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AUTOM MESSAGE OF THE SCIENTIFIC DIRECTOR

Distinguished ERENET Members and Friends,

The summer has gone but we still enjoy the sunshine of an Indian Summer. What a contrast to the political world where a frosty wind blows in Europe and across the world. The financial crisis means that economic activities have weakened significantly. According to latest IMF Report (September 2011), “in crisis-hit advanced economies, especially the United States, the handover from public to private demand is taking more time than anticipated. In addition, sovereign debt and banking sector problems in the Eurozone have proven much more tenacious than expected.” The US Government came close to defaulting. Look at the USDept Clorkorg double-quick running indexes. For the 2011 fiscal year, the US expenditure was estimated at $3.82 trillion, with expected revenues of $2.17 trillion, leaving a deficit of $1.48 trillion. This is a key contributor to the world-wide economic crisis. Neither the EU, nor the rest of the world including China and India are able to absorb such a huge debt. It is time to calm the appetite of "Big Brother" and to limit consumption to what can be produced.

Furthermore, the world did not become safer from the interventions in Afghanistan and Iraq. Spreading unrest in the Middle East and North Africa has generated a vast stream of refugees. Only last week the Hungarian border guards sent back to Romania and Serbia more than 200 illegal unauthorized refugees coming from Afghanistan, Pakistan, Kosovo, Libya and other countries. It is not accidental that Finland and the Netherlands have again supported a veto in the EU against Romanian-accession to the Schengen Agreement.

The only positive event is that in July 2011 the General Assembly called on United Nations Member States to take steps to give more importance to happiness and well-being in determining how to achieve and measure social and economic development (Sixty-fifth General Assembly Plenary 109th Meeting). The result Member States have decided to convene a panel discussion on the theme of happiness and well-being as developed by Bhutan, which for many years has used gross national happiness rather than gross domestic product (GDP) as a marker of success. (You can see more about this in the following Profile.).

As to ERENET, in cooperation with the PERMIS BSEC and with technical and financial assistance of the Turkish representative of the Konrad Adenauer Foundation - KAS - our members have carried out a Project to assess the effect of the world financial crisis. This covers its impact and the resulting changes in the Black Seas Economic Region since 2007. The ERENET Secretariat prepared the methodology for national country studies focusing on the SME sector. A preliminary discussion and background paper, “Entrepreneurship and SME Policy Development in the BSEC Region in the Time of Emerging from the Economic Crises” was discussed in Istanbul on 21-22 July 2011. In his opening statement Ambassador Leonidas Chrysanthopoulos, First Deputy Secretary of the PERMIS BSEC summarised the SME characteristics in the BSEC Region identified by the Project Coordinator. (see in this Profile). All national studies will be issued in a comprehensive book by KAS, while extracts from all 12 national SME studies will be published in the ERENET PROFILE in the next coming issues.

Dr. Szabó Antal
Scientific Director of ERENET
OPENING STATEMENT AT THE WORKSHOP ON
ENTREPRENEURSHIP AND SME POLICY DEVELOPMENT IN THE BSEC
REGION IN THE TIME OF EMERGING FROM THE ECONOMIC CRISIS

ABSTRACT

The Secretary General of the BSEC PERMIS addressed the participants of the Workshop on "Entrepreneurship and SME Policy Development in the BSEC Region in the Time of Emerging from the Economic Crises" held on 21 July 2011 at the BSEC Headquarters in Istanbul. The crisis is still here and the economic situation is still deteriorating in US and EU and it takes long ways to go toward a safer economic growth. The Secretary general expressed his appreciating to Konrad Adenauer Stiftung and ERENET Network for long-standing support and cooperation.

JEL Code: F14, F15, L21, L26

Resident Representative of KAS for Turkey Mr. Senkyr,
Distinguished Participants,

Let me begin by expressing my thanks and appreciation to Konrad Adenauer Stiftung (KAS) and its Resident Representative for Turkey Mr. Jan Senkyr for the long-standing support to and cooperation with the BSEC which resulted in the organization of a series of Workshops and Seminars aimed at promoting SMEs in the BSEC region.

Today’s workshop is dedicated to a specific topic — SME policy in the time of Emerging from the Economic Crisis. However I do not think that we are emerging from the crisis. The crisis is still here and in Europe the economic situation is deteriorating even as I speak.

In my view, the economic and financial crisis the world economy has experienced and continues to experience nowadays is a result of human greed that creates a lack of confidence. Therefore the right response to it would be to restore the confidence by limiting human greed. The financial crisis has made it more difficult and more costly for SMEs to receive credits and loans, hence marginalizing the access of small business to a vital source of financing. Therefore it becomes obvious that the governments shall secure a simple and straightforward access to finance for SMEs by providing enough liquidity and simplify the criteria for their access to financial resources. To take a broader look, the future financial system has to be re-designed to support the needs of consumers and enterprises, particularly SMEs, and not the “global speculators” which, in a way, are not associated with the production cycle. The Islamic Banking System could also be helpful in providing solutions for the liquidity issue.

The crisis itself and the changes it is bringing precipitates the need for SMEs to re-examine and modify their competitive performance and competitive strategies. One way of doing that is for SMEs to participate in regional alternative economies, that are emerging and have existed in many countries of the world. In 15 EU countries such economies have existed, the biggest one being in Germany with 60,000 members. Most of these economies have their own regional currencies that are used by their members. Many SMEs are also participating in regional alternative economies. In Greece for example we have this system working in four geographical areas. Perhaps this might be the dawn of a post euro era in Europe.

As a common approach and a common vision, the SMEs must be given the right regulatory conditions to activate, the broader access to public procurement and governmental aid while the
administrative burdens and red-tape shall be reduced or where possible eliminated. The governments at both national and local level must ensure that these recommendations are implemented as soon as possible in order to overcome the negative effects of the financial crisis.

Although the SMEs stand to be the most vulnerable to the potential global and regional ramifications of the ongoing economic and financial crisis, their flexibility enables them to match quick changes in the market demand and re-orient their activities and diversify their business using innovative approach to reduce losses and increase profitability.

