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SPRING MESSAGE OF THE SCIENTIFIC DIRECTOR

Dear Readers, Distinguished Friends,

It is Spring again, blossom is on the trees and their scent is in the air. I look through the window and delight in the yellow, pink and blue of my pansies and admire the beautiful shape of the tulips. The shining green blue bunches of flowers are the colour of an aquamarine jewel. At the same time, I am surprised at the news that is snowing in Germany, Spain and Switzerland. General Winter is still on the attack causing serious chaos on the European roads.

We are celebrating the tenth issue of ERENET PROFILE. It marks our First Jubilee. Some 700 pages on entrepreneurship development, education, the SME sector, business services providers, institutions, events and expert profiles and more have been explored. What a great opportunity for our highly respected members, friends and colleagues! I thank all Members of the International Board, our Authors and our distinguished Readers, whose encouragement is vital to our success. And what can be a more impressive gift for all of us than receiving international recognition through obtaining an ISSN code 1789-624X. This has been registered in Paris.

Our Project EDARO under the supervision of the Petru Maior University progresses, and jointly, we shall organize the Entrepreneurial Session within the framework of the ICELM3 International Conference on Economics, Law and Management to be held in June 2008 at Targu Muresh in Transylvania. The preliminary program can be seen in the Chapter on Calls-Events-News.

It is a very sad news, that our Friend, one of the ERENET Founders from Slovenia, Professor Miroslaw Glas is seriously ill. His situation fills our heart with sorrow. We are all in the hand of our Lord and still close to the message of Easter. We wish him courage, belief, persistence and a happy recovery!

I was my great pleasure to take part in the National Conference of the Federation of Small Business in London. It was encouraging to see how a national organization – FSB – as well as the UK Government promote the interest of its members, how they promote the benefit of self-employment and lobby for the small businessmen and businesswomen. It was also enlightening to see how a government Authority, the Department of Business, Enterprise and Regulatory Reform has launched a ten year strategy to promote entrepreneurship. This is with the intention of creating the best environment for doing business in Europe.

The ERENET Secretariat is preparing our 3rd ANNUAL MEETING. This will be organized in cooperation with the Executive Board Meeting of the European Small Business Alliance – ESBA and held on 18 September 2009, while ESBA Board Meeting is scheduled for 19 September 2008. Let me say I look forward to meeting with our Members, sharing views and experiences and enjoying the opportunity to discuss our future.

Dr. Szabó Antal
Scientific Director of ERENET

© Illustration made by young promising Hungarian artist Nagy Szilvia
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THE CONSTRUCTION OF THE COMPOSITE EARLY-PHASE ENTREPRENEURIAL (CEPE) INDEX AND ITS APPLICATION TO SIX CENTRAL EASTERN EUROPEAN COUNTRIES

Abstract

Since the start of the Global Entrepreneurship Monitor (GEM) research of 1999, the TEA index, that measures the percentage of those who are in the nascent phase of the business or owners and managers of a young firm in the 18-64 age population, has been applied as the most important indicator of entrepreneurship activity in GEM related studies. However, the general use of TEA has been widely criticized mainly because it captures just only one, thought very important, aspect of entrepreneurship. In this paper, based on the configuration approach, I derive a complex measure of entrepreneurship called Composite Early Phase Entrepreneurship (CEPE) index that is a dynamic combination of nine entrepreneurship related elements in three factors. The three factors are the cultural embeddings, the opportunity exploitation potential and the level of entrepreneurship activity, all important and vital aspects of the entrepreneurship context. Data and variables are from the GEM 2005-2006 population survey aggregated on the country level. CEPE provides a unique possibility to evaluate a country’s entrepreneurship potential in more details and depth than relying on the TEA index. The examination of CEPE and its factor components in terms of the GDP/capita, provides a strong support to the U-shape theory of entrepreneurship development: Not only the entrepreneurial activity but supporting entrepreneurship culture and opportunity exploitation potential are U-shaped in terms of economic development. A further application of CEPE is provided by analyzing the 45 countries in five clusters. Based on the investigation of the three components of CEPE and selecting the high entrepreneurship developed country cluster as a benchmark, I can provide tailor-made entrepreneurship policy suggestions for the six Central-Eastern European countries of Croatia, Czech Republic, Hungary, Latvia, Russia and Slovenia.

1. INTRODUCTION

Just recently, David Audretsch, one of the leading scholars in entrepreneurship research, published a book titled as “The entrepreneurial society” (Audretsch 2007). In this summary book, partially based on own personal examples and experiences, Audretsch provides a comprehensive view and explanation how America has become the leading force in the globalized world moving from the managed economy to the entrepreneurial society. Several other studies reinforce that entrepreneurship is a major source of economic growth, new job creation and innovation (Acs 1996, Acs and Audretsch 1990, Acs et al 1999, Acs and Szerb 2007). At the same time, when the European Union (EU) experienced low growth rates and continuously high unemployment, the American economy was booming. This success created a second “golden age” in the history of the United States, making attractive for other countries to follow the American example (Acs and Phillips 2002, Thomas and Mueller 2000, Fu-Lai Yu 1998). At the same time the EU is also trying to enhance the level of entrepreneurship.

Should this way be followed by the former Central-Eastern European (CEE) socialist countries? Could these countries do that at all? Under the pressure to raise the standard of living to the level of Germany or Austria in a relatively short time period, one group of CEE countries rely mainly on foreign direct investment (FDI). While FDI has several advantages, without the involvement of the domestic entrepreneurial

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1 This Paper was presented at the Conference on „Entrepreneurship and Economic Growth” held on 28-29. March 2008 at the Faculty of Economics and Business Administration of the Babeş-Bolyai University, Cluj-Napoca
forces, long term development cannot be achieved. Just giving an example: the amount of FDI was about the same in Ireland and Hungary in the mid 1990s, but in ten years, from a low developed country, Ireland became the leading economy in the European Union. At the same time Hungary, a former leading country in economic transition, after a few years of relatively high growth period, basically felt to stagnation. Of course, bad economic and fiscal policies can be blamed, but the basic problem is that Hungary ignored what Ireland learnt: that is the development of the local entrepreneurial sector and the foundation of the entrepreneurial society (Acs et al 2007). The Irish miracle did not happen from one day to another: The creation of the entrepreneurial society lasted for twenty years and involved the attraction of knowledge-based FDI, the support of new venture creation, the restructuring of the education system as well as the wise use of the European Union funds. Hungary’s entrepreneurial activity is low and the cultural embeddings of entrepreneurship is even lower than other former socialist countries (Tominc and Rebernik 2007).

In order to provide a suitable way of entrepreneurship development for the CEE countries, a careful examination of the present situation is necessary. In the next, based on the Global Entrepreneurship Monitor data, I review the entrepreneurial activity of six CEE countries (Croatia, Czech Republic, Hungary, Latvia, Russia, Slovenia) compared to other countries and country groups. While the evaluation of the entrepreneurial index that measures the level of entrepreneurial activity is useful, it does not make possible to examine some important aspects of entrepreneurship. In order to provide a meaningful comparison of entrepreneurship of different countries and country groups, I rely on two theories, the Wennekers et al (2005) and Acs (2006) U-shape theory of entrepreneurial development and the configuration theory (Miller 1986, 1996, Korunka et al 2003). The U-shape theory provides an appropriate tool to view the changes of the early phase opportunity and necessity entrepreneurship in terms of economic development, but further quality related differences cannot be analyzed. The configuration approach makes possible to examine the contextual feature of entrepreneurship of different countries in terms of cultural embeddings (entrepreneurship as high status and good carrier); opportunity exploitation potential (entrepreneurial skills, recognizing good opportunity, knowing an entrepreneur); and entrepreneurial activity (TEA, opportunity related start-up ratio, start-up potential in three years). The derived Composite Early-phase Entrepreneurship (CEPE) index provides a helpful tool to evaluate the entrepreneurship context of different countries, that is the topic of the third section. Section four details further the analysis by examining the contextual features of the 45 GEM countries in five clusters. At the end of the section I evaluate the six CEE countries’ entrepreneurship contexts and provide some policy suggestions. Finally the paper concludes.

2. The entrepreneurial activity of the CEE countries, compared internationally

Before analyzing the entrepreneurial activity of the CEE countries, entrepreneurship should be defined. While entrepreneurship has become an emerging field in business and economic research over the last three decades, there is still a disagreement amongst scholars even about the definition and the conceptualization of entrepreneurship (Gartner 1989, Low and Macmillan 1988, Shane and Ventakamaran 2000). According to Wennekers and Thurik (1999) entrepreneurship has remained a “dim” or at best, a multidimensional concept. As a consequence, several directions of research exist. Moreover, there is a lack of internationally comparable data and empirical research.

It was in 1999, when the Global Entrepreneurship Monitor (GEM) research started aiming to fulfill the increasing need of reliable internationally comparable entrepreneurial data. Comparability requires a uniform application of the concept of entrepreneurship. GEM defines entrepreneurship as "any attempt at new business or venture creation, such as self employment, a new business organization, or the expansion of an existing business organization by an individual, teams of individuals, or established businesses" (Reynolds et al 2001). Based on this definition, GEM derives an entrepreneurial index, the Total Entrepreneurial Activity Index now called Early Phase Entrepreneurial Activity Index (TEA), as the proportion of individuals aged between 18 and 64 that are either in the process of starting a nascent business or are the owner-managers of a new operating business that is less than 42 months old (Minniti et al 2005). This index is then calculated for each country independently. While this definition is easy to operationalize and examine over different countries, and early phase businesses play a very important role in the economy it should be emphasized that the TEA index does not captures all aspects of entrepreneurship.²

² There has been some attempts to construct other indexes, for a comprehensive view see Hindle (2006)
Entrepreneurship in the former socialist, planned economies is a relatively new concept. While some forms of small business mainly in the services as craftsmanship or in agriculture did exist, private business ownership was basically banned or at the best tolerated for a long time. Larger scale private business activity or the employment over a few persons was forbidden because it would have endangered the planning principle as well as the egalitarian idea of the ruling communist parties by causing unacceptable wealth differences. Even if the shortage economy provided a plenty of good opportunities mainly in the household consumption sector, resources were not allowed to exploit these opportunities. As another consequence, an important aspect of entrepreneurship, risk taking could not evolve. For example, Hungarian business owners are willing to work hard for long hours, but they think twice to risk their own money. Even today, most CEE “entrepreneurs” expect the state to provide financial allowances to private businesses and to decrease the financial risk of individual decision making. Paternalism is further strengthened by politicians and populists.

Form the banned or the tolerated category, small business ownership became a wishful and supported concept almost from one day to another when the Berlin wall fell down. The artificial legal barriers of new venture creation were removed and millions of private businesses started to flourish (Kornai 1992). Shortages disappeared quickly and new businesses played an important market supplementation role in the early years of economic transition (Tyson et al. 1994). Privatization, especially the small scale one, helped to strengthen private ownership too. By examining the performance of the transitional countries Ovaska and Sobel (2004) found that private enterprises and new venture creation was a major determinant of economic growth after 1995. While the leading countries the Czech Republic, Hungary or Poland proved to be successful in new venture creation and support, another essential factor for further development, innovation was a weak point in fostering the entrepreneurial activity.

The situation changed in the 2000s. By that time, the main transformation changes to set up the basic institutions of a market economy were over, economies were liberalized, and the wave of privatization ended. For most of the CEE countries, the European Union accession became the primary aim of economic policy. However, this accession required a further opening of their economy. Under the increased pressure of foreign competition and saturated domestic markets new venture creation slowed down. If we have compare the country TEA indexes, than CEE countries perform poorly.

**Figure 1: The average TEA rates of the GEM countries in 2005-2006**

Source: GEM Executive Reports 2005, 2006, Red arrows: Central Eastern European countries
While the average TEA rate was 9.22 (without Peru) in the 2005-2006 time period, none of the CEE countries reached that rate. The best performers were the Czech Republic and Latvia with 7.85, and 7.35 TEA rate, respectively. The average TEA rate of the participating six countries (Croatia, Czech Republic, Latvia, Hungary, Russia, Slovenia) was 6.20, implying that 62 adults, aged between 18-64 had a young business aged less than 3.5 years or wanted to start a business and had done some steps to establish it in these countries in 2005-2006. As compared to other regions, Latin American countries lead the list followed by the developing Asian countries. Anglo-Saxon countries like the USA, Canada, Australia and New Zealand have relatively high entrepreneurial activity rates while the EU countries’ TEA index is even less than the CEE countries. Traditionally, developed Asian countries, Japan at the bottom, are at the end of the ranking.

However, the above picture can be very misleading using solely the TEA index as it is to analyze the entrepreneurial performance of a country. A potential amendment of the model can be to investigate the TEA rate in terms of the development of the country (Wennekers et al 2005). Figure 2 shows the TEA rates in terms of the development of that country, measured as the per capita GDP in purchasing power parity (PPP).

**Figure 2: TEA Activity Index in terms of purchasing power parity (PPP) GDP per capita in 2006**

As we can see, the fitted trend line (third degree polynomial) between the TEA index and the GDP per capita is parabolic, or U shaped. This implies that countries with lower economic development have high entrepreneurial activity then as the country develops the TEA rate declines. At a higher level of development, about $30,000 GDP capita, the TEA rate begins to increase again. If we have a look at to evaluate the TEA rates of the CEE countries, it is not bad at all, on the average, CEE countries are on, or close to the trend line: The Czech Republic is above, Croatia, Hungary and Slovenia are on the, Latvia and Russia are below the line.
In an inspiring paper, Acs (2006) provides an analysis of the TEA ratio in terms of the opportunity-necessity nexus. Lower income countries generally have high rates of necessity entrepreneurship. As the country develops necessity entrepreneurship declines as existing businesses grow and absorb excess labor. Later, as the country develops further there is a possibility to increase the entrepreneurial activity again but this time for opportunity motivates. The U-shape theory has a distinctive policy implication. It is not suggested to increase necessity entrepreneurship in the low developed countries, but rather to improve education and to support existing business growth. For middle income countries the basics of opportunity led entrepreneurial activity should be laid down by strengthening entrepreneurial framework conditions and entrepreneurial education. According to Figure 2, CEE countries are on the declining phase of entrepreneurial development. In the sense of the U-shape hypothesis, Slovenia, the Czech Republic and Hungary should focus on strengthening entrepreneurial framework condition, while Croatia, Latvia and Russia should support more its existing business sector.

Recent studies suggest a further amendment and modification of the U-shape theory. Examining the Latin American country TEA rates between 2000-2007, Acs and Amorós (2007) found that entrepreneurial activity in these countries declined according to the U shape curve theory. However, the authors noticed different development phases, that were explained by specific competitiveness conditions. Examining the factors of expected growth in different country businesses, Terjesen and Szerb (2007) reported a slightly different story of entrepreneurial development. They noticed that while average growth were higher in both the start-up and existing business sectors in the lower developed countries, the really high growth potential start-ups, gazelles were found mainly in the high developed countries. This finding partially contradicts to the U-shape theory that implies higher growth rates of existing businesses in the lower- and higher growth of the start-ups in the high-developed countries.

3. The entrepreneurial context in configuration

Altogether, Figure 2 does not tell us the full story of entrepreneurial development, hides the quality and contextual factors, potential different paths of development as well as the dynamics behind the TEA index. To construct a more comprehensive index the theoretical basis of such an approach should be laid down.

