 2006-2011, financial resources for the development of entrepreneurship, employment and economic growth are provided for:

- Industrial zones development and industrial parks (cca 46 million euros for 49 programs);
- Attracting direct foreign investments (Euro 20 million);
- Instigating export (Euro 15 million);
- Investments to underdeveloped regions for a balanced regional development (Euro 15 million);
- Start-up credits for beginners (Euro 7 million);
- Self-employment micro credits (Euro 10 million);
- Founding of business incubators for entrepreneurial instigation (Euro 3 million for 14 programs);
- Development of basic infrastructure (Euro 35 million for 33 programs).

Within the ENTRANCE – the Program for entrepreneurship, training and services, financed by the Government of Norway, the business incubators are founded in Serbia. The first business incubator was founded in Nis in September 2005. Based on the experiences of this pilot business incubator, the incubators were founded in Zrenjanin, Subotica, Rakovica and the plan is to form another 14 to 16 incubators in Serbia. Founding of business incubators for entrepreneurial instigation Euro 3 million are provided by National Investment Plan 2006-2011.

In August 2006, the Republic Agency for Development, together with ENTRANCE team, establishes the Center for support to foundation of business incubators (Business Incubator Support Center-BISC), defining in more details, the forms of support for both, already established incubators and incubators in development phase.

The goals of BISC services:

- BI functioning stabilization according to ENTRANCE methodology
- Active role of BISC in achieving the stability of existing and activities of new BI
- Offering all necessary forms of support to implementation teams
- Creating of stronger connections and common activities of existing BI
- Involving all relevant institutions in support activities, both to existing and new BI
- Creating of new commercial services for existing BI
- BI, included in relevant support programs, carried out by RASME (internationalization, B2B, fair Business Base etc.).

3.4.5. FINANCING SMEs IN SERBIA

In general, the infrastructure of financing the SME's sector in Serbia is still rather undeveloped. Predominating is two the most important source groups:

I – Governmental institutional channels including:

- Direct governmental support of financing the SME's sector financing through acceptable credits provided by the Development Fund of the Republic of Serbia. These kind of credits are granted, and the interest rate is rather low (in some cases only 1% on annual level), accompanied by the significant grace period. The problem is that these sources are limited.
- Indirect governmental support, through other institutions, such as the Agency for the Development of Small and Medium Enterprises and Guarantee Fund. The Agency provides linking services with international financing sources, while the Guarantee Fund procure the credit guarantee services that SME's take from commercial banks, reducing to great extend the risks level, and consequently, the interest rates.

II - Banking channels - comprise a number of credit types granted to SME's sector. Because of the adopted restrictive monetary policy directed towards inflation restraining (in Serbia, in the year 2007, the expected inflation shall be between 8-9%) the credits are very expensive and the interest rate is fluctuating between 10-12%, sometimes even higher, at the annual level). The high interest rate is the consequence of the high credit risk level, and that has a great influence on the small and medium enterprises sector.

The SME's sector is considerably limited on the capital market. The Belgrade Stock Market every year exhibits the turnover growth, in the transaction volume, as well as the value, but that is a place that mostly deals with privatization process shares. There was no one real initial public offering (IPO). Many entrepreneurs show the interest, but still, it has to pass a long period till the conditions will be created that the capital shall be relatively easily accumulated by share issuing. The situation with the issuing of corporate bonds is even more adverse, because the market for these kinds of securities hardly exists.

The venture capital firms and its legislative forms are not present. Certain investment funds, started by the end of 2006, when the Law on Investment Funds has been adopted, initiate to analyze the situation and to inaugurate such kind of operations. The similar situation is with the private equity funds and business angels. The good notice is that in Serbia is developing the significant group of institutional investors. Besides the investment funds, there

are private pension funds, broker houses, as well as insurance companies and banks that are actively including into investment banking transactions.

Start-up loans, provided by the Development Fund, are intended for self employment by establishing handcrafts, manufactures or service enterprises. Start-ups are provided with Euro 5,000 to Euro 15,000 loan, one-year pay off period, one-year grace period, 1% interest rate on annual level and three-month pay off. According to National Investment Plan, beginners will be provided with Euro 7 million.

3.4.6. TASKS FOR IMPROVEMENT AND FURTHER DEVELOPMENT OF SME SECTORS

By the number of entrepreneurs and small and medium enterprises, Serbia considerably delays comparing with the other countries in the region. Because of that, the promotion of entrepreneurship and small and medium business is essential. The great chance could be the further development of the business incubators, and technologic and industrial parks, where legal regulative and some very successful examples already exist. Also, the entrepreneurs should be acquainted with the importance of clustering and possibilities which this form of cooperation offers. They also should be informed about the distribution of stimulating measures for cluster foundation. Lower costs, favorable credits, funds access are only some of the advantages that this form of cooperation offers.

Simultaneously, together with promotional activities, the particular attention should be paid on entrepreneurs' education and to extend the knowledge and skills gamma necessary for the new circumstances. The higher level of knowledge and efficiency in SME is essential. The level of knowledge and efficiency of entrepreneurs are far behind the real necessities. The greatest improvement in overcoming this state was realized by introduction of education for entrepreneurs in secondary schools in 2007/2008, but further efforts in this field are very important especially regarding the cooperation between the scientific institutions and economy. The relations between economy, education and scientific and research institutions should be defined on completely new foundation.

Further investment in researches, development and improvement of technological equipment is needed.

The lack of horizontal connection and establishing of cooperation among the organizations which offer services to SME sector, such as Agency for SME, National Employment Service, Chamber of Commerce, is obvious.

It is important to extend the rank of the alternative financing sources. To develop venture capital firms, private equity funds, business angels etc. Also, it is important to solve the question of micro-financing, which, for the time being, only exists within the banking sector. The banking sector still has the monopoly on financial market. The specialized institutions for micro crediting should be founded.

Measures directed to restrain the inflation and to create the less restrictive National Bank's credit and monetary policy, that would influence on reducing the interest rate on bank credits

The tax system is not adjusted to SME. Although the tax rate for enterprise profit of 10% and VAT of 18% are among the lowest in Europe, their stimulating effects are devaluated by another burden with taxation, various fees, and administrative procedures. Modifications of certain legal regulative, especially in the field of fiscal legislative and fiscal collection procedure's simplification.

Number of measures promoting the competitiveness of Serbian enterprises which is, in general, at very low level. At the same time, it is essential to make the structural economy changes comprising the greater orientation towards export adjusted production, in order to solve the problem of payment balance and high foreign trade deficiency. CEFTA represents the great chance for all the region countries, comprising market extension for 9 states of West Balkan.

4. ACCELERATING SMALL BUSINESS DEVELOPMENT IN THE NEWLY INDEPENDENT STATES REGION: STRATEGIC APPROACH – EVIDENCE FROM MOLDOVA, RUSSIA AND UKRAINE ²⁰

4.1 INTRODUCTION TO THE RESEARCH

The countries that have been involved in the Soviet orbit are currently restructuring their economies. The process of economic transition from a centrally planned to a market-based system takes enormous efforts and time for changing not only the economic situation in the country but mentality and even culture.

Culture as a dynamic characteristic of the nation has some significant potential for change. Some nations possess the better potential for the change; the others need longer time and stronger influence of catalyst factors.

The mainstream of the research of the transition process is concentrated in several areas: privatization; economy growth and its liberalization; institutional and legal reforms; socio-cultural consequences of the economic changes. The SME development is in the relation to all of these issues, and even becomes crucial for the country's economic success.

The focus of this chapter of the paper will be on a catalyst factors providing the easier transition to the market driven mentality in SME sector. We would make the general comparison of the pros and cons in the targeted countries' SME developments from the standpoint of strategic management principles, using general environment assessment methodology and Porter's Diamond model of nations' competitive advantage applied to SME sector, and five (+ complementary) forces approach (developed as an industry analysis, but with the certain limitations, which we would describe later in this chapter, this tool could be used for the generalization of the SME problems in the transitioning countries).

By the time the transition began, there was a little knowledge and thus an experience of transformation from centrally planned economy to market driven in the region and even in the Glob. Nobody could advise or support the nations in their efforts for change. Therefore every nation went its own way even if they started from the same or close points. Some standardization is helpful of course but should be carefully adjusted to the country's cultural, political and current economic situation by policy makers. This statement has to be taken as a basic approach for the further research and suggestions/recommendations for the SME development in the region.

Theoretical arguments for the standardized recommendations for the SME development in the Black Sea Region

According to the Life Cycle Theory (A. Adizes, 1989) any organization has to pass through several stages in its lifecycle. The state, as the specific form of organization, at the

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very early steps of its democratic developments would urgently need the experience to balance the initiative, and change willingness. The recommendations from the researchers and practicing experts on SME sector development could serve as accumulated experience, and facilitate the process.

Needless to say that the cultural identity of the nation makes its way different from any other. But at the same time globalization brings some unification in the process and helps accelerating the positive developments.

The major driving force for the spread of the valuable experience over the transitioning countries in SME sector is the rising diffusion of the ideas and knowledge throughout the borders, incredibly increased with the European integration. Even the countries that are territorially far away from the Europe are influenced by the transparency and democracy growth in the European countries.

The opportunity for each of three countries to continue the close cooperation, and work on a collaborative plan for the complex development of the Black Sea Region, preserving its unique natural conditions and even developing the Common Economic Space would result in the dynamic positive change of the countries' institutional framework and economies.

Scott (1995) created the theoretical platform, later also used by scholars to research the gradual improvements in economic reform of transitioning countries or vice versa dig up the factors resisting to the economic growth. We consider the improvements in diffusion processes (described in detail by Scott) to be of a major importance at this stage of transition. All three countries, Moldova, Russia and Ukraine have the all the primary institutions and agents (in the terms of the institutional theory) in place. The major difference between them and well-developed economies is in the undeveloped "diffusion", infrastructure of business, and immature market oriented mentality. This especially comes true when it is related to the role of governmental organizations and divisions, associations and funds.

4.2. STRATEGIC APPROACH TO THE ANALYSIS

DIMENSIONS IN GENERAL ENVIRONMENT ASSESSMENT

Comparing the general environment of the targeted countries we would concentrate primarily on what appears to be the most relevant: demographic, socio-cultural, political/legal, macroeconomic, technological, and global dimensions (G. Hamel and C.K. Prahalad, 1994). The targeted countries differ from each other in every of these dimensions. The researchers suggest (H. Mintzberg, 1994) that the factors have to be split out in three groups (in our case, - those that have potentially positive effect over the SME sector development, then, negative effect, and finally, those that won't affect it much). We would consider the mentioned criteria to be a platform for the detailed comparison of the strategic situation in the targeted countries

Demographic factors include the dynamic change in ethnic composition; aging of the population; change in population growth and decline in general, and by categories. The majority of these factors except the dynamic change in ethnic composition look pretty similar for Russia, Ukraine, and Moldova. Ukraine and Moldova seem to be rather stable in disposition of its ethnic groups over years. Russia is changing dramatically because of the increased flow of immigrants from the former Soviet Union countries, primarily Central Asian. In addition to that the number non-immigrant workers from the NIS countries, China, Vietnam, and Korea increased in times, and continue mounting fast with the growth of the economy. Thus, with such a change in demographics, Russian socio-cultural factors for the SME developments are significantly affected as well. The research on managerial values over 42 countries of the Glob (Ralston et al, 2005) shows that the incoming nations have more corresponding with the SME

development values rather than Russian. So far, the demographic change is positively affecting Russia's potential for SME developments.

We would consider educational, health care and retirement issues, the establishing of common values and beliefs throughout the country (including corrections in their cultural identity occurred after the crash of the Socialist Empire and change of system as a whole) among the most critical for the group of socio-cultural factors. It is absolutely evident that every group is affected by the others, and socio-cultural factors are not exceptional. Each of the three countries has significant problems related to this group. Being the parts of the SU in past all these countries enjoy the highest literacy rate and well developed school and university systems. The population is highly educated there that could be considered as a very strong factor positively affecting the SME development. According to the data of the mentioned already research, majority of SME managers have a university degree.

The implementation of medical insurance system is rather weak, and if the idea is introduced the reality is almost the same as it was in the socialist times. We would not consider our three countries different in regard to the health care, and would treat this factor as not significantly (at this stage) influencing the SME sector. It needs to mention that in the future the lighter schemes of medical care insurance would become a driving factor of the SME development. Correspondingly, the SME friendly retirement system, which is typically follows the development of the insurance industry, has to be introduced later in every of the targeted countries in future. We would like to state that for the richest groups there are some critical differences in the countries' situation but for the start ups, entrepreneurial and small businesses they do not count. Therefore, the only factor that differs a lot in the socio-cultural group is related to the cultural beliefs, values and traditions. The uncertainty avoidance/acceptance (Hofstede, 2000) is a proved measure for the exposure of the culture to the entrepreneurial ideas in business. Based on our research, Moldova and Ukraine have better than Russia and very close to each other characteristics. They are still on a side of uncertainty avoidance but closer to the middle than Russians. This would be considered to be a positively affecting SME development in Moldova and Ukraine factor but negatively for Russia. Thus, Ukraine and Moldova should use this advantage and built on it right away, and Russian authorities have to develop a complex program for the change of the mentality towards the market driven. Absolutely understandable that it would be costly for Russia, would take time and efforts but bring benefits in the long term.

The group of political/legal factors contributes differently to the SME developments in Russia, Moldova, and Ukraine. The purpose of this chapter is not to list the laws adopted by the country but signal about incompleteness of the legislative framework in relation to the SME development. The SME related regulations are adopted by each country with some difference of approaches. The most critical for the SME sector development is the possibility to start and run the business in regard to the laws if they are SME friendly. But neither in Russia, nor in Ukraine or Moldova the legislation is friendly enough, which is negatively affecting SME businesses. The significant portion of the shadow economic operations in the sector proves this statement.

General analysis shows that the major problem comes from immaturity of legislative control. All of three countries belong to the group of highly corrupted (Russia is ranked *** in the World Transparency Year Book 2006, Ukraine ***, Moldova - ***). This could be considered as the most negatively affecting SME factor in each of the three countries. Political issues among countries hurt small business as well. There are many cases of SME bankruptcy in each of the countries related to the "Moldovan wine" problem or Russian gas supply change for Ukraine.

Another negative factor that is more aggressive in Russia than in Ukraine (in Ukraine it is stronger than in Moldova), is the lobbying of the large businesses and corporations of their interests on a governmental level.

Political stability/instability is considered to be a positively affecting the development of SME businesses in Russia (with some problems in the neighbouring with Chechnya regions), less but still positive in Moldova (some problems still occur between the political power and Transdnistria), and negatively affecting the SME sector in Ukraine, exactly the Ukrainian portion of a Black Sea Region. The Crimean people, especially minorities like Crimean Tatars, live under the unresting conditions of confrontation of political parties, ethnic conflicts, pressure from the large businesses. The situation is still vulnerable, and continues political crises on a country level do not help the SME sector improvements in Ukraine.

As far as the group of technological factors is involved, the Internet accessibility, high-tech developments, knowledge and information transfer infrastructure, time of technology innovation implementations, the state support of the idea of business incubators, willingness of the banking and insurance industries to coop with SME sector on high-tech ideas have to be analyzed. There is some insignificant variation in the status of these factors in Russia, Moldova, and Ukraine. For example, because of the concentration of the high-tech industries primarily on the territory of Russian Federation and Republic of Ukraine in the socialist times, Moldova does not achieve yet the same level of technological developments. The Transparency International World Year Book, 2006 proves the still a lower level of use of Internet in all of these countries in comparison with well developed economies. But there is a difference in the situation, and Russia is leading the group. Needs to emphasize that the demographic trend of the increase of the urban population would positively affect high-tech and other industries, but negatively influence SME development in the agricultural sector. In the urban areas the use of Internet is higher in times than the average for the country.

Macroeconomic characteristics combining budget deficit or surplus, investment flow, the stability of the currency, trade deficit/surplus, inflation and the saving rates are rather different in Russia, Ukraine and Moldova. By the World Bank standards Russia is considered to be a middle-income country with a large and extremely well educated population (143 million people, and a gross national income per capita of USD 4,460 in 2005. GNI, Atlas method, WDI-2006). The growth of the income is considered to be a strong positive factor for the SME development in Russia. Ukrainian and Moldova's data show significantly lower characteristics resulting in the lower consumer activity, and lower demand for the SME products.

Extremely fast growth of the oil prices resulted in the significant export revenue increase in the last 5-6 years. The primary flow of the export revenues comes from natural resources and large corporations, which are lobbying their interests effectively trying to block the raising competition from the SME sector. While this type of lobbying is present in the each of the researched countries, Russia is an example of the strongest positions of large business in the country's economic hierarchy. Another negative factor grows up from the formerly inefficient structure of the Soviet Union economy, the central planning traditions, over-concentration in the oil, gas and many other industries, which resulted in the lack of the attention to the SME problems, and underestimation of the SME sector potential. These could be considered as a strong negative factor for the SME development for every country in the trio. Another stress for the SME sector is a NOT supportive taxation system (even the governmental officials are stressing it out that it is very light for the small companies) and incredible scale of corruption that pushes the SME sector down to hide the profit and join the so called "gray" or "shadow" economy.

The investment climate is improving slightly better in Russia rather than in Ukraine, and then Moldova. Interestingly, the international foundations and the EU commissions pay more attention to the SME developments in the region than international corporations investing

primarily in large companies in gas and oil industry, and again large machine-building, and chemical corporations. The upper scale interest of international investors is seen to the large food companies of all the trio countries. Not only economic situation and political stability but country's capacity for cooperation with the neighbors, and fundraising on international market would contribute to the growth of the investment opportunities for the SME sector. The first two factors are the most favorable for Russia, but Ukraine, and then Moldova are leading in regard to the third one. In the framework of our research we would consider the growing international investment opportunities to be more valuable in future but at the current stage of these transition economies' development not significantly affecting the countries' situation in SME sector. The domestic financing opportunities for SME businesses are seen as more critical. The interviews with the leading countries' authorities prove the understanding of a need for increasing the SME sector financing opportunities through the private banks, various foundations, corporations, and even budget funds. But the sources used vary a lot. Analyzing current situation we would state that there some very light signals of the change of economic policy in Russia towards the increasing independence of the economy from the oil and gas prices on international market, and more attention of the state to the SME sector developments. On 24 October 2007, the new Chief of the Russian Federal Ministry of Economic Development and Trade, Elvira Nabiullina, has stressed out that the goal is to increase the number of SME start ups from around 50,000 per year to 100,000 in 3 years. This ambiguous goal could be achieved by the combined efforts on local, municipal, and state levels by neutralizing the negative factors, building on positively affecting the small businesses, and preparing the basis for the further involvement of the currently neutral factors. There is a hope based on this data that at least Russia is entering the other stage of its economic development by gradual switching from "large corporations" economy to the growth through SME sector. The number of researchers, criticizing Moldova, Ukraine, and primarily Russia for the lack of support for the so called "balanced" model of economic growth, probably do not take in the account the enormous problems raised in these countries after the crash of the integrated Soviet Economy. The economic crises put the countries' abilities to experiment on growth models down, and focused all of them on the largest possible revenues in a short term. The management in a severe crisis does not support the long term oriented activities before the survival is not questionable. The image of reorientation towards the "balanced" economy would bring Russia incredible benefits (if it would be consistent enough in building this image internationally and domestically). In comparison with the other 2 countries of the trio, Russia has an extraordinary favorable potential factor which would positively affect the investing of SME businesses.

The last group of factors presents an international and global trends and their influence over the country's developments in SME sector. The major one is an international competition in the area of SME products, where China is suppressing the other emerging and transitioning economies. International integration, especially in the European region, facilitates the positive trends for each group of factors but increases the competition as well. All of these 3 countries at the very first stages of transition to the market economies were pursuing the strict protectionist policy changing with their more extensive cooperation through the WTO. Interestingly, protectionist position of all the three countries was not so strong in relation to the products/services of SME sector (excluding agriculture) as in the in the industries traditionally represented by large businesses. The global competition is a significant pushy factor from one hand, and a strong down holding factor for the underdeveloped SME sectors from another one. International business theory states that the negative effect of global competition at the very first stages of the lifecycle of the organization/industry/sector of the economy development is much stronger, while it turns into a positive side later.

With the growing opportunities of offshoring and outsourcing the SME sector could boost the countries' economy in several years. The key for success is the country's legislative and political openness, educational and technology development level, liberalization of the

economy. The so called in the organizational sciences “absorptive capacity” or the close term “organizational capacity for change” would result in the willingness to coop on a country level. With the still highly autocratic and centralized structure of Russian economy Ukraine and Moldova have better chances to use the globalization factor.

PORTER’S DIAMOND MODEL

For the purposes of environmental analysis and making recommendations for company’s strategy consultants usually use several models including Porter’s Diamond approach (Porter, 1990), which is enlightening the institutional role in the company’s success. It gives an opportunity to figure out what is the key force/forces in the company’s development. There are some significant limitations to the model that we need to describe. The limitations are: 1) the model is developed for the analysis of the industry but not an entire SME sector analysis; 2) the model does not take in account the dynamics (history) of the rivalry, and 3) institutions also ignored by the model (Davis & Ellis, 2001).

We would change the model, including institutions and global demand conditions in it (Figure 1). For the current need of the SME sector analysis for three transitioning countries that have been parts of the same environment of the socialist country in a recent past we would not focus on history of rivalry since they had it similar at least for long enough in the past. In addition to the model adjusted to the need of our analysis some cultural characteristics are responsible for differences in the countries’ situation. We mentioned that already in the first section while describing socio-cultural characteristics influencing the SME sector developments in each of the countries.

Porter’s model itself represents the four factors that are influencing the targeted industry in the targeted country. We would be dealing with SME sector, not just an industry since all small businesses in each of three countries have comparable characteristics, and all of them are underdeveloped. The company’s competitive advantage is a combination of its resources and capabilities.

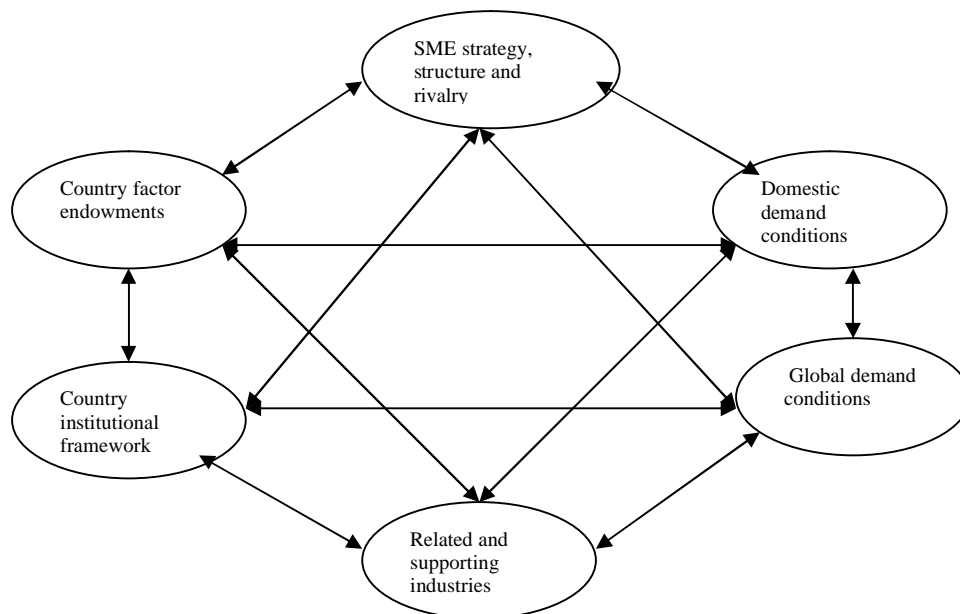


Figure 1. Adjusted model of National Competitive advantage (for the Black Sea Region) for SME sector analysis

The major specifics of Black Sea region is a unique nature conditions and comfortable climate incredibly valuable for attracting tourists to the area. We would consider the tourism as a central factor for boosting the economies in the region.

Country factor endowments

Natural advantages of a Black Sea Region for Russia and Ukraine are somewhat similar but Ukraine enjoys the most favorable conditions in regard to the size and development of the territory. In comparison with these two countries Moldova that does not have a sea coast territory but is relatively close to Ukrainian coast line, and would be the most interested in the development of tourism in Ukraine to serve the needs of the tourists with the SME sector products, and the most famous one – great quality wines.

All three countries had the similar system of school and university education and could be considered to be at the beginning of their way to independence at the same point. Lately, there was an economic crisis that lowered the Moldova's position in comparison with peers, and made Ukraine and Russia sustaining their advantage and even developing it but with different gradients. Russia in duration of 10 years is investing money in the so called "Presidential" program of retraining managers that was (and still is) targeting primarily representatives of small and medium sized companies all over the country. The initiative was later followed by the local and municipal investments in managerial education creating new programs in the region of Krasnodar and Sochi.

Ukraine is building on the former Soviet Union developments in the region of Crimea but services are still rather underdeveloped. There are not many colleges and higher educational institutions that are providing programs for managers of small companies.

Country institutional framework

As we mentioned already, Moldova, Russia and Ukraine have the all the primary institutions and agents (in the terms of the institutional theory) already in place. But the mechanism of their interaction, monitoring, and changes each country has to develop itself. Creation of the new mentality is a long process. Different transition economies start with different priorities. Thus China did not change political system much but focused on economic reforms; Russia went through the white waters of a "wild" capitalism and almost anarchy in Eltzin's times and get to the more centralized economy. Does centralization work for Russia? It is too early to answer, but at least some stabilization in institutional system was achieved. Ukraine still has too severe, and too often internal fights between the major political groups that a hard work of the government on adjusting the institutional system to the country's specificity is nearly stopped down. On a political arena Ukraine announced the intent to join the European integration. Russia insists on economic cooperation with European countries but not a single market. As for Moldova, it is still not clear whether they join the neighbour (Russia that is a traditional market for their wine industry) or tie with the EU as the culturally closest nation, Romanians, did. The absence any clear strategy forces the country losing the time in international economic competition, particularly in the Black Sea region.

Related and supporting industries

If related and supporting industries are well developed they could add a value to the SME sector in the region.

None of the trio countries has a well-developed set of related to the tourism industries. The situation in Moldova is the worst, including the criminality. Banking, insurance companies, transportation, construction businesses, food firms and others in the Russia's Black Sea region enjoy increasing investments from domestic and international large corporations, municipal and

Federal funds, private capital, especially because of forthcoming winter Olympic Games in Sochi. The criminal situation in the region is not so sharp as in its neighbouring countries but the closeness of Chechnya makes especially international investors concerned about possible losses. Ukraine is right in the middle of two peers.

Domestic demand

The growing number of rich people in the country, and primarily the size of the middle class is the most critical issue to determine the influence of the demand conditions over the SME sector. Among the three countries Russia has the largest population and the long lasting tradition for people from its Northern territories to spend vacations on a Sea coast. The climate of Ukraine and Moldova is not as diverse as in Russia. The growth of savings of Russian people results in the dramatic increase (especially during last 5 years) of demand. Ukraine is experiencing a much lower increase of domestic demand for the services in the region, and notably it depends on waves of political stability in the country. For Moldova the domestic demand is quite low.

Global demand

With dramatically growing influence of the global economic, social, political and technological factors over the countries' life the global demand for the SME businesses products and services in the Black Sea Region. The major interest in its development is represented by the population of the neighbouring countries. Thus economic growth and increasing size of the middle class in Russia is generating a source for the development of the entire region. Russians are the often guests in Ukrainian, Azerbaijan's and Turkish resorts as well. But the luxury services are usually sold primarily to EU citizens. The growth of the interest of Europeans in Russian and Ukrainian resorts creates a potential for the SME sector development. The only requirement for that is the country's economic and political stability. The image of the region is far away from the desirable but Russia's efforts for having Olympic Games hosted by Sochi could result in the boost of the interest of the foreign tourists in the whole region (Ukraine & Russia). Another argument should be taken in account as well – the European, and global community is getting more exposed to internationalization, to learning more about different countries, regions, cultures, and to travelling.