Distinguished Participants,

The success of BSEC depends on the concreteness and effective implementation of common projects. There are two BSEC projects of major significance. These are the Black Sea Ring Highway project and the project on the development the Motorways of the Sea in the BSEC region. They are related to the development of transport links in the region. They are expected to do much to foster intra-BSEC trade, as well as tourism, infrastructure and transport investments and economic prosperity among the countries of the Black Sea. It will link the European Road Network to that of Asia. Most importantly, they will make a concrete difference in the lives of the people of the region and bring them closer together.

The Black Sea Ring Highway project envisages a four lane ring highway system, approximately 7700 km long, to connect the BSEC Member States with each other. The project on the development of the Motorways of the Sea in the BSEC region, on the other hand, is about strengthening the maritime links among the ports of the BSEC Member States.

Besides transport, one of the areas where the potential of Black Sea economic cooperation is most visible is in the area of trade. Currently, intra-BSEC trade and investment are not at the desired level. Therefore, various initiatives have been launched within BSEC to contribute to the improvement of the trade situation. For example, BSEC has been cooperating with the United Nations Development Programme (UNDP) on this matter. Within this framework, the Black Sea Trade and Investment Promotion Programme (BSTIP) - the first joint project between the two organizations – has been launched. The project, which is co-financed by Greece, Turkey, the UNDP and BSEC, aims to develop trade and investment linkages among the BSEC Member States, with the direct participation of the business communities.

The Memorandum of Understanding on the Facilitation of Road Transport of Goods in the BSEC Region (signed in 2002 and went into force in 2006) is another concrete step taken by the BSEC countries to facilitate regional trade.

I am pleased to note that recently, an important additional step has been taken in the sphere of road transport facilitation. Within this framework, a pilot project on the establishment of a BSEC Permit system for the road transit of goods has been launched on in 2010, with the participation of seven BSEC Member States. This pilot Permit system is expected to facilitate the work of the road transporters and to contribute to trade relations among the participating countries. With this project, BSEC has become the first regional organization to issue such transit documents. Encouraged by the positive results which have been achieved, the participating states have decided to extend the duration of the pilot project for an additional year and to expand its application to include loading and unloading of goods.

The BSEC Agreements on Simplification of Visa Procedures for the Businesspeople and for the Professional Lorry Drivers Nationals of the BSEC Member States, signed in 2008 in Tirana, will also surely contribute to the trade cooperation among the Member States.

Currently, BSEC Members are discussing the modalities of establishing an information exchange mechanism for environmental protection. There is also an ongoing study on the possibilities of strengthening cooperation with other organizations, institutions and partners on issues related to the protection and rehabilitation of the Black Sea marine environment.

Learning to live with climate change is an absolute priority for humanity. The BSEC Council of Ministers of Foreign Affairs, in its meeting in Thessaloniki in November 2010, adopted a Joint Declaration on Combating Climate Change in the wider Black Sea Area. This was the contribution of BSEC to the Cancun Conference in December 2010. Also, a project on introducing climate change in the environmental strategy for the protection of the Black Sea will be soon launched, jointly with the UNDP.
We need to ensure that not only future generations will survive on this planet, but the earth itself will survive to offer a place for living to these generations. The planet can survive without humanity, but not vice versa. By imposing pollution taxes, pollution will not disappear. The planet does not function according to our economic strategies. Earth does not accept money to clean itself. It is us the passengers who must do it, without taking into account economic considerations.

Green energy is interrelated with planetary environmental protection. Supporting projects that promote sustainable energy development is a priority for BSEC. BSEC’s capabilities to finance projects in renewable energy sources and energy efficiency through the BSEC Project Development Fund and the BSEC-Hellenic Development Fund — the two financial instruments of the Organization — have been enhanced.

In energy cooperation, another main priority for BSEC is to ensure the stability and security of energy supplies by developing a BSEC regional energy strategy and a 2020 strategy. BSEC is also committed to efforts towards ensuring the integration of the energy markets of BSEC and the EU by developing a joint BSEC-EU Plan of Action in energy and encouraging cooperation with the Energy Community.

In the area of SMEs, BSEC is currently focusing on high technology, innovation, technology parks and incubators with the objective to encourage innovative ideas, products, services and procedures. Our Organization is also focusing on bringing together and linking businesses, academics, business incubators and financial and state institutions from the BSEC Member States with the purpose of developing a culture of cooperation through networking. BSEC is also supporting the collaboration of SME’s and large companies, promoting measures to improve production efficiency. These objectives are pursued under the guidance of the Hellenic Republic as the Country Coordinator of the BSEC Working Group on SMEs.

Green energy is interrelated with planetary environmental protection. Human greed has exhausted in a split second of astronomical history, the energy savings of billion of years of energy conservation made by our planet. Consequently we must start immediately operating on our vast daily energy income from the sun, wind, tide and water. And since we cannot produce solar cells and high-tech turbines without oil, it is imperative to give emphasis on research for new technologies.

Esteemed Participants,

The Russian Federation has assumed the Chairmanship-in-Office of BSEC as of 1 July 2011, for a term of six months ending on 31 December 2011. During this period, the Russian Chairmanship envisages to implement a comprehensive calendar of events which is expected to enhance BSEC cooperation in a number of areas. Among the high level events, in addition to the Meeting of the Council of Ministers of Foreign Affairs and the informal meeting of the Ministers of Foreign Affairs on the sidelines of the United Nations General Assembly general debate, meetings of the Ministers of Energy, Transport, Emergency Assistance and Agriculture are envisaged.

The priorities of the Chairmanship will constitute the roadmap for BSEC for the next six months. In this framework, the BSEC Economic Agenda for the Future which was adopted back in 2001, will be revised and updated, so that it meets the requirements of the current state of affairs in the BSEC region. This document will constitute a solid basis for the discussions during the 20th Anniversary Summit of BSEC in 2012.

The Russian Chairmanship will focus on enhancing the economic efficiency of BSEC activities through more intensive implementation of the existing projects. In this context, progress will be strived in the implementation of the two flagship infrastructure projects of BSEC, namely, the Black Sea Ring Highway and the Development of the Motorways of the Sea at the BSEC region. The development of an integrated energy market in the region will also be further pursued.