Over the last three decades of entrepreneurship research several theories have been constructed (Low and Macmillan 1988, Wennekers and Thurik 1999, Ucbasaran et al 2001). While early theory development focused to identify a single factor of entrepreneurship - that is particularly true for the entrepreneurial trait theory (see e.g. Chell at al 1991) – recent developments are more multidimensional that consider several aspects of entrepreneurship (Davidsson and Wiklund 2001, Timmons 1999, Wiklund and Shepherd 2005). For our analysis, the configuration theory provides a useful basis to investigate the entrepreneurial performance of different countries. Following Miller's (1987, 1996) original contribution, Dess et al (1993) defines configurations as they “…represents a number of specific and separate attributes which are meaningful collectively rather than individually… Configurations are finite in number and represent a unique, tightly integrated, and therefore relatively long-lived set of dynamics” (pp. 775-776).

An innovative application of the configuration theory to entrepreneurship is presented by the Vienna University researchers. Korunka et al (2003) analyzed the entrepreneurial personality in the context of resources, the environment and the organizing activities in order to present a typology of the start-up process configuration. Applying the successful new business owner-manager characteristics as a benchmark, the authors showed three different patterns (clusters) of the start-up process. While I am not copying Korunka et al (2003) method, I find it very useful to adapt it to a different context.

In order to derive the entrepreneurship configuration I constructed a three factor model of entrepreneurship context (Figure 3). According to Figure 3, the entrepreneurship context is a configuration of three elements that are the cultural embeddings, the opportunity exploitation potential and the early phase entrepreneurial activity. In the sense of configuration theses three factors mutually reinforce each other, weakening or strengthening entrepreneurship. Favorable culture, the high status of entrepreneurs or the good entrepreneurial carrier supports early phase entrepreneurial activity, i.e. more people would like to start a business and/or more start-ups are initiated. Higher entrepreneurial activity, and more successful entrepreneurs can reinforce the positive effect of culture. Moreover, culture can have an effect on opportunity exploitation potential; more people look
for or realize business opportunities, or have an incentive to get some start-up skills, and vice versa. Finally, higher opportunity exploitation potential increases the possibility to start a business or at least to consider start-up seriously. At the same time, more successful opportunity oriented innovative start-ups can increase the number of profitable opportunities.

It can also be seen in Figure 3 that all three factors include several other elements. These elements reflect to the availability of data from the GEM dataset. The factor of cultural embedding that itself is a factor of three elements is aimed to capture the cultural acceptance of entrepreneurship in a country: The status of entrepreneurs, the desirability of entrepreneurial carrier and the extent of supporting positive media coverage of entrepreneurship. Opportunity orientation is again a factor depicting three elements: The perception of good opportunity, the possession of start-up skills, and the personal knowledge of an entrepreneur. The level of entrepreneurship that is most frequently used in the GEM reports just represents one aspect of the entrepreneurship context. The level of entrepreneurship is again a factor of three elements, the TEA index, the proportion of opportunity level entrepreneurship, and the percentage of the adult population expecting start-up in the next three years.

**Figure 3: The conceptual model of entrepreneurship configuration**

The question is then, how to construct a composite entrepreneurship context index. To do that, I applied a three steps procedure. First, the cultural embeddings, the opportunity exploitation potential and the early phase entrepreneurial activity indexes are calculated for each country by the use of the factor analysis.
Then the factors are adjusted to a 0-100 point scale. Finally the combined effect of these three factors, called the Composite Early Phase Entrepreneurial (CEPE) is derived by calculating the area of the triangle they enclose. This method is applied by Varga and Parag (2008) in evaluating network connections. I emphasize that the model and the CEPE index does not capture all entrepreneurship related activities or phenomena, it rather focuses on the early-phase of businesses, that is highlighted in the name. However, I do believe that this index is a more informative measure of the early phase entrepreneurship than TEA because it contains nine different essentials of entrepreneurship context and it also considers the dynamic configuration of these elements. As opposed to other artificially chosen indexes – the number of variations is infinite – I provide a solid theoretical basis for the selection and the combination.

Data are from the GEM 2006 adult population survey, except four countries, Austria, Switzerland, New Zealand and Venezuela who did not participate in the 2006 cycle. In these cases the 2005 data were applied. Moreover, United Emirates was excluded because of serious outlining. The individual data were aggregated to receive the country level data of 45 nations. To measure the level of entrepreneurship, only early-phase entrepreneurial data were applied.

In the following figure (Figure 4) I plot the three factors (cultural embeddings, opportunity exploitation potential and early-phase entrepreneurship activity) independently and investigate them as the function of real GDP.

**Figure 4: The connection between the three factors of entrepreneurship and GDP**

![Figure 4: The connection between the three factors of entrepreneurship and GDP](image_url)

For example, in the case of early-phase entrepreneurial activity index I have combined three variables: the TEA index, the percentage of opportunity entrepreneurship to TEA, and a percentage of those 18-64 age adults in a country who expect to start a business in the next three years. These three variables are closely connected and the derived factor explains 71.6% of the total variation. Then I added 1.5 to the received factor values to avoid negative numbers, and created a variable of Early-Phase Entrepreneurial Activity Composite (EPEC) Index by extending it to a 100 point scale. The EPEC index is highly correlated with the TEA index (correlation coefficient is 0.91), but it contains more information about early-phase entrepreneurial activity because of the combined effect. Similar techniques were applied in the opportunity exploitation potential and the cultural embeddings indexes.  

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It is striking by first sight that all three factors have a U shape, similar to Figure 2, but the early-phase entrepreneurship (EPEC) index is flatter resembles more to the L-shape than the U-shape. The explanatory power of EPEC, a third degree polynomial is much better than the previous case, $R^2 = 0.74$, as opposed to the $R^2 = 0.58$ in the previous one. The other two factors are more U-shaped, however the variation is considerably higher yielding a much less explanatory power of around $R^2 = 0.35$.

The three curves provide some important implications. First, not only the entrepreneurial activity declines in terms of the GDP in the case of the developing countries but so do the opportunity exploitation potential and the cultural embeddings. It seems that the high entrepreneurial activity is also associated with good opportunities, however, markets become saturated sooner or later. Entrepreneurial activity declines sharper than opportunities. As a consequence, becoming a new entrepreneur is not a high status and a good carrier choice as it used to be before. Markets become saturated and more space is necessary for the established businesses to grow. Necessity entrepreneurs are becoming rarer as established businesses absorb excess labor causing a further decline in the entrepreneurial activity. A typical example for it is Mexico, but this phenomenon fits well to the CEE countries where the transformation of the high entrepreneurial activity to a low rate of new business establishment went on a historically short time period of a decade to 15 years.

While all three curves have a minimum, it is also noteworthy that the minimum of the curves are not at the same level of development. First, the opportunity exploitation potential increases around the $22000$ GDP: More people learn start-up skills and more educated people recognize unique opportunities or have the skills to exploit these opportunities. So not the level of entrepreneurship, but the quality of the new businesses changes first. The importance of the new wave of entrepreneurs is beginning to be recognized by the society at around $28000$ GDP. Finally, the declining trend of entrepreneurial activity turns slightly to the opposite direction as opportunity oriented entrepreneurship becomes dominant. This gives a further push to increasing opportunity exploitation potential and to supporting entrepreneurship culture.

So valuing only the level of entrepreneurship in terms of development can be very misleading, the influence of all three factors should be considered simultaneously, that leads us to the analysis of the Composite Early Phase Entrepreneurial (CEPE) index (Figure 5).

**Figure 5: The connection between Composite Early Phase Entrepreneurial (CEPE) index and GDP**
It is no surprise that the CEPE index is U-shaped in terms of economic development. The fit of the third degree polynomial curve is relatively good, $R^2 = 0.60$. The correlation between the TEA index and the CEPE index is $\text{CORR} = 0.87$, a good fit, but again I claim that the CEPE index is superior to the TEA index. Maybe the CEPE can be viewed as the natural rate of early phase entrepreneurship that is wishful to follow.

Examining the six CEE countries, there are some changes in the relative position of the countries compared to the trend line: Croatia and Russia preserved its previous position, Latvia slightly improved, the Czech Republic slightly worse off, Hungary fall back sharply while Slovenia improved upon. Russia is the farthest from the trend-line, but Hungary is almost as desperate situation. The other four countries perform relatively well.

Amongst the other countries, Japan and Belgium are at the end of the ranking, and the US, a leading country in entrepreneurship is in relatively very bad situation, well below the trend-line. Previous surveys show a different picture for US, maybe there is a problem in the 2006 data collection. Most of the EU countries are on or about the trend-line. The highest CEPE value is attributed to the Latin American and Asian developing countries. Norway, Ireland and Iceland, the richest countries in Europe, are the examples of the high GDP and high CEPE index. New Zealand is an outlier, a medium developed country having high level of entrepreneurship.

4. The entrepreneurial context and the development trend-lines

While in the previous part of the paper I have focused mainly on the description of the composite CEPE index, in this section I am examining the entrepreneurship context of different countries and country groups in details. The details mean that the three factors of the CEPE index, the cultural embeddings, the opportunity exploitation potential and the entrepreneurship activity are analyzed independently to see the structural variations. The aim of this investigation is to show a suitable way of entrepreneurship development to the six CEE countries, and to make some policy suggestions.

In order to provide reliable policy recommendations the choice of the proper benchmarking basis is vital. A possible selection criterion for benchmarking could be to calculate the deviation of the CEPE index or the three elements from the trend-lines. However, this method is rather a static than a dynamic approach and does not consider the availability of different development trends. As an alternative, I rely on a cluster analysis technique to group together the countries with similar features. In this case, the K-means cluster method is used by the SPSSS-14 statistical program package. After several tries, the 5 cluster variation proved to be useful, where all the applied variables are significant at a level better than 1%. However, the membership distribution of the clusters is relatively uneven, HED cluster (high entrepreneurship, developing countries) has six, LED cluster (low entrepreneurship developing countries) eleven, TRA cluster (transitional countries) six, LEH cluster (low entrepreneurship developed countries) six and HEH cluster (high entrepreneurship developed countries) sixteen cases. Figure 6 depicts the entrepreneurial context of the different clusters as well as the average of the whole sample.

Let us see now the characteristics of each cluster shortly.

- **HED cluster** (India, Jamaica, Philippines, Venezuela, Peru, Colombia,) a group of high entrepreneurial activity lower developed Asian and Latin American countries. There is a strong cultural support of entrepreneurship, and the opportunity exploitation potential is also high.

- **LED cluster countries** (Indonesia, China, Turkey, Brazil, Thailand, Uruguay, Malaysia, Croatia, Chile, Latvia, Argentina) possess less cultural support of entrepreneurship moreover the opportunity exploitation potential and the entrepreneurial activity levels are even lower than in the previous case.

- **TRA cluster countries** (Mexico, Russia, South Africa, Hungary, Czech Republic, Greece) seems to be the transitional countries in terms of entrepreneurship, below average cultural support, opportunity exploitation, and entrepreneurial activity levels.

- **LEH cluster** (Singapore Belgium, France, Germany, Japan, US) is a group of high developed countries with extremely low entrepreneurship contextual features. In all three respects – cultural support, opportunity exploitation potential, entrepreneurship activity – they have the lowest grades.

- **HEH cluster** (Slovenia, New Zealand, Spain, Italy, Sweden, UK, Netherlands, Switzerland, Austria, Australia, Finland, Canada, Denmark, Iceland, Ireland, Norway), mainly developed European countries that
do not differ from the previous group in GDP and entrepreneurial activity, but cultural embeddings and opportunity exploitation potential are much higher than the LEH countries.

**Figure 6: The entrepreneurship context of the five clusters**

![Figure 6: The entrepreneurship context of the five clusters](image)

Note: The CEPE index is not involved in the list of the variables of cluster grouping, just calculated independently and the average values are added to further illustration.

It worth noting that valuing countries in the level of entrepreneurship and GDP context can be misleading as the LEH and HEH cluster cases prevail. The values of the composite CEPE index is 2.5 times higher in the HEH than in the LEH cluster. If we plot cluster membership in terms of the GDP further phenomena can be noticed (Figure 7).

**Figure 7: The connection between the five clusters and GDP**

![Figure 7: The connection between the five clusters and GDP](image)
Based on Figure 7, the movement from HED (cluster 1), via LED (cluster 2) to TRA (cluster 3) is relatively straightforward: As the country develops, GDP grows, and entrepreneurship declines. Countries below the $20000 GDP follow this trend of development with a one exception: Indonesia should belong to the HED cluster. However, after the transitional period this trend-line seems to depart into two directions: One is to the lower entrepreneurship HEL cluster, and the other is to the higher entrepreneurship HEH cluster. A further note is that above $35000 GDP there is only one country, the US is in the HEL group. If we remove the US, then following the lower entrepreneurship trend seems to be a dead end road of economic development. This is depicted in Figure 8, where the two different trend-lines are captured

**Figure 8: Different trend-lines of entrepreneurship development in terms of GDP**

Note: US is excluded

Figure 8 also predicts that the declining trend of entrepreneurship turn back even in the HEL group, however it is not enough data to support the upward movement. So whatever the case, entrepreneurship development seems to be inevitable to continue economic development. Therefore as a positive example for the CEE countries, the HEH cluster countries are selected as benchmarks.

According to Figure 7, the six CEE countries do not belong to one group, they appear in three clusters: Russia, the Czech Republic and Hungary are in the TRA cluster, Croatia and Latvia are in the LED cluster and Slovenia is in the benchmarking HEH cluster. Now, the six CEE countries’ relative position to the benchmarking HEH group is shown in Figure 9.

It is clear that the suggestions for the two LED countries, Croatia and Latvia should be different than for the other four nations. Croatia’s and Latvia’s entrepreneurship position is even better than the HEH cluster average. The challenge is to avoid the further decline of entrepreneurship as the country developing and maintaining the entrepreneurial spirit. Since the further (slight) decline of the level of entrepreneurship seems inevitable, the quality changes of the early-phase entrepreneurial activity from low growth potential necessity entrepreneurship to high growth potential, opportunity led start-ups by educated entrepreneurs is a
key to shorten the transitional period of development. To maintain the opportunity exploitation potential, the improvement of entrepreneurial skills and opportunity recognition are inevitable.

The weakest point of the three transitional group countries, Russia, Hungary and the Czech Republic is the low level of opportunity exploitation potential. People are not recognizing good opportunities or the proper entrepreneurial skills are missing to be able to exploit opportunities or people do not really know entrepreneurs personally, therefore it is not enough potential help or networking possibilities. Education plays a vital role in developing entrepreneurship skill and opportunity exploration. Economic policy should focus on improving the flow of information about available business opportunities maybe turning the attention of new entrepreneurs to foreign markets.

Figure 9: Deviation of the CEE countries from the HEH cluster in the entrepreneurship context

The second weak point is to improve the cultural embeddings of entrepreneurship, and this is the hottest topic for Hungary, where the society is very unfavorable to entrepreneurs. Russia and the Czech Republic should try to avoid the further decline of supporting entrepreneurship culture. While the task is given it is not clear for the government how to improve it. It is probably a long way requiring a systematic complex change in the education system as well as the promotion of entrepreneurship as a desirable carrier choice and high respect. In terms of entrepreneurial activity necessity entrepreneurship is expected to minimize. The encouragement of young, educated people majoring in science, engineering and computer related college and university studies could improve high growth potential, opportunity led start-ups.

Slovenia seems to have the most balanced entrepreneurship context position compared to the HEH countries. The improvement of the low level of entrepreneurship activity can be the main task of Slovenian policy makers. Since cultural embedding and opportunity exploitation potential are increasing as the economy develops, the smooth movement along the trend-line requires an improvement in these two fields, but there is no need for major restructuring.