Thus global demand could become a key for the incredible growth of SME economy in the region.

SME strategy, structure of the sector, and rivalry

The rivalry in the SME sector industries is generally considered to be one of the main indicators of their developments. The most competitive industries attract the increased number of startups.

Porter's industry analysis could be used here to get a clear understanding of the rivalry in the SME sector in each of the trio countries.

The external strategic analysis requires the application of "Five Forces Model" introduced to the academic and practicing community of managers by Michael Porter as well (Porter, 1979), and added by the six force (A. Grove, CEO of Intel) – complementary products and services. The five forces are: bargaining power of suppliers; bargaining power of buyers; threat of substitutes; risk of entry by potential competitors; intensity of rivalry (Figure 2).

All of the forces, except bargaining power of suppliers (since they again belong to the SME sector, which is represented by small number of firms), are weak. The scale of weakness differs in Russia, Ukraine and Moldova, with the worst situation for the last one. In this case it

is obvious that the SME sector is not even nearly this attractive as it should be in all of these countries.

The rivalry in the industry or related industries (for the SME sector in Black Sea Region we agreed that the tourism related industries would be of the most interest) depends on

- 1) industry competitive structure;
- 2) cost conditions;
- 3) demand conditions; and
- 4) exit barriers.

Exit barriers are different in tourism related industries but in majority of cases for SME sector they are not high so that the company could switch to the other profitable activity fast enough to save the invested capital. As for the demand conditions, we found out earlier that the gradually growing domestic and exponentially increasing global demand are the driving forces for the SME sector development in the region. As far as the cost conditions go, we would is a most critical negative factor for the improvements in the area. The fixed costs are very high and the firms are not able to afford to cover them by selling their products to the citizens of the low-income countries. There is a hidden portion of the cost of the product paid as bribery to the governmental/municipal authorities, and representatives of the various banks, foundations, and insurance companies. The result could be the struggle of the SME companies for survival at a low profit. The structure of the industry is typically either fragmented or consolidated. For the entire SME sector we could state that the structure in every tourism related industries is more likely underdeveloped, and does not have the complete characteristics of even fragmented industry – large number of small companies, non of which is an a position to determine the price standards for the others. We would consider the SME sectors in all of the targeted countries in the embryonic stage of its development. The fragmentation characteristics would appear at the more advanced level of SME development. Again the most developed in regard to this indicator is Russia, the least is Moldova, with Ukraine somewhere in the middle. The best scenario of the sector development should contain the important conditions for the increase of its attractiveness, and as a result, a competition.

Below please find the summary of the factors and conditions negatively and positively affecting the SME sector in Moldova, The Russian Federation and Ukraine. In following please find recommendations for further SME development.

4.3. MOLDOVA

Table 14.

Dimensions	Negatively affecting	Positively affecting	Suggestions
Demographic	<ul style="list-style-type: none"> • Aging of the population • Population decline in general • Large number of workers abroad • Immigration 	<ul style="list-style-type: none"> • More or less stable in disposition of ethnic groups 	<ul style="list-style-type: none"> • State policy to support of a population growth
Socio-cultural	<ul style="list-style-type: none"> • Not friendly to SME sector employees retirement and health care systems 	<ul style="list-style-type: none"> • Well educated labour • More uncertainty accepting than Russians 	<ul style="list-style-type: none"> • Develop the system of non-certificate and for degree managerial education • Correction of the medical care system and retirement plans for self-employed and SME employed people
Political/legal	<ul style="list-style-type: none"> • Political instability • Internal territory conflict (Transdnistria region) • No strategy in joining NIS or EU • Immature legislation control • Low level of advantages for SME businesses proclaimed in the legislative system • Moderate to low lobbying of large companies' interests • Underestimation of the SME role in the economy by politicians • Corruption and low transparency of legislative system • Complex relationship with the neighbouring countries 	<ul style="list-style-type: none"> • Gradually increasing attention of the state to the SME sector needs • Legislative base for successful SME development is created • Entered the stage of institutional framework improvements – programs of state support for SME 	<ul style="list-style-type: none"> • Diversify financial opportunities for SME sector • The higher priority should be given to cooperation SME development projects with the neighbouring countries and others • Stimulate on the state level the development of the SME business infrastructure (associations, foundations, funds, consortiums, and strategic alliances) • Develop electronic submission for the majority of documents for SME; and a feedback e-system for each official to avoid corruption and briberies
Macroeconomic	<ul style="list-style-type: none"> • Low income country • Part of the former centrally planned economy • Over-concentration of the former SU economy resulted in the lack of a state attention to the SME sector problems • Shadow economy • Investment climate is not favourable for international investments 	<ul style="list-style-type: none"> • GDP growth • Financing opportunities for SME are slightly growing • More attention is paid to SME sector by economic policy makers • Growing potential demand for Moldova's wine and other products in Russia • EU initiatives in establishing close relationship with Moldova 	<ul style="list-style-type: none"> • Develop favourable and transparent taxation system for SME sector • Attract FDI flow to the SME sector by announcing international tenders and/or national programs

	<ul style="list-style-type: none"> • Low level of SME cooperation with partners from other countries • Not favourable taxation system for SME sector fast growth 		
Technological	<ul style="list-style-type: none"> • Very low level of Internet access • Financing opportunities for SME innovative technology projects are limited • Low domestic customer demand for high tech SME products 	<ul style="list-style-type: none"> • Internet accessibility in the large cities is growing • Fast development of communication technologies • Well educated labour • Large companies are interested in financing high tech SME projects 	<ul style="list-style-type: none"> • State and private capital support for R&D activities in SME sector • Creation of information network for SME needs • Sponsoring of IT training for SME • Develop a special body helping the high tech SME products to sell abroad
Global	<ul style="list-style-type: none"> • Sharp international competition in the area of SME products, especially by EU member countries (Romania, for example, for the wine industry) 	<ul style="list-style-type: none"> • International integration, and knowledge transfer 	<ul style="list-style-type: none"> • Knowledge transfer programs; seminars; roundtables

Factors	Negatively affecting	Positively affecting	Suggestions
Country factor endowments	<ul style="list-style-type: none"> • No cost line territories • The highest gradient in development of SME sector in a Black Sea region largely depends on political stability relationship with Russia, and especially Ukraine 	<ul style="list-style-type: none"> • High level of education of a labour • Great climate conditions for growing various agricultural products and grapes – national advantage • Culturally are more entrepreneurial than Russians 	<ul style="list-style-type: none"> • Develop national program to train SME managers • Use the favourable nature conditions and build on country's agricultural specialization with possible development of "green" and environmental friendly businesses, and production of organic foods • The closeness to the Black Sea coast in Ukraine would make it reasonable Moldova's specialization on related and supporting for tourism industries
Country institutional framework (see analysis on political/legislative dimension)	<ol style="list-style-type: none"> 1. Political power is not stable yet 2. Incomplete institutional framework with an immature system of law enforcement and control 3. Serious political support would be needed for the development of the SMEs in a Black Sea region in the closeness to the Ukrainian coast line 	<ol style="list-style-type: none"> 4. In general the legislative system for the SME businesses development is already created and slowly improving 	<ol style="list-style-type: none"> 5. Continue working on institutional framework improving the SME related laws and laws enforcement system 6. Work on information network helping its free circulating in SME sector

	No clear strategy of joining either EU integration or CIS countries' cooperation		
Related and supporting industries	<ul style="list-style-type: none"> Underdeveloped in general (But wine industry and agriculture have rather solid traditions and could be used as a basis for the other industries' development) 	<ul style="list-style-type: none"> The existing infrastructure from the Soviet Union times is still in use (electrical lines, rail way system, airports, and roads) Favourable climate for the agriculture 	<ul style="list-style-type: none"> Invest in the SME infrastructure improvement The low cost labour (even in comparison with Russia and Ukraine) could be used as an advantage to develop related industries producing products that could be easily transported to the Crimea
Domestic demand	<ul style="list-style-type: none"> Low income country – the market is still very small 	<ul style="list-style-type: none"> Gradual growth of the economy would result in the increase of the number of rich people in a country 	<ul style="list-style-type: none"> Support awareness of SME products and services inside the country by introducing new TV and radio advertising programs; sponsor the SME advertising
Global demand	<ul style="list-style-type: none"> International competition would be sharp especially with the new EU member countries like Romania with the similar climate and structure of industries 	<ul style="list-style-type: none"> Economic growth and increasing size of the middle class and market in Russia Enlarging EU community 	<ul style="list-style-type: none"> Support awareness of domestic SME products and services abroad through the sponsorship of their participation in international exhibitions
SME strategy, structure and rivalry	<ul style="list-style-type: none"> No natural or competitive advantages against Romania for penetration the EU market Corruption and shadow economy SME sector and its internal rivalry is underdeveloped No strategy for the gradual change in protectionist policy on a state level 	<ul style="list-style-type: none"> Low barriers for exit and growing state support could be an attractive feature of the SME sector in Moldova 	<ul style="list-style-type: none"> Develop the strategy for gradual adjustment of protectionism and stimulation of competition in the country Build a state level strategy to support the SME cooperation with the partners from the other states.

4.4 RUSSIA

Table 15.

Dimensions	Negatively affecting	Positively affecting	Suggestions
Demographic	<ul style="list-style-type: none"> • Aging of the population • Population decline in general • Intensive urbanization (negative for agricultural businesses) 	<ul style="list-style-type: none"> • Large number of immigrants • Immigration is almost stopped • Intensive urbanization (concentrated demand for the services and SME products) 	<ul style="list-style-type: none"> • State policy to support of a population growth (already in place)
Socio-cultural	<ul style="list-style-type: none"> • Not friendly to SME sector employees retirement and health care systems • Less uncertainty accepting than Ukrainians, and Moldavians 	<ul style="list-style-type: none"> • Highly educated labour 	<ul style="list-style-type: none"> • Correction of the medical care system and retirement plans for self-employed and SME employed people
Political/legal	<ul style="list-style-type: none"> • Closeness of Chechnya to the Black Sea Region • Still weak institutional "diffusion" • Low level of advantages for SME businesses proclaimed in the legislative system • Strongest lobbying of large companies' interests against SME sector • Increasing centralization of political power • Underestimation of the SME role in the economy by politicians • Corruption and low transparency of legislative system • Complex relationship with the neighbouring countries 	<ul style="list-style-type: none"> • Political and administrative stability • Legislative base for successful SME development is created and is continuously improving • Multiple SME regional associations all over Russia • Funds and state programs of financing SME needs • Increasing attention to the system of monitoring and legislative control • Fight against corruption began 	<ul style="list-style-type: none"> • Diversify financial opportunities for SME sector • The high priority should be given to cooperation SME development projects with the neighbouring countries in the Black Sea Region • Stimulate on the state level the development of the SME business infrastructure (associations, foundations, funds, consortiums, and strategic alliances) • Develop electronic submission for the majority of documents for SME; and a feedback e-system for each official to avoid corruption and bribes
Macroeconomic	<ul style="list-style-type: none"> • Part of the former centrally planned economy • Over-concentration of the former SU economy resulted in the lack of a state attention to the SME in the recent past sector problems • Shadow economy • The economy heavily depends on gas and oil 	<ul style="list-style-type: none"> • Middle income country • GDP growth • Financing opportunities for SME are slightly growing • Positive image of an attractive zone (Black Sea Region) for international investments will benefit a lot from the Sochi 	<ul style="list-style-type: none"> • Develop favourable and transparent taxation system for SME sector • Attract FDI flow to the SME sector by announcing international tenders and/or national programs

	<p>industries</p> <ul style="list-style-type: none"> • Still low level of SME cooperation with partners from other countries • Not favourable taxation system for SME sector fast growth 	<p>Olympic Games activities</p> <ul style="list-style-type: none"> • More attention is paid to SME sector by economic policy makers • Investment climate is getting more favourable for investing in SME sector • Growing potential demand for SME products and services • SME are undertaking attempts to internationalization 	
<p>Technological: Internet accessibility, high-tech developments, knowledge and information transfer infrastructure, time of technology innovation implementations, the state support of the idea of business incubators, willingness of the banking and insurance industries to coop with SME sector</p>	<ul style="list-style-type: none"> • Internet access - still not close to the developed nations • Financing opportunities for SME innovative technology projects are much lower than the demand • Limited options for long-term financing 	<ul style="list-style-type: none"> • Internet accessibility in the large cities is growing fast • Slightly growing domestic customer demand for high tech SME products • Fast development of communication technologies • Financial support of "business incubators", and "technological parks" • Traditions and existing from the Soviet times infrastructure • Venture capitalists are coming to Russia • Large companies are interested in financing high tech SME projects • Slight positive change of the banking and insurance companies' attitudes to SME innovative projects • Committees on innovations established in many regions reporting to Presidents and Gubernators 	<ul style="list-style-type: none"> • State and private capital support for R&D activities in SME sector • Improving the information network for SME needs • Sponsoring of IT training for SME • Develop a special body (maybe under the umbrella of Russian Chamber of Commerce) helping the high tech SME products to sell abroad
<p>Global</p>	<ul style="list-style-type: none"> • Sharp international competition in the area of SME products • Centralization trend in the economy in general increasing the bureaucracy and limiting further opportunities for international cooperation on a company level 	<ul style="list-style-type: none"> • Implementation of WTO principles • International integration, and knowledge transfer 	<ul style="list-style-type: none"> • Knowledge transfer programs; seminars; roundtables

Factors	Negatively affecting	Positively affecting	Suggestions
Country factor endowments	<ul style="list-style-type: none"> Culturally are less entrepreneurial than peers Closeness of Chechnya 	<ul style="list-style-type: none"> High level of education of a labour including SME managerial education Great natural environment of a Black Sea coast Massive immigration from the more entrepreneurial cultures 	<ul style="list-style-type: none"> Develop national program and build on national absolute advantage of a unique climate zone and Black Sea conditions Increase the support of environment friendly SME businesses in the region
Country institutional framework (see analysis on political/legislative dimension)	<p>7. Incomplete institutional framework with slowly developing system of law enforcement and control</p> <p>8. Some political issues involved in the relationship with Ukraine and Moldova</p>	<p>9. Stable political and administrative systems</p> <p>10. Gradual change to the more "balanced" model of economic development with a growing attention to the SME needs</p> <p>11. In general the legislative system for the SME businesses development is already created and improving</p> <p>12. Internationalization strategy is understood as a future perspective by the majority of SME managers and municipal officials in the Black Sea Region</p>	<p>13. Continue working on institutional framework improving the SME related laws and laws enforcement system</p> <p>14. Work on information network helping its free circulating in SME sector</p>
Related and supporting industries	<ul style="list-style-type: none"> Underdeveloped 	<ul style="list-style-type: none"> Municipal and Federal government has a complex approach for the Black Sea development of SME sector, including involvement in the preparation for Olympic Games and managerial education The existing infrastructure from the Soviet Union times is still in use (electrical lines, rail way system, airports, and roads) Favourable climate for the agricultural industry Growing interest of the banking and insurance to the SME 	<ul style="list-style-type: none"> Invest in the SME infrastructure improvement

		sector development in the region	
Domestic demand	<ul style="list-style-type: none"> • Still not many people who can afford the trips • Relatively to Turkey and other tourism oriented countries and regions the quality of services and products is rather low 	<ul style="list-style-type: none"> • The growing number of rich people in the country, and primarily the size of the middle class • Long lasting tradition for people from Russia's Northern territories to spend vacations on a Sea cost • Olympic Games related activities would enlarge the demand in times 	<ul style="list-style-type: none"> • Support awareness of SME products and services inside the country by introducing new TV and radio advertising programs; sponsor the SME advertising
Global demand	<ul style="list-style-type: none"> • International competition would be sharp especially with Bulgaria, Greece and Turkey with the similar climate and even more developed structure of industries 	<ul style="list-style-type: none"> • Enlarging EU community • Olympic Games would attract capital and travellers, increase the publicity of the region in times 	<ul style="list-style-type: none"> • Support awareness of domestic SME products and services abroad trough the sponsorship of their participation in international exhibitions
SME strategy, structure and rivalry	<ul style="list-style-type: none"> • Corruption and shadow economy • SME sector and its internal rivalry is still underdeveloped • No strategy for the gradual change in protectionist policy on a state level 	<ul style="list-style-type: none"> • Low barriers for exit and growing state support could be an attractive feature of the SME sector in Russian Black Sea region • Differentiation strategy to compete with Turkey (the major growth in the segment that is oriented on domestic tourists) 	<ul style="list-style-type: none"> • Develop the strategy for gradual adjustment of protectionism and stimulation of competition in the Black Sea territories of the country

4.5. UKRAINE

Table 16.

Dimensions	Negatively affecting	Positively affecting	Suggestions
Demographic	<ul style="list-style-type: none"> • Aging of the population • Population decline in general • Large number of workers abroad • Immigration 	<ul style="list-style-type: none"> • More or less stable in disposition of ethnic groups 	<ul style="list-style-type: none"> • State policy to support of a population growth
Socio-cultural	<ul style="list-style-type: none"> • Not friendly to SME sector employees retirement and health care systems • Crimea – is a multiethnic region with the complex inter-group relationships 	<ul style="list-style-type: none"> • Well educated labour • More uncertainty accepting than Russians 	<ul style="list-style-type: none"> • Develop the system of non-certificate and for degree managerial education • Correction of the medical care system and retirement plans for self-employed and SME employed people
Political/legal	<ul style="list-style-type: none"> • Political instability • Internal conflict between major political groups • Immature legislation control • Low level of advantages for SME businesses proclaimed in the legislative system • Strong lobbying of large companies' interests against SME sector • Underestimation of the SME role in the economy by politicians • Corruption and low transparency of legislative system • Complex relationship with the neighbouring countries 	<ul style="list-style-type: none"> • Legislative base for successful SME development is created and is improving • Funds and state programs of financing SME needs 	<ul style="list-style-type: none"> • Diversify financial opportunities for SME sector • The higher priority should be given to cooperation SME development projects with the neighbouring countries and others • Stimulate on the state level the development of the SME business infrastructure (associations, foundations, funds, consortiums, and strategic alliances) • Develop electronic submission for the majority of documents for SME; and a feedback e-system to avoid corruption and briberies
Macroeconomic	<ul style="list-style-type: none"> • Low income country • Part of the former centrally planned economy • Over-concentration of the former SU economy resulted in the lack of a state attention to the SME sector problems • Shadow economy • Investment climate is not favourable for 	<ul style="list-style-type: none"> • GDP growth • Financing opportunities for SME are slightly growing • More attention is paid to SME sector by economic policy makers • Growing potential demand for tourism in Russia (for Crimea region) • Growing opportunities 	<ul style="list-style-type: none"> • Develop favourable and transparent taxation system for SME sector • Attract FDI flow to the SME sector by announcing international tenders and/or national programs

	international investments <ul style="list-style-type: none"> • Government is not supportive for SME cooperation with partners from other countries • Not favourable taxation system for SME sector fast growth 	for cooperation with Russian companies, and financing from Russia	
Technological	<ul style="list-style-type: none"> • Low level of Internet access • Financing opportunities for SME innovative technology projects are much lower than the demand • Limited options for long-term financing • Low domestic customer demand for high tech SME products 	<ul style="list-style-type: none"> • Internet accessibility in the large cities is growing • Fast development of communication technologies • Traditions and existing from the Soviet times infrastructure • Large companies are interested in financing high tech SME projects 	<ul style="list-style-type: none"> • State and private capital support for R&D activities in SME sector • Creation of information network for SME needs • Sponsoring of IT training for SME • Develop a special body helping the high tech SME products to sell abroad
Global	<ul style="list-style-type: none"> • Sharp international competition in the area of SME products and services 	<ul style="list-style-type: none"> • Implementation of WTO principles • International integration, and knowledge transfer 	<ul style="list-style-type: none"> • Knowledge transfer programs; seminars; roundtables

Factors	Negatively affecting	Positively affecting	Suggestions
Country factor endowments	<ul style="list-style-type: none"> • Culturally very diverse Crimean population. Hidden ethnical problems. 	<ul style="list-style-type: none"> • High level of education of a labour • Great natural environment of a Black Sea coast 	<ul style="list-style-type: none"> • Develop national program and build on national absolute advantage of a unique climate zone and Black Sea conditions • Create a State program of retraining SME managers
Country institutional framework (see analysis on political/legislative dimension)	<p>4. Sever, and often internal fights between the major political groups that mess up the work of the government</p> <p>5. Incomplete institutional framework with an immature system of law enforcement and control</p> <p>Some political issues involved in the relationship between Russia and Ukraine when discussions on Crimean future happen</p>	<p>6. In general the legislative system for the SME business development is already created and slowly improving</p> <p>7. Strategically position themselves as participants of European integration process</p>	<p>8. Continue working on institutional framework improving the SME related laws and laws enforcement system</p> <p>9. Work on information network helping its free circulating in SME sector</p>
Related and supporting industries	<ul style="list-style-type: none"> • Underdeveloped 	<ul style="list-style-type: none"> • The existing infrastructure from the Soviet Union times is still in use (electrical lines, rail way system, airports, and roads) • Favourable climate for 	<ul style="list-style-type: none"> • Invest in the SME infrastructure improvement

		the agricultural industry	
Domestic demand	<ul style="list-style-type: none"> • Low income country - not many can afford the trips • Relatively to Turkey and other tourism oriented countries and regions the quality of services and products is rather low 	<ul style="list-style-type: none"> • The growing number of rich people in the country • There is a tradition from the Soviet times to have vacations on a sea cost 	<ul style="list-style-type: none"> • Support awareness of SME products and services inside the country by introducing new TV and radio advertising programs; sponsor the SME advertising
Global demand	<ul style="list-style-type: none"> • International competition would be sharp especially with Bulgaria, Greece and Turkey with the similar climate and even more developed structure of industries 	<ul style="list-style-type: none"> • Economic growth and increasing size of the middle class and market in Russia • Enlarging EU community 	<ul style="list-style-type: none"> • Support awareness of domestic SME products and services abroad through the sponsorship of their participation in international exhibitions
SME strategy, structure and rivalry	<ul style="list-style-type: none"> • Corruption and shadow economy • SME sector and its internal rivalry is underdeveloped • No strategy for the gradual change in protectionist policy on a state level • No clear strategy of a SME sector regarding competition with Turkey, Greece and Bulgaria in the tourism related industries 	<ul style="list-style-type: none"> • Low barriers for exit and growing state support could be an attractive feature of the SME sector in Ukraine 	<ul style="list-style-type: none"> • Develop the strategy for gradual adjustment of protectionism and stimulation of competition in the Black Sea territories of the country

Appendix: Data used for the analysis

Moldova

National Bureau of Statistics: <http://www.statistica.md/dates.php?lang=en>

UNECE: <http://www.unece.org/indust/sme/moldova.htm>

UN: <http://unstats.un.org/unsd/industry/meetings/eg2005/AC105-22.PDF>

Russia

Russian SME Resource Center: <http://www.rcsme.ru/>

American-Russian Business Council: <http://www.russiancouncil.org/reports/Hell1.htm>

Russian Microfinance Center: <http://www.rmcenter.ru/en/news/detail.php?ID=2342>

Federal State Statistics Service: <http://www.gks.ru/wps/portal/english>

Ukraine

World Bank:

http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/UKRAINEEXTN/0,,menuPK:328560~pagePK:64026187~piPK:141126~theSitePK:328533_00.html

UNRCE: <http://www.unece.org/indust/sme/ukraine.htm>

State Statistic Committee of Ukraine: <http://www.ukrstat.gov.ua/>

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5. PREVENTING CONFLICT IN CAUCASUS VIA ENTREPRENEURSHIP AND SME DEVELOPMENT – REVIEW OF THE SME SECTORS IN ARMENIA, AZERBAIJAN AND GEORGIA ²¹

5.1 CHARACTERISTICS OF THE CAUCASIAN TRANSITION ECONOMIES

The three countries of the South-Caucasus: Armenia, Azerbaijan and Georgia lie to the south of the principal Caucasian mountain range, and situated on the crossroads between Europe and Asia they absorbed the culture of both and cannot to this day decide with which they have greater affinity. All three were absorbed after 1917 by the Soviet Union and were made to bear the effect of 70 years of Soviet rule. Together with the other republics they gained independence in 1991.

Armenia was highly industrialized and specialized in high technology sectors, such as chemicals, electronics, software and engineering, whose production was exported to the other Soviet Republics, making Armenia vulnerable to events elsewhere. Human capital was highly developed, income equitably distributed, and most social indicators (life expectancy, literacy) high; business skills, however, were in short supply.

Azerbaijan was famous for its mineral resources (mainly oil and gas), with fertile agricultural land, and a well-educated labour force with a strong entrepreneurial tradition.

Georgia exported agricultural products and imported energy-intensive industrial products from respectively to the former Soviet Union and was a popular tourist destination for the region.

The Caucasus has always been considered a significant strategic and geopolitical region. And discovery of oil on the Caspian Sea shelf not only put the Caucasus on the map as one of the most economically important regions in the world. Despite these economic gains, the region continues to face ethnic problems, which may play a negative role in the oil industry, and cause great concern over the future transport of oil to the global markets. Indeed all conflicts have their historical, social, economic and other roots. Yet the ongoing ethnic conflict in the Caucasus is the result of other, specific geopolitical factors. As a bridge between Asia and Europe, the Caucasus is also a frontier separating Christian and Muslim worlds. For a long time,

²¹ Prepared by Dr. Antal SZABÓ, UNECE retired Regional Adviser on Entrepreneurship and SMEs and Dr. Anna Petrosyan, Expert of the SME Department of the Ministry of

the region was the site of fighting between the empires. The influence of different, sometimes conflicting imperial and religious interests would have been sufficient factors prompting the current ethnic conflicts in the Caucasus, even if the region was mono-ethnic. Yet, the Caucasus is one of the most poly-ethnic regions in the world, comprising many ethnic groups that have uniquely different languages, religions and political orientations. Political and ethnic boundaries that do not coincide with each other, however, complicate the regional situation.

The former Soviet Union bequeathed a number of problems to the Caucasus countries, including artificially drawn national borders and centrally planned economies that were heavily dependent on Russia. Even before Azerbaijan and Armenia declared independence, fighting broke out in 1988 between the then-Soviet republics over the disputed area of Nagorno-Karabakh, and separatist conflicts sparked in Georgia soon after independence. Some of the regional conflicts that flared in different parts of the Caucasus throughout the 1990's are now dormant, but few have been officially resolved.



Source: UNECE database

Upon independence these countries were saddled with distortion typical of centrally planned economies-economic distortion and contraction, deterioration in social services and infrastructure, loss of traditional markets and a rise in poverty. Prices and wages were set administratively; trade and distribution were conducted by government monopolies, and the most enterprises were state-owned. Because activity was mainly directed from Moscow, government and enterprise capacity was quite limited.

Current government social economic policies aim at accelerating structural reforms and keeping the economies on a sustainable growth path while improving social security provision. Appropriate development strategies to create employment and eliminate poverty have to be adopted.

In consequence of several efforts by PERMIS BSEC, UN and other international organizations, the Konrad Adenauer Foundation, GTZ etc. the stakeholders slowly started to understand the role of the entrepreneurship in these three countries, however, from political reason they are still far from a crystal-clear triad.

5.2 DEVELOPMENT OF THE SME SECTOR IN ARMENIA ²²

5.2.1. SME Sector Development

Recognizing the need for the pursuit of the social-economic, well-being, given the significant role and strategic meaning of small and medium entrepreneurship (SME) in the economic development, enhancement of employment and living standards, formation of the middle class as well as in ensuring social and political stability in the country, the Government of the Republic of Armenia has declared this sector as one of priorities in economic development thus acting towards creation of sound support system for this sector.