I assume that during the two-day discussion the participants will exchange views and conclude recommendations on the future and potential activities of SMEs in the BSEC region. I wish you a fruitful session with concrete and promising results.

Thank you.
Dr. Antal Szabó
UNECE retired Regional Adviser on Entrepreneurship and SMEs
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DEVELOPMENT OF ENTREPRENEURSHIP AND SME SECTOR IN THE BSEC REGION

ABSTRACT

The paper presents the background of the creation of the Black Sea Economic Cooperation, which consists of 12 member States with different strategic interest. The paper focuses on aggregated statistical data relating the SME sectors. It highlights and provide benchmarking relating doing business according to the World bank methodology, it summarizes the competitiveness of the countries by the World Economic Forum and presents the Index of the SME Development characterizing the different stage of development of the entrepreneurship.

JEL Code: F14, F15, L26, O12, O57

INTRODUCTION

The initiative of the Black Sea Economic Cooperation (BSEC) was launched on 25 June 1992, when the Heads of State and Government of eleven countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine signed in Istanbul the Summit Declaration and the Bosphorus Statement giving birth to the Black Sea Economic Cooperation (BSEC). Since this time, 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. The Federal Republic of Yugoslavia set in motion to join the BSEC in 2001, however this procedure lasted until 2004, and following the disintegration of the State Union of Serbia and Montenegro the republic of Serbia become a BSEC member. So far BSEC has 12 members. Today the Organization represents a region of 331 million people with heterogeneous economic characteristics, 4 million less than in 2007.

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.

The Black Sea region is a distinct geographical area with strategically located at junction of Middle- and South-Eastern Europe, the Middle East, the Caucasian region, and the European part of the CIS except for 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.

In 2007, more than 3 million SMEs in the BSEC region employed over 21 million workers in total, while the number of unemployed amounted to more than 10 million. During the last three years the awareness and importance of the entrepreneurship significantly increased. According to the recently statistics provided

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by the authors of the national country studies, 12 million SMEs in the BSEC countries employees 48.3 million people, while the number of unemployed also increased to 13.2 million persons. The average size of the SMEs is 3.96 persons per SME. The aggregated statistics in SMEs in the BSEC countries see in Table 1.

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 Republic of Macedonia and Bulgaria in SEE together with Georgia from the Caucasus were in the group of the first ten top reformers in 2006-2007 in accordance with the World Bank Doing Business 2008 Report. 2 Eastern Europe and Central Asia, as a region, surpassed East-Asia in 2010 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.


At the last Working Group's meeting held in December 2010 at the BSEC Headquarters in Istanbul, chaired by Professor Chris Pitelis, President of EOMMEX, made an introductory statement emphasizing the importance of regional cooperation, green entrepreneurship and sustainable development, especially in a region with comparative advantages related to the environment. He stated that in today’s context an institutional and regulatory framework is required in order to promote green entrepreneurship. The President of EOMMEX pointed out that public policy alongside pluralism and diversity, as well as green entrepreneurship could contribute to a sustainable development of the economies of the BSEC Member States.

At this meeting Ambassador Sumru Noyan, First Deputy Secretary General of the BSEC PERMIS pointed out that SMEs and entrepreneurs play a significant role in all economies as generators of employment and income and drivers of innovation and growth, and that women still represent a minority of all entrepreneurs in the BSEC region. Therefore she suggested to consider the proposal to establish a Forum of women's entrepreneur organizations in the BSEC region and to work out an Action Plan for Women Entrepreneurs in the region.

The current Plan of Action for 1 January 2010 - 31 December 2011 deals with Green Entrepreneurship and Sustainable Development. The Greek Presidency emphasizes that the "green business" is fundamentally innovative and oriented towards the international markets. The targeted objectives of this Plan are: 3

- Highlight the role of the state to promote green entrepreneurship and green economy.
- Adopt policies of energy saving and alternative energy resources.
- Contribute to the simplification and clarification of the existing institutional framework for new areas and activities related to green entrepreneurship.
- Inform on incentives to develop expertise in areas such as management and energy conservation, waste management, recycling, and conservation of water etc.
- Rise awareness about reducing energy and especially the environmental footprint of manufacturing operations.
- Encourage the development and marketing of green products and services, producing environmentally friendly products.
- Adopt a systematic turn to green procurement in the public sector.
- Improve the environmental and social profile of the business and increase social acceptance for the manufacturing activities.

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3 http://www.bsec-organization.org/aoc/smes/Pages/Action.aspx
• Promote compliance of SMEs in the manufacturing sector with international environmental standards.
• Explore the possibility of financing action plans on green entrepreneurship by the EU.
• Cooperation between entrepreneurs from –the member states as well as between agencies and organizations responsible for SME support.
• Develop environmental culture through networking.

The BSEC Working Group on SMEs is one of the most important forums to discuss problems, harmonize legislative actions, present best practices and develop joint projects in the field of entrepreneurship development. At time being this Working group does not utilizes its possible potential. National representatives from individual BSEC countries are frequently changing and do not reflect to the pervious achievements. Bulgaria, Greece, Romania as EU members, Albania and Serbia as applicants for membership bid prefer to have closer cooperation with Brussels. Turkey accession drags on. EU seems to be lost its leverage on Turkey. Russia lost its potential to unit interest of the Commonwealth of Independent States, while Armenia, Azerbaijan, Georgia, Moldova and Ukraine are facing different problems due to ethnical conflicts and the impact of the economic crises.