4. Conclusion

Entrepreneurship is a major force behind growth and economic development, however different entrepreneurship contextual configurations fit to different level of economic development. To derive the dominant entrepreneurship configuration at a country level, I have constructed a new entrepreneurship context measure called Composite Early Phase Entrepreneurship (CEPE) index by combining three elements:
The cultural embeddings, the opportunity exploitation potential and the early phase entrepreneurial activity factors. All three factors consist of three other variables. Therefore, the CEPE index is a result of a specific combination of nine variables derived from the Global Entrepreneurship Monitor 2005-2006 data base of 45 countries. The previously dominant TEA index, applied as a main index of entrepreneurship in the GEM studies, is a measure only of the early phase entrepreneurial activity, while the CEPE is a dynamic configuration of nine elements. CEPE is highly correlated with TEA but there is a slight rearrangement of the ranking of the countries. Moreover, the CEPE index and all three components behaves the same way as the TEA index in terms of economic development, providing a strong support to the theory of U-shape entrepreneurship development. I do believe that the CEPE index is superior to the TEA and would deserve a general application in the GEM reports, however its validity and robustness has be tested by involving other countries and other years, first.

By viewing the combined effect of culture, opportunity and entrepreneurship level, the weak points of country groups or individual nations can be identified. After constructing five clusters of the 45 countries, two ways of economic development trend-line were presented. According to the CEPE index, the entrepreneurship performance of several EU member countries is not as weak as we previously believed based only on the TEA index. The lower level of entrepreneurial activity can be counterbalanced by supporting culture and good opportunity exploitation potential. However, there is another cluster of developed countries with about the same level of entrepreneurial activity than the previous cluster but with a lower cultural and opportunity exploitation context features. This way of development seems to be a dead end road without the significant improvement of entrepreneurship.

The superiority of the CEPE index to the TEA has been prevailed when CEPE and its three components were applied to make a tailor-made policy recommendation to the six CEE countries. As a policy benchmark, the cluster of the high entrepreneurship developed countries was selected. The six CEE countries are different considerably, they belong to three different clusters. Therefore a uniform policy suggestion would be improper for them. The two middle income, relatively lower developed countries Croatia and Latvia should maintain the high cultural support of entrepreneurship, should strengthen the opportunity exploitation potential and should encourage opportunity start-ups as opposed to low growth potential necessity ventures. Opportunity exploitation potential is the weakest point of Russia, Hungary and the Czech Republic, so it is suggested to develop entrepreneurship education focusing on skill and opportunity exploitation improvement. The cultural support is critical in the case of Hungary, however, it is not clear what can the government do to improve the desirability of entrepreneurship and status of the entrepreneurs. Slovenia, the entrepreneurially best performing country possesses a very similar entrepreneurship context as the benchmarking country group, only the relatively low level of entrepreneurial activity should be increased.

Will CEE countries be successful in laying down the basics of the entrepreneurial society or entrepreneurship is becoming an extinct phenomenon? Is it possible to change our faith, i.e. do we have to move along the trend-line or we can shorten the declining trend of entrepreneurship? Does entrepreneurship influence economic development or the level of economic development determines entrepreneurship? These are the questions of the future to answer. Despite our increasing knowledge about entrepreneurship it is not really clear what and how government could encourage entrepreneurship or help entrepreneurs. Let’s hope the best but prepare to the worst.

ACKNOWLEDGEMENT:
I am grateful for the financial support of OTKA Research Foundation, theme number NK 69283.

References
DEVELOPMENT OF ENTREPRENEURSHIP AND SME SECTOR IN THE BSEC COUNTRIES

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”. 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.”

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 expert 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.

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

**SMEs in the BSEC Region**

More than 3 million SMEs in the BSEC region employee 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. 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 filed 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.

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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.

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

“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.”

“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. The more efficient procedure results in a decrease in time from 52 to 30 days.”

“Bulgaria lowered the tax burden on businesses by lowering corporate income tax, labor and one-off taxes, and through more widespread use of the online system. In the construction sector, inspections were made more transparent and liabilities are from now on more clearly defined after technical passports were introduced this year. Private bailiffs started working in May 2006 in Bulgaria, and it also amended its Judicial System Act in order to increase efficiency and transparency in the judicial system.”

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.”

7 See at http://www.doingbusiness.org/reformers/ECA.aspx
“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.

<table>
<thead>
<tr>
<th></th>
<th>AL</th>
<th>AM</th>
<th>AZ</th>
<th>BG</th>
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<th>GR</th>
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<th>RU</th>
<th>RS</th>
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<tr>
<td>Ease of Doing Business Rank</td>
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<td>39</td>
<td>96</td>
<td>46</td>
<td>18</td>
<td>100</td>
<td>92</td>
<td>48</td>
<td>106</td>
<td>86</td>
<td>57</td>
<td>139</td>
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<td>Starting a Business</td>
<td>123</td>
<td>47</td>
<td>64</td>
<td>100</td>
<td>10</td>
<td>152</td>
<td>81</td>
<td>26</td>
<td>50</td>
<td>90</td>
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<td>103</td>
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<td>153</td>
<td>90</td>
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<td>56</td>
<td>62</td>
<td>11</td>
<td>93</td>
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<td>123</td>
<td>45</td>
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<td>Protecting Investors</td>
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<td>83</td>
<td>107</td>
<td>33</td>
<td>33</td>
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<td>98</td>
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<td>Paying Taxes</td>
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<td>Trading across Boarder</td>
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<td>89</td>
<td>64</td>
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<td>58</td>
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<td>Enforcing Contracts</td>
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<td>30</td>
<td>90</td>
<td>42</td>
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<td>101</td>
<td>34</td>
<td>46</td>
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<td>Closing a Business</td>
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<td>42</td>
<td>75</td>
<td>72</td>
<td>105</td>
<td>38</td>
<td>82</td>
<td>81</td>
<td>80</td>
<td>103</td>
<td>112</td>
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Remarks:
(i) Code of country names in accordance with the ISO 3166 standard.

In order 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.
ERENET prepared a Report on the SME sector development in the BSEC region 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 ERENET. The Konrad Adenauer Foundation Secretariat is in the process of publishing all papers. In the ERENET PROFILE we shall highlight some of the papers presented for the BSEC Workshop.  

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of private sector in GDP ¹</th>
<th>Share of SME sector in GDP ²</th>
<th>Share of labour force of SMEs in total labour force ³</th>
<th>GDP per capita ⁴</th>
<th>Index of SME Development</th>
<th>Index of SME Development</th>
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</thead>
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<tr>
<td>Albania</td>
<td>75 [ % ]</td>
<td>64 [ % ]</td>
<td>60 [ % ]</td>
<td>2,898 [USD]</td>
<td>0.288</td>
<td>835 [USD]</td>
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<tr>
<td>Armenia</td>
<td>75 [ % ]</td>
<td>40.3 [ % ]</td>
<td>35.1 [ % ]</td>
<td>1,888 [USD]</td>
<td>0.106</td>
<td>200 [USD]</td>
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<td>Azerbaijan</td>
<td>60 [ % ]</td>
<td>26.7</td>
<td>53 [ % ]</td>
<td>2,336 [USD]</td>
<td>0.083</td>
<td>193 [USD]</td>
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<tr>
<td>Bulgaria</td>
<td>75 [ % ]</td>
<td>39.8</td>
<td>51.5 [ % ]</td>
<td>3,995 [USD]</td>
<td>0.114</td>
<td>456 [USD]</td>
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<tr>
<td>Georgia</td>
<td>70 [ % ]</td>
<td>12.10</td>
<td>27.10</td>
<td>1,779 [USD]</td>
<td>0.023</td>
<td>40 [USD]</td>
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<tr>
<td>Greece</td>
<td>60.5</td>
<td>27.411</td>
<td>86.512</td>
<td>27,610 [USD]</td>
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<td>65 [ % ]</td>
<td>27 [ % ]</td>
<td>22 [ % ]</td>
<td>957 [USD]</td>
<td>0.039</td>
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<td>Romania</td>
<td>55 [ % ]</td>
<td>22.57</td>
<td>40 [ % ]</td>
<td>5,633 [USD]</td>
<td>0.219</td>
<td>1,236 [USD]</td>
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<tr>
<td>Russia</td>
<td>65 [ % ]</td>
<td>45 [ % ]</td>
<td>40 [ % ]</td>
<td>6,856 [USD]</td>
<td>0.117</td>
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<tr>
<td>Serbia</td>
<td>55 [ % ]</td>
<td>65.5 [ % ]</td>
<td>56 [ % ]</td>
<td>4,220 [USD]</td>
<td>0.202</td>
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<td>27.311</td>
<td>76.713</td>
<td>5,408 [USD]</td>
<td>0.168</td>
<td>906 [USD]</td>
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<tr>
<td>Ukraine</td>
<td>65 [ % ]</td>
<td>10 [ % ]</td>
<td>15 [ % ]</td>
<td>2,274 [USD]</td>
<td>0.00975</td>
<td>22 [USD]</td>
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</tbody>
</table>

**Source:** ERENET Database, 2007.  
**Remarks:**  
1. EBRD Transition Report 2006  
2. Authors of the current report and UNECE Databank 2004  
3. Authors of the current report and UNECE Databank 2004  
4. IMF World Economic Outlook Database, April 2007  
7. Including the agrar sector. Without the agrar sector only 18% respectively 24% only.  
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  

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8 See ERENET PROFILE No.9 as of January 2008.
DEVELOPMENT OF THE SME SECTOR IN ALBANIA

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 and development during 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 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 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.

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.

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9 This paper was prepared for the Workshop on “Strategies of the Development of Entrepreneurship and SME Sector in the Black sea Economic Cooperation Region” held on 22-24 November 2007 in Istanbul.
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.

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 October 30th 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 July 28th 2003, the law No. 9121 “On the Protection of Competition” was approved by the Albanian Parliament. This law entered into force by December 1st 2003 abrogating the law No. 8044 dated as of December 7th 1995. The Competition Law 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, “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.

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 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 1 summarizes the procedures and costs associated with setting up a business in Albania:
Table 1.

<table>
<thead>
<tr>
<th>No.</th>
<th>Procedure</th>
<th>Time to complete:</th>
<th>Cost to complete:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Search for a unique company name</td>
<td>1 day</td>
<td>no charge</td>
</tr>
<tr>
<td>2</td>
<td>Deposit the initial capital in a bank and obtain a bank statement</td>
<td>1 day</td>
<td>no charge</td>
</tr>
<tr>
<td>3</td>
<td>Notarize the incorporation documents</td>
<td>1 day</td>
<td>Lek 10,500</td>
</tr>
<tr>
<td>4</td>
<td>File the documents with the Office for the Registration of Companies in the District Court of Tirana and obtain a registration number</td>
<td>18 days</td>
<td>Lek 1,500</td>
</tr>
<tr>
<td>5</td>
<td>Register for taxes and obtain the VAT number and Fiscal Certificate</td>
<td>10 days</td>
<td>no charge</td>
</tr>
<tr>
<td>6</td>
<td>Register the company with Labor Inspectorate Office</td>
<td>1 day</td>
<td>no charge</td>
</tr>
<tr>
<td>7</td>
<td>Register for the membership with the Chamber of Commerce and Industry</td>
<td>1 day</td>
<td>Lek 20,000</td>
</tr>
<tr>
<td>8</td>
<td>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</td>
<td>1 day</td>
<td>Lek 25,000</td>
</tr>
<tr>
<td>9</td>
<td>Register with the Public Institute of Social Security for social security and health insurance</td>
<td>1 day</td>
<td>no charge</td>
</tr>
<tr>
<td>10</td>
<td>Make a company seal</td>
<td>1 day</td>
<td>Lek (3,000 - 5,000)</td>
</tr>
</tbody>
</table>


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 a 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.

There are a several kind of services, such as:

**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 curriculum;
- 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 member 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.

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.

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% of total deposits and 80% 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 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 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.
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 then 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 table 2 highlight the increasing role of these institutions.

Table 2.

<table>
<thead>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MAFF</strong>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td>1,400,000</td>
<td>1,800,000</td>
<td>4,100,000</td>
<td>7,536,060</td>
<td>184%</td>
<td>538.29%</td>
</tr>
<tr>
<td>Outstanding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Credit</td>
<td>447</td>
<td>576</td>
<td>1,100</td>
<td>1,772</td>
<td>161%</td>
<td>396.42%</td>
</tr>
<tr>
<td>Active Clients</td>
<td>3,200</td>
<td>3,100</td>
<td>3,700</td>
<td>4,253</td>
<td>115%</td>
<td>132.91%</td>
</tr>
<tr>
<td>RFF**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td>2,673,760</td>
<td>3,685,186</td>
<td>5,427,917</td>
<td>7,715,590</td>
<td>142%</td>
<td>288.57%</td>
</tr>
<tr>
<td>Outstanding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Credit</td>
<td>767</td>
<td>939</td>
<td>1,176</td>
<td>1,310</td>
<td>111%</td>
<td>170.80%</td>
</tr>
<tr>
<td>Active Clients</td>
<td>4,423</td>
<td>5,277</td>
<td>6,380</td>
<td>7,621</td>
<td>119%</td>
<td>172.30%</td>
</tr>
<tr>
<td>BF***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding</td>
<td>4,973,482</td>
<td>6,936,598</td>
<td>10,417,637</td>
<td>12,118,869</td>
<td>116%</td>
<td>243.67%</td>
</tr>
<tr>
<td>Credit</td>
<td>1,886</td>
<td>2,030</td>
<td>2,321</td>
<td>2,255</td>
<td>97%</td>
<td>119.57%</td>
</tr>
<tr>
<td>Active Clients</td>
<td>2,637</td>
<td>3,417</td>
<td>4,488</td>
<td>5,375</td>
<td>120%</td>
<td>203.83%</td>
</tr>
</tbody>
</table>

*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

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 USD 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 USD 2.5 millions 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.

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.

The legal and general financial environment needs to be further developed, especially capital market. 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.

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.
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.

**SWOT ANALYSES OF THE SME SECTORS IN ALBANIA**

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increased Government and Donor support for development of the SME sector</td>
<td>• Limited financial resources for investments and operational costs</td>
</tr>
<tr>
<td>• Good reputation as business partner in selected sectors such as garments, shoes, herbs etc.</td>
<td>• Inadequate and partly obsolete technology</td>
</tr>
<tr>
<td>• Proximity to the EU markets for technology transfer, sub-contracting, FDI and exports</td>
<td>• Limited access to information on modern production technologies and markets</td>
</tr>
<tr>
<td>• Relatively educated and technically trained workforce.</td>
<td>• Inadequate skills for strategic management of companies and marketing</td>
</tr>
<tr>
<td>• Liberal regulations for development trade &amp; investments</td>
<td>• Inadequate entrepreneurial culture with regard to market and export orientation</td>
</tr>
<tr>
<td>• Low labour costs</td>
<td>• Under developed stock market, especially capital market infrastructure</td>
</tr>
<tr>
<td></td>
<td>• Low level of domestic demand</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITY</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increased SME lending by a number of microcredit institutions Albanian products are increasingly replacing import</td>
<td>• The existence of informal and grey economy</td>
</tr>
<tr>
<td>• Albanian businesses look to obtain higher regional access</td>
<td>• Limited ability to increase competitiveness</td>
</tr>
<tr>
<td>• New financial support schemes such as guarantee schemes, leasing etc could be considered as future options.</td>
<td>• Unfair competition</td>
</tr>
<tr>
<td>• Removal of administrative barriers in Free Trade Agreement with CEFTA Diaspora support by Albanians living in European Countries</td>
<td>• Uncertain political situation about Kosovo</td>
</tr>
</tbody>
</table>

*Source:*

2. Prof. Eric Dejan, 2007,
4. Prof. Dr. Selami Xhepa and Msc. Mimoza Agolli, (Tirana, 2004), Institute for Contemporary Studies, Albanian Center for International Trade (ISB/ACIT) “Small and Medium Sized Enterprises Development”
DEVELOPMENT OF THE SME SECTOR IN AZERBAIJAN

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. USD 2,027.5 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.