Although the SME state policy-making in Armenia has a short history, indeed it is characterized with specific developments, having significant influence on almost all elements of the country's economic structure. Due to the Government activities undertaken towards development of this sector, particularly during the recent 5-6 years number of positive changes has taken place. Implementation of reforms targeted at the formation of SME development and support system gave an opportunity to introduce key principles and mechanisms into national economy, necessary for consistent implementation of the state policy.

Since 2000 the legal environment for SMEs has been created. The legislative basis for SME development state policy is the "Concept for SME Development Policy and Strategy in Armenia" adopted by the Government in 2000, which has stipulated economic, social and political objectives of SME development policy in the country and the main directions for their realization.

The adoption of this document served as a precondition for drafting the Law of the Republic of Armenia on "State Support of Small and Medium Entrepreneurship", which was adopted by the National Assembly of Armenia in December 2000. The adoption of the Law solved two major problems. It defined, that commercial companies and sole proprietors employing appropriate average number of employees as shown in Table 17. are classified as SMEs.

Table 17.

The criteria for SME definition in Armenia ²³

Sector	Classification	SMEs		
		Micro (number of employees)	Small (number of employees)	Medium (number of employees)
Industry and other sector of production		5	50	100
Construction and power engineering		5	25	50
Science and education		5	25	50
Transport, trade and services		5	15	30

The above-mentioned Law determines the main directions and mechanism for SME state support as follows:

²² Prepared by Anna **PETROSYAN**, PhD of Economics, Chief Specialist, Department for SME Development, Ministry of Trade and Economic Development of the Republic of Armenia

²³ Law of the Republic of Armenia on "SME State Support" Article 2: SMEs. The concern of companies to SMEs running their activity simultaneously in different sectors is determined by criteria of prevailing sector of activity. Organizations engaged in crediting, insurance and investment activities, lombards, security market professional actors, casinos, and organizations involved in gambling business, as well as subsidiary and dependant units are not considered as SMEs.

- Formation of favorable legal environment;
- Financial and investment support and provision of loan guarantees;
- Assistance for creation and development of support infrastructures;
- Business information and consultancy support;
- Promotion of foreign economic activities;
- Support for application of innovations and modern technologies;
- Performance of favorable tax policy;
- Vocational education and training;
- Creation of simplified systems for statistic reports and accountancy;
- Support for procedure for performance of state purchasing.

Besides, since 2000 other laws, governmental decrees and other legal acts have been adopted in concern to entrepreneurship and SMEs, particularly: the Laws on "Simplified Tax", "Protection of Internal Market", "State Registration of Legal Entities", "Sole Proprietorship", "Licensing", "Protection of Economic Competition", "Limited Liability Companies", "Joint Stock Companies", "Trade and Services", as well as some other strategic documents "Regional Economic Development Strategy of Armenia", "Concept for Handicraft Development of Armenia", "Food Security Policy of Armenia", "Poverty Alleviation Strategic Program of Armenia" etc.

According to the Law on SME State Support" since 2001, the Government of the Republic of Armenia has elaborated SME state support annual programs, the main purpose of those is to continuously affect the enhancement of SME role in the social-economic and regional developments of the country. The funding for the programs is made from the state budget outlined with a separate item line. Besides, international/foreign organizations each year provide financing to enlargement of the scope for implementation of SME state support annual programs.

Taking into account the content and implementation policy of the programs one can find an obvious progress in support volume and directions for various years' programs, as well as selection of more targeted tools for their implementation.

The SME state support annual programs contain a number of measures towards financial (provision of loan guarantees to SMEs, financial support to start-ups) and technical (information, counseling, training support, assistance for application of ISO 9000 quality control standards, innovations into SMEs, assistance to Start-ups, assistance to promote good/services into markets etc) support. In the scope of these programs the preference is given to support of SMEs engaged in production, applying innovations and high technologies and having export potential as well as preference is given to development of entrepreneurial initiatives of start-up businesses, women, unemployed, disabled persons and refugees.

It is worth to mention, that since 2004 the essential part for implementation of the program has been directed to support of operating and start-up SMEs outside Yerevan City: in the regions (marzes) of the Republic of Armenia, mostly in distant and border-close settlements.

One of the essential achievements is the formation of the key structure responsible for implementation of SME state support annual programs in Armenia, the Fund "Small and Medium Entrepreneurship Development National Center of Armenia" (SME DNC of Armenia)²⁴.

²⁴ SME DNC of Armenia was established under the Government Decree (Decree N 282 19.03.2002) within the framework of SME State Support Program for 2002, as a program measure.

General Characteristic of SME Development

At present the SME development has shifted to a qualitatively new stage, when state support system in this direction is being developed and strengthened, volumes and geography of financial and technical support provided to SMEs have been expanded, mechanisms and procedures for their provision have been improved.

As a result of consistent policy towards the SME state support a dynamic growth of indicators describing the SME sector has been recorded. In 2006, the share of SME in the country's Gross Domestic Product (GDP) composed 40.3% ²⁵ almost twice exceeding the level of 2000. The dynamics of the SME's share in the country's GDP for 2003-2006 is illustrated by Chart 1. ²⁶

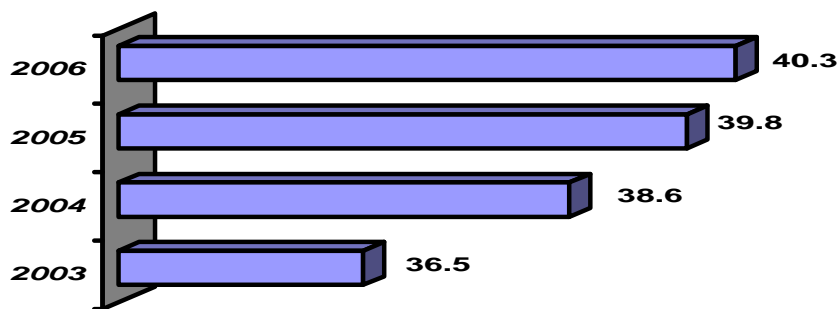


Chart 1: The share of SME sector in the country's GDP: 2003-2006 (%)

SMEs operate in all economic areas of Armenia, covering the sectors of trade and services as well as utilization of high technology and industries with scientific output thus accounting for 97-98% of Armenian economic units.

It is quite notable that the number of SMEs is increasing year by year. It's essential the role of SMEs as for creation of new job places. Since 2003, more than 40,000 SMEs have been established which have provided about 100,000 new jobs. It is worth to mention that only in 2006 in the result of new established SMEs as well as expansion of activities of operating ones more than 20,300 new jobs were created. The 50.2% of the new created jobs consider to the regions of Armenia and 49.8% to Yerevan city. ²⁷

It was registered stable growth of the SME's share in the total employment composing 35.1% in 2006. The dynamics of the mentioned indicator for 2003-2006 is shown in Chart 2. ²⁸

²⁵ Excluding net taxes and agriculture because of the absence of truthful estimation in these sectors.

²⁶ "SME Sector in Armenia: 2003-2004" Reference Book, page 8; "SME Sector in Armenia: 2005-2006" Reference Book, page 35. SME DNC of Armenia.

²⁷ "Report on Activities of SME Development National Center of Armenia in 2006", SME DNC of Armenia, page 8.

²⁸ SME Sector in Armenia: 2003-2004 " Reference Book, page 19; " SME sector in Armenia: 2005-2006" Reference Book , page 46. SME DNC of Armenia.

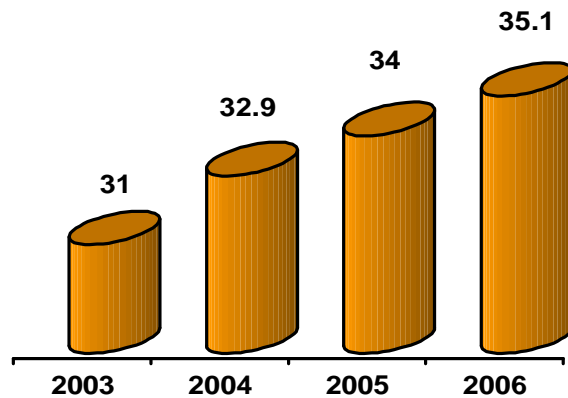


Chart 2: Share of SME sector's employees in number of economically active population engaged in economy, 2003-2006 (%)

Figures in Table 18. illustrate the share of SMEs in foreign trade turnover for 2003-2006. ²⁹

Table 18.

Share of SMEs and large enterprises in foreign trade turnover for 2003-2006 [%]

Indicator	2003		2004		2005		2006	
	SMEs	Large	SMEs	Large	SMEs	Large	SMEs	Large
Export	14.3	85.7	15.7	84.3	16.4	83.6	16.9	83.1
Import	31.6	68.4	34.8	65.2	36.3	63.7	36.8	63.2

According to statistical analysis, in 2006 the participation of SME sector in export reached to 16.9%, although large enterprises are still dominating in foreign trade. Considering this issue it should be argued that one of the main reasons of the SME's low share in the mentioned macroeconomic indicator is connected with orientation to internal market, since generating part of Armenian SMEs is not able to satisfy the main requirements of external markets and continuously faced with number of obstacles created mostly by legislative and bureaucratic features of export-import procedures.

Index of SME Development in Armenia as an overall (aggregate) economic indicator, which was estimated according to methodology determined by the United Nations Economic Commission for Europe (UNECE), according to data for 2006 has composed 237.2: compared with the level of 2003 it has increased about 3 times. The dynamics of the Index for 2003-2006, is shown in Table 14. ³⁰

²⁹ SME sector in Armenia 2003-2004 “, “ SME sector in Armenia 2004-2005”, “ SME sector in Armenia 2005-2006” Reference Book , SME DNC of Armenia

³⁰ SME sector in Armenia 2003-2004“, “ SME sector in Armenia 2004-2005”, “SME sector in Armenia 2005-2006” Reference Book , SME DNC of Armenia

Table 19.

Index of SME Development in Armenia, 2003-2006

Year	Share of Private Sector in Total Economy [%]	Share of SME Sector in GDP [%]	Share of Number of Employees in all SMEs Compared to Total Number of Employees in the Economy as a Whole [%]	GDP [USD/capita]	Index of SME Development [USD/SME]
2003	83	36.5	31.0	873.4	82.0
2004	84	38.6	32.9	1,104.1	117.8
2005	84	39.8	34.0	1,513.0	171.9
2006	84	40.3	35.1	1,996.0	237.2

5.2.2. Legislation and steps of doing Business in Armenia ³¹

In order to launch an entrepreneurial activity in the Republic of Armenia it is necessary to register as a commercial legal entity (LE) or sole proprietor (SP).

It is comparatively easy to register as a sole proprietor in regard with required documents, cost and duration. In general for SP registration it is required to pay AMD 3000 as a registration fee and fill in an application form and submit it to the State Registry. The registration certificate for SP is given during 2 days.

In Armenia there are various types to register as commercial legal entities, such as production cooperatives, companies (Limited liability companies (LLC), Supplementary liabilities companies (SLC), Joint stock companies (JSC)) and commercial partnerships (full partnership (FP) and limited partnership (LP)). For registering as a commercial legal entity it is required: to pay AMD 5,000 to any bank as a state duty in order to register the name of the company; to pay AMD 12,000 to the appropriate account in order to register the company at the State Registry. Registering the company name takes 2 days. After obtaining necessary documents, a registration application should be submitted to the State Registry and during 5 working days the company's registration certificate is given.

Regardless the fact whether a company or a sole proprietor was registered, their names should be officially recorded at the State Tax Service in 30 days after registration in order to obtain a taxpayer's ID number (TIN), thereafter, to be recorded at the Social Security Fund requires submitting the copy of registration certificate and the TIN. After accomplishing the above-mentioned steps, the LE seal should be obtained which is not obligatory for SPs.

By estimation of the World Bank for launching a business for commercial legal entities it is required 9 steps and 18 days. The steps include registering the name of the company at the State Patent Department (2 days), Procuring a written statement of deposited charter capital at a bank (1day), obtaining a Registration Application from the State Registry Office and filling it out (1 day), paying the registration fee at any bank (1 day), registering with the State Registry (7 days), registering with tax authorities and obtaining a TIN (2 days), obtaining a right at the National Police Department to order a seal for all official company transactions (1 day); order a seal (2 days), registering with statistical office (1 day). The fee to be paid at the National Police Department for ordering a seal compose AMD 6000 and the seal cost varies between AMD 10,000 and 20,000.

³¹ www.doingbusiness.org; "SME sector in Armenia:2005-2006, Reference Book, pages 4-34, SME DNC of Armenia

If the entrepreneurial activity requires licensing, it is necessary to apply to the appropriate licensing body to obtain the license. The types of activities subject to licensing are defined by the Law on "Licensing". There are two types of licenses. Simple license, which is given by the Ministry of Finance and Economy within 3 days since submitting the necessary documents. Normally, the type of this license is obtained for an indefinite period of time without consideration by the licensing commission. Compound license is given for an indefinite period of time, unless otherwise is specified by law. The license is issued within 30 days of submitting the application after consideration by special licensing commission, which may be composed by the representatives of various agencies and ministries. It must be said that the documents for obtaining the license are exact and not many.

Notwithstanding the chosen form of registration, in case of implementing export or import transactions it is also necessary to be registered at the State Customs Committee. The customs clearance procedures of exported or imported goods are carried out at the custom-house of the region where the company was registered.

One of the most important issues to launch entrepreneurial activity are endeavors dealing with the procedures, time, and costs to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections. In general, there are about 19 requirements, the satisfaction of which takes around 214 days. These include applying and obtaining architectural-constructional assignment (38 days), requesting and obtaining technical conditions approval from water authority (20 days), architectural plan approval from telecommunications provider (7 days), architectural plan approval from electricity provider (17 days), expertise approval of architectural drawings (20 days); submitting Architectural Drawings after Expertise Approval to the Municipality and obtaining building permit (22 days), requesting ground work inspection from licensed Geologist (1 day), receiving foundation inspection (1day), frame inspection (1day), roof inspection (1 day), requesting and connecting to electricity services (10 days), requesting water and sewage services (9 days), receiving water and sewage inspection and connecting (1 day), requesting and connecting to telephone (8 days), requesting and obtaining completion of construction certificate (14 days), requesting final inspection from the municipality and applying for occupancy permit (28 days), receive on-site final inspection and obtaining occupancy permit (1 day), registering the building with the Cadastre (14 days), Receiving on-site inspection for building registration (1day).

One of the important steps of doing business is registering property. To this concern first the seller should obtain a special reference on restrictions towards the property at the appropriate local office of the State Committee of the Real Property Cadastre within 2-3 days. The total cost to complete the procedure is AMD 19,000. The second requirement is to make payment of stamp duty (for notarization) and notarization of sale-purchase agreement by public notary within one day. The cost is AMD 20,000 (Stamp duty for Notarization and Notary's fees). After it the local office of the Cadastre registers the title and provides a registration certificate to the new owner. For this is needed 2-7 days (7 days regular procedure and 2 days the fastest). The cost is AMD 40,000 (Stamp duty for registration) + AMD 10,000 (registration fee) + AMD 1,000 (cost of cameral works) + AMD 3 per square meter (cost of measurement works for land) + AMD 20 per square meter (cost of measurement works for buildings and constructions).

Ease and convenience of doing business in any country is closely related to the issues of protecting investors. There are some dimensions of investor protection: transparency of transactions, liability for self-dealing, shareholders' ability to sue officers and directors for misconduct, which define the strengths for investor protection. It is worth to mention that in Armenia the existing mechanisms for investor's protection are not strong and capable yet. There is much to do to achieve notable results in this area.

The same problem exists in getting credits mainly conditioned with absence of long-term loans, high interest rates, strict requirements of banks for getting loan etc.

The most important part and at the same time the sharpest problem of doing business in Armenia is paying taxes. It is conditioned by the number of taxes, duties that the company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes, which include the number of payments an entrepreneur must make; number of hours spent preparing, filing, and paying and the high percentage of their profits they must pay in taxes. The taxation system in Armenia consists of direct taxes, including those that spend upon the result of the taxpayer's activities (land tax and property tax), indirect taxes (value-added tax, excise tax), as well as of payments substituting taxes (simplified tax, which substitutes to value-added tax, income tax or profits tax for the taxpayers; fixed payments which substitute to the value-added tax, excise tax and –for some of the taxpayers-the income tax and profits tax). In general there are 50 payments during the year have to deal with. It takes 1.120 hours to pay taxes, duties, which compose 36.6% of the profit (from which profit tax compose 12.1%, labor tax and contributions 23.4% and other taxes 1.1% of the annual profit).

One of the most important components of doing business is dealing with trading across borders, which is considered complicated and costly procedure especially for SMEs. The costs and procedures involved in importing and exporting a standardized shipment of goods are the following every official procedure for import and export involved is recorded – starting from the final contractual agreement between the two parties, and ending with the delivery of the goods. For export procedure 30 days and 7 documents (bill of lading, commercial invoice, customs export declaration, export license, packing list, technical standard/health certificate, transit document, and consignment note) are required. For the import procedure 24 days and 8 documents (certificate of origin, commercial invoice, customs import declaration, customs transit document, packing list, technical standard/health certificate, terminal handling receipts, transit document, consignment note) are required.

One of the components of doing business is enforcing commercial contracts. This is determined by evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment. The procedures dealing with this issue are 50 and it is needed 285 days. Part of the business is closing the business. It takes 1.9 years and 4% of income per capita to resolve bankruptcies.

According to the WB annual report on "Doing Business in 2007", among 176 countries Armenia is on the following rank.³²

Table 20.

No	Doing Business	Rank
1	Ease of Doing Business Rank	39
2	Starting a Business	47
3	Dealing with Licenses	73
4	Employing Workers	48
5	Registering Property	2
7	Getting Credit	36
8	Protecting Investors	83
9	Paying Taxes	143
10	Trading Across Borders	118
11	Enforcing Contracts	64
12	Closing a Business	42

³² www.doingbusiness.org

5.2.3. SME support infrastructure

For better understanding the current state of the SME support infrastructure in Armenia Scheme 1 was drafted having into consideration the monitoring of organizations dealing with SME support. The more or less highlighted lines and arrows which connect rectangles in the scheme illustrate more or less effectiveness of collaboration and accessibility of support to SMEs. Likewise, more or less highlighted rectangles show the importance of the organization/institution in the field of SME support.

Creation of the SME support infrastructure in Armenia was initiated in 2002, when by the Governmental Decree the Fund" Small and Medium Entrepreneurship Development National Center of Armenia" (SME DNC of Armenia) was established.

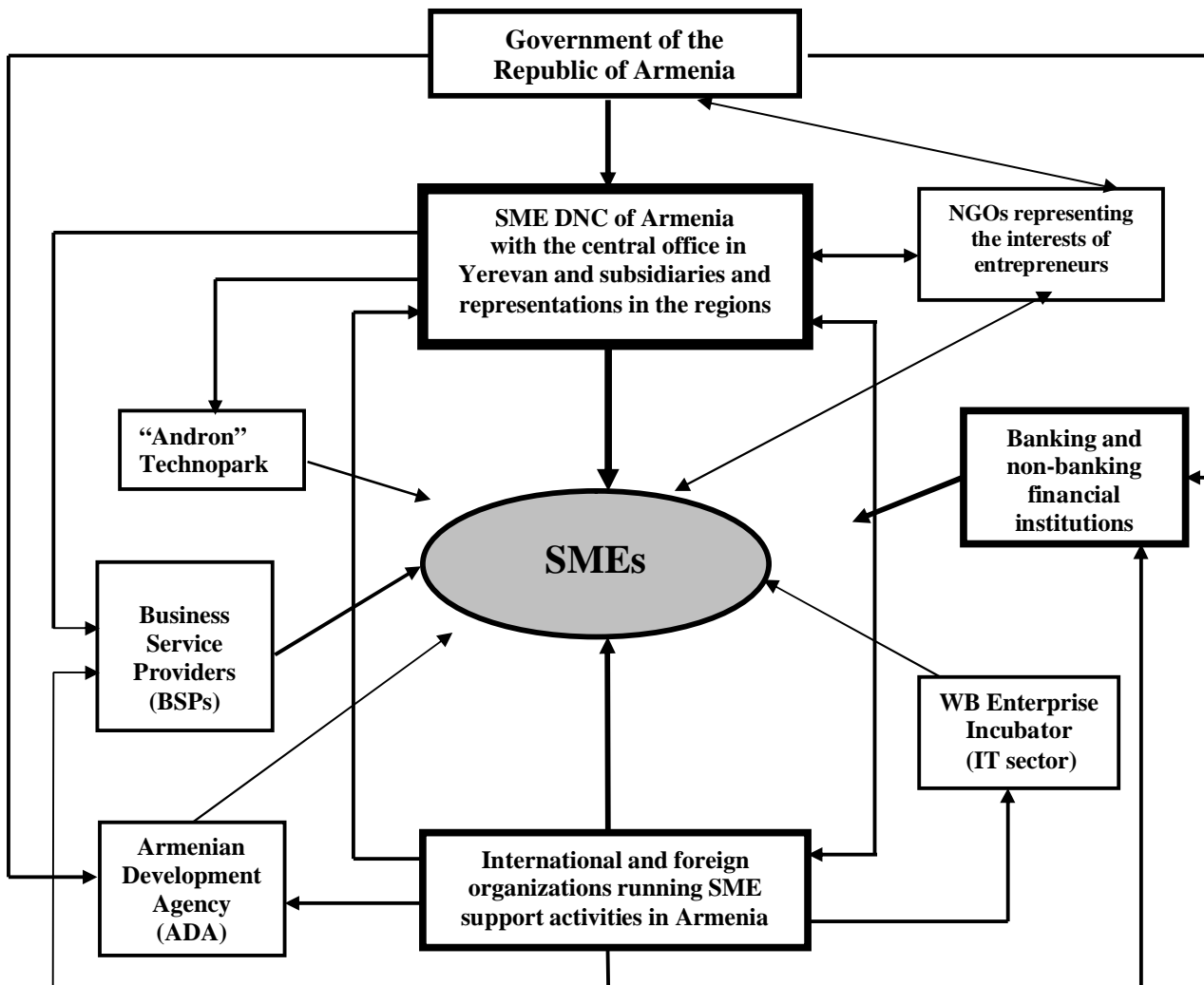
Signifying the role of SME sector in the matter for regional-economic development of the Republic of Armenia as well as taking into account the importance for provision of SME state support accessibility in the regions since 2003 subsidiaries and representations of the SME DNC of Armenia have been established in all regions thus forming a sound network for SME state support. Being so far the main structure responsible for implementation of SME state support in the country, for the last 5 years of its activity the SME DNC of Armenia has not only implemented activities envisaged by state support annual programs, but also has expanded the framework of provided support as a result of broaden cooperation with number of foreign and international organizations. Moreover, the major part of activities has been targeted to the regions of Armenia, mostly start-up SMEs in boundary and remote settlements.

Currently, the programs implemented in the framework of Center's activities, cover a broad range of actions targeted to expansion and development of entrepreneurship in Armenia, in the result of which each year thousands of SMEs receive technical and financial support envisaged by the support programs, which helps them to initiate, improve and expand their entrepreneurial endeavors.

At present NGOs, representing the interests of entrepreneurs are actively involved in elaboration process of state support programs, hence they compose a part of the SME support system in Armenia. It is worth to mention that a number of respective public organizations of private sector interests are involved in the SME DNC Board of Trustees. Besides, the Council for Entrepreneurship Support was established by the Premier-Minister of the Republic of Armenia, where a number of organizations of private sector interest and entrepreneurs are involved. Foreign and international organizations run intensive activity for implementation of programs for financial and technical support to SMEs in Armenia, which also compose a significant part of the support infrastructure. The most actives are United Nations Development Program (UNDP), Organization for Security and Cooperation in Europe (OSCE), Japan International Cooperation Agency (JICA), German Organization for Technical Cooperation (GTZ), United States Agency for International Development (USAID), United Kingdom Department for International Development (UK DFID) etc. The above-mentioned organizations actively collaborate with the State as well as other components of the support infrastructure thus creating a strong chain in the support system.

Business Support Providers (BSPs) are considered as other component of SME support infrastructure in Armenia. Some of them have active collaboration with the SME DNC of Armenia for provision of technical support services to SMEs. But it is obvious that in general services of BSPs are still unavailable for lots of SMEs having into consideration the prices, their insufficient number in the region as well as poor awareness of the key needs of SMEs for management and development.

SME support infrastructure in Armenia



It must be noted that one of the most important component for the SME support infrastructure, such a business incubators and technoparks have a quite insufficient number in Armenia. Enterprise Incubator Foundation focuses its activity on assisting Armenian technology firms in a variety of areas including business development, marketing and promotion, management, accounting and finance, legal and other directions. Taking into consideration the criteria for definition of SMEs in Armenia, it can be concluded that companies engaged in IT sector are mainly SMEs, but it is obvious that these companies by their financial results/turnover are far from being SMEs.

The “Andron” technopark, was established in the scope of the SME state support program for 2004 and during the 3 years of its activity could attract only a limited number of tenants.

Banking system is still far from being a sound part of SME support infrastructure in Armenia having into consideration the risk factor still existing while making decisions for financing SMEs. Only some banks which collaborate with the SME DNC of Armenia in terms of

financial support to SMEs can be included in the support infrastructure. Considering to non-banking financial institutions, some part of them get funding from international/foreign donor organizations which task is to support mainly SMEs.

Armenian Development Agency (ADA) mainly assists to companies, which are dealing with foreign investment and import and export activities. Hence large enterprises are still the main target of the ADA's support.

Summarizing the analysis of the SME Support infrastructure it is worth to mention that the SME support infrastructure is not complete in the country, having into consideration the absence of many important components, the absence of linkages, as well as lack of counter influence and collaboration between some components of the infrastructure, indifference and inactiveness of the banking sector to SMEs etc.

5.2.4. Financing Start-ups

Support to establishment and further development of new businesses has recently become an issue of crucial importance for Armenian economy, although until recent years there were no mechanisms for financing start-up businesses in Armenia.

Despite positive changes in the attitudes of banks, more difficult access of SMEs to loans persists. The banking sector is placing more emphasis on reducing risks in loans they grant, which is reflected in loans for SMEs. Banks concentrate on financing current operations of creditworthy SMEs and perceive increased risks in long-term loans for their investment plans.

Moreover, banks and other financial institutions operating in Armenia request to include the financial history of applicant in loan application in order to get loan. In the result of this, start-up businesses have no chance to get loan from banks.

Since 2004 the Government elaborated a program measure on support to start-ups, which initially was called "Successful Start" and had technical character (training support). For implementation of this program measure the SME DNC of Armenia has collaborated with partner international/foreign organizations, such as German Project "ProSME", UNDP through BSPs selected by tender. This program measure has been mainly implemented throughout regions of Armenia in order to even out the development imbalances between Yerevan and regions formed in the last decade. Starting from 2005 the scope of this program measure has been enlarged thus containing not only training, but also professional consulting and information components. At the ground level start-ups have been assisted by professional training courses and personal counseling in formation of a business concept and development of their own business plans. At the end of the program with more succeeded start-up businesses long-term cooperation has been conducted. According to statistics since 2004 technical support has been provided 282 start-ups, 92 of which have been registered as sole proprietors and legal entities thus initiating entrepreneurial activities in the country.

In 2006 for expansion of loaning opportunities for start-up businesses and improvement of loaning terms, the SME DNC of Armenia worked out a mechanism for provision of financial support to start-ups and herewith envisaged funding for business plans of start-ups awarded to high assessment. The loaning is performed by ACBA Credit Agricool bank, the partner bank of SME DNC of Armenia: the maximum amount is AMD 1 million (about 3200 USD), with 12% annual rate and up to 3 year repayment term. The SME DNC of Armenia provides 100% guarantee for loan obligation provided to start-up businesses.