In order to assist to analyse the SME sector development in the BSEC region, especially in the transition economies as well as in the new or associated EU countries, the PERMIS BSEC and Konrad Adenauer Stiftung decided to organize a high-level policy meeting on achievement and task in the entrepreneurship and SME development policies to be held at the end of 2007 at the BSEC Headquarters in Istanbul. The document elaborated by the ERENET members for the Istanbul meeting and discussed at the Workshop with participation of high-level policy makers is a unique guideline summarizing the main characteristics of the SME development in the BSEC countries, it present the strengths and weaknesses of the SME sector and sets the task for further improvement from country to country. The document is well received by BSEC Governments as a guiding document. 4

The world-wide financial and economic crises started from the mid-2000s affected all European economies. The impact is different in every country and even within the regions. The emerging global crises left most transition economies unaffected until mid-2008, but after this hit hard as commodity prices collapsed, export contracted and capital inflow stopped. The economic output and the production sharply declined in the whole CEE from the Baltic States though the Danube basin up to the Black Sea, while the unemployment jumped into the sky. During 2009, the national currencies in Central- and Eastern-Europe eroded by 20-40 percent as compared to EUR and USD. In April 2009, 11 countries requested financial help from the International Monetary Fund, including Romania, Serbia and Ukraine from the BSEC region. Since 2008, Russia, has also suffering in a deep economic crisis. In the European Union Greece has been shacked and mad vulnerable the existence of the EUR system. In spite of the fact, that at the end of 2010, the economic crises seems to be over, the majority of the CIS countries in the BSEC will continue to feel longer the impact of the economic crises than other industrialized nations due to their rigid economy burdened with overwhelming and bureaucratic state role in the economy.

According to the World Economic Outlook 5 “The global economy is in a dangerous new phase. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing. Against a backdrop of unresolved structural fragilities, a barrage of shocks hit the international economy this year. Japan was struck by the devastating Great East Japan earthquake and tsunami, and unrest swelled in some oil-producing countries. At the same time, the handover from public to private demand in the U.S. economy stalled, the euro area encountered major financial turbulence, global markets suffered a major sell-off of risky assets, and there are growing signs of spillovers to the real economy.” The economic crises is still exists due to two major effects: first the economy in the US might

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suffer further blows. The costs of the activities of the American army in Afghanistan and Iraq are increasing in spite of some withdrawal of troops. Seemingly the crisis in the EURO area runs beyond the control of the policymakers. It is impossible to carry out harmonized fiscal policy with individual national economic and fiscal policies. The EURO zone countries and IMF provided EURO 110 billion for a three years period for Greece. "Time Danaos et dona ferentes" (Beware of Greeks bearing gifts) is a Latin phrase from Virgil’s Aeneid. The July 2011 package of measures to help Greece address its debt crisis, and extension of the European Central Bank’s (ECB’s) unconventional measures is questionable, and the banks and investors afraid whether the Government could put across the population to accept the raise of taxes and decrease of salaries.

Outside the EURO area many Central- and Eastern-European countries are enjoying a fairly strong rebound from their deep recession." In 2010, the Emerging European countries - phenomenon used by IMF - the real GDP growth amounts at 4.5% including 8.9% the outstanding performance by Turkey and 3.8% by Poland. Bulgaria and Serbia enjoy relatively solid growth - 0.2% and 1.0% respectively), while the Romanian GDP dropped back by 1.3%. Albania was not included into the study, but IMF projection was 2.3% GDP growth. With strong commodity rises the GDP growth in the CIS countries has continued to recover. In 2010, the real GDP growth in individual countries was the following: Armenia 2.1%, Azerbaijan 5.0%, Georgia 6.4%, Moldova 6.9%, Russia 4% and Ukraine 4.2%. The IMF suggests major reforms to carry out to enhance the business environment, develop financial systems, and build strong institutions to raise the region’s growth potential.

Table 1. Aggregated Statistics on SMEs in the BSEC region in 2009

<table>
<thead>
<tr>
<th>Country *</th>
<th>Population [x1000]</th>
<th>No of SMEs</th>
<th>No of employees in SMEs</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>ALB</td>
<td>3,194</td>
<td>98,238</td>
<td>193,733</td>
</tr>
<tr>
<td>Armenia</td>
<td>ARM</td>
<td>3,244</td>
<td>132,879</td>
<td>465,761</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>AZE</td>
<td>8,974</td>
<td>75,000 **</td>
<td>1,160,900</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>BGR</td>
<td>7,585</td>
<td>367,463</td>
<td>1,543,410</td>
</tr>
<tr>
<td>Georgia</td>
<td>GEO</td>
<td>4,394</td>
<td>38,016</td>
<td>615,584</td>
</tr>
<tr>
<td>Greece</td>
<td>GRC</td>
<td>11,283</td>
<td>849,389</td>
<td>2,200,000 **</td>
</tr>
<tr>
<td>Moldova</td>
<td>MDA</td>
<td>3,566</td>
<td>43,658</td>
<td>316,200</td>
</tr>
<tr>
<td>Romania</td>
<td>ROU</td>
<td>21,480</td>
<td>625,458</td>
<td>7,496,000</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>RUS</td>
<td>141,909</td>
<td>2,992,699</td>
<td>12,223,800</td>
</tr>
<tr>
<td>Serbia</td>
<td>SRB</td>
<td>7,321</td>
<td>314,827</td>
<td>872,540</td>
</tr>
<tr>
<td>Turkey</td>
<td>TUR</td>
<td>72,039</td>
<td>3,222,133</td>
<td>17,021,600</td>
</tr>
<tr>
<td>Ukraine</td>
<td>UKR</td>
<td>45,973</td>
<td>3,430,133</td>
<td>4,223,500</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>330,962</td>
<td>12,189,893</td>
<td>48,342,028</td>
</tr>
</tbody>
</table>
1. **THE WORLD BANK DOING BUSINESS RANKING**

The World Bank Doing Business Project provides objective measures of business regulations and their enforcement across 178 countries in 2008 and 183 economies in 2011. 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.

The world-wide financial and economic crises affected all European economies as well as the BSEC countries. Ambassador Traian Chebileu, Deputy Secretary General of BSEC PERMIS, highlighted in his opening speech at the BSEC Workshop on "SMEs in the time of global crises" held in 2010 in Tirana, that "the economic potential of SMEs should not be undermined by the crises that they neither created nor contributed to. While the adverse affects caused by the global financial crisis affected businesses of all sizes, the SMEs sector was the most vulnerable to these effects. Access to credits and loans was made more difficult for SMEs. Therefore, it became obvious that one of the first lines of action for the Governments is to secure a simple access of SMEs to financial measures. On the other hand, the crises precipitated the need of SMEs to re-examine and adapt their competitive performance and innovation strategies." Traian Chebileu also added, that "the financial crisis the world economy is still experiencing includes a crisis of confidence. Therefore the right response to it should include restoring the confidence, particularly when it comes to consumers and small enterprises."