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.

| The structure of investment on forms of enterprises |
|-----------------------------|------------------|
| Small enterprises (%)       | 3,2              |
| Medium and big enterprises (%) | 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, increase of unfair competition, strengthening of monopolism, largening of “shadow economy” and decrease the direct foreign investment.

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10 This paper was prepared for the Workshop on “Strategies of the Development of Entrepreneurship and SME Sector in the Black Sea Economic Cooperation Region” held on 22-24 November 2007 in Istanbul.
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 2. The place of SME sector in Azerbaijan economy

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2003</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of private sector in GDP (%)</td>
<td>70.8</td>
<td>73.3</td>
<td>77.8</td>
<td>81</td>
</tr>
<tr>
<td>Share of private sector in employment (%)</td>
<td>65.5</td>
<td>68.5</td>
<td>68.1</td>
<td>68</td>
</tr>
</tbody>
</table>

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 243,000. Generally, 15,560 new enterprises were established within last 3 years.

The dynamic of subjects engaging with entrepreneurial activity

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

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.


Due to the President Decree of the Azerbaijan Republic the number of business activities required license was reduced to 50 and the license fee was also decreased. 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 he 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 prosecute with European Union, 28.2% with CIS countries.

Composition of enterprises and new enterprises by kind of activity

<table>
<thead>
<tr>
<th></th>
<th>as of 01.01.2006</th>
<th>as of 01.01.2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>agriculture</td>
<td>60,089</td>
<td>74,534</td>
</tr>
<tr>
<td>manufacturing</td>
<td>9,087</td>
<td></td>
</tr>
<tr>
<td>construction</td>
<td>5,828</td>
<td></td>
</tr>
<tr>
<td>wholesale and retail trade</td>
<td>6,667</td>
<td></td>
</tr>
<tr>
<td>hotels and restaurants</td>
<td>25,980</td>
<td></td>
</tr>
<tr>
<td>transport</td>
<td>1,028</td>
<td></td>
</tr>
<tr>
<td>real estate, renting</td>
<td>2,227</td>
<td></td>
</tr>
<tr>
<td>Enterprises established</td>
<td>5,123</td>
<td>-</td>
</tr>
<tr>
<td>Enterprises closed-down</td>
<td>756</td>
<td>-</td>
</tr>
</tbody>
</table>
Table 5.

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

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

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 “Privatization 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 July 2007 about 47,259 small enterprises, as well as 420 industrial, 123 agricultural, 543 construction, 10 thousand consumer services, 3,780 trade, 1,081 public catering, 19,737 transport, 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 January 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 unsufficient 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 unsufficient 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, heath 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 exsisted 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 unsufficient 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 fonds 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 restructurazation and recovery of privatized enterprises should be executed at the same time with the development of country economy.

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)
3. The Law on “Enterprises” (1994, since 2000 the Civil Code)
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)
13. Cabinet Provision on “Distribution and usage of budgetary funds under article of investment support for small entrepreneurship” (1997)
17. Presidential Provision on “Establishment of Special Economic Zones” (2007)
27. State Program on “Improvement of Tax Administration” (2005-2007)

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.

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.

Table 6.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of tourism companies, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State sector</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Private sector</td>
<td>16</td>
<td>38</td>
<td>48</td>
<td>55</td>
<td>78</td>
<td>93</td>
</tr>
<tr>
<td>The number of employees</td>
<td>127</td>
<td>319</td>
<td>356</td>
<td>475</td>
<td>646</td>
<td>779</td>
</tr>
<tr>
<td>The total income of tourism companies [USD million]</td>
<td>2.6</td>
<td>4.9</td>
<td>7.1</td>
<td>10.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 7.

Doing Business in Azerbaijan 11 12

<table>
<thead>
<tr>
<th>Ranks</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ease of doing business</td>
<td>99</td>
<td>97</td>
<td>96</td>
</tr>
<tr>
<td>2. Starting a business</td>
<td>96</td>
<td>95</td>
<td>64</td>
</tr>
<tr>
<td>3. Dealing with licenses</td>
<td>162</td>
<td>159</td>
<td>159</td>
</tr>
<tr>
<td>4. Employing workers</td>
<td>66</td>
<td>79</td>
<td>80</td>
</tr>
<tr>
<td>5. Registering property</td>
<td>59</td>
<td>58</td>
<td>56</td>
</tr>
<tr>
<td>6. Getting credit</td>
<td>21</td>
<td>21</td>
<td>26</td>
</tr>
<tr>
<td>7. Protecting investors</td>
<td>118</td>
<td>118</td>
<td>107</td>
</tr>
<tr>
<td>8. Paying taxes</td>
<td>136</td>
<td>142</td>
<td>141</td>
</tr>
<tr>
<td>9. Trading across borders</td>
<td>158</td>
<td>170</td>
<td>173</td>
</tr>
<tr>
<td>10. Enforcing contracts</td>
<td>34</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>11. Closing a business</td>
<td>70</td>
<td>71</td>
<td>75</td>
</tr>
</tbody>
</table>

3. SME SUPPORT INFRASTRUCTURE IN AZERBAIJAN.

11 For 2006 see http://doingbusiness.cserra.org/azerbaijan/businessenvironment/wb.htm
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.

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.

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 8. The structure of the credits issued by the NFSE

<table>
<thead>
<tr>
<th>Credits</th>
<th>Maximum amount [USD]</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microcredits</td>
<td>Up to 1,176</td>
<td>2 years</td>
</tr>
<tr>
<td>Low volume credits</td>
<td>1,176 – 3,5294</td>
<td>2 years</td>
</tr>
<tr>
<td>Medium volume credits</td>
<td>35,294 – 117,647</td>
<td>3 years</td>
</tr>
<tr>
<td>Big volume credits</td>
<td>117,647 – 1,176,470</td>
<td>5 years</td>
</tr>
<tr>
<td>Large-scale credits</td>
<td>1,176,470 – 3,529,411</td>
<td>7 years</td>
</tr>
</tbody>
</table>

Table 9. Distribution of the resources of NFSE on the sorts of credits in 2005-2007

<table>
<thead>
<tr>
<th>Sorts of credits</th>
<th>Number of projects</th>
<th>Share in projects [%]</th>
<th>Amount of credits [USD million]</th>
<th>Share in credits [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microcredits</td>
<td>2,309</td>
<td>53.3</td>
<td>2.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Low volume credits</td>
<td>548</td>
<td>12.7</td>
<td>3.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Medium volume credits</td>
<td>357</td>
<td>8.2</td>
<td>8.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Big volume credits</td>
<td>995</td>
<td>23</td>
<td>103.1</td>
<td>51.5</td>
</tr>
<tr>
<td>Large-scale credits</td>
<td>122</td>
<td>2.8</td>
<td>83.1</td>
<td>41.6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,331</td>
<td>100</td>
<td>200.0</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 10.

**Direction of the use of resources of NFSE**

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

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 11.

**General situation of credit market**

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

**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. 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 an 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 accession to WTO.

SWOT ANALYSES OF THE SME SECTOR IN AZERBAIJAN

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Political and economic stability;</td>
<td>• Sectoral structure of SMEs does not meet the country’s production potential;</td>
</tr>
<tr>
<td>• Government’s full support for entrepreneurship;</td>
<td>• Predominance of individual and family enterprises in entrepreneurship sector;</td>
</tr>
<tr>
<td>• Easy enterprise registration process;</td>
<td>• Unsatisfied support mechanism for start-ups;</td>
</tr>
<tr>
<td>• Entrepreneurial skills and attitude of population toward entrepreneurship is relatively high;</td>
<td>• Poor coordination of institutional changes, economic modernization and technological renovation of economy;</td>
</tr>
<tr>
<td>• Creation of legal basis for SMEs activity;</td>
<td>• Lack of credit guarantee system for SMEs;</td>
</tr>
<tr>
<td>• State support mechanism to entrepreneurship;</td>
<td>• Lack of business incubators;</td>
</tr>
<tr>
<td>• Low share of the population in poverty.</td>
<td>• Low SMEs share in export;</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Favourable geographical location of the country;</td>
<td>• 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;</td>
</tr>
<tr>
<td>• Favourable climate conditions for development of tourism sector;</td>
<td>• The Government does not provide sufficient financial support from the oil resources, which could provide less favorable environment for SME development in long-term;</td>
</tr>
<tr>
<td>• The newly established Business Council could make recommendations in order to improve the business climate;</td>
<td>• High rate of the shadow economy;</td>
</tr>
<tr>
<td>• Good economic environment for direct foreign investments;</td>
<td>• Low-effective mechanism of solution of business disputes and economic conflicts.</td>
</tr>
<tr>
<td>• Possibility of cooperation and doing business with the neighbouring South-Caucasian countries and countries of the SPECA region;</td>
<td></td>
</tr>
<tr>
<td>• Possibility of becoming a supplier of Transnational Corporations (TNC) in the oil and oil related industries;</td>
<td></td>
</tr>
</tbody>
</table>

Source:
(1) UNECE, Geneva, 2005
(2) Alakbar Mammedov, National Confederation of Entrepreneurs (Employers’) Organizations, 2007
THE OPINION OF ADVOCACY ORGANISATION REPRESENTATIVES ON THE SITUATION OF SMALL AND MEDIUM-SIZED ENTERPRISES IN HUNGARY

Introduction

Many are concerned today by the future of small and medium-sized enterprises in Europe. A wide range of studies seek to assess their economic potential; whether they can compete with multinational companies; how they will adapt to the conditions of a globalising economy; whether globalisation inevitably means the market hegemony of large enterprises; whether the SMEs can be made more viable and competitive; and what changes are necessary for that. And what will SMEs’ future be like at all?

These questions are of special relevance to Central and East European countries, Hungary included. For, in the eyes of many, transition was equivalent to free enterprise. Is it possible that the recent feeling of liberty will not be long-lived? Privatisation has just been completed, but there has been no time yet for the consolidation of small and medium-sized enterprises, and they already face another difficulty: the effects of globalisation. Will they be able to compete with the big ones?


It is a welcome fact that the conference organisers showed an interest in the experience of the countries that joined the EU recently. In compiling the background material of the conference, they took into account the situation of SMEs in Hungary, as well as in other countries, based on interviews with the leaders of five Hungarian interest representation organisations, who have an intimate knowledge of the specificities of the Hungarian situation. The following is a summary of these interviews. 13

I. SME: ACTIVITY AND ECONOMIC POTENTIAL

1. Many have doubts regarding the economic potential of small and medium-size enterprises. How do the Hungarian social partners see this situation? Do SMEs perform better or worse than large enterprises in Hungary?

With a single exception, the respondents deemed the economic performance capacity of SMEs better than before. Despite the general economic downturn, SMEs have performed better on a per unit basis and relative to asset value. It is difficult to assess their economic significance, since no statistical data are available in Hungary on the share in the GDP of companies with less than 10 employees.

In Hungary, SMEs account for 30% of exports. Between 2001-2005, their net sales revenue was 62.5% of total net sales, whereas that of large enterprises (i.e. employers with more than 250 staff) was 37.5%. Within export sales, the share of SMEs was 35.5% (within that, micro and small enterprises produced 22% and medium-sized ones 13% of exports overall.)

13 Corvinus University, SME Development Centre; National Association of Entrepreneurs (VOSZ), Trade Union for Traders and Caterers (KASZ), National Association of Craftsmen and Artisans (IPOSZ), Hungarian Industrialists (OKISZ), National Association of Works Councils (MOSZ)
All in all, SMEs have shown significant development, albeit on a far lower scale than foreign capital moving to Hungary.

Over the past 15 years, SMEs played a crucial role in employment. They are responsible for more than two thirds of jobs in the corporate sector, but their contribution seems to have weakened recently. It is a major problem that, in Hungary, the concept of co-operation has a negative ideological connotation: (many consider it a Stalinist model even today) it is regarded as a Stalinist method, and this has actually prevented SMEs being organised into co-operatives. Furthermore, they were at a disadvantage from the start, since they were not allowed to take part in privatisation, in the acquisition of state property.

2. One may obviously not speak of enterprises in general. There are significant differences in the economic potential of enterprises by industry and by enterprise size. It is therefore essential to see which sectors and which SME types (micro, small, medium-sized) are developed, or underdeveloped, in terms of employment in Hungary.

In Hungary, the average SME staff size is less than 5 persons. More than 80% of SMEs employ less than 10 persons. Barely 1% of all enterprises hires 50–249 people. These figures have remained unchanged for years. Trade, hotels/catering, tourism and the services in general have grown faster than the inflation rate. Information technology is an area where Hungarian SMEs have managed to remain competitive. The absence or marked under-development of the medium-sized enterprise sector is a typical Hungarian phenomenon. This has a detrimental effect on the activity of SMEs, since it prevents their organisation into a system. Consequently, according to the respondents, the branches where small entrepreneurs can co-operate, i.e. trade and services in the first place, are at an advantage. If they can pursue their activity beside, or in co-operation with, “large” companies, they can beat their rivals, but only among SMEs: they have no chance at all against the “big ones”. Moreover, SMEs cannot exploit the flexibility offered by their organisational structure since they cannot offer such assortment and speed as big multinationals. Another disadvantage is that lack of capital prevents flexible change.

3. The international examples suggest that medium-sized enterprises play a special role in the national economies. They represent a link between micro and large enterprises. Their position and level of development is a telling sign of the state of the economy of the given country and especially the role of the SMEs there. What is the situation of medium-sized enterprises like in Hungary, and which are the industries where medium-sized enterprises (with 50 – 249 employees) occupy strong positions?

This type of SMEs is critically weak in Hungary. The reason for that is a lack of capital. Some among them are large state enterprises which go broke at a slower pace. Some are successful, but the majority are not. There are hardly any Hungarian medium-sized enterprises (some 4000), and ten times as many would be needed to fill the intermediary functions. More than three quarters of the strong medium-sized enterprises are active in real estate, IT and in the business support services. They are followed by the enterprises active in trade, manufacture and construction.

4. As in the developed economies, small and medium-sized enterprises exert a significant influence on the level of employment in Hungary. Are the opportunities inherent in that situation exploited? What are the most important factors influencing the increase or decrease in jobs in SMEs in Hungary.

Transition from the planned economy to the market economy was no triumphal march in Hungary. The heavy industry collapsed in the process. To escape unemployment, many laid-off people became entrepreneurs. Nevertheless, the number of persons employed by SMEs has stabilised by now. On the other hand, the Convergence Programme introduced in 2007 and the austerity measures introduced to combat the excessive budgetary deficit have had a negative impact on economic development in general and hence, as a matter of course, on SMEs as well. According to the respondents, the level of employment depends on market trends and on entrepreneurs equipped with appropriate technology and qualifications. It is a disadvantage in Hungary that SMEs receive the least bank loans and central funds; they tend to mobilise their
family savings instead. Those with sufficient family savings can develop; the rest will stagnate at best. The hindering factors include the high labour costs of production and the so-called minimum tax (on the expected income of companies), which is determined, in the opinion of the respondents, on the basis of subjective assumptions about the black economy.

Neither does the main-job-oriented approach of Hungarian employment policy promote employment. The possibilities offered by atypical employment (homeworking, outworking, distance working etc.) are not taken into account in the specification of the forms of subsidies. State administration mistrusts the employment practices of SMEs. It tends to regard part-time employment as a form of tax evasion/avoidance. The atmosphere of mistrust is enhanced by the fact that the state bureaucracy has intensified the inspection of SMEs lately and, consequently, the latter are subject to more marked state pressure.