Initially for attraction of corresponding financial means negotiations were conducted with foreign and international donor organizations and with projects implemented by them. In the result of these negotiations, for provision of financial support to start-up businesses "top capital" amounted for AMD 12 million was established. For establishment of "top capital" AMD

5 million was provided by UNDP and AMD 7 million was allocated for implementation of the Project in 2 regions of Armenia (Gegharkunik and Tavush marzes) by UK DFID. According to obtained preliminary arrangements during 2007 the "top capital" has a tendency to increase about twice.

In scope of the Project for Support of Start-Up Businesses in 2006 financial support amounted for AMD 5 million was provided by ACBA Credit Agricool bank to 6 start-up businesses.³³

5.2.5. Tasks for improvement and further development of the SME sector

So far we were talking about "evidential" achievements of the SME state policy. But there is no doubt that the real achievements of the State consider to positive changes from the SME's and macroeconomic point of view. The question is not only support to SMEs, but also to discover necessary changes in SMEs via support and development programs. It means that the real achievements of the main instruments for SME state policy, which are SME state support annual programs should be mostly connected with the positive changes in behavior of SMEs and overall social-economic situation of the country. Trying to explain the raised argument it should be implied that the agenda of building strong basis for SME state support is still not complete in the country especially in light with identifying principal tools to overcome number of problems, which still hinder sustainable development of SME sector³⁴. Moreover, among the several pressing challenges the overarching one is that of tackling financial and technical obstacles of SME sector via more efficient measures in order to sustain stability and continuous logicity of the programs. To this concern it should be mentioned that the results of the programs are not appraised in mature ways.³⁵ The monitoring of the programs only indicates the number of SMEs receiving state support and their regional and sectoral distribution as well, which is not sufficient for identifying real results of the programs. Having into consideration the fact that above-mentioned programs are the main policy tools of state policy, there is no doubt that the only mechanism "to measure" the productivity of state policy is the introduction of solid granting system for program results connected to the goals and opportunities of SME state support. Application of a robust granting practice for SME state support annual programs will assuredly create new opportunities for provision of "on demand" support to SMEs, which in turn will path a way to more efficiently utilize the potential of SME sector in light with the social-economic development of the country. It will also record the real effectiveness of the state incentive without distorting the market self-regulation system.

The long-term objectives should be set on development and support of SME sector to allow this sector to function in such a way that it contributes to improving the performance of the national economy and its competitiveness, to reducing unemployment and regional, social and economic differences as key requisites for economic development of society. For achieving this goal sustainable steps should be implemented towards strengthening and expansion of the SME support infrastructure in the country. Each endeavor towards SME development should be done mutually including all the interested parties.

³³ "Report on Activities of SME DNC of Armenia, page 19

³⁴ Along with tendency for development of this sector as a result of surveys and administrative monitoring several problems revealed that SMEs still encounter dealing with financing, tax and custom administration, difficulties for obtaining up-to date information, counseling and training support etc.

The programs have being elaborated and monitored by the Ministry of Trade and Economic Development of the Republic of Armenia. The monitoring of these programs occurs on a monthly, quarterly, semester and annual basis in the result of reporting by the SME DNC of Armenia.

³⁵ The programs have being elaborated and monitored by the Ministry of Trade and Economic Development of the Republic of Armenia. The monitoring of these programs occurs on a monthly, quarterly, semester and annual basis in the result of reporting by the SME DNC of Armenia.

One of the main preconditions to support start-ups in the country must be establishment of business incubators and technoparks for this matter attracting not only state, but also international, foreign organizations, universities, research institutions. The local authorities may assist the application of such mechanism for start-up business support in a way of providing idle areas for establishment of business incubator and thus contributing to development of cooperation between SMEs of regions and communities.

Via technoparks it will be provided an excellent opportunity for efficient application of new technologies and working out of new scientific projects, which is very important for product development or enhancement of industrial processes in the country. This matter is mutually beneficial for scientists as well as for entrepreneurs from point of view of exchange of experience and skills considering the fact that scientific projects may be applied in businesses and in their turn entrepreneurs may use the scientific projects worked out by scientists. The application of innovations and new technologies in SMEs will contribute to enhancement of competitiveness of domestic products and efficient utilization of scientific-technical results and promotion of export capacities as well.

Actions should be done to simplify and facilitate starting business by removing administrative barriers, offer education, consulting and start-up capital for necessary revival of small enterprises as a natural base for the development of the whole sector of SMEs together with promotion of positive attitude of the public to entrepreneurship. Special emphasis should be placed on support in raising capital for SMEs and combining funds from public budgets, funds from international/foreign organizations and the financial market.

To increase financial/credit opportunities for SME units as an alternative way of financial and investment support in the scope of expanding financial/credit opportunities of SME units it is essential to apply mechanisms of financial leasing and factoring operations, expand opportunities for their performance, establish investment companies, reciprocal credit unions, venture capital funds as well as develop mortgage loans practice.

One of the most important tasks should be increasing the competitiveness of SMEs and pursuing a pro-export policy together with support for perspective export segments, competitive enterprises, including simplification of the procedure of customs formulations, smoothing export procedures and administration for SMEs, creation of international links, networks and clusters of SMEs to increase exports, providing specialized services in support of exports.

Another issue for SME development in the country is reduction of tax burden for SMEs and well as simplification of tax and custom administration in the country.

International organizations could be a valuable asset in further development of country's economy and entrepreneurship as well. In this concern, SME development targeted policy and broader international cooperation will ensure prosperity of the sphere and country's economy with integration into the world economy.

Current requirements in the national economy are described with continuous changes tailored by world economy tendencies. The last ones created preconditions for reviewing legal-regulatory framework for SME sector, introduction of modern and effective criteria for SME definition, declaration of new aims and tasks for the national SME policy as a basis for further development of this sector. It must be taken into consideration that these reforms should be implemented considering volumes and particularities of the national economy as a priority.

5.3 DEVELOPMENT OF THE SME SECTOR IN AZERBAIJAN ³⁶

Today the main direction of the political and economic transformation of any country in transition period is the creation of private sector, development of entrepreneurship, establishment of small and medium-sized enterprises, elimination of unfair competition, protection from monopoly, etc.

A lot of reforms in different sectors of economy were implemented in the republic in 1991, after its independence. All property relations remained from Soviet period was replaced with new relations related to new free market economy. Only private property forms related to market economy were created in the republic and the base of entrepreneurship system were founded.

USD 17.4 billion GDP was produced in the current year, which is 32.5 % (USD 4.2 billion) more than it was last year. 72.8% of GDP has been created in production sector of the economy. 2,027.5 USD or 30.6% more product per capita was produced this year in comparison with the relevant period of last year. The output of products in industry sector has been increased by 32.7% and run up to USD 14.4 billion and its share in GDP was 60.9% in comparison with the relevant period of last year. 78.8% of industrial products was produced by private sector and has been increased by 46.5% in comparison with the relevant period of last year. The population income has been increased by 39.7% and run up to USD 9.4 billion and its amount per man has been increased by 38.1% and run up to USD 1,127.

5.3.1. SME sector development

The priority sectors of Azerbaijan economy which are suitable for establishment of business relations are production of agricultural products, processing and packaging, construction and construction products, tourism, transport, textile, communication and etc.

The beginning of economic achievements in the Republic was 20 September 1994 when the "Contract of Century" was signed in Baku. The conclusion of this contract was a signal for social and economic stability in the country and this process had a great role in attraction of direct foreign investment into the country economy. The volume of investment into the Azerbaijan economy from 1991 till 2007 is USD 42 billion. 70% of this belongs to the foreign investment. Generally, USD 4 billion was invested into the economy during 6 months of 2007.

Table 21.

The structure of investment on forms of enterprises

	2004	2005	2006
Small enterprises (%)	3,2	3,2	3,2
Medium and big enterprises (%)	96,8	96,8	96,8

But, besides all these achievements there are a lot of problems in entrepreneurship development which are waiting to be solved. They are monopolism, bureaucracy, illegal inspections, unfair competition, lack of financial resources, gap in legislative acts, unemployment and etc. Besides, the dependence of courts, lack of transparency in the activity of state organs, weakness of public control, insufficient application of antimonopoly legislation and other problems cause to burdening of population welfare, discrimination between people,

³⁶ Prepared by Prof. Alakbar **MAMMADOV**, President of the National Confederation of Entrepreneurs (Employers) Organizations of Azerbaijan Republic

increase of unfair competition, strengthening of monopolism, largening of "shadow economy" and decrease the direct foreign investment.

The legislative base of entrepreneurship development is not sufficient; there are a lot of contradictions in accepted legislative acts, the laws are violated by officials and there is no operating mechanism of accepted laws. The participation of representatives of non-governmental organizations in preparation, adoption and execution of legislative acts covering social-economic sphere isn't ensured.

The another problem of entrepreneurs is lack of financial resources. So, the credits offered by private banks are not sufficient and the rate of these credits is 18-28% which is high enough for the entrepreneurs. But, the financial resources allocated by state budget for entrepreneurship development is not enough and not all entrepreneurs can use this support. But, the rate of this credit is 7% a year which is suitable for them.

The infrastructure isn't well developed in the country. So, the situation in the regions is not satisfied. The problems with water supply, sewerage system, electricity and etc. decrease the interest of investors interested in investment in the regions. The branches of commercial banks in Azerbaijan are not sufficient in the regions and this problem creates difficulties in solution of financial problems of regional entrepreneurs.

The reforms on entrepreneurship development in Azerbaijan are being implemented as a state policy in the country. The State Program on "Small and medium sized entrepreneurship development in the Azerbaijan Republic" (2002-2005) has been successfully implemented. At the moment within the State Program on "Social-economic development of the regions of Azerbaijan Republic" (2004-2008) a lot of works have been done in the regions to open new enterprises and work places. State support mechanism for entrepreneurship development has been established, local production has been increased, and export potential of the country has been improved.

Due to the economic reforms in the country the share of private sector in GDP has been increased from 30% in 1995 to 81% in 2006. The GDP production in non-oil sector has been increased 12.1% in comparison with the previous year. 71% of employment and 53% of state budget income was ensured by the private entrepreneurial subjects.

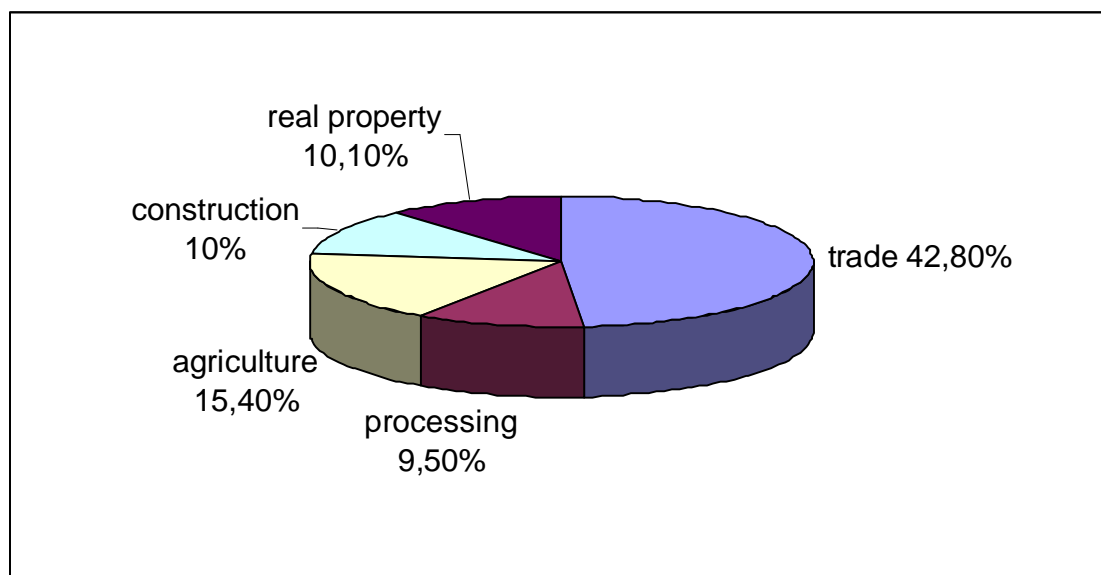
Table 22.

The place of SME sector in Azerbaijan economy

	2000	2003	2005	2006
Share of private sector in GDP (%)	70.8	73.3	77.8	81
Share of private sector in employment (%)	65.5	68.5	68.1	68

The number of legal entities engaging with the entrepreneurial activity was 55503 and 74.5% of this were small enterprises in 2006. Small enterprises are operating in the fields such as trade (42.8%), agriculture (15.4%), construction (10.7%), real property (10.1%) and processing 9.5%.

Diagram 1. The number of small enterprises [by %] as of 01.01.2007



About 407 processing, 722 construction, 500 agricultural, more than 100 trade and service enterprises were established last year and 40% of this situated in the regions. Besides, 3809 enterprises with the foreign investment were registered in 2006. The number of physical entities engaging with the entrepreneurial activity without establishment of legal person was more than 243 thousand. Generally, 15,560 new enterprises were established within last 3 years.

Table 23.

The dynamic of subjects engaging with entrepreneurial activity

	2002	2003	2004	2005	2006
Juridical persons	43,834	46,320	50,635	56,688	60,089
Physical persons	128,104	157,986	183,668	209,170	243,479
Total	171,938	204,306	234,303	265,858	303,568

The growth tendency in non-oil sector was 8.3% in 2005, 7.6% in 2006 and this factor is higher than the average indication in the world.

A lot of legislative acts in the field of entrepreneurship development have been accepted within the passed period. But, some of these legislative acts don't meet the requirements of today and there is a need for adoption of new investment law stimulating the foreign investment to the regions. With this purpose laws on "Investment activity" and "Special free economic zones" have been prepared together with the experts of World Bank. The law on "Investment activity" will substitute other 2 laws that are into force at the moment.

The development of private sector is a priority and that is why it is envisaged in the State program on "Poverty reduction and economic development" (2003-20005), on "Small and medium entrepreneurship development" (2002-2005), "Investment program for 2004-2007", on "Social-economic development of the regions of Azerbaijan Republic" (2004-2008), etc.

Due to the decree of the president of the Azerbaijan Republic the number of activities required license was reduced to 50 and the price of license was increased. Generally, the amount of credits allocated to the entrepreneurs had been increased 65% and reached up to USD 2.2 billion in 2006. The half of these credits were long period credits.

Besides of all these achievements there are several problems that entrepreneurs face. They are monopolism, weakness of protection at courts, lack of business information and financial resources, insufficient level of market infrastructure, lack of professional staffs, etc.

The number of persons engaging with the entrepreneurial activity is less than existed potential. The level of regional development of entrepreneurs is not relative to real potential. So, 57.24 % of all small and medium entrepreneurs are situated in Baku. The cooperation with local producers is not well developed and relation of SMEs with big companies and integration is not sufficient. It is fact that the share of private sector in the country economy is high, but the development of entrepreneurs generally is not sufficient.

During 6 months of 2007 the cooperation in import-export sphere with 127 foreign countries was held. Common amount of foreign trade was USD 4,986.1 million, 28.7% foreign trade campaign was prosecuted with European Union, 28.2% with CIS countries.

Table 24.

Composition of enterprises and new enterprises by kind of activity

	as of 01.01.2006	as of 01.01.2007
Number of enterprises	60,089	74,534
including:		
agriculture		9,087
manufacturing		5,828
construction		6,667
wholesale and retail trade		25,980
hotels and restaurants		1,028
transport		2,227
real estate, renting		7,013
Enterprises established	5,123	-
Enterprises closed-down	756	-

Table 25.

Private businessmen acting without establishing legal entity by their kind of activity

	as of 01.01.2006	as of 01.01.2007
TOTAL:	209,170	243,479
including		
Agriculture	20,318	23,185
Construction	1,329	16,22
Wholesale and retail trade	120,219	119,883
Hotels and restaurants	8,956	10,103
Transport	17,984	43,503
Real estate, renting	13,477	14,399
Financial mediation	400	486

The privatization process of objects under state control has an important place in economic reforms implemented in Azerbaijan during last years. One of the main changes in economic structure in the country during the transfer to market economy is the privatization and demonopolization of state property.

It was considered to give the citizens 65% of property to be privatized free of charge at the result of application of measures envisaged in State Program on "Prizatization of state property" accepted in 1995-1998.

The privatization process acts as a solution of economic and financial problems of the country. The adoption of State Privatization Program in 2000 and opening of more than 400 industrial enterprises for privatization in 2001 put the start of new stage in this important process.

Due to the figures from 01.07.2007 about 47,259 small enterprises, as well as 420 industrial, 123 agricultural, 543 construction, 10thousand consumer services, 3,780 trade, 1,081 public catering, 19,737 trasport, 190 communal objects and enterprises, 665 petrol stations, 10,143 other state objects and equipments were privatized in the republic and the total value of privatized enterprises was 194.9 mln. USD.

The shares with value of USD 2,409,000 and USD 4,235,500 were sold respectively in close auctions to the labor collectives and paid auctions. But, the shares with the value of 18, 8 thousand USD were remained under state property. 40% of privatized enterprises and objects were situated in Baku, 50% in other cities and regions of the republic and 10% in Nakhchivan Autonomous Republic.

About 1,500 joint – stock companies were established on the bases of state enterprises and afterwards were privatized. Due to the figures from 01.01.2007 5 enterprises of established joint – stock companies belonged to industrial sector, 2 enterprises belonged to agrarian-industrial complex, 1 enterprises to construction, 1 to transport, 3 to service and other sectors. 40% of joint-stock companies were established on the bases of state enterprises situated in Baki, 60% in other cities and regions of the republic. At the beginning of the current year the shares of 104 joint-stock companies with the total value of USD 38 million was submitted to the auction and shares with the value of USD 6.7 million were sold. USD 23.5 million was included into the state budget from the privatization process and USD 3.2 million from rent of state property in 2007.

At the same time 35 state enterprises with the share capital of USD 6.7 million, as well as 18 construction, 6 industrial, 3 trade, 3 transport, 1 consumer service and 4 other enterprises became a joint-stock companies.

One of the most important issues in privatization process is support, restructurization and recovery of the activity of privatized enterprises. The measures to be taken in this field are the privileges in tax, credit, custom payments, and protection of market and producers from unfair competition and monopolization. The carried analyses show that a lot of privatized enterprises couldn't survive after their privatization because of insufficient support from the state, unfair competition, lack of financial resources, etc. Especially, processing and production oriented enterprises, producers of tinned products, wine-making, poultry keeping, food and light industry couldn't obtained the necessary economic results. The problems such as insufficient working capital of privatized enterprises, credit debts remained before privatization, unprotection of interests of local producers created serious obstacles for their activity.

The current stage of privatization process covers the enterprises related to the key sectors of the country economy. The privatization of small enterprises should be fully finished

during the following years; the measures on privatization of shares of joint-stock enterprises established during the previous years should be accelerated. The privatization of infrastructures of country economy is the demand of today. Several measures in sectors such as water supply, sewerage system, health provision, gas supply has been taken in order to reestablish management and economic activity of enterprises. There is a need for investment into these sectors in order to use the resources correctly and improve the quality of services. New projects are considered to make fundamental changes in water supply, health provision sectors of Baki and big cities. At the same time the reforms in telecommunication and airlines sectors, privatization of existed enterprises are the main duties to be solved.

The important issues to be executed in the future are ensuring the more flexible and speed tendency of privatization process, attraction of modern technology and equipments by privatization of important state enterprises, restoring the activity of inactive enterprises, restructurization of big state enterprises, demonopolization and recovery of privatized enterprises.

Generally, the privatization process shouldn't be limited with the allocation of property rights from state to private sector as formality. The further activity of privatized enterprises should be controlled and supported afterwards. There were several problems in executed privatization process in the republic during first years. So, the participation of population in this process wasn't sufficient. And the main reasons of this were insufficient enlightening of population about the process. The another problem was lack of initial capital of population and this factor created obstacles for the privatized enterprises after their privatization. At the same time the privatization process wasn't carried transparently and public control on the process was weak. That is why population preferred to sell their cheques rather than use in privatization.

There were no cheque investment funds in Azerbaijan which affected on the violation of balance between demand and offer for the shares of privatized enterprises. And as a result of this only 18% of all cheques were used in privatization process. The restructurization and recovery of privatized enterprises should be executed at the same time with the development of country economy.

5.3.2. Legislation and steps of doing Business in Azerbaijan.

At the moment the main priority for the Government is to support the small and medium entrepreneurship development in the country. A lot of important steps have been taken in order to improve the state regulation system of entrepreneurship. During previous year several laws, state programs, presidential decrees providing the systematic character of juridical base of entrepreneurship have been adopted by the Government.

1. The Law on "Entrepreneurial activity" (1992)
2. State Program on "Entrepreneurship Development" (1993-1995)
3. The Law on "Enterprises" (1994, since 2000 the Civil Code)
4. State Program on "State Support for Small Entrepreneurship" (1997-2000)
5. The Law on "Enterprises of Limited Liability" (1998)
6. The Law on "State Support for Small Entrepreneurship" (1999)
7. The Law on "Changes to the Law on State Support for Small Entrepreneurship" (2003)
8. The Law on "Changes to the Law on Entrepreneurial activity"
9. President Decree on "Establishment of the Council of Entrepreneurs under the President of the Azerbaijan Republic" (2002)
10. President Decree on "Additional measures for Provision of State Support to Development of Entrepreneurship in the Azerbaijan Republic" (2002)
11. President Decree on "Prevention of Interventions Impeding the Development of Entrepreneurship" (2002)
12. President Decree on "Some Aspects of Regulations of Entrepreneurship activity" (2003)

13. Cabinet Provision on "Distribution and usage of budgetary funds under article of investment support for small entrepreneurship" (1997)
14. Presidential Provision on "National Fund of Support for Entrepreneurship" (2002)
15. Presidential Provision on "Council of Entrepreneurs under the President of Republic" (2003)
16. State Program on "Development of Small and Medium Scale Entrepreneurship in the Azerbaijan Republic" (2002-2005)
17. Presidential Provision on "Establishment of Special Economic Zones" (2007)
18. Presidential Provision on "Several Measures for Entrepreneurship Development" (2007)
19. Presidential Provision on "Measures for provision of organizational issues of entrepreneurial subjects on principles of "One window" (2007)
20. Draft State Program on "Development of Small and Medium Scale Entrepreneurship in the Azerbaijan Republic" (2008-2012)
21. State Program on "Social-economic Development of the Regions" (2004-2008)
22. State Program on "Development of Communication and Information Technologies" (2005-2008)
23. State Program on "Tourism Development" (2004-2005)
24. State Program on "Improvement of Official Statistics" (2003-2007)
25. State Program on "Combating the Corruption" (2004-2006)
26. State Program on "Youth" (2005-2009)
27. State Program on "Improvement of Tax Administration" (2005-2007)
28. State Program on "Development of Custom System" (2007-2011)

In accordance with the legislation of Azerbaijan Republic small entrepreneurship subjects are defined with their average quantity of employees and annual trade turnover and the following legal persons are subject of small entrepreneurship:

- To be engaged with entrepreneurial activity without establishment of legal persons;
- The average quantity of employees;
- Up to 50 persons –in sphere of industry, transport, construction;
- Up to 30 persons – in agriculture, scientific sphere;
- Up to 25 persons - in trade and service sphere.

Registration of individuals:

- record of individuals involved in entrepreneurship without setting up of legal entity is carried out by tax authorities on place of their living and activity;
- record of legal entities involved into entrepreneurship by setting up legal entity is carried out by organs indicated in the legislation of AR on "Enterprises".

About 50 entrepreneurship types are carried out only on the basis of a special permission and the list of these activities is determined by the President of AR.

The national policy in the field of entrepreneurship, especially small and medium entrepreneurship development in Azerbaijan Republic covers all regions of the country and all sectors of the national economy. This policy is directed to increase the effectiveness of business environment, also improve normative – legal, institutional and economic mechanism in the country.

The State Program of Azerbaijan Republic on "Social-economic development of the regions of Azerbaijan Republic" (2004-2008) is being implemented at the moment.

About 73% of all entrepreneurial subjects were situated in Baki in 2000. But now, a lot of new private enterprises have been established in the regions and at the result of this process 52.8% of all enterprises, 57.2% of SMEs, 59.3% of newly established enterprises, 34.2% of individual entrepreneurs are situated in Baku.

Due to the statistic figures from 6 months of 2007 about 75,669 new, also 53,390 permanent job places were created in the country. Generally, 572,152, also 405,795 permanent job places have been created from 1 October 2003 until 1 July 2007. 82% of new job places were created in the regions and 86% in private sector.

A new draft of the State Program on "Tourism Development in Azerbaijan Republic" (2007-2012) is under discussions at the moment. At the result of implementation of the previous program which covered 2002-2005 years about 100 tourism companies are operating in the country.

Table 26.

	2001	2002	2003	2004	2005	2006
The number of tourism companies, including:	18	39	50	58	81	96
State sector	2	1	2	3	3	3
Private sector	16	38	48	55	78	93
The number of employees	127	319	356	475	646	779
The total income of tourism companies [USD million]			2.6	4.9	7.1	10.0

The main achievements after implementation of the State Program on "Entrepreneurship Development in Azerbaijan Republic" (2007-2012) will be the followings:

- increase the technological level of SMEs;
- development of export potential of the country;
- increase the role of SMEs in effective realization of export operations, etc.

It is forecasted that the GDP will increase 2.1 times, the volume of products and services produced in private sector 76%, the volume of products and services produced in non-oil sector 1.7 times during these years, the share of GDP in private sector will be 85%, the share of non-oil sector will be 48% in 2012. The investment into the national economy will be USD 50.5 billion during 2007-2012 years.

The State Program of Azerbaijan Republic on "The implementation of Employment Strategy of Azerbaijan Republic" (2007-2010) was approved on 15 May 2007 and after implementation of this program the following achievements will be obtained:

- increase the role of SMEs in solution of social problems in the country;
- increase the employment level of the population by opening new job places;
- 10% increase of the number of employees in private sector;
- 79% of all employed people will belong to the private sector;
- 260,000 new job places will be created in SME sector until 2012.

Table 27.

Doing Business in Azerbaijan

Ranks	2006	2007	2008
1. Ease of doing business	100	99	96
2. Starting a business		96	64
3. Dealing with licenses		162	159
4. Employing workers		66	80
5. Registering property		59	56
6. Getting credit		21	26
7. Protecting investors		118	107
8. Paying taxes		136	141
9. Trading across borders		158	173
10. Enforcing contracts		34	30
11. Closing a business		70	75

5.3.3. SME support infrastructure in Azerbaijan.

There a lot of organizations which support entrepreneurship development in Azerbaijan. They are governmental, non-governmental and private organizations. The main aims of these organizations are to protect the rights of the entrepreneurial subjects, their property and other legal interests, assist strengthening of the market infrastructure and entrepreneurship development, provide the establishment of permanent business relations between Azeri and foreign businessmen, assist work out of the investment, innovation and other initiative projects and formation of sound entrepreneurship environment, prepare and realize various social-economic oriented projects and programs, create conditions for study of the world experience of entrepreneurship and its available application in Azerbaijan, etc.