The global financial crisis has renewed interest in good governmental rules and regulation. Having an effective business regulation, Governments and national authorities can support economic adjustment, especially in time of recession. Easy entry and exit of firms, and flexibility in redeploying resources, make it easier to stop doing things for which demand has weakened and to start doing new things. Clarification of property rights and strengthening of market infrastructure can contribute to confidence as investors and entrepreneurs look to rebuild.

The World Bank Doing Business project provides a quantitative measure of regulations for starting a business, dealing with construction permits, registering property, getting credit, employing workers, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business - all these indicators can be applied to domestic small and medium-size enterprises. However, the project does not deal with such important indicators as the business environment, competitiveness, labour skills of the population in a country, unemployment, corruption, hidden economy and poverty.

The World Bank also states "Doing Business functions as a kind of cholesterol test for the regulatory environment for domestic businesses. A cholesterol test does not tell us everything about the state of our health. But it does measure something important for our health." 6

The 2010 Doing business reform made easier to do business in the following countries: 7

**Albania** made it easier and less costly for companies to pay taxes by amending several laws, reducing social security contributions and introducing electronic filing and payment.

**Armenia** made trading easier by introducing self-declaration desks at customs houses and warehouses, investing in new equipment to improve border operations and introducing a risk management system.

**Azerbaijan** improved access to credit by establishing an online platform allowing financial institutions to provide information to, and retrieve it from, the public credit registry. In the field of Paying taxes: a revision of Azerbaijan’s tax code lowered several tax rates, including the profit tax rate, and simplified the process of paying.

**Bulgaria** eased business start-up by reducing the minimum capital requirement from BGN 5,000 (USD 3,250) to BGN 2 (USD 1.30). In the field of Paying taxes: Bulgaria reduced employer contribution rates for social security.

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Georgia improved access to credit by implementing a central collateral registry with an electronic database accessible online. To protect investors, Georgia strengthened investor protections by allowing greater access to corporate information during the trial. In the field of Enforcing contracts: Georgia made the enforcement of contracts easier by streamlining the procedures for public auctions, introducing private enforcement officers and modernizing its dispute resolution system. While relating business closing, the country improved insolvency proceedings by streamlining the regulation of auction sales.

Greece made transferring property more costly by increasing the transfer tax from 1% of the property value to 10%.

Moldova reduced employer contribution rates for social security.

Romania amended regulations related to construction permitting to reduce fees and expedite the process. In the field of tax paying: Romania introduced tax changes, including a new minimum tax on profit, that made paying taxes more costly for companies. Relating closing a business substantial amendments to Romania's bankruptcy laws - introducing, among other things, a procedure for out-of-court workouts - made dealing with insolvency easier.

Russia eased construction permitting by implementing a single window for all procedures related to land use. In the field of Closing a business Russia introduced a series of legislative measures in 2009 to improve creditor rights and the insolvency system.

Ukraine eased business start-up by substantially reducing the minimum capital requirement. Dealing with construction permits Ukraine made dealing with construction permits easier by implementing national and local regulations that streamlined procedures. In the field of Paying taxes, the country eased tax compliance by introducing and continually enhancing an electronic filing system for value added taxes.

Table 2. summarizes the ranking of the BSEC economies on starting a business, dealing with licenses, getting credit, and eight other topics.

The 2010 Doing Business report has been changed the methodology relating to employability. The new indicator is a complex one with include indicators on employing workers, measures flexibility in the regulation of hiring, working hours and redundancy in a manner consistent with the ILO conventions. It contains such parameters as difficulty on hiring index, rigidity on hours index, difficulty on redundancy index and redundancy costs. It takes a man to undestand and interpret the new approach.

Table 2. DOING BUSINESS 2008 & 2011 IN THE BSEC COUNTRIES
by the World Bank

<table>
<thead>
<tr>
<th>Country</th>
<th>ALB</th>
<th>ARM</th>
<th>AZE</th>
<th>BGR</th>
<th>GEO</th>
<th>GRC</th>
<th>MDA</th>
<th>ROU</th>
<th>RUS</th>
<th>SRB</th>
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## Closing a Business

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<td></td>
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<tr>
<td>140</td>
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</tbody>
</table>

### Remarks:

(i) Code of country names in accordance with the ISO 3166 standard.


(iii) In the field of employing workers following the economic crises the picture became more complicated. The employing workers indicators are changing to reflect a balance between worker protection and flexibility in employment regulation that favors job creation. This is why ranking in the 2011 Report is missing. However there is a comprehensive analysis on employing workers in the Doing Business 2011 Annex. 8

## 2 COMPETITIVENESS BY THE WORLD ECONOMIC FORUM 9

While the global economy remains unstable, and despite the fact that Governments are at dampening the recession, growth in advanced economies still remains sluggish as they are mired in persistent unemployment and weak demand. Recent concerns about the sustainability of sovereign debt in Europe, and the stability and efficient functioning of financial markets more generally, have added to the list of concerns. The present situation emphasizes the important of mapping out clear exit strategies to stand economic on a steady footing.

The World Economic Forum experiences since 30 years and provides detailed evaluation of the productive potential of the economies worldwide. The current Report ranks 139 economies including all BSEC countries with a very comprehensive set of parameters.

The World Economic Forum defines competitiveness "as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. The productivity level also determines the rates of return obtained by investments (physical, human, and technological) in an economy."

The Table 3. below summarizes the 12 most important pillars based for the assessment of a country competitiveness performance. These pillars represent certain stage of economic and social development starting from the factor driven economies (stage 1) via efficient-driven economies (stage 2) and finishing in innovation-driven economies (stage 3) as the more competitive ones.