Trade is undergoing capital and organisational concentration, but this has not led to staff reductions yet. In trade and in catering, the number of those employed by multinational companies typically increases, and that of SME employees declines. It is quite typical for the former to poach the workforce of the latter. At the same time, the multinational companies had a beneficial impact on employment: they absorbed labour laid off by the closing SMEs and even created new jobs. On the other hand, the efforts of “big” enterprises to destroy one another afflict SMEs, too.

II. SMES: THEIR PLACE AND ROLE IN THE HUNGARIAN ECONOMY

5. **Beside international economic trends, national economic policies may also exert a significant influence on the development of small and medium-sized enterprises. Which macro-economic developments in Hungary are of particular relevance for the operation of SMEs?**

The main problem is the absence of a predictable, long-term national economic policy regarding the operation of SMEs. There is no regional or local economic policy. And whatever exists is predominated by politics. There have been some pilots, some government programmes to support SMEs in the past years, but some say that these interfered quite drastically with the market processes: the grants meant a competitive disadvantage for those who did not benefit from them (e.g. Széchenyi Plan). The grant decisions were often influenced by political considerations or corruption.

The existence of the black and the grey economy exerts a major influence on the operation of SMEs. The black economy is present in the macro-economic processes to the extent of criminalising the SME policy of the government. Central measures are often emotionally motivated. Lately, the government has put considerable pressure on the legal enterprises, because this is the easiest way to increase the tax revenues.

The deficiencies of the Hungarian supplier capacity also have a negative influence on SMEs. Since domestic SMEs are not adequate partners, the multinationals bring along their supplier network, and instead of procuring the instruments and services required for production from the domestic production chain, they squeeze Hungarian SMEs out from the market.

The respondents deem the impact of globalisation positive, since it is inevitable. However, in their opinion, few measures have been taken to regulate the monopoly positions. Major and better-capitalised companies often abuse their market position and pay their suppliers with a considerable delay.

Hungary's EU membership has a positive impact on the operation of SMEs. In principle, the European economic developments improve the position of SMEs, because they let the natural operating mechanism of the market work. The realisation of the positive effects, however, is weakened by every factor which prevents Hungarian SMEs from taking part in European competition (e.g. language barrier).

The exit from the Hungarian market of major foreign-owned companies has also had a detrimental effect on the operation of domestic SMEs, since part of the latter acted as suppliers of the big companies. The “austerity measures” introduced in 2006-07 due to the high central budget deficit, the curtailing of public utility services, and the downsizing of the public sector have reduced the number of state orders significantly, and this, too, had a negative impact on the performance of SMEs.

The respondents agreed that the problem of SMEs cannot be solved by grants alone. Systematic solutions are needed. The disadvantages of SMEs should be reduced in terms of competition, taxation, and wage-related taxes (contribution payments).
6. Small enterprises depend on large enterprises leading the production chain for orders and on co-operation with them. However, the latter have also been subject to major transformation globally in recent years. This development obviously affects the activities of SMEs. It is therefore an interesting question whether the phenomenon observed in Western Europe has taken place in a similar manner in Hungary. And, anyway, to what extent was the operation of SMEs influenced by the transformation of large enterprises, e.g. outsourcing, relocation of production?

Since many SMEs are suppliers to large companies, every change in the latter affects their operation and existence. Some progress has been made in this area, such as the creation of supplier networks and participation in public procurement bids, but its extent falls short of the expectations of Hungarian SMEs. The experience has been that multinational companies relocated to Hungary bring along their own trusted supplier networks. They will do business with Hungarian SMEs only as a last resort. It is equally true, however, that it is difficult to find high-quality Hungarian suppliers. This is attributable to the absence of an adequate work culture and of clusters.

Big companies carry a significant economic weight, since it is the pre-financing capacity that gives the applicant the best chances to win municipal or central investment tenders. The winners are obviously not SMEs. The operation of SMEs is influenced in a special way by the fact that multinational companies can terminate valid agreements and they can also relocate their production to other countries – initially, this meant China or India, lately the neighbouring countries of Slovakia and Romania in the first place.

7. Market power re-arrangement and the relevant policy responses and necessary Government measures have generated heated debates in some Western European countries. What forces are mobilised by this topic in Hungary? Is transformation and restructuring a topic of debate at all in Hungary?

The restructuring of SMEs, specifically, is not a separate topic of debate. OÉT (the National Interest Reconciliation Council) is informed of/consults on macro-economic topics, including SMEs, in the framework of the National Development Plan. In 2007, GKM (the Ministry of Economy and Transport) prepared a separate draft on the SME development strategy and submitted it for discussion to OÉT. The social partners object primarily to the high tax and social insurance burdens, and to the unpredictability of the economic environment due to the frequent changes of economic regulations. The borrowing options available to SMEs and the relevant difficulties due to the excessive bureaucratic and almost impossible bank requirements represent a permanent topic of discussion. To date, debates in the daily press focus on the supply of information regarding the EU application options and the lack of transparency of access to EU funds (especially on the part of farmers active in agriculture).

Restructuring has moved to the focus of attention in some areas because, although the legal background and judicial practice of restructuring has crystallised, law enforcement has remained a difficult issue. One example is the treatment of suppliers.

One topic of discussion associated with restructuring is the qualification issue. Small enterprises are in a more advantageous position in terms of qualifications than the “big ones”. Qualified labour is in short supply to meet the demands of big companies – consequently, they suck away labour, especially young labour, from the small enterprises. As a result, the age of SME employees tends to increase while the age of employees at multinationals tends to decrease. This leads to major disproportions in incomes, to the detriment of the older workers.

III. MARKET SECTOR TRANSFORMATIONS

8. SMEs cannot just sit and watch changing market power relations. They must adapt to changing circumstances. How do small enterprises react to these challenges in Hungary and what are the most significant types of transformation?

The various forms of restructuring are mostly absent in Hungary. Therefore, the circle of entrepreneurs has become highly fragmented. This is one of the biggest hindrances to the realisation of market advantages by SMEs. At the same time, there is no co-operation culture, due mainly to the absence of
the relevant legal forms and the legal regulations governing the looser forms of association. There are no procurement and sales co-operatives and no consortium laws to bring independent enterprises together to take part in an application jointly, for example. Initially, restructuring typically meant the dismembering of big companies and then their sale unit by unit. To date, market concentration has been experienced in certain (commercial) areas.

Until now, foreign companies have come to Hungary to benefit from various preferences. Now non-professional investors have also appeared, to buy up “small companies”. They offer to turn around companies in trouble. Domestic ownership is losing ground. This phenomenon is quite pronounced in the area of agricultural co-operation.

Given the hectic and bureaucratic state regulations which force SMEs into a position of permanent self-defence, the typical form of restructuring is either being in operation or being terminated. There is no legal basis for consortium relationships: the big companies win the tenders because of their capital strength. They set up project companies. Nevertheless, networking seems to be taking place to offset the disadvantages due to smaller company size, and more and more businesses enter into formal or informal co-operation in this context (especially in retail and wholesale trade).

The experience has been that certain administrative activities, e.g. book-keeping, financial and labour affairs, disappear from small enterprises. The main reason is the need to cut costs. The negative effects of this development are perceptible in the operation of SMEs. Enterprises in a better market position can afford to “outsource” the functions (e.g. accounting, marketing, legal work, IT services, book-keeping) required for their operation, that is, a special division of labour has evolved within the SME sector.

9. Are there special economic sectors in Hungary where restructuring takes place in a different manner?

Insular development is a special Hungarian feature. There is typically no contact between the “small” and the “big” entities. Trade is probably the area where it can be demonstrated that the “big” ones crowd out the “small” ones. Restructuring takes place in a rather peculiar way in agriculture, too, as mentioned above. Lately, certain investor circles have appeared in Hungary to buy up companies in trouble, irrespective of the size of the latter. Company relocation is quite frequent, but SMEs are not the only losers in this process.

10. Are there significant differences in the circumstances of transformation by SME size (micro, small, medium-sized)?

There are significant differences. Stronger companies often pursue several kinds of activities (their activity profile is not a clear one), and hence they can better adapt to market changes. As for weaker entities, the most typical form of “transformation” is company closure (bankruptcy or winding-up).

The concept of restructuring cannot be interpreted in the context of micro (family) enterprises. Their development is not steady. However, if an enterprise has no employees it does not necessarily mean it has no potential for growth. The “big” ones are capable of restructuring technologically and in terms of qualifications. If, on the other hand, an enterprise is not big enough and is undercapitalised, it has two options: termination or merger. If it cannot attract new resources, merger is the real alternative, but Hungarian SMEs are currently very cautious when it comes to that. They will take no risk; they will not risk losing what they had accumulated. The current Hungarian restructuring practice is a negative example: it acts in favour of doing business separately.

As for restructuring, trade is a good example in Hungary, because it requires little investment, and the entities concerned are easy to start up and to terminate. There is no difference between an employee and a micro-entrepreneur, except for their independence. There is easy crosswalk between certain small enterprise positions and corresponding ones in large enterprises, which also means, as a matter of course, the termination of the micro enterprise. Restructuring affects all three enterprise forms, but in terms of power and strength, the “bigger” ones occupy a more favourable position.

11. Administrative measures promoting restructuring can be wide-ranging. What special instruments (regional/local mechanisms, structural funds, other financial and non-financial resources) are available for SMEs in Hungary so they are better prepared for structural changes?
Only 4.5% of SMEs have received state subsidies. Nevertheless, they are in need of a consistent policy rather than grants and projects. Unstable government measures are another hindrance to the development of SMEs. There are some enterprise promotion and innovation-oriented foundations, but access to these is hindered by many obstacles. The respondents’ answers to this question focused on things which SMEs would need but which do not exist yet.

IV. SME SUPPORT AND ENTERPRISE DEVELOPMENT

12. International experience has been that pro-transformation instruments, if they exist at all, are available to differing degrees to various types of enterprise. What is the relevant experience in Hungary? Do SMEs of different types have equal access to the resources concerned?

The funds are far from being “equally available”. There are several reasons for this: firstly, SMEs do not have equal access to information, which determines their chances in market competition. At the same time, experts are in complete agreement that financial support should not be spent on saving companies that have gone bankrupt. Survival on one’s own resources should be a precondition of subsidy. The respondents agreed that the operating environment of SMEs should be changed; a more favourable business and financial environment should be created. The currently very expensive state administration (consuming 9.8% of the GDP) should be made cheaper, and this would make it possible to reduce the tax burdens, too. Further benefits should be provided to SMEs through the taxation system, even if that is not fully compatible with the market/economic environment. Tax incentives, a more open way of thinking, the adoption of a systematic approach, and municipal responsibility for the organisation of the local industry and trade are critical to the development of SMEs.

It would be just as important to upgrade the intermediary sector, including databank services, and management information systems, as no adequate statistics are available in Hungary for the preparation of business plans.

Special mention was made of the importance of access to information, with special emphasis on EU funds. The respondents were of the opinion that the availability of state-financed information centres would serve the better operation of SMEs.

In many cases, the activity of SMEs is hindered by administrative problems as well. One typical case is the short period of time between the announcement of a tender and the application deadline. At the same time, part of the Hungarian SMEs is unable to access the (existing) forms of support, as 70% are too busy solving everyday problems to make ends meet. They have no long-term plans; they struggle to survive.

12. What would be needed in order for Hungarian SMEs to enjoy more support and be in a better position to overcome the difficulties encountered in the process of transformation?

A market-building policy is needed, on a much bigger scale than today. The market needs to be regulated, since a liberal economy should not be an anarchistic economy. 67% of those in employment work at micro and small enterprises, but something should be done to maintain that rate: at least 30% of the available resources should be awarded to this segment. According to the respondents, legislative guarantees would be required.

Instead of support for the development of the material infrastructure (motorway construction), the National Development Plan should put the emphasis on the modernisation of state administration, and the development of the human sector. Motorway construction takes away excessive funds from the economy.

In the opinion of the trade unions, SME support is not feasible without the economic solidarity of the employers. The “large” entities should become capable of giving up certain advantages in favour of SMEs, to ensure the operational capacity of the market. They should accept the principle of positive discrimination, for example in the determination of certain taxes and contributions.

14. Responses to the process of restructuring cannot, of course, be assigned to the exclusive competence of the Government, which would be unable to solve the related problems in this field
single-handed. Hence interest representation organisations, too, must play a role in the specification, and especially the implementation, of the measures concerned. What can the social partners and local interest representation actors do in Hungary to apply the best practices and the innovative approaches?

The majority of the social partners do not deal with small entrepreneurs. It is a basic structural problem that Hungarian social partners keep lobbying for scarce government funds, which affects their legitimacy, too (80% of entrepreneurs are not members of any employer organisation).

The social partners could play a significant role in networking, too, since the inter-enterprise contacts are rather deficient now. At the same time, it is also critical that they should provide training, as well as up-to-date information to their member organisations. The interest representation organisations should furthermore deal with occupational safety and labour issues. The social partners have a major role in shaping the local industrial policy, and in identifying the interests of their member organisations, along with conveying these to political decision-makers.

It is important for trade unions to understand the significance of professional solidarity. They should co-operate with employers; they should be able to separate the everyday needs of the workers from solidarity required in the longer term. The trade (the enterprise) should be supported by solidarity to ensure the livelihood workers in the short term. Efforts should be made to have clear and stable conditions. The key words are quality development, forecasting, employee preparation.

From the point of view of the trade unions, the main problem of the SME sector is the lack trade unions at the workplaces. Neither is the SME sector distinguished within the Sectoral Social Dialogue Committees (SSDCs), and hence there is no way to represent SME interests either as special employer interests or special employee interests. This, however, would be necessary, if only because the EU guidelines usually refer to the possibility of introducing SME rules which depart to some extent from the general ones. The current labour legislation – except for the rules governing the liability of the employer – includes no special provisions even for that segment where EU labour standards would allow that.

At workplace level, no collective agreements can be concluded due to the absence of trade unions, whereas it is under collective agreements that the Hungarian labour law would allow departing from certain important rules in order to enable the more flexible utilisation of labour (e.g. work schedules, temporary transfer to another job, transfer to another place of work for a longer period of time etc.). Consequently, the absence of collective agreements hinders flexible employment, which could be one of the instruments to promote the competitiveness of SMEs. In the absence of collective agreements, employers often achieve the necessary degree of flexibility by violating the relevant legal regulations. According to the effective legislation, no branch-level collective agreements can be concluded at the sectoral social dialogue committees either.

The main problem is, however, that although SMEs are represented both in OÉT and in the SSDCs as employers, the national and branch-level trade unions participating in these interest reconciliation fora represent the workers employed by SMEs only to a very small extent or not at all. Consequently, the real social partners of SMEs cannot meet at these fora either.

The social dialogue is made difficult also by the fact that SME workers often work under sham contracts, as entrepreneurs or family members, not as employees, and hence they could not join the trade unions anyway. Undeclared employment is also very frequent at SMEs and especially at the micro enterprises. The existence and operation of trade unions in the SME sector would make it possible to develop such networks, forms of co-operation or even common training etc. funds that would contribute to the more flexible employment of labour there, in accordance with the relevant needs. It would furthermore allow concluding collective agreements covering several employers, which would guarantee the flexible employment and also job security of workers under regular conditions.

In Hungary, a mere 22% of small businesses have bank contacts; in the EU, the corresponding rate is 80-85%. They cannot borrow for lack of an adequate assets background. It was therefore imperative to create a special support scheme for the micro enterprises. The so-called Jeremy programme is designed to solve this issue.

Support for the innovation activities of SMEs is equally important. Therefore, a foundation has been created to support this activity.

A few years ago, so-called sectoral social dialogue committees were created with Phare support to provide an institution for the social partners to discuss sectoral policies and work out programmes.
15. What further instruments and solutions would be needed in Hungary to promote the transformation and adaptation of SMEs?