1. Ministry of Economic Development of Azerbaijan Republic
2. Ministry of Agriculture of Azerbaijan Republic
3. Ministry of Taxes of Azerbaijan Republic
4. National Fund to Support on Entrepreneurship
5. Governmental Agency for standardization, metrology and patents
6. National Confederation of Entrepreneurs (Employers') Organizations
7. Azerbaijan Promotion of Export and Investment Agency;
8. Azerbaijan Chamber of Commerce and Trade;
9. Several private consulting firms and Business Information Centres
10. Business Associations and Unions (NGOs)

In spite of the existence of these organizations, supporting SMEs development in the country there is a gap in support system from Parliament, local executive bodies in the regions. So, we don't have special Commission on "Entrepreneurship", working groups lobbying the interests of SMEs in our Parliament yet. The responsibilities of our local executive bodies for entrepreneurship development have not been formulated on legal bases yet. The interdepartmental coordination on entrepreneurship development and support is executed by the Ministry of Economic development of Azerbaijan Republic. But, there is no interdepartmental Councils or Commissions for effective coordination attached to the Ministry of Economic Development of Azerbaijan Republic.

By one word, the existing support infrastructure to SMEs assists them in the following issues:

- protection of the SMEs' rights;
- business consulting services;
- information supply;
- specialists' training, etc.

At the moment SMEs support infrastructure is mostly situated in Baki. The relevant Central Executive Organs pursuing the policy on entrepreneurship support such as Ministry of Economic Development, Ministry of Agriculture are situated in Baki, Ministry of Taxes has its regional offices, Chamber of Commerce and Industry, other business associations have their offices only in Baku.

The National Confederation of Entrepreneurs (Employers') Organizations of Azerbaijan Republic (AEC) was established on March 5, 1999 and officially registered on 9 April 1999. AEC being a union of employers in Azerbaijan Republic is a non-commercial, non-governmental, self-managing organisation co-ordinating activities of the juridical and physical persons dealing with the entrepreneurial activity not-dependent on their property and organisation-legal form (excluding state-financed organisations) on voluntary basis, protecting their legal and economic rights, having social-effective objectives and considering not to get profit as the basic principle of its activity.

Within its goals the Confederation carries out the following functions:

- To protect rights of the entrepreneurial subjects, their property and other legal interests before the corresponding state structures, municipality bodies and other organizations;
- To assist strengthening of the market infrastructure and development of entrepreneurship relevant to the trends of the State Entrepreneurship Development Program;
- To participate in the collective negotiations with the Azerbaijan Government and Trade Unions Confederation with the purpose of regulation of the labor relations according to the Labor Legislation in the country, to sign the tripartite General Collective Agreement together with the Azerbaijan Government and Trade Unions Confederation;
- To provide the establishment of permanent business relations among its members, to assist work out of the investment, innovation and other initiative projects and formation of sound entrepreneurship environment;
- To participate in preparation and realization of various social-economic oriented sector, regional and country programs;
- To assist local entrepreneurs in search of partners in the country and abroad, participate in their information supply;
- To realize the preparation of the social-economic oriented draft laws and other normative-legal acts related to the development of entrepreneurship;
- To create conditions for study of the world experience of entrepreneurship and its available application in Azerbaijan;
- To assist the establishment of social-economic oriented organizations.

At present time more than 3,500 entrepreneurs' subjects including about 35 Associations and Unions of economic and social orientation are united in AEC. AEC implements its responsibilities as the representative of the employers being a social partner in the trilateral General Collective Agreement signed between Cabinet of Ministries, Trade Unions Confederation and AEC on 7 July 2004 for determination of social-economic policy in Azerbaijan and regulation of labor relations.

AEC is the member of International Organization of Employers, World Association of NGOs, International Industrialists and Entrepreneurs Congress, Azerbaijan-British Trade Industrial Council. Confederation works closely with the embassies of USA, Great Britain, Germany, France, Iran, Turkey, Egypt and Israel, international organizations, such as UNDP and participates in their various meetings. AEC has its representatives in 35 regions of Azerbaijan Republic.

Support and control by the state can be registration of entrepreneurship activity, legal, financial, special permission, informational, consulting, technical, scientific, and training and other kinds of assistance.

The main directions for state support to enterprises according to the Law of AR "On State Support of SME" are the creation of favorable legal environment, financial and investment assistance, promotion of foreign economic activities, performance of favorable tax policy, vocational education and training, creation of simplified systems for statistic reports and accountancy, improvement of state regulation on entrepreneurship, permanent improvement of license systems, enabling the promotion of quality level and competitiveness of services and goods producing in SME sphere, provision of participation of SME subjects in implementation of State orders, support of structure changes and technological development in SME sector, support of expanding cooperation links among the small, medium-sized and large enterprises, establishment of sale-exhibition center for goods of SME subjects, etc.

The role of the state in technical support for SME and development of human resources is to improve information supply for SME, training and retraining of entrepreneurs and vocational training for SMEs, provide training, advocacy and information service on the entrepreneurship basis for youth finishing a military service, etc.

In order to increase the development of regional entrepreneurship the following steps should be taken:

- Attraction of investment to regions;
- Providing speedy development of entrepreneurship in the regions;
- Formation of local market infrastructure of entrepreneurship;
- Development of farming enterprises.

Reinforcement of protection of entrepreneurs' rights:

- Simplify state register of entrepreneurship subject;
- Draft proposals on reinforcement of contract law norms and improvement of judgment procedure of contract argument through courts;
- Removal of unlawful interference in entrepreneurship activity;
- Technical and organizational support for public unions of entrepreneurs to render protection of rights and interests to their members.

The financial support infrastructure to SMEs should be broadened. Major commercial banks don't have their divisions in the regions. The structure and situation of financial market in the country cannot be considered suitable for business people as it doesn't meet their demands and needs at all. First of all, the financial institutions should be diversified, specialized commercial banks financing different sectors of economy, especially sectors such as processing of agricultural products, tourism, export - import operations should be established, investment funds and other financial infrastructure should be created.

In order to establish information supply database for entrepreneurs it is necessary to create business centers in the regions. But, it is impossible to solve the problems concerning rendering of professional consulting services and information supply by increasing the number of these centers only formally. In order to solve the problem deeply the program in national level on training of professional specialists should be developed. It is important to create the network of business consultants in national level and ensure the activity of this network on the bases of business centers' resources established in the regions.

The development of distributing, franchising, dealer services, establishment of business incubators and free economic zones will assist in strengthening process of SME support infrastructure.

5.3.4 Financing Start-ups

The key roles of the state in financing and investment support for SME development in the country are to develop the state guarantee for investment, form beneficial tax system, broaden credit base of SME, expand opportunities of attraction investment resource in SME sphere, etc.

The SME sector in Azerbaijan is mostly financed by the local investment sources. The main source of financing is the National Fund for Support to Entrepreneurship (NFSE). The fund provides SMEs with the privileged credits. Every year USD 100 million are allocated by the state budget to the Fund and these credits are distributed between SMEs with 7% rate a year.

Table 28.

The structure of the credits issued by the NFSE

Credits	Maximum amount [USD]	Period
Microcredits	Up to 1,176	2 years
Low volume credits	1,176 – 3,5294	2 years
Medium volume credits	35,294 – 117,647	3 years
Big volume credits	117,647 – 1,176,470	5 years
Large-scale credits	1,176,470 – 3,529,411	7 years

Table 29.

Distribution of the resources of NFSE on the sorts of credits in 2005-2007

Sorts of credits	Number of projects	Share in projects [%]	Amount of credits [USD million]	Share in credits [%]
Microcredits	2,309	53.3	2.2	1.1
Low volume credits	548	12.7	3.1	1.5
Medium volume credits	357	8.2	8.5	4.3
Big volume credits	995	23	103.1	51.5
Large-scale credits	122	2.8	83.1	41.6
TOTAL	4,331	100	200.0	100

Table 30.

Direction of the use of resources of NFSE

Directions	Number of projects	Share in projects [%]	Amount of credits [USD million]	Share in credits [%]
Industrial products	598	13.8	883.5	44.2
Processing of agro products	113	2.6	330.6	16.5
Production of agro products	3,262	75.3	55.5	27.7
Tourism	59	1.4	15.0	7.5
Service sector	297	6.9	7.0	3.5
Mass – Media	2		1.1	0.6

The credits distributed by the commercial banks and other local and international financial institutions (European Bank for Reconstruction and Development, Asian Development Bank, etc.) has very high rate (18 – 28% a year) and they are issued with hard mortgage conditions. By one word, the existing credit system in Azerbaijan, credit rates, duration, conditions related to mortgage guarantee, offered privileges are not satisfied business people, especially SMEs in the country, the credits issued by the NFSE isn't sufficient and not relevant to the increasing demand of SMEs. That is why the amount of the credits allocated by the state budget to NFSE should be increased, the distribution mechanism of credits should be reviewed, and more simple and minimum bureaucratic mechanism should be established, the mechanism should be transparency and conditions for corruption should be eliminated.

Table 31.

General situation of credit market

	2001	2002	2003	2004	2005	2006
Number of banks	53	46	46	44	44	44
Non-bank organizations	63	47	58	70	85	94
Credit unions			45	55	68	77
Total credits	486.2	520.2	670.3	989.6	1,440.9	2,362.7
Share of short-term credits	72.8	72	72.7	70.8	63.4	48.3

Financing intermediaries

- Azeri Bank of Microfinancing;
- Kreditanstalt fuer Wiederaufbau (KfW) established the German-Azerbaijan Fund (GAF)
- National Fund to Support for Entrepreneurship;
- Credit Agency for Agricultural credit;
- Eurasian Foundation: SME lending program;
- FINCA Azerbaijan: micro credits;
- World Vision Azerbaijan;
- European Bank for Reconstruction and Development: Small and Medium Business Development program;
- World Bank;
- OXFAM Azerbaijan: micro credits;
- Commercial Banks

5.3.5 Tasks for improvement and further development of the SME sector in the country.

Azerbaijan government basing of the principles such as regularity, systematic, oriented and priority in SME sector development in the framework of bilateral cooperation relations jointly with private and public sectors consider implementing the following objectives:

1. With the purpose of monitoring and improvement of the legislative base regulating the entrepreneurial activity:
 - in order to facilitate the state registration system of entrepreneurial subjects the Ministry of Taxes of Azerbaijan Republic was selected as a organ for registration process and from the beginning of 2008 "One Window" system will be applied;
 - improvement of tax payment system, especially, application of electron tax declaration mechanism, broadening the coverage circle of simplified tax system in SME sector;
 - improvement of application of licensing and permission system;
 - establishment of sound competitive environment and adoption of "Competition Code" in order to improve the antimonopoly regulation mechanism.
2. With the purpose of improvement of infrastructure provision system of entrepreneurship:
 - to accelerate the establishment of special economic zones;
 - to broaden the agro service network.
3. With the purpose of improvement of the specialists' training system and information, consulting supply for entrepreneurship:
 - establishment of information database (KOS-NET) on the products and services produced in the country;
 - acceleration of the process to establish the necessary infrastructure (roads, electricity, gas and water supply) in the country in order to guarantee the continuous activity of entrepreneurial subjects operating in production sector;

- training of specialists (improvement of activity of vocational training schools, training of students in foreign institutes using the state financial budget, training of managers in EU companies, etc.).
4. With the purpose of improvement of SMEs financial supply:
 - to increase the volume of financial contribution from the state budget to the National Fund for Support to Entrepreneurship;
 - to stimulate the commercial banks to make their financial recourses available for SMEs;
 - Stimulation of leasing activity;
 - Development of stock exchange.
 5. With the purpose of development of state - entrepreneur relations and improvement of protection mechanism of entrepreneurs' rights:
 - prevention of state officials from engaging with the entrepreneurial activity;
 - protection of entrepreneurs' rights at courts.
 6. With the purpose of strengthening the foreign economic activity of entrepreneurs:
 - to guarantee the transparency in export–import operations;
 - to increase the efforts for acception to WTO.

5.4 DEVELOPMENT OF THE SME SECTOR IN GEORGIA ³⁷

Georgia has passed the first and the hardest stage of its economic reforms – legal dismantling of large part of state property and privatization. State property was privatized; financial, monetary and banking systems were changed. Amendments made influence on every economic and social institute.

Georgia's economic performance continues to be strong, but signs of overheating are beginning to emerge. Economic growth during the first six months of 2007 was 12.5 percent, which is impressive given the external shocks associated with Russia's economic embargo along with higher energy and food prices. Growth for 2007 as a whole will likely be in the range of 12-13 percent. It seems likely that private capital inflows will exceed USD 2 billion in 2007, although recent political developments add considerable uncertainty to the projected volume of inflows for the remainder of this year and 2008. ³⁸

In spite of the high interest for foreign direct investment and international race among capital investors to getting in, the Georgian Government still neglects the SME sector, which resulted in growing unemployment, poverty and corruption.

The USAID estimates the shadow economy in the country between 26-35 percent. ³⁹

5.4.1. SME sector development

SME sector has an important role in creating and functioning of market economy in Georgia. This sector is one of the priorities in the state economic policy. Great efforts have been done to promote institutional base of SME sector, increase the efficiency of SME support system and improve investment friendly environment as well.

³⁷ Prepared by Dr. Antal **SZABÓ**, UN ret. Regional Adviser on Entrepreneurship and SMEs, Scientific Director of ERENET

³⁸ IMF Press Release No. 07/258 as of 14 November 2007.

³⁹ Georgia Enterprise Growth Initiative. SME Environment Assessment, 14 February 2005.

After creation and starting implementation of SME government support concept and program SME development process became efficient and successful. After studying the experience of SME development particularly in the countries in transition, taking into consideration recommendations of international organizations and proposals of SME support NGOs, SME support general ways, forms and mechanisms have been identified. In this concern the CSMEDA jointly with the Ministry of Economy, Industry and Trade worked out "SME State Support Program for 2002-2004" approved by the President Decree No. 309 as of 22 June 2002.

The program determines the main ways of SME promotion and government support measures. For its effective implementation the following issues have been determined:

- Create simple tax regime for SMEs in united taxation system;
- Simplify account and report system for SMEs;
- Simplify company registration procedure and make it cheap decreasing registration fees, separate court and notary service functions etc;
- Implement simple license system for separate entrepreneurial activities;
- Make in order activity of control, supervisory and legal institutions concerning to SME. Coordinate activity of above-mentioned institutions to optimize state control on SME. It is necessary to create database that should consist of clear and transparent information about work done, breaches, penalty sanctions and future check schedule as well.
- Financial support for attracting investment: that means to provide more favourable loans to small entrepreneurs and start-ups than commercial banks. Also provide guarantee for commercial bank loans and subsidize commercial bank loan interest rate;
- Relevant to funding create infrastructure such as business incubators, information and advisory centres, leasing companies and etc.;
- In order to making active SME participation in getting and doing state orders create relevant mechanism;
- Actively monitor the implementation of SME state support measures;
- Provide funding for SME state support program.

Over the last years the number of registered legal entities have been increased and this tendency is continuing, which points on society high entrepreneurial activity. Total number of enterprises is 84,239 at the beginning of 2003, among them 15,218 enterprises are registered in 2002, more than 10,649 units - in 2001 and 7,294 – in 2000. Individual enterprises are the main part of entrepreneurial activity. Their number has been increased from 29,152 to 49,952 (171.4%) in 2000-2002. This is the result of simplification of registration and account-reporting procedures for individual enterprises.

It should be emphasized that the number of individual enterprises are 60% of total number of any legal entities, and 99.9% of individual companies is considered small enterprises. This situation shows that SMEs are the main factors of entrepreneurial activities in the country.

According to surveys the number and quality of SMEs have been improved in Georgia. In particular, the share of SMEs in the total number of active enterprises is permanently growing. At the beginning of 2003 small enterprises' share was 90.0%, medium enterprises – 7.4% in total active enterprises. SME generates half of total employment in entrepreneurial sector and 20% of ready-made product.

In creation of business environment SME is relevantly developed but the country is still far from the level of developed countries. The contribution to GDP by SMEs is very low • only 10%, compared to 40% in many CIS countries and more than 60% in a number of European Union countries. There are not even any proper statistics for the SME market. It is an estimate, that nearly 60% of businesses operating in Georgia aren't registered at all. Statistics can be

obtained only different sources. Businesses only register themselves when they go to banks to get credit," Sutiashvili says.

Table 2. Total Number of SMEs: Regional Breakdown

Regions	Small	Medium	Total	Small (%)	Medium (%)	Total (%)
Guria	98	42	140	1.4	2.5	1.6
Imereti	1,035	231	1,266	14.5	13.9	14.4
Kakheti	290	88	378	4.1	5.3	4.3
Mtskheta-Mtianeti	154	38	192	2.2	2.3	2.2
Kvemo Kartli	621	116	737	8.7	7.0	8.4
Racha-L. and K.Svaneti	71	22	93	1.0	1.3	1.1
Samtskhe-Javakheti	169	46	215	2.4	2.8	2.4
Samegrelo and Z. Svaneti	485	145	630	6.8	8.7	7.2
Shida Kartli	248	62	310	3.5	3.7	3.5
Tbilisi	3,956	873	4,829	55.5	52.5	54.9
Total	7,127	1,663	8,790	100.0%	100.0%	100.0%

Source: *Department of Statistics*

Definition of Small, Medium, and Large Enterprise in Georgia

In Georgian legislation, small, medium, and large enterprises are defined as follows:

- Small enterprise - average number of employees does not exceed 20 and sales do not exceed GEL 500,000 per annum;
- Medium enterprise - average number of employees does not exceed 100 and sales do not exceed GEL 1,500,000 per annum; and
- Large enterprise - average number of employees exceeds 100 and sales exceed GEL 1,500,000 per annum.

There are two criteria for determining the size category of a company: the number of employees and annual turnover. For example, a company with four employees but with annual sales of GEL 2,000,000 is categorized as a large enterprise. A company with 80 employees but with annual sales of GEL 1,000,000 is considered a medium enterprise.

Meanwhile, SME sector couldn't achieve the desirable level because of some general macro -economic and specific factors. SMEs have less productivity level and capital facilities than large enterprises. There is a disproportion in the sectoral and regional structures of small entrepreneurship. Leading fields of SMEs are trade and service (more than 70%), but for the last years the number of small enterprises has temporary been increased in processing industry, construction, transport and communication. Small enterprises are mostly concentrated in the capital, Tbilisi. This situation is relevant to the countries in transition. In some industrial regions (Adjara A/R, Imereti, Kvemo Kartli etc) favourable conditions are created for development of small entrepreneurship vice versa in high land regions (Tsalka, Samtskhe-Javakheti, Mtskheta-Mtianeti, Racha-Lechkhumi, Svaneti). That's why implementation of priority support measures in high land regions is an argent issue.

It should be emphasized an inadequate growing of SME quality relevant to SME number. But the tendency points on increasing role of SME in creation of a new economy. In particular, small enterprises already produce more than 20% of GDP and almost one fifth of the added value. Small entrepreneurship covers one third of total entrepreneurial employment.

At the meantime, small enterprise share is still low in the country's export. Their capital facilities and productivity level are rather low than in large enterprises (large and medium enterprise data are 63% and 48.8%).

In the sectoral structure of SME trade and service are the basic fields. Around 71 % of small enterprises is service and trade ones and they covers 54.7% of employment in entrepreneurial sphere.

The main direction of Georgian development is the poverty reduction and economical growth, which could not be achieved without supporting the capacity building in the rural and urban areas of Georgia, without assisting emerging small and family owned businesses through the knowledge and skills transfer, through creation of cooperation network among the tenants, business incubators and other supporting organizations. In this concern, development of SME sector is the main priority of country's economical development. The most complicated state policy issue is the employment problem at the contemporary stage of the transitive period in Georgia. Women who are more then half of the population and labor recourses appeared in the worst condition.

To eliminate poverty and unemployment is one of the priorities in Georgia at this stage of the market economy. 54.5% (according to the official data of 2003) of the population was beyond edge of poverty. The women who are 53 per cent of the population are in a dreadful situation. Among officially registered unemployed people – 60 per cent are women. Also labor feminist migration is fast increasing. Among those who left the country in search of a job abroad (800.00) the number of women amounted to more than 40 per cent.⁴⁰

5.4.2. Legislation and steps of doing Business in Georgia

Relevant institutional base has been created for SME development. Special Law on "Small Enterprise Support" as of 23 July 1999 determines the basic principles for SME development and assistance.

Main Governmental Policies and Legislation

1. Law on "Small and Medium Enterprise Support" (23.07.1999)
2. President decree (No. 16, 26.01.2000) on "Creation of Small Enterprise Coordinate Council"
3. President decree (No. 134, 08.04.2000) on "Provision of Centre for Small Enterprise Development and Assistance"
4. President decree (No. 309, 22.06.2002) on "SME State Support Program for 2002-2004 in Georgia"

Every business operating in Georgia must be registered. Georgia's Law on Entrepreneurs defines the following types of legal entities:

- General Partnership
- Limited Partnership
- Limited Liability Company
- Joint Stock Company
- Cooperative

According to the Law on Entrepreneurs, all businesses (except individual entrepreneurs) must register with a court. To register an enterprise, the entrepreneur must complete the following steps:

- Compile and notarize the company's founding documents²⁵

⁴⁰ Nino Elizbarashvili: Business Incubators in Georgia, National Study prepared for the ERENET Workshop held in 2006 in Budapest.

- Draft and notarize an application to the court (the application must include the name of the company, the type of legal entity, its legal address, its business activities, and information on the company founders)
- If the charter capital is in cash, obtain a bank statement showing that the cash has been contributed to the business; if the charter capital is contributed in-kind, obtain a document from an auditor attesting to the value
- Pay the registration fee
- Submit the documentation to the court

The Court then issues an Enterprise Registration Certificate. The “silence is consent” principle applies. If the court fails to either register the business or formally reject its application within a specified period, the business is considered registered. In such cases, the court must issue the registration certificate immediately upon request. The statutory time in which a court must make a decision has declined from 15 days in 1997 to the current five calendar days, in effect since May 2003. The World Bank’s Doing Business report has recently noted this important step taken by Georgia as a lesson for other countries:

After court registration, the business must register with the Tax Department in the region in which the enterprise has its legal address. The enterprise submits the appropriate tax forms and the Tax Department completes the registration within five days. The enterprise is then given an eight-digit tax code and a corresponding tax registration certificate. If applicable, the enterprise must also register as a VAT payer. At the same time as it registers with the Tax Department, the business must obtain a corporate seal, open a bank account, and submit its banking details to the tax agency.

There are many factors hindering SME promotion: budget deficit, corruption, bureaucracy, hard tax system, obstacles from monopoly companies etc. The main burdens of SME promotion are inefficient tax system, corruption and high level of contraband. SME sector cannot be developed without creation and implementation of strong government support system or providing them priority regime of support.

The political changes brought about by the so called “Rose Revolution” enabled the establishment a new framework for the consolidation of national identity. The Government committed itself to restore territorial integrity and develop the country as a modern European state. One of the reform priorities of the Government is improving business environment. The outgoing Georgian Government issued the President Decree No. 61 on “Establishment of the Position of The State Minister on SME Field” as of 10 April 2004. The legal basis and infrastructural support in Georgia is the weakest among the three Caucasian countries. In this concern it is obvious that the Rose Revolution has already paved the way for elaboration of the coherent and transparent state policy for entrepreneurship.

Objective of Government support policy:

- 1) Simplify taxation, registration procedure, licence, account and report system for SMEs
- 2) Financial support (loans) and infrastructure creation
- 3) Activities of control, supervisory, monitoring and legal institutions concerning SMEs

During the last two year in order to make the business environment more attractive for foreign direct investors, the Government made significant efforts improving several business procedures. As contradiction in some fields doing business became more difficult including trading across boarded as well as in closing business. The Table below indicate the rankin and realtive changes.

Table. 32.

Ease of business	Doing Business 2008 rank	Doing Business 2007 rank	Change in rank
Doing Business	18	35	+17
Starting a Business	10	39	+29
Dealing with Licenses	11	27	+16
Employing Workers	4	4	0
Registering Property	11	18	+7
Getting Credit	48	62	+14
Protecting Investors	33	120	+87
Paying Taxes	102	103	+1
Trading Across Borders	64	59	-5
Enforcing Contracts	42	42	0
Closing a Business	105	87	-18

Source: World Bank Doing Business 2007 Report

5.4.3. SME Support Infrastructure

There is no National agency for SME support. According to the Law under the President Decree the Small Enterprise Coordinate Council and the Centre for Small and Medium Enterprise Development and Assistance (CSMEDA) have been created. These organizations successfully coordinated SME support activities, however, in the recent past and currently it is not operational.

Business information, advisory and consultancy services:

- § Centre for Training and Consultancy
- § Centre for Enterprise Restructuring and Management Assistance (CERMA)
- § Business Link
- § Union Business League

Main institution of SME support mechanism

1. BEESI
2. Business Support Centre (BSC)
3. Centre for Small and Medium Enterprise Development of Georgia (CSMEDG)
4. Consulting and Training Centre (CTC)
5. GCG Consulting
6. GCG Law Office

7. Pand TECHNOLOGIES
8. Amaranda
9. Akhaltsikhe Business Centre, Regional Non-government Organization
10. Business Centre
11. Intellect-Company
12. Shore-Bank Consulting Service
13. Association of Business Consulting organizations-Georgia (ABCO-Georgia includes 15 organizations in different regions)
14. Association "Woman and Business
15. Scientific –Technical Information and Economic Research Institute (TECHNINFORMI)
16. Business Communication Centre (BCC)
17. Georgian Investment Centre
18. Georgian Export Promotion Agency
19. Business Incubator (Association "Woman and Business")

The International Finance Corporation and BP, the two largest investors in the Georgian economy, recently launched the Georgia Small and Medium Enterprise (SME) Policy Project. The project aims to improve the business enabling environment in the country by streamlining regulation of the private sector. The Project is a three-year, USD1.5 million initiative. BP and its oil and gas partners have contributed USD750,000 under the Regional Development Initiative (RDI). The Canadian International Development Agency (CIDA) has contributed USD250,000, while IFC is providing USD500,000.⁴¹

5.4.4. Financing SMEs

In Georgia the banking sector is booming. However, Georgian SMEs continue to suffer from a lack of credit access opportunities. SMEs hold a very modest share of the banking sector's credit portfolio GEL 2.7 billion in 2006 to be exact – an annual increase of 55.5%. Meanwhile the curve of SME sector development is barely growing as only 5%-10% of potential SME borrowers get bank credits.

Obstacles to SME credit access in Georgia include the country's underdeveloped stock and capital markets. Despite the staggering development of the banking sector, still there is a big gap between supply and demand as the credit portfolios of Georgian banks fall far short of being able to provide financing to all those who seek it.

Ketevan Sutiashvili, Credit Access Manager of the US Agency for International Development (USAID) financed SME Support Project states, that capital turnover of small businesses fluctuates at around GEL 100,000, occasionally reaching GEL 500,000 per annum. Credits access is a big problem for them due to several reasons including incompetence and lack of professional know-how.

First of all, SMEs often have little or no financial collateral to back their credits at banks. Secondly, they are not sufficiently competent to keep proper track of their business activities, which is accordingly reflected in their financial reports.

"Most of them keep financial accounts in notebooks. Sometimes they look quite funny, they just write: 'I sold this item and bought that item.' They lack systematization as a rule. For many of them starting a business is a matter of survival for their families. Therefore many

⁴¹ IFC and BP Spur Small and Medium Enterprise Sector Development in Georgia, Tbilisi, 17 April 2006.

people who start small businesses today have never dealt with statistics and have no experience in marketing, management, in finances," Sutiashvili says.⁴²

SME Financing Organizations

1. Foundation "Constanta"
2. FINCA-Georgia
3. World Vision Georgia
4. Association "Woman and Business
5. "Micro Finance Bank of Georgia (MBG)
6. Bank of Georgia, United Georgian Bank, Tbiluniversalbank, TBC Bank

5.4.5. Further steps in SME development

The old attitudes still continue: business is bad, the state must control, and entrepreneurship is a form of theft. The main important task is to develop a coherent government SME policy and create appropriate and sustainable infrastructure.

Access for financing, especially for start-ups has to develop. Microfinancing, credit unions have to be strengthened to create self-employment and promote start-ups.