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The World Economic Forum lists the BSEC countries at each stage of development as following:

- **Stage 1 (factor-driven economies):** Moldova
- **Transition from stage 1 to stage 2:** Armenia, Azerbaijan, Georgia and Ukraine
- **Stage 2 (efficiency-driven economy):** Albania, Bulgaria, Romania, Russian Federation, Serbia and Turkey
- **Stage 3 (innovation-driven economy):** Greece

### Table 4. Global Competitiveness Index 2010-2011 ranking

<table>
<thead>
<tr>
<th>Country/Economy</th>
<th>Rank</th>
<th>Score</th>
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</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>57</td>
<td>4.29</td>
</tr>
<tr>
<td>Turkey</td>
<td>61</td>
<td>4.25</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>63</td>
<td>4.24</td>
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<tr>
<td>Romania</td>
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<td>4.16</td>
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<tr>
<td>Bulgaria</td>
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<td>4.13</td>
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<tr>
<td>Greece</td>
<td>83</td>
<td>3.99</td>
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<td>Albania</td>
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<td>3.94</td>
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<tr>
<td>Ukraine</td>
<td>89</td>
<td>3.90</td>
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<tr>
<td>Georgia</td>
<td>93</td>
<td>3.86</td>
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<tr>
<td>Moldova</td>
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<td>3.86</td>
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<tr>
<td>Serbia</td>
<td>96</td>
<td>3.84</td>
</tr>
<tr>
<td>Armenia</td>
<td>98</td>
<td>3.76</td>
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</tbody>
</table>

3. INDEX OF SME DEVELOPMENT IN THE BSEC COUNTRIES

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.

The Index of SME Development can be expressed in terms of percentage and/or EUR/USD per capita.\(^{10}\)

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. The major problem is the lack of harmonised SME statistics in the BSEC countries. National statistical offices of the CIS countries, but also in Greek and Turkey do not calculate the contribution of the SME sector to GDP. These data are based on many cases on estimation by national SME authorities and/or economic research institutions. An other problem is bound up with the hidden or shadow economy. According to the World Bank Research Paper published in July 2010, the country average hidden GDP estimation from 1999 to 2007 in the BSEC region varies from 27.5% for Greece to 65.8% for Georgia. Out of the 162 countries, the report has no evaluation for Serbia.\(^{11}\) However, the Index of SME Development provides a good tool for comparative analysis and benchmarking of the development trends of the SME sectors in the BSEC region, and highlights the trend in changing the SME environment enabling or hindering and depressing or encouraging the entrepreneurs.

The share of half BSEC countries’ GDP generated by the SME sector is less than 50%. For comparison, in the USA this estimate is 50-60% and in the European Union, about 70%. One of the secret of the China economic miracle is that country accounting for 55% of its GDP by the private SME sector. It is remarkable that Elvira Nabiullina, Minister for Economic Development of the Russian Federation recently made a bold projection that Russia’s SME’s share in GDP would reach 50% in the next 5-7 years. Russia’s State Presidium proposed measures that it said would encourage 60-70% of population to become “involved in entrepreneurial activity” by 2020. President Medvedev has stated specifically that he will support SMEs and would work to make the federal government support rather than obstruct their activities.\(^{12}\)

It is extremely remarkable the some countries like Albania, Armenia, Georgia and Moldova made a significant effort towards entrepreneurship development. However, the share of the SME sector in GDP is below the acceptable level in Azerbaijan, Georgia and Ukraine.

Albania and Armenia just following the selected way of their national economic development, and their economic and social fruits slowly can be harvested. Georgia just started to reshape its economy and developed towards a more advanced one. From 12% in 2008, the country reached 15% of the share of the SME sector in 2010. Georgia brings the former chaos under its control.

The low share of the SME sector in GDP in Azerbaijan and Ukraine indicates that there countries totally neglect the significance of the SME sector in the total economy. Azerbaijan has all the mean to develop the private SME sector which can paw the way for its long-term economic growth following drying up the oil fields and oil wells. The country might follow the economic development patterns of certain Middle-East countries, like Kuwait for example. In case of Ukraine the SME situation deteriorated after the crisis, especially after introduction of the New Tax Code in 2011. The country political power system is in permanent movement, which can be demonstrated in the case of the status and management of the State Committee of Ukraine for Regulatory Policy and Entrepreneurship Development.

The trend in changing the SME Development Index in some countries, like Bulgaria, Greece and Serbia, indicates the impact of the economic crises on the national economies. The worst scenario can be

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\(^{10}\) This methodology was developed by Dr. Antal Szabó, Regional Adviser on Entrepreneurship and SMEs, jointly with Dr. János Árvay, Regional Adviser of Statistics of the UNECE.


observed in Greece, the ancient cradle of the entrepreneurship, which at time being is facing a restrictive
financial request from the EU and other international financial intermediaries.

In spite of the fact that Greece and Turkey are considering that both countries has a very large
number of micro- and small enterprises, the share of the SME sector in each country is relatively low. In
Greece there is a relatively high share of state-owned entities with low efficiency. The GDP is the highest one
in the BSEC region, but it's raises a big question whether it a real or a virtual one? Turkey with lower GDP but
the highest share of the private sector in GDP generates higher index of SME development like Greece -
3,240 in Turkey and 2,653 in Greece in 2010.

### Table 5. Index of SME Development in the BSEC countries between 2008 and 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of private sector in GDP</th>
<th>Share of SME sector in GDP</th>
<th>Share of SME labour in total labour force</th>
<th>GDP per capita</th>
<th>Index of SME Development</th>
<th>Index of SME Development [USD/capita]</th>
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<td>35.5</td>
<td>15,900</td>
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<td>77.9</td>
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<td>0.054</td>
<td>376.9</td>
</tr>
</tbody>
</table>

Remarks:
* The first row refers to year 2007;
** The first row refers to year 2009;
*** The first row refers to year 2005 and the second one to 2008.

Source:
- ERENET Database, Figures in the first row refers to the year 2008 and the second one - to year 2010.
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MEASURING COMPARATIVE ADVANTAGES OF NATIONS 13

ABSTRACT

The scope of this paper is to outline the substance of comparative and competitive advantages (competitiveness) of countries focusing further on the revealed comparative advantages of V4 countries. First parts of the contents are introducing competitiveness from different views, followed by presentation of selected indicators of competitiveness. Final parts present RCA values obtained for the identification of comparative advantages of V4 countries.

Keywords: comparative and competitive advantages, indicators of competitiveness, SITC classification.