The gap between SMEs and multinationals in terms of access to public funding has kept widening in Hungary. Therefore, the social partners expressed the demand to guarantee/set the rates of subsidy by legal regulation, so that these should not depend on the political trends of the day.

It may be a problem that the minimum amount of subsidy is often too high for SMEs to access the resources concerned for the purpose of their innovative activities.

Innovation may well be of decisive importance for the viability/survival of SMEs. Most small businesses (especially when they struggle for survival) cannot afford to spend on innovation. SME development should be promoted through state grants, in the form of transferring patents, e.g. know-how, on preferential terms. In Hungary, this function is fulfilled by the Jedlik Ányos Foundation.

The objective is to help enterprises to move from the phase of extensive development to intensive development. The intensive phase should be supported: a change-over is required from the family to the professional enterprise area; adequate education and legal forms are needed.

It would be of crucial importance to teach entrepreneurial and employee skills already in mainstream education, to acknowledge lifelong learning as a fundamental constitutional right, and regulate clearly who is responsible for that and who should bear its costs, and how continuous learning should be fitted into the working time and the work activities.

Further infrastructure (other than motorway) developments are needed, particularly the development of the financial and human infrastructure. Special emphasis should be laid on the elimination of language barriers, so that Hungarian SMEs are able to participate in international tenders with equal chances. Conditions should be established for SMEs to access information free of charge needed for their activities and the preparation of their business plans. This, however, makes IT development indispensable.
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CONSIDERATIONS REGARDING THE INSTRUMENTS  
FOR ENVIRONMENT MANAGEMENT

Abstract

The management system of environment is a component of general management system which includes: organizational structure, planning activities, responsibilities and realizations of environment politics. This structure system of management environment makes the purpose of international standards included in ISO 14001 series, standards which synthesize specific elements of management environment system. The procedures of this kind of management system can be integrated in the structure of any requirements of management for getting the objectives of environment or economy which have been fixed.

1. Introductive considerations

The management system of environment is a component of general management system which includes: organizational structure, planning activities, responsibilities and realizations of environment politics. This structure system of management environment makes the purpose of international standards included in ISO 14001 series, standards which synthesize specific elements of management environment system. The procedures of this kind of management system can be integrated in the structure of any requirements of management for getting the objectives of environment or economy which have been fixed.

The principal purpose of a management system of environment represents: the assurance of environment protection, the warning pollution, as well as the assurance of balance between this elements and social and economic necessities.

The implementation of this kind of management system permits to every organization to establish and evaluate the efficiency of used procedures for the elaboration of its environment politics and in the same time to comply with them.

The system of management environment is a complex process which assures the order and coherence in organizations, as well as their preoccupation of problematical environment, the resources earmarking, responsibilities assign, fair and continue evaluation of different practices and internal processes came to assure the good evolvement of activities.

This kind of system is compatible with the concept of durable development, being essential for consolidate capacities of an organization to answer to its environment objectives and to guarantee the national requires as well as international in this way.  

The conceptual frame for the management of environment is the politics of environment. This puts together the commune aims and principles of action of a community or organization at local, regional or international level, which follows the assumption of a pledge both for the protection, preservation and durable development of environment and for the conformation of community or organization with the requests of settlements concerning the environment.

The management of environment represents the method of organization of human activities which affects the environment regarding the maximization of social welfare, the prevention and decrease of the possible effects made over the environment and suppose a set of practical instruments with a view to protect and develop the environment.

The most used classification of the instruments for management environment is that according to, we can distinguish:

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14 To see, A. Relicovski, Politics in management of environment, European Institute from Romania, Bucharest, 2000.
- instruments of command and control, which include the normative acts, the systems of authority, the systems of recording and certification etc., through which are settle and also imposed the specific and necessary activities for environment protection;
- Economical instruments, in the shape of stimulants, through which is followed the deficiencies correction specific to the market system;

The quality and functionality of command and control measures as well as economic system is a necessary condition and indispensable to every program of management environment. But, this suppose too a suitable institutional support, respectively:
- the existence of persons capable to concept politics of environment and specialists in technical domain;
- the existence of authorities of environment at local, regional or national level, competent to impose the settles from the environment domain and to take the decisions which are imposed in this area of study;
- the existence of one advanced material base (laboratories, research centers, equipments etc.);
- the existence of economic resources, necessary for monitoring effectuation, evaluations and researches etc.

2. Presentation and analyze

The instruments or measures of command and control are represented by:
- the documents of politics in environment domain, which permit to specialists and also to interested persons to understand the causes which establish the adoption of concrete measures and legislative decisions of putting in practice of this ones. At national level the politic documents of environment domain are made by the Government based on some reports concerning the state of environment; the environment reports present complex problems in the area and propose programs, plans and instruments for treating the environment problems;
- the legislative frame is represented by the laws in environment domain which, for being useful, they need to combine next specific features: to integrate in national legislative politics; to can be applied by the managerial structures; to be easy to access for involved subjects in their implementation; to include express disposals concerning the protection of environment resources; to hinder the pollution and degradation of environment etc.;
- the environment standards are used for establish the maximum levels of some polluting factors in responsive medium (quality standards) and for the establishment of a maximum quantity of a specific polluter (standard emissions).
Concerning the environment standards, European Union utilizes the next classes: quality standards (maximum levels admitted for pollution) and objectives of quality (requests which must be fulfill in a specific time);
- the regular acts of environment activities (agreements, authorizations) are documents which constitute important instruments of environment management with a role in achieve on a advanced level of conforming in the goal of improving activities and achievement of environment protection and preservation;
- the environment inspections made with the purpose of obtaining information and proofs concerning the activities with an impact on the environment and establishing recommendations concerning the measures which are imposed;
- the remediation measures for cases of encroaching upon the norms and recommendations of protection and durable development of environment, which can be voluntary (result of negotiation between the authorities of implementation and operators) or imposed (result of breaking the permission conditions) on administrative or juridical way;

15 To see Cristina Ionescu, Politics of management environment, Bucharest, 2003.
16 In European Union, the most important legislative initiative concerning standards application was marked by the adoption of IPCC directive.
- the monitoring, is the operation which has as object the information gathering of environment, concerning: the management environment systems performance, the legislation implementation, the control of authorized processes, the environment conditions, the tendencies identification concerning the quality of environment etc;
- analytical laboratories are essential for inspection of environment functionality and monitoring also for the foundation juridical sanctions procedures. It is necessary for the laboratories to be at the International Standards or at other equivalent standards;
- environment reports, present the progress made by the organization in applying the politics, legislation and standards of environment, and they follow: to identify the domains with problems; to establish the action directions; to inform the factors of political decisions and also the persons concerning the environment problems.

Instruments or measures based on economic stimulants, are used more frequent and they follow the recuperation of pollution costs, the mended of damages made by pollution and also the improvement of environment. Economical instruments include:
- taxes for environment, they have three major types: tax on emissions (the sum for the quantity of polluters evacuated in environment), the tax on consumer (the sum for the assurance of collective services) and tax on product (the sum for products with damage effects on the environment);
- the systems of guaranties with return, are a combination between the tax on product and the subvention accorded for recycling or ecological elimination of one product, with a view to: eliminate the illegal or unsuitable products and to deviate the recyclable products from the flux of offal;
- the programs or systems for the marketing of emissions elaborated by Government, which consists in the implementation of some objectives of environment quality;
- the fines for polluters unconformity with the conditions stipulated in agreements or authorizations of environment or with the obligation stipulated by law, represents an intermediary instrument between the tax for environment and juridical sanctions.;
- the assurance of performance (conformation), through the pay of a sum by the polluters who are following the conformation with the protection requests of environment, sums which are given back when this go through the conformation;
- compensatory pays, for the damages made over environment by pollutant activities, which consists in some sums established by specific rules of juridical responsibility and which are usually administrated as founds.;
- subventions for pollution control, represented of all forms of financial assistance granted by state (rewords, loans with reduced usury, credits, programs of development and research, information and other services given by Government in advantageous conditions etc.);
- voluntary programs (agreements), settled between authorities and associations or organizations with a view to come true the objectives of environment protection, this programs vise the apply of measures for: the offal reduction, the materials conservation, the grow of efficiency, the pollution reduction. This programs give rewords such as public recognition and access to information regarding the efficient methods of pollution reduction;
- the self monitoring, with a view to comply the industrial activities with environment standards, to grow the competitive actions by reducing some costs (tax, fines, expenses incited by offal elimination, by the efficiency of energy consumes);
- informing instruments in environment protection domain, with role in the influence over people behavior and over the enterprises by spreading information regarding: raw material, processes of production, effect over the environment, etc.

Nowadays, the information and reference instruments in environment domain, constitutes a method frequently recommended to enterprises with a view to engage themselves in collateral programs of pollution prevention and limitation.

3. **The plans of action in environment domain (environment strategies)**

The national environment politics must be based on three main pillars: management of environment, durable development, national socio-economic priorities and objectives.
The Plans of action in environment domain (P.A.E) or the strategies of environment of environment
(S.E.) represent documents which supply both for the Government and for other organisms, a series of
directing lines for taking political decisions in environment protection domain.

P.A.E. are instruments of planning and communication regarding environment which are being made
at national, regional or local level or at the level of different specific sectors.

The environment strategy S.E. represents the modality of express of an engagement for solving some
important problems of environment as for the creation of a big participation by the interested parts in strategy
elaboration and the analyze of its application result.

The main elements of environment strategy are:
- the express of an objective wanted are followed;
- the establish of fulfillment methods for the wanted objective;
- the obtain of measurable results.

Beside the elements which must be contained by an environment strategy, for obtaining the proposed
results and for realization of functionality, a strategy must be built on an authentic engagement and also on
concrete principles.

The elaboration of action plans in environment domain involves the following of some essential
steps:
- establishment of specific objection and indicators of environment;
- the analyze of documents and information in domain;
- the elaboration and approval of actions for administrating and solving the essential environment
  problems;
- the drawing up of environment report;
- the publication and implementation P.A.E.

4. The general instruments for environment evaluation and management

This represents those means or methods used in environment evaluation and management inside of
one organization. They can be grouped as:
- instruments of environment evaluation and management use in view to make an systematic evaluation
  of possible negative consequences but also of advantages which can be generated by the realization of
  a project or activity of development over the environment;
- instruments of environment strategic evaluation, made to evaluate the signified consequences in a
  systemic way which can be produced over the environment by some politics, plans or programs;
- the audit for environment, represents the complex method of performance analyze of an functional
  enterprise, following to identify the possible effects over the environment and also the eventual types
  of responsibilities which can appear;
- the pans of management environment, are those documents in which are stipulated the necessary
  measures to be applied in view to reduce the effects which can be generated by different activities
  over the environment, al over the steps that these activities are taking;
- the systems of management environment, are managerial instruments which have as purpose to
  assure the functionality and continues applications of some plans or procedures of management
  environment and also the conformation at the environment objectives and goals;
- the risk evaluation of environment constitutes a method with scientific character which has as view to
  evaluate the risks which some substances products, activities or phenomenal things can have over the
  environment, in the meaning of environment quality affecting.
“My role has consistently been to help Government realise its ambition to make the UK the best place in the world to do business. Government has made difficult decisions in the past year that may have disappointed you, but the commitment has not changed. We have not stopped listening, you represent the wealth creators, and I appreciate the profit motive. We have to increase your ability regarding tax regulation, skills, innovation and having an entrepreneurial spirit across the country. There are currently 4.5 million small businesses and two thirds have an ambition to grow. So the Enterprise Strategy was launched two days ago, we have listened to over 600 businesses directly over the last 7 months.

With regard to the burden of regulation which is felt disproportionately among SMEs, large companies who can afford specialists to deal with these issues have an advantage, and we have committed to targets to cut this burden. A different approach is needed. We are introducing a new system of regulatory budgets that limits the costs that can be put on small SMEs. Departments should exempt SMEs, enforce differently or make their approach clear to SMEs before being introduced to Parliament. There needs to be simple guidance to follow so SMEs know that they’ve complied.

Regarding access to finance, there should be the finance available for SMEs to grow. The Small Firms Guarantee will make £360million available in the next year to all small firms, not just those that have been trading for five years. The main banks have signed up to using the Small Firms Loan Guarantee, and there is a statement on the website to print off and hold a bank to account. There is also a £30million fund of mezzanine finance, for those who do not wish to give up equity.

The issue of increasing the amount of women in enterprise is not just about gender, but an economic issue. If we were to match US levels we would have 900,000 more businesses in this country. There will be a £25million fund to target woman led businesses, with woman centres, networking and skills also giving support.

We are looking at targets of 30% of all government contracts going to small businesses. The clause that prevents factoring/invoice discounting, so businesses were competing differently, has been removed.

On skills, we need to establish seamless provision of enterprise education in schools and in the workplace. A national Enterprise Academy has been launched – which is a first of a network hopefully. Help to access skills is needed, so Train 2 gain is going national.

Looking at innovation, which is essential to Britain's competitiveness, there is an innovation strategy to make us an ‘Innovation Nation’ available on the website.

Creating an enterprise culture is trickier, people should not be afraid to turn their ideas into wealth. We have tried to remove the stigma of bankruptcy, but have to do this together, and we are even using the English football league clubs so every element of society is on the table.”

I want to see me and my department as your voice at the heart of Government.

INSITUTIONAL PROFILE

DEPARTMENT FOR BUSINESS, ENTERPRISE AND REGULATORY REFORM

Based on http://www.berr.gov.uk/about/index.html

The Department for Business, Enterprise and Regulatory Reform – BERR - was created on 28 June 2007. It employs around 2,500 staff, plus 4,000 in its executive agencies. The BERR annual budget is just over £3 billion. Half of this is spent on nuclear decommissioning; the rest on a range of issues from trade promotion to energy security supply, to championing entrepreneurial businesses through the Regional Development Agencies.

BERR’s central purpose is to help ensure business success in an increasingly competitive world. It is the voice for business across Government. The Department for Business, Enterprise & Regulatory Reform leads work to create the conditions for business success through competitive and flexible markets that create value for businesses, consumers and employees. It drives regulatory reform, and works across Government and with the regions to raise levels of UK productivity.

It leads the Government’s drive to raise UK levels of productivity, create the conditions for business success and strengthen the economic performance of all the regions.

BERR has the lead responsibility in Whitehall for championing the interests of employees – business’s most important asset. We are also responsible for policy on consumers, a vital force for dynamic competitive markets that drive business success. It is strongly committed to sustainable development.

The Department is headed by John Hutton, the first Secretary of State for Business, Enterprise and Regulatory Reform. Brian Bender is BERR’s Permanent Secretary.

The Department will provide support to the new Business Council for Britain. The Council, made up of senior business leaders, will assist the Government in putting in place the right strategy to promote the long-term health of the UK economy.

The Department will also work closely with the new Department for Innovation, Universities and Skills (DIUS). DIUS will be responsible for driving forward the Government’s long-term vision to make Britain one of the best places in the world for science, research and innovation, and to deliver the ambition of a world class skills base.
THE GERMAN UNION OF SMALL AND MEDIUM-SIZED COMPANIES

UMU

Motto: Lobbying for SMEs

Founded in 1985, the UMU is a non-governmental and non-partisan organisation with the aim of promoting and supporting independence in business and in SMEs. UMU currently represents some 70,000 SMEs and self-employed people in all areas of business and all regions of Germany. The UMU is the association for small businesses employing up to 20 people; more than 90% of the members come into this category.

Further information see at www.umu.de

UMU President Hermann Sturm

Policies for SMEs

Working independently as a small business or self-employed person has always been a challenge. This is true today more than ever, because regulations and legislation are increasingly restricting the potential for development and decision-making on the part of small companies. Independent companies are increasingly being shaped by outside decisions.