Georgia has a relatively well-educated population. However business skills, enterprise management have to be developed.

SMEs have poor access to information, because they do not know where to find it. Internet access is also poor.

Cooperation between SMEs especially in the formed well-established neighbouring countries has to be both strengthened as well as restored.

There is a need to develop business ethic. For this, first the Government authorities need transparent procedures avoiding state corruption.

⁴² Nino Patsuria: Demand Outweighs Supply as Lack of Credit Stunts SME Growth, GEORGIA TODAY, Issue #348
16.03.07 - 22.03.07

6. DELICACY ON THE ENTREPRENEURSHIP AND SME DEVELOPMENT IN THE EXIS OF ANKARA-ATHENS ⁴³

6.1. GREECE, THE OLDEST EU COUNTRY

During the 50s and 60s, growth in Greece was based on the development of a significant range of heavy industrial activities as well as on the flourishing of a spectrum of industries that composed the traditional basis of the Greek industry (textile, food, and beverages). Later, Greek economy faced several crises as it fell behind European member states in terms of productivity and competitiveness. Throughout the 80s and 90s, labor productivity growth in the business sector deteriorated and growth rate in manufacturing was at a slower pace than that in the economy-wide level. The basic element of the transformation in the Greek industry has been technology transfer via import of capital equipment, foreign direct investment, and licensing. Technology transfer was considered one of the main tools to improve competitiveness of Greek firms, especially during a period of globalization of competition, of integration into the European Community (Union) and trade liberalization. Low export intensity of recipient firms, the weak performance of Greek manufacturing, and the increasing deterioration of the competitive position of Greece in technologically advanced activities, raise serious questions about the extent to which Greek firms succeeded to exploit technology transfer in order to upgrade their technological and organizational capabilities (Giannitsis, 1991). The main concern of Greek industrial policy during the last 20 years has been to deal with the problems occurred as a result of globalization, and to establish a new framework of policy intervention within the context of the European Union. In accord with this framework, SMEs are accepted as the heart of government policies on business environment. The role of SMEs in Greece economy can be summarized as follows:

- Number of SMEs in Greece exceeds 733,000.
- 99,55% of the total number of enterprises employ 50 persons and below
- The number of SMEs with 1-9 salaried workers is 321,000, making up 43.8% of the total amount, with 508,000 salaried workers or average employment of 1.6%.
- 2.2% employ from 10 to 49 salaried workers (the majority of the enterprises in this category employs less than 20 people) or 2.2% employ a total amount of 303,000 workers with average employment of 18.8%
- The number of SMEs with 50 to 249 salaried workers are up to 2,200 or 0.3%, with the average employment of 100.9
- 53.7% do not employ any salaried workers and employ 11 people on average, where their family members work
- These enterprises employ 74% of the work force of the private sector
- SMEs provide 70% of the new jobs, reinforce the regional development and financial balance of the regions and contribute to the cohesion of financial and social link in Greek society
- Big enterprises with over 250 employees cover only the 13.5% of employments with 230,000 salaried and in total, SMEs employ 1,695,000 people, from which 712,000 on average are salaried.
- Proportion of the employment in SMEs to that in the big enterprises is 87.5% to 13.5% and as far as salaried work is concerned, 75% to 25% or 3 to 1

In other words, "micro-enterprises with 0-9 employees and in total 943,000 employees, self-employed or salaried, cover the 55.6% of employment, small enterprises with 10-49 employees cover the 18% of the employment with 303,000 people, from which 287,000

⁴³ Prepared by Dr. Dilek **CETINDAMAR**, Associated Professor, Graduate School of Management, Sabanci University, Istanbul and Umut Yılmaz **ÇETINKAYA**, Ph.D. Student at the Graduate School of Social Sciences at the METU Ankara, Project Assistant at TUBITAK-STPS-TEKNOKENT

are salaried and the medium – sized from 50-249 people cover the 13% of employment with 222,000 salaried. In total the SMEs employ 1,695,000 people, from which 712,000 on average are salaried...The main volume of employment is and of salaried work is found in SMEs and especially in enterprises with 1 to 20 employees.”⁴⁴ To elaborate SMEs performance, several facilities have been organized such as European Conference on Europe's entrepreneurial future, Ministerial Meeting regarding small businesses and business entrepreneurship etc., and regulations that have been implemented, such as the improvement and simplification of the legislation, limiting the number of overlapping regulations etc. by Greek Government. The results of these studies can be seen in current policies and implementations of Greek Presidency that has worked towards the development of a more favorable environment for SMEs. In particular, the locomotive role is played by the Ministry of Development (MoD) that influences the SME environment as well as general standards; supports the establishment of new firms, and supervises the Hellenic Organization of Small and Medium Sized Enterprises and Handicraft (EOMMEX), which has a long experience in the design and implementation of support measures and initiatives in favor of SMEs. As part of a broader policy for the improvement of the business environment, the MoD has already issued a set of 31 actions in support of enterprises, especially SMEs, which are constantly being upgraded and expanded. Selected recent initiatives to develop SMEs and their role in Greece are presented below (Komodromou, 2007).

National Council for SMEs was established to determine national policy and coordinate the related activities of policies implemented by all Ministries in order to take into consideration the needs of SMEs. New investment Law was enacted to stimulate the potential of industry, especially that of SMEs. In addition, Tax Law was enacted to provide reduction of the tax factor for the undistributed profits. Procedures were simplified and funds were increased in favor of SMEs. Installation of businesses in organized areas, creation of business incubators and technological parks to facilitate and simplify knowledge sharing and network activities were supported. Several steps were taken to improve the quality of SME products, production processes, and manpower. Manufacturing and service sectors have been promoted to introduce ICTs to their businesses. The Business and Entrepreneurial Areas Network (VEPE) is being expanded and upgraded, along with the revision of the underlying legal framework. Currently, 52 VEPEs are being developed or upgraded throughout the country. Four program cycles have already been completed or are in full operation in support of youth and female entrepreneurship. Additionally, three more program cycles are active in support of entrepreneurship for People with Disabilities. Moreover, actions are being promoted by the General Secretariat of Youth, with the aim of improving the business environment and encouraging young and prospective entrepreneurs, while modules on entrepreneurship have already been included in the undergraduate curricula of higher education institutions to set up their own business.

Therefore, the role of entrepreneurship promotion and its realization in the form of setting up businesses has been recognized as a way to: reduce unemployment, especially among young people; improve competitiveness; and achieve higher rates of economic development by Greek government. However, similar or lower level initiatives have been applied for a number of years, their impact on the participating bodies and the Greek economy in general is not clear enough due to lack of evaluation. For this reason, Greece has tried to improve its supports to its SMEs, on the other hand, it has waited to evaluate and benefited from its policies.

6.1.1. Legislation and steps of doing business

⁴⁴ http://www.eommex.gr/english/SME_in_Ellas/sme_sector.htm

Improving competitiveness is currently one of the highest priorities in Greece and the greatest challenge for economy. For this reason, the Greek Government is pushing forward with the relevant legislation in order to reduce unemployment, improve competitiveness, and achieve higher rates of economic development. Selected major laws, decrees, ministerial orders etc. for promoting SMEs are stated as follows.

The Investment Law (L.3299/2004) provides a set of incentives for attracting private funds to priority sectors such as innovative and advanced technology products and services, facilities for applied and industrial research, the development of technological and industrial plans, software development, and tourism installations. Increased incentives are provided for SMEs and regional development. The current legislative framework for Public Private Partnerships (L.3389/2005) is already being exploited. This action aims at creating business infrastructure to the benefit primarily of SMEs at limited cost for the state. The new bill on the simplification of the licensing process for manufacturing companies (L.3325/2005) has been enforced. Societes Anonymes has been ratified that reforms, amends, and completes the current legal framework in accordance with European legislation to improve the business environment by simplifying the procedures for setting up a business, and reducing the red tape. A new bankruptcy code, covering all cases of insolvency, has been ratified, which focuses less on organizing the break-up or death of a business and more on keeping businesses alive and giving a second chance to those who go bankrupt in good faith. Law 3419/05, which modernizes the framework for the operation of Chambers and establishes General Commercial Record, has already been voted to provide a swift and flexible licensing procedure for commercial enterprises through the Chambers of Commerce (one-stop-shop). The call for the creation of the National Observatory of Commerce has been announced, which establishes a mechanism for collecting and analyzing data on the commercial sector and the companies operating therein. Moreover, in accord with Law 3377/2005 on the operation of commercial entities, the National Council of Electronic Business has been formed and an Executive Committee has been appointed. Law 3296/2004 -concerning the deduction of expenditures made for scientific and technological research from the enterprises' profit- is currently under implementation. As part of the tax reform, the corporate tax rate will be progressively reduced from 35% in 2004 to 25% in 2007, while for smaller firms from 25% to 20%. Law on bridging research and technological development with production (Law 2919/2001) enables new research centers, institutes, museums, research councils and high-tech venture capitals to be founded. Furthermore, some of the recent important policy documents are presented below in Table 26.

Table 26.

Recent Important Documents

Title of document	Date	Type of Document
SDP for Research, Technology and Innovation 2007-2013	2007	Consultative Document
National Reform Program 2005-2008: Implementation Report 2006	2006	Official Government Report
Institutional Framework of Research in Greece	2005	Consultative Document
Towards the knowledge Economy. Roles and Perspectives	2003	Consultative Document
Financial support of knowledge-intensive businesses/spin-off companies (Presidential Decree 17)	2001	Presidential Decree
Operational Program "Competitiveness"	2001	The Operational Program "Competitiveness" operates within the 3rd Community Support Framework 2000-2006 and includes 9 priority axes.

Technology Foresight in Greece	2001	The document "Technology Foresight in Greece" is subsumed in the frame of the Operational Program "Competitiveness" 2000-2006.
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Source: Cordis⁴⁵

Table 27.

Doing Business

No	Procedure	Time to complete	Cost to complete
1	Get approval of the company's name by the Chamber of Commerce and Industry	1 day	EUR 33
2	File company documents with the Athens Bar Association	1 day	**
3	Sign the articles of incorporation before a notary public	5 days	€ 1,000 (Ranging from € 740 - € 1,320)
4	Deposit capital in a bank	1 day	no charge
5	Pay the capital tax on the concentration of capital to the local Tax Authority	1 day	Capital tax, 1% of capital
6	Obtain a stamp from the Lawyers' Pension Fund	1 day	EUR 30 cents (cost of the stamp to be affixed)
7	Obtain certification by the Lawyers Welfare Fund	1 day	EUR 5.8
8	Submit the Articles of Incorporation and register with the secretariat of the Court of First Instance, which issues a register number	1 day	Minimal charges of approx. € 5 for photocopying and stamp dues
9	Submit summary of the Articles of Incorporation to the Printing Office for publication in the Official Gazette (Fyllo Efhmeridas ths Kyvernhsews)	26 days	EUR 271.80
10*	Register at the Chamber of Commerce and Industry	1 day, simultaneous with procedure 9	EUR 146,48 + 2.4 % stamp duty
11*	Register with the relevant social security authorities	1 day, simultaneous with procedure 9	No charge
12*	Obtain a Tax Registration Number (AFM)	1 day, simultaneous with procedure 9	No charge
13*	Make a seal	1 day, simultaneous with procedure 9	EUR 40
14*	Have the Tax Authority hole-stamp the company's invoice and account books	1 day, simultaneous with procedure 9	No charge
15*	Notify the Manpower Employment Organization (OAED) within 8 days of hiring a worker	1 day, simultaneous with procedure 9	No charge

* Takes place simultaneously with another procedure.

** Detailed information can be found in the Source

Source: Doing business⁴⁶

⁴⁵ <http://cordis.europa.eu/erawatch/index.cfm?fuseaction=ri.content&countryCode=GR&topicID=33>

⁴⁶ <http://www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=77>

6.1.2. SME Support infrastructure

“The strategic goal of the Government’s policy on SMEs is to release their vast potential for improving competitiveness, increasing employment, enhancing economic growth and improving social cohesion”. (National Reform Program 2005-2008, Implementation Report, 2006). To facilitate such activities, several organizations and implementations are provided by the Greek government. The scope of National Council of Small and Medium Sized Enterprises, which makes proposals to the competent state organizations regarding actions and policy measures in support of businesses and SMEs in particular, has been improved. Centers of Entrepreneurial and Technological Development (KETA) are peripherally organized structures directed by the MoD, whose role is to inform and support the local enterprising community on the basis of their individual needs. Investor Reception Centre (KYE) –there are 52 of them, one in each county of the Country- informs entrepreneurs and future investors about the relevant legislation and the required documentation for every business category; also receives applications and coordinates bureaucracy procedures. Hellenic Centre for Investment (ELKE) is the national investment agency responsible for promoting, attracting and supporting foreign direct investment into Greece; as well as informing investors on investment opportunities, providing information and guidance on procedures required by central and local authorities, assisting in securing the necessary licenses and providing personalized assistance and advising the investor to ensure smooth implementation throughout the investment process. New Economy Development Fund (TANEO), Guarantee Fund for Small and Very Small Enterprises (TEMPME) facilitate the access of small and very small enterprises into the financial system of Greece via providing guarantees & counter-guarantees, and undertaking part of their financial and commercial risk. Additionally, in order to provide flexible funding mechanisms for SMEs, the establishment of Venture Capital Funds, Seed Capital Funds and Business Angels is being supported. In addition, VEPE is being expanded and upgraded, while new legislation is being enacted in order to turn the above network into modern business parks. The national legislation has been amended and CSF (Community Support Framework) funding procedures for SMEs have been simplified in order to reduce the administrative burden and to handle more effectively the increasing participation of SMEs. The National Observatory for SMEs has been established in order to monitor the developments as far as the competitiveness of SMEs is concerned. Furthermore, studies for improving two SME Research and Analysis Institutes by SMEs bodies (GSEBBE, ESEE) are still continuing. Of particular significance is the role of the Hellenic Foreign Trade Board (HEPO) that has been actively promoting Greek exports and is playing an increasing role in coordinating export activities in the periphery and facilitating the openness of SMEs. From 2004 until the end of 2006, HEPO has implemented 210 actions for the promotion of Greek products. Operational Program “Information Society” (initiatives “Go Online”, “Meteho”, “and Go electronically” etc.) introduces internet to small and very small enterprises. Also several measures are implemented in Greece to facilitate and increase innovative capacity of SMEs. Some of them are presented below:

Reinforcement of SMEs in subcontracting: The scheme supports the SMEs for developing subcontracting in the manufacturing sector. The aim is to accelerate their modernization and become more competitive.

Regional Innovation Poles: The program aims at the development of research and technological activities in business enterprises, the reinforcement of innovation in SMEs, and the development of the public research and technological infrastructures of regional interest, related to the priorities of the poles.

Metecho: It addresses the problems of small firms employing 2 to 10 people and operating for more than one year. It subsidizes the adoption of the information and communication technologies through projects of 4000 to 100000 Euros.

6.1.3. Financing Start-ups

Greek VC market started to develop after 1997. Since then, Greek government has made several attempts -for instance, the national legislation has been amended and CSF, which provides a large part of funding and simplified procedures for SMEs in order to reduce the administrative burden and to handle more effectively the increasing participation of SMEs- to provide incentives for the growth of the VC industry and to set a Regulatory Framework that will promote the smooth operation of the market. A legal framework was established in Greece, with the enforcement of Law 1775/88, which introduced the Venture Capital Provision Firms (EPEK). With Law 2367/1995, the first law was amended in order to support the development of VC and PE market as well as EPEK was renamed with Venture Capital Firms (EKES). To boost the VC Industry, a new legislative regulation was introduced in 2002, by Law 2992/2002 and also paved a way for the establishment of AKES which is a closed-end VC mutual fund, formed as a partnership. Lastly, Law 568/2005 was enacted to foresees the establishment of the Digital Leap Fund, which is a State sponsored VC fund and aims at facilitating entrepreneurship and the development of new businesses, by financing with € 100 million either ICT business start-ups or ICT-related business start-ups.

Private VC started to emerge -either as affiliates to large banks or as initiatives of financing institutions-, commercial banks began to act as intermediaries from the Operational Programs to SMEs and micro-enterprises. At least 14 organizations are directly/indirectly engaged with financing start-ups. One of them is TANEQ -Fund of Funds, in which the only investor was Greek government, but later on, the fund also raised private capital-, whose aim is the minority participation in closed-end Venture Capital Funds (AKES), Venture Capital Companies (EKES) and similar VC organizations (Overview,2007). TANEQ focuses on providing support for knowledge-based, technology intensive and innovative activities. The full utilization of TANEQ's potential will start in the forthcoming funding period and it is expected to act as a contact link between Greek and foreign enterprises. The fund's budget stands at 150 million €, of which 45 million € is public contribution and it is intended to be transferred in the 4th CSF. Another one is Credit Guarantee Fund of Small and Very Small Enterprises (TEMPME) that is fully operational with an equity capital of approximately 250 million €, 33% of which is public expenditure. It helps SME'S (with up to 30 employees) to gain access to credit and until February 2007 1857 SME'S have received credit of total budget of 44.99 million Euros. These two funds will become more specialized during the forthcoming planning period 2007-2013. With an aim to provide new flexible funding mechanisms for SMEs, the establishment of VC Funds, Seed Capital Funds, and Business Angels is being promoted. Particular emphasis is placed on providing indirect support to innovative SMEs in the trade and services sectors and to new businesses emerging from the utilization of research output. Moreover, support for spin off companies are provided through a pre-seed funding scheme (PRAXE A), according to which, individuals can submit proposals for scooping a new idea and developing a business plan and financing a mature business plan, through the scheme PRAXE B.

Greece has a relatively favorable legal and tax environment for the development of the VC since the Greek VC ranks in the upper half of the European classification in Benchmarking European Tax and Legal Environment (2006); and holds a satisfactory position in terms of how easily accessible funding is for enterprises; and the degree of support that banks offer to enterprises in terms of banking and financial services. However, the sector has not achieved sufficient maturity in terms of VC and Private Equity (PE). "Taking into account the Private Equity investment as percentage of GDP, Greece is ranked in the nineteenth position among the EU countries for 2005, far below the European average" (Overview, 2007). For instance, Greece is ranked in the lower places among the EU countries regarding the amount of VC investments in high-tech sectors. The details and availability of VC investments can be seen below:

Table 28.

Venture Capital Investments (2006, Total)

Sector	Invested Capital in 2006 (in thousand €)	Number of investments 2006	Total invested Capital (in thousand €)	Total number of investments
Software, hardware, internet	1030	3	52.967,69	31
Communication	1570	2	25.223,57	10
Electronics	900	2	4.900,00	3
Biotechnology	145,5	1	3.145,50	2
Medical devices	4500	2	14.280,50	7
Pharmaceutics	0	0	14.759,14	4
Food	4000	2	31.870,60	14
Services	9150	2	34.859,57	13
Other	25330	6	122.991,70	41
Total	46625,5	20	304.998,30	125

Source: Overview, 2007

6.1.4. Tasks for improvement and future development of the Grec SME sector

Promotion of specific financial tools and funds to support new entrepreneurs shall be developed as the funding problem appears for entrepreneurs who seek funding in excess of 150,000 €.

Special attention must be given to encourage the development of the so-called micro enterprises such as: handicrafts, firms with less than 5 employees in every sector of the market, being: production, services, tourism, etc.

The lack of mobilization is the weakest element in the innovation–research and technology system, and reflects general structural weaknesses in the production base, e.g. small enterprises, traditional branches, extremely limited workforce in fields generating technological innovation, technological transfer, in-house development, lack of high-level scientific staff in enterprises, risk prevention.

Although courses are being held for further training of teachers who will teach entrepreneurship in technical schools and institutions for vocational training, these measures still need to be developed in this area as they are still sporadic. Creation of a favorable environment through a process of collaboration of government bodies, enterprises, teaching, and research institutes in order to upgrade the quality of various specialized programs need to be accelerated.

Clusters' links and collaborations with local educational and research institutes shall be developed to upgrade quality and create specialized programs addressing cluster needs.

Demand for engineers, scientific executives, and ICT specialists, is expected to rise significantly in the following years, there is need to develop links between universities and business to satisfy these needs.

Although a law was adopted on life-long learning, which is expected to systematize the existing frameworks for education and training, there is still need to improve measures to be taken to respond to the challenges of life-learning.

In the area of bankruptcy and restructuring procedures and to promote making a fresh start, more action is needed.

Greece started to receive reduced EU funding after 2006 and face intense competition from EU accession countries. Therefore reforms, implemented by Greek governments, shall be accelerated to catch-up other countries started much earlier if growth is to be sustainable.

Creation or initiation of the so called GREEN mutual fund instrument, which helps enterprises dealing with ecological products and policies and operations, shall be developed.

In the promotion activities, all kinds of promotional tools and means that are able to foster the international business relations, should be envisaged.

The existing network schemes currently look complicated and in some cases overlapping each other, and therefore, their role and supports for SMEs are in question.

Although business expenditure on R&D (BERD) is not only a way for businesses to launch new products and processes, measures introduced should be improved for increasing BERD and SMEs innovating in-house, at least to establish a way to improve their absorptive capacities and hence facilitate an effective innovation diffusion process.

The greatest part of RTD activity is financed from public expenditure, whereas the business sector is lagging behind dramatically, particularly, the highest proportion of business expenditure on RTD comes from large and medium-sized enterprises, although they make up a small proportion of the total of enterprises. Therefore, Greece should not only increase its ratio of private to public expenditure but also the contribution of small sized enterprises in RTD activities.

Sufficient participation of business sector, especially SMEs, in innovation governance process shall be provided

Simplification or unification of licensing, documents, reports, procedures, etc. where possible, shall be continued without lowering quality level, however, measures shall be taken to encourage related parts for changes.

Regarding Broadband Action Plan to 2008, falling prices and the initiatives taken by service providers have led to an increase in the penetration rate from 0.47% at the end of 2004 to 2.67 in June 2006, though there is need for further study in this area to provide further spread of broadband in regions where citizens and businesses currently have difficulties in gaining broadband access.

The measures aims at increasing electronic governance implementation, creating one-stop shops for the better service of citizens and enterprises, as well as for the use of the internet for commercial purposes (e-commerce) should be improved.

Necessity-based entrepreneurship is still high due to the long-term development of Greek businesses, rather than opportunity and/or corporate entrepreneurship. Greece should not only develop better employment opportunities, but also create favorable conditions for the transition from a small or medium-size "family business" to a "professionally managed" business.

Out of all entrepreneurial endeavors made in Greece, 16.14% can be characterized as high-potential (contributing to market expansion, new job creation, increasing export orientation, etc.), which means, in the following years, very few activities are expected to

create more than 20 new jobs (per activity). Thus, Greece should develop its entrepreneurial activity type and quality.

Greece's entrepreneurship problems also include weaknesses with regard to the long-term development of Greek businesses and the transition from a small or medium-size "family business" to a "professionally managed" business.

Small size enterprises face with relatively low production potential and a difficulty to operate within global market due to lack of specialization and limited use of economies of scale in product manufacture and trading; limited capacity for high-volume investments in new technology equipment; difficulty of following developments in domestic and foreign markets; lack in information and in many skilled labor categories; difficult access to the banking system.

The measurements related with ICTs should be accelerated to improve contributions of new technologies in the productivity of the Greek economy and in the quality of daily life of the citizens.

Labor productivity, especially in SMEs, should be increased via dealing with entrepreneurial problems (red tape, regulatory interventions), lack of competition, the small size of enterprises, lags in adoption of new technologies, and weaknesses of the education system.

Funding mechanisms for SMEs such as VC, PE funds, seed capital funds, and business angels should be developed, especially for high-risk companies.

6.2. TURKEY, AS THE EU CANDIDATE COUNTRY

Turkish economy was restructured towards open market economy in 1980s. In other words, it was redirected towards export-based growth. For instance, Turkey's total export increased approximately 5 folds between 1979 and 1987, i.e. from USD 2.3 billion to USD11.7. In accord with this increase, the structure of exported materials started to change from agricultural products to industrial products. This process was disrupted by two crises in 1990s, in the years 1994 and 1999. This trend continued by other two crises in 2000 and 2001, in which Turkish economy felt a sharp turnaround in GDP down to 7.5 decreases.

Due to macroeconomic conditions, inevitably, Turkish SMEs also oscillated. Last two crises reflections can be best summarized by registry/closure ratio, according to Turkish Statistical Institute (TURKSTAT) data; 225,224 companies were officially registered while 59,058 were closed down in 1999, put differently, the percentage of closure was 26. However, the number of registrations was 120,295 and that of closures was 101,999 in 2001; in other words, the percentage of closure went up to 84. In 2002, although the number of new registries rose to 122,091, that of closures increased to 116,100, so the percentage of closure rose to 95. In short, negative macroeconomic conditions resulted from several issues, such as repetitive crises, high long-term inflation and high interest rates etc., let Turkish SMEs more vulnerable to external influences. After recovery process, Turkish economy started to increase its development acceleration. In the last three years, the average growth rate of Turkish economy was about 7%, export doubled from 35 to 72 billion USD and manufactured production covers approximately 80% of Turkish export. In other words, the improvement of Turkey's investment environment, the decrease in the inflation rate, the attractiveness for foreign capital, create suitable conditions for SMEs, which form the backbone of Turkish economy and its success.

Turkish SMEs account for 99.8% of all companies, including those in the service sector and they employ 76.7 % of the total workforce. The share of SME investments within total investments reaches 38%, and, 26.5% of the total value added is also created by these

enterprises. According to TURKSTAT, the total number of enterprises in Turkey in 2003 was 1.720.598. Out of them, the number of enterprises operating in manufacturing industry was around 246.899 in 2003, and increased up to 280.000 in 2005. The increase in number of enterprises was about 3% annually. Based on 2005 figures of the Statistical Institute, -taking those enterprises employing up to 250 workers into account-, SMEs operating in the manufacturing industry employ 922,715 people. SMEs constitute % 99.63 of all the enterprises in the manufacturing industry, and they account for 55.65% of employment in this sector. Manufacturing enterprises constitute 14.35 %, while commercial ones make up 46.19 % of all enterprises.

Distribution of manufacturing industry establishments by scale is given in Table 29. Almost 90% of the manufacturing industry is composed of micro scale establishments with 1-9 persons engaged and their ratio is approximately 27.6% in total employment. The second largest portion is 8.24% collected by establishments with 10-49 persons engaged. In addition, except the establishments with 1 person (owner), for each range of number of workers, the amount of establishments is less than 1000.

Table 29.

Distribution of Manufacturing Industry

Number of workers	Number of Establishments	Establishments (%)	Employment (%)
1 (Owner)	1,509	0.61	27.6
1 – 9	220,030	89.12	
10 – 49	20,325	8.24	20.9
50 – 99	2,453	0.99	34.9
100 – 150	946	0.38	
151 – 250	719	0.29	
250 +	917	0.37	30.5
Total	246,899	100	

Source: Special Report on SMEs

As directly or indirectly indicated in several plans such as Medium Term Plan 2008-2010, SME Strategy and Action Plan, Ninth Five Year Development Plan, etc., the basic targets of SME policies are to increase the productivity of the sector, its share in total value added and its international competitiveness. To realize this aim, Turkey has implemented several policies in different areas. In financial area, it has been aimed to increase the share of SME credits within the total credit volume of the banking system and to strengthen institutional capacity in the field of venture capital (VC), finance investment partnerships, and real estate investment partnerships in order to enable SMEs to use these modern financial instruments. In non-financial area, it has aimed to increase the effectiveness of support by means of developing communication and interaction between service providers and SMEs, and professional organizations representing SMEs. Furthermore, greatest importance lies in strengthening of the institutional capacities and partnership skills of all service providers, public institutions and organizations and professional organizations, in order to deliver higher quality services to a higher number of SMEs. In addition, concentrate supports have been implemented in the areas of training, consultancy and R&D directed to the development of the technological infrastructure of firms. To achieve these aims, several steps have been taken, such as with the contribution of all the related institutions, a web portal⁴⁷ was published to provide the SMEs with necessary information on the best practices, strategic road map application has been initiated by Small and Medium Industry Development Organization (KOSGEB) to give an insight about how to conduct business in the medium term, Technological Development Centers

⁴⁷ www.kobi.gov.tr

(TEKMER) are designed to give support to SMEs in the technologically intense projects and improvement of their R&D activities, the legislative procedure of setting up Match-making Centers enabling SMEs to set-up national and international partnerships in trade, joint production or investment to take part and compete in international markets, were completed and the implementation process has been started .