JEL Code: E0, E01, F11, F14, O38

INTRODUCTION

Competitiveness seems related to every economic entity. It is a term frequently used by economic experts, companies’ managers, and wide public alike. Competitiveness is more about power and skill of an economic entity to perform its activity on the market. However, to be able to stand to a severe competition on the market (regardless the type of the market e.g. labour market, commodity market, etc) one is to attempt his doing at least as his competitor does or even better. Hence is the competitiveness associated with two levels. The first one focuses on somebody’s ability to be on the market, while the second expresses the improvement in his/her current position on the market.

Improved competitiveness is about getting and exploiting greater advantages (comparative14; competitive15 advantages) that manifest themselves in e.g. increased profit, higher market share, better working place, increased wages, etc. Therefore the competition actually expresses the way of dividing effects (e.g. market share, customers, savings, earnings, etc) among subjects involved. Being best on the market is about getting the whole benefits from this unique position, just like being the only one (without competitors) on the market.

This chapter starts with competitiveness focusing the view on comparative and competitive advantages, introducing theoretical approaches to this subject, indicating methods for measuring comparative advantages. Further parts present the RCA values for V4 countries, the last one comments.

THEORY OF COMPETITIVENESS

Theory of competitiveness is connected with a theory of trade, mainly with international trade when countries achieve different positions from their trading counterparties. Basics to theory of competitiveness go back to the doctrines of mercantilism16 and physiocratism 17 putting the attention to factors which at the most

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13 Extract from the book on Enterprise - Constituent element of national competitiveness by Renáta Vokorokosková et.al. published within the framework of the Project on “Strengthening the educational and scientific collaboration among Faculties of Economics within V4 and countries of South Eastern Europe”, 2010.
14 Comparative advantages: benefits distinguishing corresponding entities not necessary competitors in the economy.
15 Competitive advantages: strength and practical knowledge used for getting improvements on the market over competitors (profit, market share, better job, etc.).
16 Mercantilists prefer country with lower wages just for getting comparative advantage on international market. Hence active trade balance was the basic assumption of growing wealth of nations. Error! Reference source not found.
improve the wealth of nations. In addition to this there are also postulates of importance by Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; and Error! Reference source not found.; Error! Reference source not found. probably the most known representative of competitiveness of nations. However, first approaches to competitiveness of nations gave an idea as if competitiveness were related only to foreign trade of a country. Hence national competitiveness 18 (competitiveness of a country) varies according to how successful the country's entrepreneurial entities are over foreign competitors19. For a country to be competitive both the public as well as the private sector are to be complement to each other.

As such the national competitiveness relates both to the enhancement of the living of standard for its citizen and to the improvement of quality of their lives and even more. From this point of view it is not easy to pack the aspects about the national competitiveness into a statement internationally recognized nor to measure it. For further discussions on the term competitiveness see works by e. g. Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found..

There exist a variety of definitions of national competitiveness. One of the most frequently used statements is that accepted by the OECD as follows Error! Reference source not found.: national competitiveness is about a country's ability to produce goods and services under an open and sound competition meeting preferences of international markets, ensuring and increasing the real income of its inhabitants.

In this context one may assume that national competitiveness is a mixture of exploited comparative and competitive advantages of country's public and private sectors that results in the improvement of conditions of citizens (see Picture 1).

As comparative advantages seem not to be necessary connected with a competitor20 as such they do not call for constant changes of factors generating benefits (e. g. a country that tries to attract foreign investors has another countries close to it as competitors not each country; a distance plays an important role). Competitive advantages are linked up with factors which must undergo dynamic changes over a certain period of time. Therefore if one wants to obtain benefits, time is of great importance during which competitive advantages exist.

As soon as rivals gain the same or similar level, competitive advantages melt away. This proves that time and information matter a lot in the process of looking for competitive advantages, so it is worth being quick and informed about the existing gaps in the market Error! Reference source not found.; Error! Reference source not found..

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17 Nature and agriculture is a decisive factor for increasing wealth of nations Error! Reference source not found..
18 National competitiveness stands in this paper for synonym for competitiveness of nations, and competitiveness of a country (country’s competitiveness).
19 Foreign competitors: subjects operating either abroad or in hosting country.
20 Competitor: subject dealing with similar objects having the same or similar goal.
There are two main drives of national prosperity for which a close interaction among them is required. The role of a state is to keep a close watch on the performance of the entrepreneurial sector. If companies meet customers’ needs by producing innovative commodities, their earnings tend to rise just like their motivation to hire more workers with necessary skills. However, a state should make efforts to increase the conditions of living of its citizens using appropriate tools e.g. minimum wage, unemployment insurance, unemployment assistance etc. so that citizens and employees feel the care of their state.

INDICATORS OF COMPETITIVENESS OF NATIONS

In economic theory there is not a unique approach towards the assessment of country’s competitiveness. It is due to different aspects taken into account while ranking countries according to their performance ability. Therefore, as a result of different methods used there exist a majority of empirical outcomes. In general, competitiveness of nations can be observed using e.g. terms of trade\(^{21}\), price indices of exporting and importing, indicators of foreign trade performance\(^{22}\), exchange rate\(^{23}\), productivity, employment rate\(^{24}\). To empirical studies based upon e.g. exporting and importing volumes belong Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.; Error! Reference source not found.. In addition to this some economic institutions e.g. ECB\(^{25}\) Error! Reference source not found., OECD Error! Reference source not found., ITC Error! Reference source not found. and some economists e.g. Error! Reference source not found.; Error! Reference source not found.. when handling competitiveness of a given country or grouping of countries apply for macroeconomic factors like e.g. consumer price indices; GDP deflator; balance of

\(^{21}\) Terms of Trade (Tot) indicate relationship (rate) among the exchange of goods and services between trading counterparties. If the value of the exchange rate falls down, the terms of trade are getting worse, but due to the cheaper exporting its demand is rising pushing up the competitiveness of a given country Error! Reference source not found..

\(^{22}\) Such indicators involve e.g. net exporting (a difference between exporting and importing); marginal propensity to import (a part of any increase in income spent on imports); trade coverage ratio (overlapping import by export).