The UNU is therefore actively committed, on the one hand, to removing the obstacles to business activity within Germany and across borders and, on the other hand, to constantly urging the state and other authorities to remove the disadvantages and obstacles standing in the way of corporate flexibility.

The UMU represents the interest of SMEs in dealing with both Federal and state governments, and, through its Europe-Wide umbrella organisations, the European Union of Small and Medium-sized Enterprises – EUSME -, also with the European Union in Brussels.

Important topics for which the UMU lobbies include, for example, reducing the burdens imposed on SMEs by bureaucracy, protecting SMEs against insolvency/bankruptcy, facilitating the formation of companies, reforming social security systems, lowering secondary wage costs and introducing a fundamentally simplified system of taxation which is supportive of SMEs.

The UMU cooperates with partners in neighbouring countries, especially within the framework of its European umbrella organisations, the EUSME. Moreover, the UMU is members of the European Small Business Alliance – ESBA.

UMU Presidential Counsellor Dieter Ibielski &
ERENET Scientific Director Antal Szabó at the Gala Dinner of the Federation of Small Business In London
University of Ulster Unveils £3m Scholarship Fund
13th March 2008

The University of Ulster is making £3m available over the next three years to fund ‘Opportunity Scholarships’ that will enable some of Northern Ireland’s most talented young people make the most of their university education.

Professor Norman Black, Pro-Vice-Chancellor for Academic Development and Student Services, said: “Scholarships are available to undergraduates across all the University’s faculties, with a special emphasis on economically relevant areas that include STEM (science, technology, engineering and mathematics) programmes, as well as hospitality and tourism management, business, retail and financial services and sport.”

Opportunity Scholarships are awarded by the University to both new and existing students: the typical scholarship is worth around £1000 to the student. All scholarships awarded are in recognition of excellent student performance. This can range from, for example, ‘best qualified first year student’ to ‘best performance in a year of study’, as well as awards to support individual placement overseas.

In the fields of computing and engineering – a priority area for government – the University is making over 250 scholarships available.

Professor Richard Millar, Dean of the Faculty of Computing and Engineering, said: "The Faculty of Computing and Engineering is offering scholarships across all of its subject areas on each campus. "Students will be eligible to be considered for a scholarship regardless of their route to university and we have also included scholarships for female applicants to encourage more women to consider a career in computing and engineering. "Although the scholarships will be awarded to only the best students, computing and engineering both offer excellent professional careers and, with the skills shortages in these areas identified by the industry, the future for all graduates in these disciplines is bright."

Further information on Ulster’s ‘Opportunity Scholarship’ scheme can be found at: http://prospectus.ulster.ac.uk/geninfo/scholarships.html

For further information, please contact:
Press Office, at http://caid.ulster.ac.uk/communications.html
Department of Communication and Development, Tel: 028 9036 6178

file: http://news.ulster.ac.uk/releases/2008/3676.html
CALLS – EVENTS – NEWS

11th MFC CONFERENCE IN ULAANBAATAR –

THE BIGGEST MICROFINANCE EVENT OF THE YEAR!

"Clients and Institutions - Growing Together"
11th MFC Conference in Partnership with XacBank
29-31 May, 2008 Ulaanbaatar, Mongolia

Dear Colleagues,

We are delighted to extend this invitation to you to attend the 11th annual Microfinance Centre Conference, to be held from 29-31 May in Ulaanbaatar, Mongolia under the patronage of the President of Mongolia. The MFC will be joined in hosting this event by XacBank, a leading microfinance bank in the region and globally.

Less than twenty years after the transformation process was initiated, Mongolia is a dynamic, growing Asian economy with one of the most diversified, innovative and competitive microfinance sectors in the world. The success this sector has achieved is even more impressive in a country whose nomadic tradition and harsh environment spreads its 2.6 million residents out over a land the size of Western Europe. What have been the key growth strategies, and what policy frameworks were designed to support this growth? The Ulaanbaatar conference will offer an unprecedented opportunity to explore these and other topics affecting microfinance throughout the MFC region, ranging from consumer protection and financial education issues, to the latest use of technology and innovative microfinance products, to social performance measurement. We will provide more networking opportunities than in previous years, as well as a chance to meet XacBank clients and taste Mongolian culture and traditions.
Prepare For A Lifetime Opportunity

Mongolia is a unique country that offers a great blend of modern dynamism and traditional ways of life. We have arranged for many additional attractions to make sure your visit allows you to experience these firsthand.

Conference participants will be invited to attend a Nomadic Feast, where everyone will be treated to a traditional meal and entertained with both modern and traditional Mongolian music and dancing.

If you are a MFC member, we would like to invite you to a special edition of the membership meeting that will take place on 28th May (the day before the official conference opening) at the beautiful Hotel Mongolia resort located in the countryside outside Ulaanbaatar.

We have also prepared special tourist program for those planning to stay in Mongolia for a few extra days to explore its amazing landscapes and rich culture - some truly unique opportunities.

Sponsorship and Exhibition Opportunities

You are cordially invited to become one of the conference sponsors! We are providing a range of packages, starting at Euro xxx. Sponsorship of this conference will allow you to promote your organization as a serious player to hundreds of decision makers representing MFIs, donors, government officials, investors and others. For the details of these options, including the opportunity to set up your own exhibit stand, check out the sponsorship package.

Making Arrangements to Attend

It is very important that you make your travel arrangements for Mongolia well in advance, as Ulaanbaatar offers a limited number of air connections. For details about flight schedules as well as information about hotels available in Ulaanbaatar, go to the flight section. Also, please find out well in advance if a visa is required for you to enter Mongolia.

Please use the conference website to register (early registration rates before April 10: 300EUR/500USD per person for MFC members, 400EUR/700USD for non-members), and to view further information: www.mfc.org.pl/conference2008

Lastly, do not hesitate to forward this invitation to anyone who may be interested in attending this conference.

We look forward to hearing from you and seeing you in Mongolia!

On behalf of the MFC : Grzegorz Galusek, Executive Director

On behalf of XacBank: Ganhuyag Ch. Hutagt, CEO

For further information please contact:

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“SUSTAINABLE URBANISM DEVELOPMENT”

ENTREPRENEURSHIP EDUCATION

FACULTY OF ECONOMICS, LAW AND ADMINISTRATIVE SCIENCES

and

“PRO IURE” FOUNDATION

June 4th - June 7th, 2008
Târgu-Mureș
ROMANIA

PRELIMINARY PROGRAM

finalization of the program is in progress

Chairman: Professor Dr. Mihály Görög, Head of Strategy and Project Management Department, Corvinus University of Budapest

Papers:

Education for Entrepreneurship from Kindergarten to Adult Learning
Dr. Antal Szabó, UN ret. Regional Adviser, Scientific Director of ERENET, Budapest/Hungary

Benchmarking of Entrepreneurship Education in Romania
Professor Livia Marian, Rector, and Professor Zsuzsanna Katalin Szabó, Dean of Faculty of Economics, Law and Administrative Sciences, Petru Maior University, Targu-Muresh/Romania
Student’s Entrepreneurial Attitudes and Entrepreneurship Education in 14 Countries
Dr. László Szerb, Associate Professor, University of Pécs, Faculty of Business and Economics, Hungary

Entrepreneurship Education in Croatia
Dr. Sc. Sania Pfeifer, Associate Professor of Management, Faculty of Economics, J.J. Strossmayer University, Osijek, Croatia –

Entrepreneurship Education at the Hungarian Universities from Bachelor via entrepreneurial incubating to Ph.Degree
Prof. Péter Szirmai, Head of Small Business Development Centre, and Katalin Szakács, PhD Student, Corvinus University of Budapest, Hungary

Entrepreneurship Education at the University of Miskolc Faculty of Economics
Lecturer to be announced later, Hungary

Entrepreneurship Education in Poland
Professor Dr. Krzysztof Wach, Cracow University of Economics, Poland

Entrepreneurship Education in Slovakia
Dr. Vincent Šoltés, Associated Professor, Faculty of Economics, Technical University of Košice, Slovakia

Entrepreneurship Education in Slovenia
Lecturer to be announced later

Canadian Entrepreneurial Education
Dr. Laurence Hewick, Hewick Research Inc., Burlington, Canada

Entrepreneurship Education in France
Dr. Million Jean-Claude, I.U.T Louis Pasteur 67300 Schiltigheim, France

Entrepreneurship Education in Germany
Dr. Hans-Jürgen Weissbach, Professor Fachhochschule, University of Applied Sciences Institute for Entrepreneurship, Frankfurt am Main, Germany

Entrepreneurship and Social Responsibility
Madi Sharma, Chief Executive, MADI Group, The Etnic Trail, UK, and European Economic & Social Committee, Brussels, Belgium

Collaborating Roles of Business Owners and Higher Learning Institutions in the Regions Economic Development
Marina Pukhlyanko, PhD, and Dina Richards, MD, Peoples’ Friendship University of Russia, Russian Federation

Can Business Education Alter Cultural Norms?
Jim Lavon Finlay, Lebanese American University, Lebanon

Developing Entrepreneurship in Romanian Tourism Business
Cristina R. Coloisteancu, Academy of Economics Studies Bucharest, Romania

PARTICIPATION fee (includes the conference materials and proceedings, welcome cocktail, coffee breaks, gala dinner and reception for the main author).

100 € - one participant – one paper

Details about the payment for the registration and hotel accommodation can be obtained at the contact addresses.

The fees must be paid in to “Petru Maior” University of Tîrgu-Mureș accounts,
- in Ron: RO33TREZ476504601X000426, Trezoreria Tîrgu-Mureș, Cod fiscal 4322831, marking ICELM-3.
- in €: RO74RNCB0193015969130002, BCR Central, Tîrgu-Mureș, Cod fiscal 4322831, marking ICELM-3.
- in $: RO47RNCB0193015969130003, BCR Central, Tîrgu-Mureș, Cod fiscal 4322831, marking ICELM-3.

25 € - accompanying person
We suggest a list of hotels for your accommodation in Tîrgu-Mureș:

- Hotel Concordia ****
- Pensiunea Europa ****
- Pensiunea Tempo ****
- Pensiunea Atlantic *****
- Hotel Continental ***
- Hotel Tineretului **
- Hotel Transilvania **
- Hotel „Week-End”

Details: on conference website.

**GENERAL INFORMATION**

ICELM-3 is organized in partnership with:

- Faculty of Law and Political Sciences, Versailles Saint-Quentin en Yvelines University, France;
- Metropolitan State College of Denver, USA;
- Entrepreneurship Research and Education Network of Central European Universities ERENET.

The languages of the conference are English and French. Each participant can present only one paper (author or co-author), which will be published in the volume of ICELM-3 Proceeding. Research papers should be original, unpublished elsewhere and no longer than 16 pages in length. Detailed information on format and regarding electronic submission will be available on the conference Web site.

**INTERNATIONAL SCIENTIFIC COMMITTEE**

**Honorary President**
Tudor DRĂGANU, Honorary Member of the Romanian Academy

**President**
Liviu MARIAN, Rector of „Petru Maior” University

**CONFERENCE TOPICS, TRACK CHAIRS and CONTACT INFORMATION**

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   Daniela Dălălău: +40-741-396365, d6icelm3@ea.upm.ro
CONFERENCE ON THE EUROPEAN CHARTER FOR SMALL ENTERPRISES
Bled, Slovenia, 3-4 JUNE 2008

"The best ways to make life easier for SMEs!"

The annual Charter conferences provide a forum for business organisations and policy makers from more than 40 countries to learn from each other the best ways to facilitate the business environment for small enterprises.

At the annual Charter conference on 3-4 June 2008, the Charter countries present their most successful SME policy measures in areas such as internationalisation, reducing the administrative burden and teaching entrepreneurship at all levels of school. In addition, exemplary cases to foster a quicker growth of start-up innovative companies and e-government activities will be discussed.

Key-note speakers Andrej Vizjak, the Slovenian Minister of the Economy and Heinz Zourek, Director-General of DG Enterprise and Industry of the European Commission, will give an overview on the support that SMEs can count upon at EU level for the time to come.


Interpretation

During the conference, interpretation will be provided
a) during Plenary sessions and the Panel discussion: into and from EN-DE-FR-IT-SL
b) during the workshop sessions: into and from EN-DE-FR

For further information, please contact:

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Enterprise Directorate-General
Unit E1 - Entrepreneurship
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WORKSHOP on “Social Responsible Entrepreneurship for SMEs”

organized by:

ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION (BSEC)

and

KONRAD-ADENAUER-STIFTUNG (KAS)

18 – 21 June 2008
SWISSOTEL
Moscow/Russian Federation

Wednesday, 18 June 2008  1st day

18:30 – 19:00 Opening

Ambassador Murat SUNGAR
First Deputy Secretary General,
Permanent International Secretariat,
Organization of the Black Sea Economic Cooperation

Jan SENKYR
Resident Representative of the Konrad-Adenauer-Stiftung for Turkey

19:00 – 19:20 Key Note Address

H.E. Mrs. Elvira S. NAIBULLINA
Minister of Economic Development & Trade (Minecomrazvitia Rossii)

19:20 – 19:40 Mr. Sergey R. BORISOV
President OPORA ROSSIA – All-Russian Public organization For SMEs
Thursday, 19 June 2008 WORKSHOP 2nd day

09:00  Corporate Governance and Responsible Entrepreneurship in Germany

Prof. Christine VOLKMANN
UNESCO Chairholder, UNESCO Chair For Entrepreneurship and Intercultural Management,
The University of Applied Sciences Gelsenkirchen, Computing Faculty
Germany

09:30  EU Policy on Corporate Social Responsibility and Responsible Entrepreneurship

Dr. Antal SZABO
UN ret. Regional Adviser
Scientific Director of ERENET

10:30  Responsible Entrepreneurship in the Russian Federation

Mr. Andrey SHAROV
Director of State Regulation Department of the Ministry of Economic Development and Trade

or

Ms. Nataliai LARINOVA
Head of Department for Regulation of Entrepreneurial Activity, Competition of the Ministry of Economic Development and Trade

11:00  Human aspects and main values to influence the behaviour of responsible entrepreneurs

Dr. Irina Y. NAOUMOVA
Associate Professor, State University-Higher School of Economics (Russia), Visiting Associate Professor, University of Tennessee (USA)

11:30  Discussion

Moderator:  Jan SENKRY
Resident Representative of the Konrad-Adenauer-Stiftung for Turkey

13:00  Exchange of experiences regarding corporate social responsibility and responsible entrepreneurship for the SMEs by national representatives/experts and/or responsible entrepreneurs from BSEC Member States (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Serbia, Turkey, Ukraine)

Issues to be addressed include:
I. Government policy, white paper or parliamentary position paper on corporate social responsibility and responsible entrepreneurship

II. National, regional or sectoral programmes promoting corporate social responsibility and responsible entrepreneurship

III. The role of NGOs and the civil society in the development of culture on responsible entrepreneurship

IV. National, regional or sectoral awaring process for responsible enterprises and entrepreneurs

V. Why entrepreneurs are aware of the necessity for being social responsible businessmen/women?

VI. Good practices and business examples on responsible entrepreneurship

16:00 – 18:00 Exchange of experiences regarding corporate social responsibility and responsible entrepreneurship for the SMEs by national representatives/experts and/or responsible entrepreneurs from BSEC Member States (continued)

Moderator: Ambassador Murat SUNGAR
First Deputy Secretary General, Permanent International Secretariat, Organization of the Black Sea Economic Cooperation

Friday, 20 June 2008 WORKSHOP 3rd day

09:00 Position of the Russian Union of Industrialists and Entrepreneurs (RUIE) on Responsible Business Practices

Alexander SHOKIN
President of RUIE
Russian Federation

09:30 Responsible Entrepreneurship at the OAO Egorevsk-Obuv Company
Serguei V. SOROKIN
General Direktor, Egorevsk, Russian Federation

10:45 Final Discussion/Declaration and Seminar Findings

Ambassador Murat SUNGAR
First Deputy Secretary General, Permanent International Secretariat, Organization of the Black Sea Economic Cooperation

Jan SENKYR
Resident Representative of the Konrad-Adenauer-Stiftung for Turkey

Moderator: Dr. Antal SZABO
UN ret. Regional Adviser
Scientific Director of ERENET
The Management of Meaning in Organizations

Contemporary flows of immigrants, tourists and professional expats contribute to the emergence of multiculturally patterned interaction chains and to the emergence of a multilayered and negotiable concept of culture as a resource and playground rather than a ready-made software to be installed in individual minds during partially enforced socialization. Some of these patterned interactions will evolve into rituals and institutions, but not all of them, and most will require a continuous investment in maintenance and reengineering of relations and interaction processes.