Therefore, the importance of SMEs in the economic and social life has started to be acknowledged much better, and accumulation of experience and information in terms of SME policies began to proceed. However, it is a well known fact by all related parties that the SME policies are not yet at the demanded or required level. For this reason, SME policies should target towards the setting up of the required physical and technological infrastructure to increase the international competitive power of the SMEs, the reduction of input costs for competitiveness, the creation of suitable work environments via improving the financial opportunities and access to technology, and the increasing the productivity and added value of SMEs.

6.2.1. Legislation and steps of doing business

In terms of the legislative regulations, it is possible to summarize the basic strategy of Turkey under two headings. First of these is such topics as the cancellation of the redundant legislation, the completion of the required legislation, the combination of the legislations with the same subject matter, the elimination of the authority contradictions in the implementation of legislations among institutions, the use of ICTs in the implementation of legislations to facilitate the operations, etc., which require urgent attention. The second heading is the adjustment of the legislation to the EU legislation particularly under such chapters as free movement of properties/capital/people, corporation law, competition policy, food safety, environment, science and research, enterprises, and industry policy. All these regulations are considered with the aim of improving innovativeness, competitiveness, and institutional structure of SMEs in the international arena. Selected major laws, decrees, ministerial orders etc. promoting SMEs are stated as follows.

The Law on Amendments on Turkish Commercial Code No:4884, Tax Procedural Law, Stamp Tax Law, Labor Act and Social Securities Law came into force on 17 June 2003. The said law enabled association of a company in one day, by granting authority to Trade Registries and company association processes was reduced to 3 transactions from 19 transactions. With the Law No.5569, it is aimed to restructure the debts of SMEs to banks and other financial institutions and form new payment plans; to restructure the loans emerging from the use of electricity, natural gas, telephone or water and the loans to tax offices and social security institutions and followed in accordance with the provisions of the Law on the Collection Procedure of the Public Receivables Legislation No.6183. In order to start inflation accounting for eliminating the adverse affects of inflation on the financial statements, the Law No: 5024 amending Tax Procedural Law, Income Tax Law and Corporate Tax Law came into force in January 2003. Additionally, the Law No: 4842 amending Certain Laws came into force in April 2003 and collected existing tax exceptions and exemptions under main Tax Law that enabled automatic application of 40% of R&D investment discount. The Law No: 5101 amending certain laws, came into force in March 2004 and this law aims to strengthen intellectual property system, to prevent piracy considering international commitments and sector requests, to address the problems between the producer sectors and users in terms of using products subject to intellectual property. New regulations on "Opening a Business Place and Work License" have reduced the required number of documents from 52 to 6 for licensing of sanitary business places, and from 43 to 7 for licensing of non-sanitary business places. Within the scope of the studies of the Technical Committee on SMEs, the Law No: 5331 on the definition of SME came into force in April 2005. A single SMEs definition will be made in harmony with EU legislation, and this definition shall be applied to the legislation and program of all the undertakings and organizations, the names of which include SMEs, medium size enterprise,

small size enterprise or micro enterprise terms. Moreover, in 2001, the Law on Technology Development Zones (TDZ) was put into effect with the aim of supporting technology-based enterprises, developing cooperation between universities and the industry, and facilitating the spread of technology. In order to encourage investments, and increase foreign capital inflow, the Law Amending the Law of Industrial Zones and the Law of Organized Industrial Zones was put into effect in 2002. Law No: 5084 on Encouragement of Investments and Employment and Amendment of Certain Laws was put in force in 2004 to encourage investment and employment in the least developed regions via tax and social security incentives, energy support and free-of-charge land allocation. The foreign direct investment Law No. 4875, which has been in force since 2003, emphasizes the key elements of the liberal investment environment in Turkey, and represents "legal guide" to international investors about their rights and obligations. Since all companies established in Turkey within the framework of the Turkish Commercial Code are considered Turkish companies, all duties and responsibilities are the same, regardless of the nature of the capital structure of the company. Decree on Organization and Duties of Turkish Patent Institute in 2003, Certain Laws in 2004, Protection of the Integrated Circuit Topography in 2004, Trademark Convention in 2004, The Hague Convention on International Registration of Industrial Design in 2004, Amending Certain Decrees in 2004, Approval of Participation to the WIPO Performance and Phonograms Treaty in 2007, WIPO Copyrights Treaty in 2007 aimed to provide adjustment with WIPO and strengthen IPR system in Turkey. Furthermore, some of the recent important policy documents are presented below in Table 30.

Table 30.

Recent Important Documents

Document	Publication Year	Type of Document	Short Explanation
Ninth Development Plan (2007-2013)	2006	Consultative document	Cover all main targets of Turkey, including SMEs and establish a framework
KOBI Strategy and Action Plan	2003	Official Government Report	Targets of support mechanisms and the planned actions of various institutions to strengthen SME functions had been clearly defined
Medium-Term Program (2006-2008)	2006	Consultative Document	The main objective for enterprises is to enhance their technological capability, ensure their adaptability to changing conditions and competitiveness both in domestic and global markets.
Vision 2023	2005	Strategy Document	Turkish National Technology Foresight Program

Table 31.

Doing Business			
No	Procedure	Time to complete	Cost to complete
1	Execute and notarize Articles of Association of the Company, signature declaration of the managers of the Company and certified copies of each manager's identity card or passport	1 day	about YTL 400
2	Deposit 0.04% of capital to the account of Competition Authority at the Central Bank, paid to any Ziraat Bank branch.	1 day	0.04% of capital
3	File the Incorporation Notice Form, Commitment Letter and Chamber Registration Statement the Trade Registry Office	2 days	YTL 150 (initial registration fee of Chamber of Commerce) + YTL 195 (first manager's signature) + YTL 150.70 (for each additional manager) + YTL 355 (commercial registration) + YTL 0.15 per word for publication; YTL 0.30 (Trade Registry Gazette fee); YTL
4	The Notary certifies the legal books	1 day (simultaneous with previous procedure)	The Notary Public shall notify the tax office of the certification of the commercial books. The fees are as follows: 10.50 YTL for the opening certification per book; 3.60 YTL for certification up to 100 pages and 3.60 YTL for certification for each additional 50 pages. The certification of the legal books should be completed the day that the Company is registered with the Commercial Registration.
5	Follow up with the tax office on Commercial Registry's notification	1 day	no charge
6	Deposit the initial capital in a bank and obtain the certificate of paid-in capital	1 day	no charge

Source: Doing business⁴⁸

6.3.2. SME Support infrastructure

It is accepted that SMEs are important in creating income and employment owing to their flexible structure. SMEs process an important place in Turkish economy; as mentioned above, 99.63% of all companies are SMEs. Having realized this fact, several institutions and organizations were established to develop SMEs' infrastructure. Ministry of Industry and Trade (MoIT) facilitates determination of industrial policies, provides and encourages rapid and sustainable development of industry, promotes competitiveness of SMEs, holds records of the

⁴⁸ <http://www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=191#4>

industrial enterprises. Undersecretariat of State Planning Organization (SPO) prepares long-term development plans and annual programs, develops future-oriented strategies and policies in cooperation with related institutions. KOSGEB supports mechanisms for increasing competitiveness of SMEs, encouraging entrepreneurship and innovative start-ups. The Undersecretariat of Treasury deals with state aid for investments, financial transfers to public enterprises. The Undersecretariat of Foreign Trade provides support mechanisms for improving export capacity. Ministry of Labor and Social Security engages with rules for employment, registration. Ministry of Finance deals with taxation, finance matters for enterprises. TUBITAK focuses on support and policy making for R&D, scientific research, innovation activities. The Union of Chambers and Commodity Exchanges of TURKEY (TOBB) represents private sector, ensures unity and solidarity between chambers and commodity exchanges, facilitates professional work of members, and promotes confidence in the relations of members with the public. The Confederation of Tradesmen and Artisans of Turkey (TESK) coordinates and represents tradesmen, craftsmen chambers and the federations, takes vocational measures for its members according to national and global economic development, provides vocational training. Turkish Technology Development Foundation (TTGV) supports technology development projects. Export Promotion Center of Turkey (IGEME) is a non profit public organization and its main responsibility is developing and promoting the country's export levels. Tradesmen and Artisans Credit and Security Cooperatives Union Central Association of Turkey (TESKOMB) was established as an umbrella organization bringing together all the cooperatives established throughout and it is providing guarantee to its members in order for members of TESKOMB to contract loan with low interest rates from Halkbank. Furthermore, Second National Market and New Economy Market were established by Istanbul Stock Exchange (IMKB). Aim of the Second National Market is to promote trading in stocks of SMEs in order to provide liquidity. New Economy Market, on the other hand, consists of technology companies such as IT companies, electronic and telecommunication companies, etc., and provides liquidity by offering their stocks to the public via the ISE. Another significant support to SMEs is given by Turkish Standards Institution (TSE) for the purpose of preparing standards for every kind of item and products together with procedures and services. Turkish Patent Institute (TPE) provides effective protection and widespread usage of industrial property rights. Also several measures are implemented in Turkey to facilitate and increase innovative capacity of SMEs. Some of them are presented below:

R&D Tax Exemption: This measure aims at stimulating investment in R&D by the industry through tax incentives of 40% of the expenditures of companies, including SMEs.

Support for Hiring Qualified Personnel by SMEs: With this measure, grants are provided for SMEs to hire qualified personnel with a university or vocational higher school degree to improve SMEs access to new technologies and know-how. The level of finance varies.

ICT Support: This measure targets diffusion of information technologies and e-business in SMEs such as computer aided design, e-commerce activities etc.

Machinery/Equipment Support for Common Use by SMEs: The measure targets establishment of Common Facility Workshops (ORTKAs) and the Common Purpose Laboratories (ORTLABs) for the use of SMEs. They are founded by the KOSGEB together with SMEs and regional umbrella organizations.

Support for R&D Investment: This measure targets to increase R&D investment by the industry by financing (50% of machinery, equipment and software expenses) the procurement of R&D related equipment.

Industrial Property Rights: This measure aims to support protection of IPR by SMEs. Grants are provided for patent, useful model and industrial design applications of SMEs to the Turkish Patent Institute.

Training Support: The measure aims to increase the competitive advantage of SMEs by upgrading their human resources, giving them the necessary qualifications, knowledge and skills to apply new high technologies.

State Support for R&D (loan by TTGV): This measure aims to stimulate investment in R&D by the industry by providing soft loan up to 50% of the project budget with a maximum duration of 24 months.

State Support for R&D (grant by TUBITAK-TEYDEB): Grants are provided for R&D projects of the industry up to 60% of the project budget with a maximum duration of 36 months. Co-operation between the research and business communities is promoted under this measure.

Consultancy Support for SMEs: The measure foresees fostering innovative organizational and management practices in SMEs by supporting procurement of consultancy. Percentage of the project budget to be financed changes from 60% to 80%, depending on the level of development of the region where the SME is located. 100% support is provided for start-ups.

Technology Research and Development Support: The measure aims to support research and development activities of SMEs. A mixture of grants and soft loan is provided for this purpose.

6.2.3. Financing Start-ups

Although the first organized attempt to raise a PE fund targeting Turkey was undertaken in 1991, the first regulation, related with VC, was made by Capital Markets Board of Turkey in 1993 and three amendments were made in 1998, 2003 and 2004 to develop the sector. Until now, the sector has shown several fluctuations because of political and macro economical conditions as mentioned above. It is estimated that between 1993 and 1999, approximately US\$ 36 million was invested into 10 companies. Especially in this term, there was high volatility in the market and political conditions did not support the for long term investments. Specifically in 1999-2000, it was the first time in Turkish market history, a relatively larger number of PE investors started entering and investing in Turkey due to international macro economic conditions and IMF-Turkey relations. It is estimated that approximately US\$ 114 million was invested in 13 companies during this term. However, these favorable conditions changed suddenly and activities had started to decrease pertaining to the sudden change of good conditions due to several reasons such as earth quakes, economic crises and the 9/11, etc., until 2003. Since 2003, "private equity investments started to increase in 2003 and 2004 as EU accession negotiations became a possibility and as the economy responded positively to strict implementation of the IMF measures by the governments in power after the February 2001 crisis...approximately US\$ 167 million was invested in the above 13 companies during this period" (article). During 2006 and May 2007, 15 investments were made and approximately US\$ 2.5 billion was invested. The summary of investments can be seen in Table 32.

Table 32.

Number and Amount of Investments

	Before 1999	1999-2001	2001-2005	2006-2007	Total
Estimated number of investments	10	13	13	16	51
Estimated total invested amounts USD (million)	36	114	167	2.527	2.844

Source: Deloitte, 2007

Although several legal regulations and measures have been implemented by Turkey, -for instance, new entrepreneur support mechanism that aims to promote and disseminate the culture of entrepreneurship by financial supports and loans, which are EUR 6,250 and EUR 25,000 respectively-, it is commonly accepted that instruments, especially financial, are not enough to facilitate establishment of start-ups and the huge increase in investment, realized in the last two years, still depends on considerable efforts of a few Turkish intermediary institutions and key

individuals, rather than well structured mechanisms. In other words, VP/PE need to be extended and their effectiveness need to be increased. It is clear that capacity and sources of existing VP/PE firms are insufficient. While Turkey is trying to upgrade its prerequisite for long-term competitiveness, it faces with vicious circle due to low input innovation drivers and limited market expectations. Therefore, new business development is limited and mostly not in high tech areas, whereas VC is not developed due to the low numbers of highly profitable eligible investments.

6.2.4. Tasks for improvement and future development of the Turkish SME sector

Know-how in SMEs, mechanisms and institutions supporting the commercialization of research results and the start-up of innovative businesses are not sufficient, related measurement should be taken to overcome these bottlenecks in front of Turkey in gaining adequate benefits from international market.

Companies need additional measures to encourage the creation of VC, PE etc, funds and financing the commercialization of R&D results. Also combined effects of scarcity of capital in domestic market, FDI, venture and PE capital funds, not only make difficult to start up, but also hamper access to international export markets, together with slowly developing international networks.

Due to the low level of awareness of investment in R&D, of innovation in the private sector and of the implementation conditions of the measures, responsiveness of the respective target groups to the support measures is quite low. As a result, low technological levels of SMEs constitute the most important obstacle in front of their international competitiveness. Alternative ways should be developed to strengthen programs aimed at promoting technology dissemination towards SMEs and keeping them up with best practices at home or internationally.

Governments should adopt user-friendly administrative documents, public authorities should be urged to increase their electronic communication with the SMEs, which is faster and cheaper, and on-line access to information and services should be improved.

Although the diffusion of ICT is among the priorities of the Turkish government, the broadband penetration rate and overall ICT diffusion in Turkey is low. Thus, measures should be improved to provide the dissemination of ICTs in SMEs.

Although Turkey shows relatively good performance in business financed university R&D and recent efforts to stimulate cooperation between firms and universities have demonstrated positive results, there is a need to encourage the improvement of university-industry collaboration through the establishment of technological support and development centers, techno-parks and technology institutes as well as cluster development and networking among firms.

Creation or initiation of the so called GREEN mutual fund instrument, which helps enterprises dealing with ecological products and policies and operations, shall be developed.

The driving force behind growth of Turkey has been relative cost advantages of its SMEs. However, some countries, especially China and India are achieving and sustaining a much better cost position. Changing the sources of competitive advantage from such non-managerial factors as cheap labor and raw materials to such managerial competencies as good management practices, flexible and clever organizations, knowledge management, etc. should be taken into consideration immediately.

The recognition of the critical importance of the human capital has not been appreciated adequately until now by SMEs. The measurements that force SMEs to employ/hire high-quality human capital and suitable strategies to minimize shortage of skilled manpower in SMEs should be developed.

Turkish SMEs do not produce products at the quality and variety as much as it is expected. The measures should be taken to enforce SMEs to produce high quality products rather than to encourage them. Increased attention should be paid to ensuring sufficient national qualitative and quantitative data to make reliable evaluation outcomes of implemented strategies and given supports.

General knowledge about business and entrepreneurship needs to be taught at all school levels. Entrepreneurship courses should be included in schools and universities throughout Turkey

National bankruptcy laws should be assessed in the light of good practice as well as tax systems should be adapted to reward success, encourage start-ups, favor small business expansion and job creation, and facilitate the creation and the succession in small enterprises. Furthermore, legal base should be developed to create additional financial supporting mechanisms i.e. business angels.

Although there are many agencies providing various services to SMEs, the service network is not well-developed. It should be broadened throughout the country.

Not only the large numbers of informal businesses need to be encouraged to move into the formal sector, but also measures should be taken to discourage corruption and to promote ethical and corruption-free working practices. Consultant accreditation system, business match-making system, awareness of SMEs regarding IPRs should be improved.

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7. SUGGESTIONS FOR THE SME DEVELOPMENTS IN THE BLACK SEA REGION ⁴⁹

The Experts of this report suggest the following orientation for action in the field of improvement of the SME sector in the BSEC region:

1. The WG on SMEs should regularly review the implementation of this Declaration and the development of entrepreneurship and the (private) SME sector in BSEC Member States evaluation. This is an urgent task and PERMIS should find a solution jointly with the Chairmanship-in-Charge to vary out this task. This might be a major objective for a Ministerial Meeting during 2008 or 2009. Annex 5. compiles a possible Questionnaire on the implementation of the BSEC Declaration on SMEs.
2. Develop an international body (committee, or it could be an annual conferences or meetings) with the broad functions of support of the SME activities in the Black Sea region. Each of the countries of the region has to have a representative to this body, which would be instrumental in joint strategy of Black Sea Region countries in SME sector development. Among its functions could be making detailed recommendations for each country with the description of possible options of financing and co-financing; informing on existing projects in the other Black Sea countries for the most beneficial for all sides cooperation.
3. Assessment of the dynamic change in demographic, socio-cultural, political/legislative, macroeconomic, technological and global dimensions for each country involved.
 - It needs to form a group of internationally recognized experts and develop a methodology of analysis and qualitative and quantitative standards for the SME sector developments in the region
 - Discuss and evaluate suggestions on different forms of cooperation between countries – joint projects and programs
4. Develop a SME Information Network for the Black Sea Region countries and enforce the countries' efforts in implementing IT in the SME businesses. The headquarters for a BSEC SME Network might be either at the PERMIS BSEC, or as an independent web at one of the leading and economic powerful country line Greece, Russian Federation or Turkey.
5. Using the network share the advancements of laws related to the SME sector in different countries and procedures of doing business that make them more business inspiring. Bureaucratic procedures for business start-up should be improved.
6. In order to make comparable statistics as well as government support measures, the participants of the Workshop suggest to harmonize the definition for SMEs taking into consideration the EU definition relating number of employees, and limit the annual turnover in accordance with the local economic performance of the country.
7. It would be useful to organize Annually BSEC Forum on Entrepreneurship similar to the Conference on the Implementation of the European Charter of SMEs supervised and directed by the European Commission. The Black Sea Trade and Development Bank (BSTDB) established in Thessaloniki might finance the organization of such kind of event. The main purposed of such Forum would be exchange of information and best practices in the major subjects of the BSEC Declaration of SMEs, especially simplification of procedures and reducing red tape, SME support infrastructure, improving entrepreneurial skills, financing SMEs, etc.

⁴⁹ Prepared by Dr. Irina Y. **NAOUMOVA**, Dr. Anna **PETROSYAN**, Dr. Antal **SZABÓ**, Dr. Alakbar **MAMMEDOV** and Umut Yilmaz **CET•NKAYA**.

8. Elaborate and apply a common granting system for SME development measures/programs in BSEC countries in order to create new opportunities for provision of “on demand” support to SMEs, which in turn will path a way to more efficiently utilize the potential of SME sector in light with the social-economic development of the BSEC countries.
9. Elaborate effective tools and develop advance financial instruments such as venture capital, private equity etc, at the BSEC region.
10. Share the knowledge of sustainable economic development including environmental friendly and “green” technologies.
11. Increase awareness of the SME products among the other Black Sea Region countries by having supplemental annual exhibitions.
12. Increase awareness towards youth entrepreneurship, women entrepreneurs, disables undertaking and minorities. It would be advisable to organize an Annual Competition of Best Entrepreneurs of the BSEC region similar to one organized by the UNECE.
13. Work on a program of cultural events (representing and selling the other country SME products) in the major tourist cities of the region.
14. Continue the well established support in organizing SME-related workshops and events with the technical and financial assistance of the Konrad Adenauer Foundation. As further possible subjects we suggests the following: entreprenbeurship eduvation, best practices in business incubation, university based technological parks and business incubators, microfinancing as tool for poverty alleviation, social corporate responsibilities, internationalization of SMEs, etc.
15. While continuing organizing SME-related workshops by PERMIS BSEC and the Turkish Representative of KAS, it is recommended to contact The Office of the Konrad-Adenauer-Foundation in Tashkent and investigate the possibility of convening joint workshop on SME strategies in Central Asia and the South Caucasus with support and participation of other BSEC countries.
16. Develop close relationship with the EU and UN Economic Commission, other international organizations, associations and networks
17. Seek for financial opportunities for joint projects across. the region

Annex 1.

MAP OF THE BLACK SEA COUNTRIES



Source: MY Travel Guide, <http://www.mytravelguide.com/travel-tools/maps/Black-Sea-map.php>

BSEC SME RELATED EVENTS
since the inauguration of the BSEC WG on SMEs

21-22 March 2002	Workshop on "The Role of Chambers of Commerce and Industry in Support of SMEs" BSEC-KAS-UNECE	Bucharest Romania
16-17 May 2002	1 st Meeting of the WG on SMEs	BSEC PERMIS Istanbul
23-24 September 2003	Workshop on "SMEs as Suppliers of Big International Companies" BSEC-KAS-UNECE	Kyiv Ukraine
27-28 March 2003	Workshop on "Promotion of SMEs – Development of Youth Entrepreneurship" BSEC-KAS-UNECE	Chisinau Moldova
April 2003	Meeting of the CEI WG on SMEs with participation of the Representatives of BSEC	UNECE Geneva
21-22 May 2003	2 nd Meeting of the WG on SMEs	BSEC PERMIS Istanbul
16-17 June 2003	Workshop on "Use of Information Resources in Internet for Start-ups and SMEs" BSEC-KAS-UNECE	Moscow Russian Federation
26-27 February 2004	Workshop on "Cooperation of Universities and Research Centers with SMEs" BSEC-KAS	Baku Azerbaijan
4-5 June 2004	2 nd Ministerial Conference on SMEs OECD	Istanbul
7 June 2004	Black Sea Business Day by Black Sea Trade and Development Bank	Tirana Albania
23-25 September 2004	Workshop on "Business Incubators for Nurturing Start-ups" BSEC-KAS-UNECE	Istanbul
12-13 January 2005	3 rd Meeting of the WG on SMEs	BSEC PERMIS Istanbul
20-21 March 2005	6 th International Exhibition of Plastics, Machines and Recycling	EOMMEX Athens
24-25 February 2005	Regional Forum on Private Sector Development by OECD, Hellenic Business Council and BSEC	Thessaloniki Greece
9-11 June 2005	Workshop on "Developing Sustainable SMEs – Vision and Reality" BSEC-KAS"	Bucharest Romania

17-18 June 2005	1 st Moscow International Business Forum "PRODIMPEX – Black Sea – 2005"	Moscow Russian Federation
13-16 October 2005	Workshop on "Financing of SMEs" BSEC-KAS	Belgrade Serbia and Montenegro
16-18 March 2006	Workshop on "SMEs in the BSEC Region – Reality and Vision" 10 YEARS OF COOPERATION BETWEEN BSEC AND KAS BSEC-KAS	Istanbul Turkey
4 July 2006	4 th Meeting of the WG on SMEs	BSEC PERMIS
12-15 October 2006	Workshop on "The Role of Co-operatives for SME Development" BSEC-KAS	Sofia Bulgaria
14-15 December 2006	1 st Workshop on SME Clustering KOSGEB	Istanbul
25-27 April 2007	Workshop on "SMEs in Tourism" BSEC-KAS	Athens Greece
3-5 October 2007	2 nd Workshop on SME Clustering SMEs KOSGEB	BSEC PERMIS
4-5 October 2007	5 th Meeting of the WG on SMEs	BSEC PERMIS

SWOT ANALYSES OF THE SME SECTORS IN THE BSEC REGION

ALBANIA

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Good reputation as business partner in selected sectors such as garments, shoes, herbs etc. • Proximity to the EU markets for technology transfer, sub-contracting, FDI and exports • Relatively educated and technically trained workforce. • Liberal regulations for development trade & investments • Low labour costs 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Limited financial resources for investments and operational costs • Inadequate and partly obsolete technology • Limited access to information on modern production technologies and markets • Inadequate skills for strategic management of companies and marketing • Inadequate entrepreneurial culture with regard to market and export orientation. • Under developed stock market, especially capital market infrastructure • Low level of domestic demand
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> • Access to credit of the private sector is assessed at 18-20% with a growth of 5% this year compared with the last year. So crediting portfolio has potential grown in Albania. • Albanian products are increasingly replacing import • Albanian businesses look to obtain higher regional access. • New financial support schemes such as guarantee schemes, leasing etc could be considered as future options. • Removal of administrative barriers in CEFTA 	<p>THREATS</p> <ul style="list-style-type: none"> • The existence of informal and grey economy. • Limited ability to increase competitiveness • Unfair competition • Uncertain political situation in Kosovo

Source: (1) SMEs in CITs, UNECE, New York & Geneva, 2006,

<http://www.unece.org/indust/sme/smepub03.pdf>

(2) Prof. Eric Dejan, 2007,

(3) Qemal Balliu, Executive Director, Small Business Foundation (SBF), Albania, 2007.

ARMENIA

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Application of core principals and directions of SME development in the result of efficient implementation of SME State support annual programs; • Provision of SME state support throughout Armenia via efficient operation of central and regional subsidiaries of the Small and Medium Entrepreneurship Development National Centre of Armenia (SME DNC of Armenia, established in March 2002 by the Governmental Decree); • Growing share of SME sector in the country's GDP and other macroeconomic indicators; • Registering property needs less number of steps in the BSEC region • Transparent evaluation report on the SME State Support Annual Programs available on net 	<p>WEEKNESSES</p> <ul style="list-style-type: none"> • Unfriendly tax administration; • Poor access of SMEs to financial resources; • Lack of alternative financial sources for SMEs; • Lack of managerial skills of SME leaders especially in the regions of Armenia; • Deficient level of mid and inter-regional economic cooperation between SMEs;
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • The continuous and targeted SME development policy will strengthen SME state support system, as well as enlarge directions, increase volume and geography of technical and financial support to SMEs; • Enlargement of the scope for international cooperation (EU countries and international/foreign organizations) will provide an opportunity to implement new projects and apply efficient mechanisms for development of SME sector on a new qualitative phase; • Membership of Armenia to World Trade Organization (WTO) enhances the opportunities for number of SMEs to enter foreign markets. • 	<p>THREATS</p> <ul style="list-style-type: none"> • Bureaucracy and corruption are seen as one of major threats hindering the development of SMEs; • Threat for unstable situation around Armenia and unregulated regional conflicts; • High polarization for income distribution of population;

Source:

- (1) Antal Szabó – Anna Petrosyan: SMEs in the Caucasian countries in transition. Spinger-Verlag 2006.
- (2) Review by Anna Petrosyan, Representative of the Ministry of Trade and Economic Development
- (3) World Bank Doing Business 2008, Economic Ranking

AZERBAIJAN

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Political and economic stability; • Government's full support for entrepreneurship; • Easy enterprise registration procedure; • Entrepreneurial skills and attitude of population toward entrepreneurship is relatively high; • Creation of legal basis for SMEs activity; • State support mechanism to entrepreneurship; • Low share of the population in poverty. 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Sectoral structure of SMEs does not meet the country's production potential; • Predominance of individual and family enterprises in entrepreneurship sector; • Unsatisfied support mechanism for start-ups; • Poor coordination of institutional changes, economic modernization and technological renovation of economy; • Lack of credit guarantee system for SMEs; • Lack of business incubators; • Low SMEs share in export; • Underdeveloped market infrastructure; • Weak cooperation relations of Multinational Companies with local providers and producers; • Lack of quality consciousness.
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Favourable geographical location of the country; • Favourable climate conditions for development of tourism sector; • The newly established Business Council could make recommendations in order to improve the business climate; • Good economic environment for direct foreign investments; • Possibility of cooperation and doing business with the neighbouring South-Caucasian countries and countries of the SPECA region; • Possibility of becoming a supplier of Transnational Corporations (TNC) in the oil and oil related industries; 	<p>THREATS</p> <ul style="list-style-type: none"> • The Nagorno-Karabakh conflict and occupation of Azerbaijan's territories by Armenia that threatens the political, economic and social stability and absorbs significant financial resources; • The Government does not provide sufficient financial support from the oil resources, which could provide less favorable environment for SME development in long-term;. • High rate of the shadow economy; • Low-effective mechanism of solution of business disputes and economic conflicts.

Source:

(1) UNECE, Geneva, 2005

(2) Alakbar Mammedov, National Confederation of Entrepreneurs (Employers') Organizations, 2007

BULGARIA

<p>STRENGTH</p> <ul style="list-style-type: none"> • Flexibility and market behaviour • Relatively low cost of establishment • Relatively low price of the services and production • Innovative processing • Major source of employment opportunities 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • Sensitivity to market fluctuations and legislation changes • Hard access to the competitive markets/ small share in national export • Hard access to financing • Insufficient financial resources for R&D and HRD • Low productivity
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> • EU accession provides possibilities to participate in the programme of the EC; • Introducing modern manufacturing/management/quality practices • Cooperation with local and international partners • Development of large-scale companies looking for SME sub-contractors and/ or forming of clusters • Development of high-technology products/activities 	<p>THREATS</p> <ul style="list-style-type: none"> • Rapid changes in legislative environment and increase in administrative burden • Competitive international pressure • Enlargement of the information and technological “gap” • High prices of raw materials and resources • Decrease in demand on local and international markets

Source:

SMEs in CITs, UNECE, New York & Geneva, 2006, <http://www.unece.org/indust/sme/smepub03.pdf>

GEORGIA

<p>STRENGTH</p> <ul style="list-style-type: none"> • The State Minister Office on SME field that works directly on SME problems, development and programs; • Basic Law on SME Support and Program for 2002-2004; • International organization assistance for harmonizing SME policy with EU community SME policy and support programs; • High level of entrepreneurial ability of population and desire to have their own business; 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • High external debt with weak public finances; • Weak information-consulting services have low efficiency; • Weak development of enterprises in the regions; • Low demand on domestic market; • Lack of access to credit resource; • Lack of support measures for start-ups; • Lack of business experience and efficiency of SME support institutions; • Lack of business incubators; • Lack of budget resources; • Low level of competitiveness and quality consciousness of SMEs; • Large share of “shadow” economy; • Lack of business insurance system;
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • The current political leadership might create favourable environment for SME promotion; • Favourable geographical location that makes business cooperation attractive in the South Caucasus region and with neighbouring countries; • Attractive environment for tourism development; • Development of SME regional infrastructure; • Membership of Georgia to World Trade Organization (WTO) enhances the opportunities of SMEs to enter the foreign markets. 	<p>THREATS</p> <ul style="list-style-type: none"> • Stagnation of the national economy; • Low investment in SME sector; • Unstable supply of energy resources for enterprises; • Large share of false products in market which decreases the efficiency of support measure; • Low competitiveness of SMEs; • Low payment ability among the most population; • Regional conflicts.

Source: (1) UNECE, Geneva, 2005.
(2) Antal Szabó, ERENET, 2007

GREECE

<p>STRENGTH</p> <ul style="list-style-type: none"> • They have a vital role in reducing unemployment • Emerging awareness of the importance for global • Competitiveness and innovativeness. • Creativity and positive attitude towards entrepreneurship as a source of individual wealth. • Facilitation of networking by EU-wide institutions. • Innovativeness in the service sector. 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • Low private and public expenditures on R&D • Inadequate trainers and participation in lifelong learning programs. • Inadequate transportation and interconnection in modes of transport and infrastructure. • Insufficient transition from a small or medium-size "family business" to a "professionally managed business. • Product orientation and size of the production sector. • Insufficient amount of qualified labor force.
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> • Acceptance of Lisbon Strategy. • Cluster policies. • Further opening of the economies in the Balkan, Black Sea and Mediterranean countries. • Labor and capital mobility across Europe. • Continuity for simplification or unification of licensing etc. • National Council for SMEs. • New breed of structural funds for 2007-2013. • Increasing education and training activities. 	<p>THREATS</p> <ul style="list-style-type: none"> • Decreased EU funds. • Competition by neighbouring countries offering low labour cost. • Slow adaptation of the educational and training system to the requirements of knowledge intensive entrepreneurship and global competition. • Deindustrialization trends.

Source: Dr. Dilek Centindamar, Sabancini University, and Umut Yilmaz Cetinkaya, 2007

MOLDOVA

<p>STRENGTH</p> <ul style="list-style-type: none"> • Legislative base for successful SME development is created in general (Law on business and enterprises; Law on main principles of regulation of enterprise activities; Law on social groups with limited liability) • State Program of support for SME development for 2006-2008 • Gradually increasing attention of the state to the SME sector needs • Constant growth of the SME sector • Qualified youth, possession of foreign languages • Cheap qualified labour • Good environment 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • Underestimation of the SME role in the economy by politicians • The limited financial opportunities of the state for support of small business • Weak infrastructure of support of small business • Insufficient access of subjects of small business to financial, information resources, • Weak entrepreneurship educational services • High trusteeship of supervising bodies, presence of bureaucratic barriers • Low culture in business • Limited opportunities of managerial education for SME • Low level of Internet access
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> • To stimulate attraction of foreign investments • Consistent implementation of the reform policy could accelerate transition to a market economy • Great climate conditions for growing various agricultural products and grapes – national advantage • Growing potential in tourism • Possibility of cooperation both with Romania as well as CIS countries • Effective use the foreign technical aids programmes including support from the EU 	<p>THREATS</p> <ul style="list-style-type: none"> • Significant external and internal state debts • High level of poverty of the population • Political instability, internal conflict between the parties • Significant emigration – especially youth – accelerate aging of the rural areas • Non decided Transdnistria territorial conflict • Dilemma in strategy joining NIS or EU • Continuous implementation of economic reform programmes • Shadow economy • Investment climate is not favorable for international investments

Source: (1) SMEs in CITs, UNECE, New York & Geneva, 2006, <http://www.unece.org/indust/sme/smepub03.pdf>
 (2) Ms. Valentina Veverita and Ms. Eleha Guzun, SME Development Department, Ministry of Economy and Trade, Chisinau, 2007,
 (3) Dr. Irina Y Naoumova, 2007
 (4) ERENET evaluation, 2007

ROMANIA

<p>STRENGTH</p> <ul style="list-style-type: none"> • Stabilisation of macroeconomic environment and of the regulation framework; • According to the Law no. 370/2002 was created the One-Stop-Shop national network for registration and authorization of the enterprises; • The registration procedures for newly established enterprises is simplified and reduces the procedural terms for obtaining the registration certificate in 3 or maximum 5 days; • The increasing of SMEs economic potential in the productive and service sectors; • Qualification, adaptability and relatively low price of labour force and good educational level of economically active population; • National Council of Small and Medium-sized Private Enterprises in Romania – CNIPMMR – represents the interest of entrepreneurs against the Government; • The SMEs have a foreground access to public funds and to the national R&D plan. 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • Less predictable macroeconomic conditions for SMEs growth, compared to those of EU; • Lack of the new technologies and update equipment, low labour productivity and profitability, low competitiveness and absence of linkages between research institutes and the productive sector; • Insufficient development of high quality business support services; • Low level of entrepreneurial curricula at secondary schools and universities; • Low level of the management and marketing skills in SMEs; • Large disparities in the economic and social development of regions; • High level of corruption at state and regional/municipal level; • A large number of controls over SMEs by the public institutions; • Low level of the labour productivity.
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> • EU integration provides opportunities to finance SME related initiatives and projects; • Expanding service sector especially in ITC sector and increasing demand on the faster spread of results in information technology; • Reform of public finance system through the fiscal code and fiscal code procedures; • Increasing of the FDI investments in Romania; • Increasing of the SMEs export weight on EU market and concerning of the SMEs regarding the implementation of the EU standards and quality management systems • There are fiscal facilities for students who want to start their own business, being remitted the initial costs of getting the authorizations; • Continuation of the economic growth and the low level of inflation rate will contribute to the growth of the SMEs performance level. 	<p>THREATS</p> <ul style="list-style-type: none"> • Unavoidable decreasing in competitiveness of key branches of regional industry as a consequence of growth of relative unit labour costs; • Outflow of qualified workforce abroad; • Increasing regional disparities related to the value added realized by enterprises; • The new judicial procedure regarding the exit from the market is slowly applied; • Low economic level of the rural regions compared with the urban areas; • Frequent change of the legal framework creates an important impediment on long term planning .

Source: (1) Romania's Country SME Statistics, Bucharest, 2004; and
(2) ERENET analyses, 2007

(3) Dr. Daniela Stefanescu, Head of Management Department, Faculty of Economics and Administrative Sciences, Petru Maior University, Targu Mures (Romania)

RUSSIAN FEDERATION

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Political and administrative stability • GDP growth • Highly educated labor force • Wide opportunities for managerial education for SME sector (Presidential Program of retraining managers, MBA, and multiple regional options) • Legislative base for successful SME development is created and is continuously improving • Multiple SME regional associations all over Russia • Funds and state programs of financing SME needs • SME are undertaking attempts to internationalisation • Slightly growing domestic customer demand for high tech SME products • Large companies are interested in financing high tech SME projects • Slight positive change of the banking and insurance companies' attitudes to SME innovative projects 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Low share of small enterprises in GDP, approximately 11 % • Low share of the population in small business, approximately 17 % • The basic part of subjects of small business it is occupied in trade, over 50 % • High share of the shadow economic in the SMEs sector, approximately 70% • Low level of advantages for SME businesses proclaimed in the legislative system • Strongest lobbying of large companies' interests against SME sector • Underestimation of the SME role in the economy by politicians • Still low level of SME cooperation with partners from other countries • Not a favorable taxation system for SME sector fast growth • Financing opportunities for SME innovative technology projects are much lower than the demand
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • International integration, CEE cooperation • National programs and reforms (in housing and municipal services, for example) require intensive involvement of SME sector • Large number of immigrants from culturally more exposed to entrepreneurship nations • Intensive urbanization (concentrated demand for the services and SME products) • Increasing attention to the system of monitoring and legislative control • Fight against corruption has already began • More attention is paid to SME sector by economic policy makers • Investment climate is getting more favorable for investing in SME sector including possible benefit from the Sochi Olympic Games activities • Consumer oriented economy is growing - growing potential demand for SME products and services • Internet accessibility in the large cities is growing fast • Fast development of communication technologies • Financial support of "business incubators", and "technological parks" • R&D traditions and existing from the Soviet times infrastructure • Venture capitalists are coming to Russia • Committees on innovations established in many regions reporting to Presidents and Governors 	<p>THREATS</p> <ul style="list-style-type: none"> • Intensive urbanization (negative for agricultural businesses) • Not friendly to SME sector employees retirement and health care systems • Still weak institutional "diffusion" • Increasing centralization of political power • Corruption and low transparency of legislative system • High monopolization level of economy • Part of the former centrally planned economy • Over-concentration of the former SU economy resulted in the lack of a state attention to the SME in the recent past sector problems • The economy heavily depends on gas and oil industries • Internet access - still limited • Limited options for long-term financing • Sharp international competition in the area of SME products • Centralization trend in the economy in general increasing the bureaucracy and limiting further opportunities for international cooperation on a company level • Closeness of Chechnya to the Black Sea Region

Source: (1) SMEs in CITs, UNECE, New York & Geneva, 2006, <http://www.unece.org/indust/sme/smepub03.pdf>
(2) Dr. Irina Y. Naumova, 2007

REPUBLIC OF SERBIA

<p>STRENGTH</p> <ul style="list-style-type: none"> • Longer entrepreneurial tradition in comparison with other transitional economies; • Deeply rooted history in self regulation and self management of enterprises; • Considerably large number of already registered SMEs and entrepreneurs; • Relatively good financial results of the existing SMEs <p>-</p>	<p>WEAKNESS</p> <ul style="list-style-type: none"> • Lack of financial resources; • Unfavourite tax policy and administrative barriers; • Lack of law on microfinancing hinders the development of selfemployment; • Lack of new technologies and knowledge in certain sectors; • Limited number of vital large enterprises to cooperate with; • Concentration on trade rather than on production; • Weak SME support institutional infrastructure.
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> • Privatization process; • Opening of Serbia after the period of sanctions (export opportunities); • Qualified labour force; • Domestic market development (increase in demand); • Policy and measures undertaken by the Government of the Republic of Serbia to promote SME sector and entrepreneurial spirit. 	<p>THREATS</p> <ul style="list-style-type: none"> • Not stable political background, due to unstable destiny of Kosovo lot of efforts spend on political debates; • Not enough stimulating business environment; • Gray economy; • Liberalisation of foreign trade and stronger competition on the domestic market; • Foreign companies entering domestic market

Source: (1) SWOT of the SME sector in Serbia and Montenegro, SMEs in CITs, UNECE, New York & Geneva, 2006, <http://www.unece.org/indust/sme/smepub03.pdf>

(2) ERENET analyses, 2007.

(3) Eric Dejan, 2007

TURKEY

<p>STRENGTH</p> <ul style="list-style-type: none"> • They have a vital role in reducing unemployment. • Increasing awareness for the adoption of modern production techniques. • Developing political commitment for the design and implementation of SMEs policies • Increasing motivation for innovation and entrepreneurship. • Working with a high proprietary interest rate, which makes enterprises less vulnerable to financial crises. • Existence of pro-active, bottom-up initiatives in favour of innovation 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • Inadequate supply in VC, PE, etc. for start-ups. • Inadequate use of modern marketing and business techniques. • Deficiency in quality and branding, as well as qualified labor force. • Insufficient level of institutionalization and specialization. • Inadequate continuous monitoring and evaluation system for SMEs policy measures. • Low private and public expenditures on R&D
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> • Discussion of SMEs and related policies at a number of platforms. • EU membership process offers new opportunities for SMEs. • Strategy and action approach towards SMEs is accepted by government. • Further opening of the economies in the Balkan, Black Sea, Mediterranean, and Middle East countries. • New structural funds. • Increasing education and training activities. • Technical infrastructure for IPR Regulations. • Increasing education and training activities. 	<p>THREATS</p> <ul style="list-style-type: none"> • High tax and social insurance payments. • Issues regarding communications, information and trust could not yet be overcome in some areas. • International political and economic uncertainty and instabilities in Turkey's neighborhood. • Insufficient education level of SME owners and employees as well as inadequate skilled labor. • Low participation in lifelong learning programs.

Source: Dr. Dilek Centindamar, Sabancini University, and Umut Yilmaz Cetinkaya, 2007

UKRAINE

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Well educated labor force • Legislative base for successful SME development is created in general • Established funds financing SME needs • Slightly growing domestic customer demand for high tech SME products • More uncertainty accepting than Russians • More or less stable in disposition of ethnic groups 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • A low share of small enterprises in GDP • Limited opportunities of managerial education for SME • Low level of advantages for SME businesses proclaimed in the legislative system • Strongest lobbying of large companies' interests against SME sector • Underestimation of the SME role in the economy by politicians • Almost no SME cooperation with partners from other countries • Not friendly to SME sector employees retirement and health care systems • Crimea – is a multiethnic region with the complex inter-group relationships • Very low domestic customer demand for high tech SME products
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • International integration, CEE cooperation • Regional integration blocks are interested in Ukraine's involvement • Slight GDP growth • Internet accessibility in the large cities is growing fast • Fast development of communication technologies • Financial support of “business incubators”, and “technological parks” • Growing potential demand for tourism in Russia (for Crimea region) • Growing opportunities for cooperation with Russian companies, and financing from Russia • Possibility of participation in the EU good neighbouring programme 	<p>THREATS</p> <ul style="list-style-type: none"> • Large number of workers abroad • Emigration • Still a low level of a consumer demand • Part of the former centrally planned economy • Over-concentration of the former SU economy resulted in the lack of a state attention to the SME in the recent past sector problems • Limited options for long-term financing • Sharp international competition in the area of SME products • Political instability due to internal conflict between major political groups • Strong lobbying of large companies' interests against SME sector • Underestimation of the SME role in the economy by politicians • Corruption and low transparency of legislative system • Complex relationship with the neighboring countries • Low income country • Part of the former centrally planned economy • Shadow economy and poor legislation control • Investment climate is not favorable for international investments

Source: (1) SMEs in CITs, UNECE, New York & Geneva, 2006, <http://www.unece.org/indust/sme/smepub03.pdf>
(2) Dr. Irina Y.Naoumova, 2007



DECLARATION ON SMALL AND MEDIUM-SIZED ENTERPRISES AT THE DAWN OF THE 21st CENTURY

QUESTIONNAIRE

on

IMPLEMENTATION OF THE DECLARATION AND THE DEVELOPMENT OF ENTREPRENEURSHIP AND SME SECTOR IN BLACK SEA ECONOMIC COOPERATION (BSEC) MEMBER STATES.

Note by the Secretariat

The core element of the political and economic transformation of any country in transition is the creation of a sound private sector and further development of SME & entrepreneurship. These are considered as the principal driving forces in economic development. SMEs promote private ownership, stimulate innovations and develop entrepreneurial skills. Their flexibility enables them to match quick changes in market demands. They generate the majority of jobs, promote diversification of economic activities, support sustainable development and make a significant contribution to exports and trade.

The following draft has been prepared by the BSEC PERMIS in compliance with the Resolution made by the Fifth Meeting of the Council of Ministers in Antalya on 26 October 2001,

While convening seminars and workshops on SMEs within the BSEC region and recognizing the importance of the entrepreneurship and SMEs in the economic growth and welfare in a globalized world, the Ministers in charge of SME policies in the Member States of the Organization of the Black Sea Economic Cooperation adopted a BSEC Declaration on “Small and Medium-sized Enterprises at the Dawn of the 21st Century” on 27 September 2001 in Istanbul similar to one adopted for the CEI countries in November 2000 in Budapest. In this Declaration the BSEC countries have been highlighted the achievements in the field of entrepreneurship and SME-sector and paved the way to foster the acceleration of the transition to a market economies and creating a better enabling environment for private sector and SME-development.

In compliance with the Resolution made by the Fifth Meeting of the Council of Ministers in Antalya on 26 October 2001, on 27 September 2001 a BSEC Working Group on SMEs was created. The basic goal of the WG on SMEs is the exchange of information and knowledge necessary for the promotion of entrepreneurship among the BSEC Member States. To reach this goal and its missions which consist of:

- promoting entrepreneurship and SMEs,
- helping to provide an enabling and sustainable business environment and development by giving the message to the Governments,
- promoting innovation and technology transfer,
- fighting against poverty through creation of entrepreneurship,
- promoting young and women entrepreneurship and
- contributing to the economic growth in the region covered by the BSEC.

The Terms of Reference of the BSEC Working Group on SMEs see at http://www.bsec.gov.tr/summit_htm.

According to the Declaration (28) BSEC PERMIS with the assistance of the BSEC Business Council review regularly the implementation of this Declaration and the development of entrepreneurship and the (private) SME sector in BSEC Member States in co-operation with the UNECE based on reports collected from all BSEC Member States.

The Permanent International Secretary of the Organization of BSEC in cooperation with the United Nations Economic Commission for Europe prepared this Questionnaire in order to review the impacts of the declaration on the development of the entrepreneurship and SMEs sector. The Permanent International Secretary of the Organization of BSEC in cooperation with the UNECE intent to prepare a document on this issue to be discussed in the future at the Meeting of the Working Group on SMEs.

In this review we intent to get information on progress made by members and analysing information and trends on SMEs. We also would like to highlight the sector characteristics, cooperation and regulatory measures as well as to review the possibilities for the future faced by entrepreneurs in these economies.

Governments and/or national authorities are requested to complete the questionnaire in English and return it to:

Black Sea Economic Cooperation Permanent International Secretariat

Ambassador Murat Sungar

First Deputy Secretary General

•stinye Caddesi,

Mü°ir Fuad Pa°a Yalıf, Eski Tersane,

80860 •stinye- Istanbul

TURKEY

Tel: ++ 90 212 229 63 30-35

Fax: ++ 90 212 229 63 36

E-mail:bsec@tnn.net and bsec1@tnn.net

as soon as possible, but not later than **30 March 2008**.

IMPLEMENTATION OF THE BSEC DECLARATION ON SMEs NATIONAL REPORT FOR

Name of capital:

Date

Name and title of contact persons for BSEC:

Telephone:

Fax:

E-mail:

Internet address:

Address of the authority responsible for formulation of SME policy:

Name:

Street:

City:

P.O. Box:

Country:

Name of contact person providing information and date:

Major economic indicators representing the significance of the SME sector in your country:

Year	Share of Private Sector in Total Economy	Share of SME sector in Gross Domestic Product (GDP)	Share of Number of Employees in all SMEs compared to total number of employees in the economy as a whole	Gross Domestic Products (GDP)	Index of SME Development
	[%]	[%]	[%]	[USD/capita]	[USD/SME]
2001					
2005					
2006					

Remark: In order to calculate the Index of SME Development the shares of the three major indicators have to be multiplied. It provides a dimensionless number between 0 and 1. Multiplying this number by GDP it provides the Index of SME Development expressed in financial term. Example: let us suppose, that the share of private sector in total economy is 70%, share of SME sector in GDP 35% and the share of number of employees in all SMEs compared to total employees amounts at 50%. The dimensionless Index of SME Development is $0.7 \times 0.35 \times 0.5 = 0.1225$. If the GDP is 1100 USD per capita, than the Index of SME Development equals to $0.1225 \times 1100 = 134.75$.

1. Please provide definition of SMEs in the latest government legislation. Please specify the number of employees, financial criteria and the criteria of being independent of SMEs. Describe the legal actions taken in order to harmonize the definition of SMEs according to the EU recommendation.

Declaration commitments:

The *definition of SMEs* in BSEC Member Countries in transition should be oriented to the EU recommendations. The definition should contribute to the consistency, transparency and efficiency of national support measures relating to SME sector promotion;

2. What actions have you taken to improve and simplify the procedures of enterprise creation and to raise the profile of entrepreneurs and to promote entrepreneurship in your country? What were the results of these actions? Please describe the results of significant measures that came to an end since 2001, or interim results of ongoing measures.

Declaration commitments:

The Governments of the BSEC Member Countries are encouraged to introduce relevant measures to *improve legislation and simplify the procedures* related to the formation of enterprises, development of SMEs and creation of jobs, as well as simplification of tax regulations, accountancy and reporting for SMEs;

3. Please give two to three examples of cases where you have been inspired by good practices on the implementation of the Declaration.

Declaration commitments:

The development of a *favourable political and economic environment* – policies and measures – aiming at the creation of a strong SME sector in the countries in transition and emerging economies, should be considered one of the major tasks of the Governments in these countries. Joint efforts in the acceleration of the (private) SME sector and strengthening of the cooperation among SMEs and between them and large enterprises will significantly contribute to the welfare of the society and stability of the BSEC Member States;

4. Has any co-operation been fixed at regional level in order to achieve and to monitor progress in this area? (Please name the country and the program.)

Declaration commitments:

Services provided for SMEs and entrepreneurs by *business support and SME development institutions* should be *continuously improved*, especially at the local level. In order to facilitate SME access to relevant information and business advice, stronger co-operation among support institutions and relevant authorities should be promoted. It is also necessary to address and incorporate the *different needs* of pre-starters, start-ups, growing businesses, micro and small and medium-sized enterprises into the support programmes when appropriate. The national and local authorities of the BSEC Member States are also invited to introduce *innovative approaches* in SME support institutions, to exchange experience and co-operate on an international level, in order to develop, adjust and implement relevant solutions;

5. Which measures have been adopted - at national or regional level - aiming to increase links and cooperation between educational institutions and enterprises?

Declaration commitments:

The importance of *human resource development* should be recognised. In order to improve entrepreneurial and managerial skills, the authorities are invited to take care of further improvement and adoption of the relevant curricula for educational and training programmes for students, start-ups, entrepreneurs and employees. The SME dimension should be appropriately incorporated into all training and educational programs.

6. Did you formalize the consultation procedures to ensure the effective participation of all interested parties? If so, did you establish minimum periods of consultation?

Declaration commitments:

In order to pursue an effective SME policy, specific SME **representative organisations**, such as chambers of commerce and industry, chambers of crafts, employers' trade unions and other associations should be **involved in at all phases of the social dialogue**;

7. Did you establish a dedicated body (or bodies) responsible for co-ordination and monitoring impact assessments in the national or regional administration? If so, please indicate name(s) and Address(es). **Did you publish an explicit policy to carry out impact analysis?**

Declaration commitments:

Member Governments are suggested to draw attention to the importance of sharing adequate *information concerning on national SME sectors*. Governmental institutions, especially the national SME focal points and statistic offices of the BSEC Member States, should be invited to take active role in collecting and analysing internationally comparable data by using UNECE;

8. What kind of measures was taken in order to promote investment in your country? Did you utilize the possibility of the BSEC Investment Initiative? If yes, please provide a few examples. If not, describe why not.

Declaration commitments:

In order to remove disincentives for local business people and for foreign investors alike the Governments of the BSEC Member States are invited to express support for a **BSEC Investment Initiative**. By this Initiative, the countries will strive to make specific reforms towards combating phenomena adversely affecting the business environment.

9. Have your created any kind of national and/or regional award scheme to award excellent business performance of the entrepreneurs? Do you have a national quality award scheme especially for SMEs?

Declaration commitments:

Based on the crucial role of NGOs in sustainable development, they should be invited to take a *more active role in the creation and development of SMEs*, in particular, by participating in campaigns for raising general awareness on the role of SMEs in national economies, local development initiatives and social economy. In order to raising awareness on the role of SMEs in national economies, Governments are invited to create *National Award on Best Entrepreneur of the Year* and organize national concourse to obtain this award;

10. Please fill out the following table with the appropriate answer. (1 very low, 2 low, 3 medium, 4 high, 5 very high)

	2001	2005	2006	2007
Annual growth of the SME sector in GDP				
Development of regulatory environment				
R&D for SMEs				
Quality orientation of the entrepreneurs and SMEs				
Information and telecommunication – ITC - penetration including E-business among SMEs				
Microfinance activity for poverty alleviation and start-ups				
Business environment favouring for enterprise creation				
Improvement of labour market by SMEs				
Business ethics and social responsibility of entrepreneurs				
Public-Private Awareness of internalization of SMEs				

11. Do you have any suggestions for actions, which would be useful to undertake at the BSEC level?