Most of the professionals expedited by their companies and agencies to far away places are forced to dive into a cultural shock and re-adjustment. They develop their own cultural competence. In order to understand what they are doing and how they cope, we have to start with the study of re-tooling of cultures and subcultures (including the so called national ones managed by state bureaucracies, including ours) and of the consequences of individualization and hybridization of the ongoing process of identity formation, reformation and counterreformation. Studying the revolutionary consequences of reshaping of national cultures under the pressure of accelerated globalization and increase of unmanageable inequalities are at the core of our scientific programme.

**3 x IN (Inventing – Innovating – Intrepreting)**

Breeding, facilitating and sustaining entrepreneurial and intrapreneurial initiatives requires approaching management as if it was a gerund rather than a noun. Innovating means seeing realities as flows and processes, streams and currents rather than bricks or blocks of organizational structures neatly displayed in
solid orga-ni-grams. Non-hierarchic, network-oriented and self-managed-teams-based matrixes of future forms of organizing call for research attention of academic and non-academic communities of practice. Dealing with manageable inequalities, minding and mining diversities or breaking with bureaucratic routines without getting rid of traceable responsibilities – those are the new skills and insights which call for inventions, innovations and continuous self-reflexive interpretations (and re-interpretations, and re-re-interpretations and more). 3 x IN focuses on breeding cross-cultural competence and on eVolving. Competent scanning of organizational windows of opportunities and practical adjustment of managerial narratives and academic discourses to changing realities of postglobalized, de-communized and post-Chindianized interactions are among challenges ahead. Let us start tackling them.


Academic matters:

Paper abstracts (300 words max) for “Management of Meaning” conference should be submitted to Ms Diana Wernisch (Diana.wernisch@wu-wien.ac.at) in Vienna as E-mail attachments. If accepted, full papers (8,000 words max) should be submitted also to Ms Wernisch and also as E-mail attachments.

Paper abstracts (300 words max) for “3 x IN” conference should be submitted to Dr Peter Odrakiewicz (3inconf@pwsbijo.pl) in Poznan, as E-mail attachments. If accepted, full papers (8,000 words max) should be submitted, also to Dr Odrakiewicz and also as E-mail attachments.

Organizational matters:

Conference fee is 250,- € for regular participants, 200,- € for members of IACCM and 100,- € for Ph.D. students and master program students. The fee entitles participants to the opening cocktail reception on 24 June, the conference dinner on 25 June, the visual arts presentation on 26 June, to the theatre performance on 27 June and to reduced price tickets to the Malta festival performances (www.malta-festival.pl). Details of the registration will appear at the website of the conference: http://www.3inconf.pwsbijo.pl, Please follow the instructions by filling in the registration form and paying the conference fee. Remember that due to the international fair and theatre festival you should reserve one of the suggested hotels relatively early.

The organizing committee includes Slawomir Magala (smagala@rsm.nl), Gerhard Fink (gerhard.fink@wu-wien.ac.at), Nigel Holden (nigel.holden@uclan.ac.uk), Magdalena Wyrwicka (m.wyrwicka@pwsbijo.pl), Peter Odrakiewicz (p.odrakiewicz@pwsbijo.pl) and Tomasz Sworowski (t.sworowski@pwsbijo.pl)

The advisory board includes David Boje, New Mexico State University, Las Cruces, USA, Simon Dolan, ESADE Barcelona, Spain, Kostas Goulamios, Cyprus College, Nicosia, Cyprus, Heather Hopfl, Essex University, Colchester, United Kingdom, Terence Jackson, Middlesex University Business School, London, United Kingdom, Hugo Letiche, The University of Humanities, Utrecht, The Netherlands, Wolfgang Mayrhofer, Vienna Economic University, Austria, Hans Oppeland, Erasmus University Rotterdam, The Netherlands, Cliff Oswick, Kingston University, London, United Kingdom, Krzysztof Podemski, UAM Poznan University, Poland, Tojo Thatchenkery, George Mason University, Fairfax. USA.

Further information see at http://www.3inconf.pwsbijo.pl/
3rd ERENET ANNUAL MEETING & ESBA BOARD MEETING

18-19 September 2008, Budapest, Hungary
H-1093 Budapest, Fővám tér 8.

INVITATION FROM THE ERENET SECRETARY

Entrepreneurship education and development, especially for SMEs has been receiving increase attention at all level in national economy. The Entrepreneurship Education and Research Network among the Universities of Central and Eastern Europe ERENET, consisting of university academicians, government representatives, experts from business services providers and responsible entrepreneurs, has contributed to the promotion of entrepreneurship at the university curricula, harmonisation and development of entrepreneurial education, evaluation and development of government’s SME national policies, promotion of communication and dissemination of best practices in SME promotion related issues.

It is my great pleasure to invite you to the 3rd Annual Meeting of the ERENET to be organized on 18 September 2008 at the Corvinus University of Budapest in Hungary. It is a great honour for us, that the European Small Business Alliance ESBA will represent in our Meeting and following this event it will held its Board Meeting also in Budapest. The Meeting has an excellent program on recent developments in two important topics: first in entrepreneurship education, and second in the role of business services providers in promotion of entrepreneurship.

It is a great pleasure to inform you, that ERENET received an ISSN international recognition and we shall discuss the orientation of our ERENET PROFILE for the next two years. We shall also discuss the future orientation and modalities of work of the ERENET activities.
INVITATION FROM THE SMALL BUSINESS DEVELOPMENT CENTRE OF THE CORVINUS UNIVERSITY OF BUDAPEST

Dr. Péter Szirmai
Associate Professor
Director of the Small Business Development Centre

The eternal truth than we learnt long ago here in East Europe is ‘We learn to swim only in water’. The only problem is that the pool was dry for more than 40 years and we only read about market economies and competition from text books. Anyway, the situation today is totally different. East Europe, slowly but surely is on the way to build up its modern market economies. As for now, it is the timing is perfect to sum up the experiences that have gathered so far.

But which is true even today is that nobody becomes an entrepreneur at once. To start up a company needs lot of preparation. This doesn’t only mean studying theories and principles from books but the improvement of such skills and abilities that are necessary for managing a business successfully. The objective of our conference is to collect the best practices of the ERENET member universities. Thus we want to help the further future development of our partners.

I’m very happy and proud that the Small Business Development Centre of The Corvinus University of Budapest will be the host of the 3rd annual general assembly of ERENET. We also have the honour for us, that the European Small Business Alliance ESBA will represent in our Meeting and following this event it will held its Executive Committee Meeting also in Budapest

I hope that we will organise an interesting and exciting programme for our partners for September 18-19th 2008.

INVITATION FROM ESBA

Tina Sommer
President of ESBA

We are delighted to support ERENET’s 3rd Annual Meeting. The European Commission’s pending proposal for a Small Business Act for Europe demonstrates the recent improvement in the attention paid to the needs of small businesses by EU and national policy makers. Many challenges lie ahead, however, in order for entrepreneurs feel the tangible benefits of the EU’s SME policy. We therefore look forward to sharing our experiences of the key topics of entrepreneurship education and business services providers and to learning from the significant expertise of ERENET’s members in September.

We are also very pleased to be invited to hold our Board Meeting in Budapest, during our 10th Anniversary year. Since 1998, ESBA has become one of the major SME organisations in Europe, representing almost 1 million small businesses in 36 European countries. Over the years, ESBA has developed considerable expertise in providing EU intelligence for member organisations and in promoting their cause to the EU Institutions. Increasingly, our model of business representation, which is based on strong independent ‘advocacy and benefits’ groups, rather than statutory membership organisations, is being adopted across Europe. We have therefore also begun to develop a Capacity-Building programme in order to help similar organisations grow and offer more and better services to their members. In 2006, ESBA implemented a new business plan to intensify its activities in Brussels and has made significant progress towards its objectives. Adding value to small business representation remains, however, our strongest wish for this Anniversary year and beyond - we look forward to ESBA and ERENET’s continuing and fruitful cooperation.
OUTLINE PROGRAMME

18 September 2008
09.00 – 09.50  Delegate arriving, Registration, Refreshment on arrival + Networking

10.00 – 10.30  Opening Welcome
Dr. Tamás Mészáros, Rector of the Corvinus University of Budapest
Tina Sommer, President of ESBA
Dr. Antal Szabó, Scientific Director of ERENET

10.30 – 11.00  Report on the activities of the ERENET Network in 2007
by Dr. Antal Szabó, Scientific Director of ERENET

11.00 – 13.00  Achievement s in Entrepreneurial Education

•  Benchmarking of Entrepreneurship Education based on the EDUARO ERENET Project by Professor Zsuzsanna Katalin Szabó, Dean of Faculty of Economics, Law and Administrative Sciences, Petru Maior University, Targu-Muresh, Romania
•  Entrepreneurship Education at the Hungarian Universities from Bachelor via Entrepreneurial Incubating to Ph.Degree by Prof. Péter Szirmai, Head of Small Business Development Centre at the Corvinus University of Budapest, Hungary
•  Achievements in Entrepreneurship Education at CEE Universities by lecturers from CEE to be announced later

14.00 – 15.00  Lunch at the Corvinus University of Budapest

15.00 – 16.30  The Role of Business Service Institutions

•  Integrated Business Service for Enterprise Development by István Kovács, President of the Hungarian Consortium for Entrepreneurship development
•  Activities of the Regional Centre for SME Development Subotica by Branco Malagurski, Director of the SMER, Subotica, Republic of Serbia
•  Business support in the United Kingdom by the Representative of the Federation of Small Business, UK
•  Discussion by the participants

16.30 – 17.30  Discussion of upcoming events and activities for 2008-2009

17.30  Closing of the Meeting

19 September 2008

BOARD MEETING of the EUROPEAN SMALL BUSINESS ALLIANCE

The Programme of this Meeting will be send directly to the Persons to be invited.
NEWS RELEASE - BOOKS

Country Overview is now a special feature of our database. Select up to 50 different social and economic indicators for the countries and time periods that interest you (www.unece.org/stats/data).

Data up to 2007 is now available.

We are always interested to receive feedback about our services. Please reply with any comments or suggestions.

Best wishes,

Jessica Gardner
Economic Commission for Europe, Statistical Division
United Nations, Palais des Nations
CH-1211 Genève 10, Switzerland
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e-mail: UNECE.Statistics@unece.org
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fax: +41 22 917 00 40
THE EUROPEAN COMMISSION ON THE WAY OF ELABORATING NEW LEGISLATION ON SMALL BUSINESS ACT (SBA)

The European Commission Press Release Reference: IP/08/165 as of 1 February 2008 made the following communication:

On 31st of January, the European Commission launched a public consultation on the content of a European "Small Business Act". Its objective is to put small and medium sized enterprises at the forefront of decision-making in the EU and to introduce concrete measures to unlock the SMEs' growth potential. It will include new initiatives to reduce regulatory burden on SMEs, facilitate access to Single Market/public procurement, help provide necessary financial/human resources for SME development and help SMEs face the challenge of globalization and climate change. The preparation of a "Small Business Act" for Europe is one of the key measures announced in the Commission's package for the next cycle of the Growth and Jobs Strategy adopted last December. The consultation will be open until the end of March. A Public hearing on the Small Business Act will take place on 6 February in Brussels.

Günter Verheugen, Vice President of the European Commission commented this initiative as following: "The crucial role of SMEs and entrepreneurs for Europe's competitiveness has now been well recognised. With the SBA we aim at fully unlocking this immense potential. But for this we need to know about all the problems to solve, all the opportunities to seize. Every opinion matters and I call on everyone to contribute".

The European Commission identified six areas for investigation as following:

- Better regulation for the benefit of SMEs
- Putting SMEs at the forefront of society
- SMEs access to markets
- SMEs access to finance, skills and innovation
- Turning the environmental challenge into opportunities for SMEs
- Enhancing the implementation of EU SME policy principles.

The European Commission aims at proposing the "Small Business Act" for Europe in June 2008.

ERENET welcomes launching this initiative made by the European Commission. A unique Small Business Act for Europe (SBA) in 2008 could facilitate the creation of a favourable business environment for micro- and small enterprises. It might be an important contribution of the Commission towards SMEs, because it could encourage national and international stakeholders to promote entrepreneurship and respect for the entrepreneurs as well as to recognized their invaluable role playing in the society.

However, we also share the opinion of Andrea Benassi, Secretary General of the UEAPME saying “however, we cannot afford an other lip-service exercise. Small businesses do not need a paper tiger, but workable answers and a long-term perspective to fully express their capacity.”

ERENET believes, that in order to operate more effectively, SMEs need clear, simplified regulation and consistent policy. SMEs are vulnerable especially again the multinational companies, which often take advantage of them and concerning social responsible companies their pledge is rather modest.
This new 7th Edition of *New Venture Creation: Entrepreneurship for the 21st Century*, is the most heavily revised edition since its existence, yet it still maintains the market defining "Timmons Model of the Entrepreneurial Process." As always, Timmons and Spinelli cover the process of getting a new venture started, growing the venture, and successfully harvesting it. Through text, case studies, and hands-on exercises, this how-to text guides students in discovering the concepts of entrepreneurship and the competencies, skills, tools, and experience to equip students to successfully launch a new venture and recognize entrepreneurial opportunities. The authors recognize that there is no substitute for actually starting a company, but believe that it is possible to expose students to many of the vital issues and immerse them in key learning experiences.

Excerpt from the Book Preface:

**A Book for the Next Generation of Entrepreneurial Leaders—Worldwide**


"The evolution of entrepreneurship in America over the past 35 years has had an extraordinary impact on the cultural and economic landscape in the United States. While there will always be opportunities for improvement and innovation, America's entrepreneurial revolution has become a model for business people, educators, and policymakers around the globe.

People in every nation have enormous entrepreneurial qualities and aspirations, and that spirit is finding its way into nearly all world markets. Entrepreneurship is exploding in countries like India, China, and in the former Soviet bloc—and affecting positive social and economic change in such diverse countries as Korea, Mexico, South Africa, El Salvador, and Ireland. The 2004 Global Entrepreneurship Monitor (GEM) study found that in the 34 countries surveyed, 9.3 percent (73 million) of the 784 million people comprising the population of 18- to 64-year-olds were either nascent entrepreneurs or the owner/manager of a new business. Significantly, 41 percent of these entrepreneurs were women.

In our roles as student, teacher, researcher, observer, and participant in this revolution, we can honestly say that global adoption of the entrepreneurial mindset appears to be growing exponentially larger and faster. That mindset, while informed by new venture experiences, affects larger corporations and the not-for-profit world as well. In our assessment, we are at the dawn of a new age of entrepreneurial reasoning, equity creation, and philanthropy, whose impact in the coming years will dwarf what we experienced over the last century."  

J.A.T. and S.S.
The address of the ERENET Secretary see below:

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**Attila Petheő**, Secretary  
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