\(^{23}\) International trade and capital flows are interrelated, and both are directly influenced by exchange rates Error! Reference source not found..

\(^{24}\) Employment rate may be assumed as an indicator of country’s ability to supply its citizens with working possibilities.

\(^{25}\) Indicators are observed within harmonised competitiveness evaluation. For more information see: www.ecb.int/stats.
International payments reflect the ability of a country to join financial, trade and non-trade relations among residential and non-residential economic subjects. Countries set from each other on how successful they maintain their position within the severe competition. Trade balance e. g. can serve as one of possible indicators.

Unit labour cost compares the costs of labour required to produce a unit of output in a particular branch, or total economy.

There exist more variants of RCA index in the literature.

RCA2 = \( \frac{X_{ij}}{X_{it}} \) / \( \frac{X_{nj}}{X_{nt}} \) = \( \frac{X_{ij}}{X_{nj}} \) / \( \frac{X_{it}}{X_{nt}} \)

where \( X \) represents exports, \( i \) is a country, \( j \) is a commodity (or industry), \( t \) is a set of commodities (or industries) and \( n \) is a set of countries. RCA2 measures a country’s exports of a commodity (or industry) relative to its total exports and to the corresponding exports of a set of countries. A comparative advantage is “revealed”, if RCA2 >1. If RCA2 is less than unity, the country is said to have a comparative disadvantage in the commodity / industry Error! Reference source not found.

PAM matrix exploits real domestic and optimal foreign (expected/effective) input/output prices.

Michaely index copes with the share of an export in a given commodity group on the whole country’s exporting as well as the share of an import in a given commodity group on the whole country’s importing.

These two indices are different in e. g. the number of variables used for their calculations. The Global competitiveness index is more complex, it involves 113 variables while the second one 35 variables Error! Reference source not found.
\[ RCA_{2y} = \frac{\sum_{t=1}^{9} X_{yt}}{\sum_{t=1}^{9} \sum_{n=1}^{252} X_{nt}} \]

while

\[ X = \text{export}; \ i - \text{country}; \ j - \text{commodity group}; \ t = 1, 2, 3, \ldots 9; \ n = 1, 2, 3, \ldots 252. \]

Picture 2 indicates the RCA values\(^{33}\) of commodity structure according to SITC for V4 countries (Czech Republic, Poland, Hungary and Slovakia).

As depicted, the Czech Republic achieves comparative advantages in Manufactured goods classified according to material (commodity group 6 according to SITC rev. 3). This group is an aggregation of manufactures made of e. g. textile, rubber, leather, cork, wood, paper, etc. There are important centres of textile industry in the Czech Republic situated in Písek and Šumperk, or that of iron and steel in Ostrava and Trinec. However, for other product clusters as values indicate (with the exception of Animal and vegetable oils and fats since their value was not high enough to be a subject of the corresponding measurement unit) the Czech Republic obtains comparative disadvantages.

In comparison with the previous country, Hungarian’s exporting is more diversified as far as product specialization is concerned. From the scale of observed products, there are following clusters on which Hungary concentrates in its exchange of goods. These are, due to favourable conditions, Food and live animals, Animal and vegetable oils and fats. In addition to this, there is also a chemical industry with chemical plants situated e. g. in Budapest, Éger or Debrecen.

\(^{33}\) 0 = A data has the value that is less than 1 / 2 (50%) of the respective measurement unit \textbf{Error! Reference source not found.}.
The identification of comparative advantages using the RCA index for the V4 countries are however, related to history, land, labour, and productivity of each country under review. As such they are the result of how countries succeed in locating and using their resources necessary for producing commodities required by foreign markets.

CONCLUSION

Although there is a great number of indicators of competitiveness of nations, RCA index presented by Bella Balassa is often applied in its modifications when measuring revealed comparative advantages of countries in the exchange of goods on the world market. Nowadays competitiveness of nations depends more than ever on information sources and a quick response to existing challenges on the market just to get, keep and exploit efficiently the being of given competitive advantages. The competitiveness of V4 countries was specified according to the RCA index regarding the year 2008. Among them there are countries with very high RCA values for specified commodity groups e.g. Slovakia in the commodity cluster involving Machinery and transport equipment, Czech Republic dominates in selling textile, iron and steel manufactures. Poland successfully competes among other commodities with leather and wood products while Hungary in exporting chemical and agricultural products. Achieved results, however, proof that product specialization of those countries closely depends on their land, history of production and not last in their mutual collaboration at present and in the past.
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TURNING THE TIDE?  
ANNUS HORRIBILIS - ANNUS MIRABILIS  

motto:  
“Europe before being a military alliance or an economic entity must be a cultural community in the highest sense of the expression.”  
Robert Schuman, one of the Founding Fathers of today's European Union (EU) – Pour l'Europe (1963), p 35.

ABSTRACT

The European Union is at an existential crossroads. There is the prospect that European values may possibly be eroded by the eagerness of political leaders to agree on short-term piecemeal fixes. Several politically highly sensitive and intricate issues must be addressed. The intellectual basis is available to do so. Can the Polish EU Presidency (second half of 2011) meet this challenge and start the bold process of revisiting the very fundaments of the EU?

JEL code: C70, D70, F0, F15, F2

INTRODUCTION

This paper finds inspiration in the discussions and presentations given at the international conference “Europa Quo Vadis – The Renaissance of European Strategic Thinking”, Second Lower Silesian International Conference that took place in Wroclaw, Poland from the 16th to the 19th June 2011, and the meeting’s underlying document by Prof. Antoni Kuklinski.

The authors have chosen to make every effort to complement the afore-mentioned, avoid repetition and give a realistic assessment of the situation. The paper reflects the situation as of early September 2011.

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TAKING STOCK

Given the current and imminent financial, political and ecological challenges and pressures, Europe is inadvertently finding itself at an existential crossroads. In fact, the social and economic situation is graver than many are willing to acknowledge publicly and Europe is probably in the midst of its greatest existential trial to date. Private and public indebtedness is high and European unemployment is running at record levels.

The question “Europe Quo Vadis?” is more pertinent that ever. It is time to remember that the basis of the European project remains unchanged:

Peaceful co-existence   In varietate concordia.

The initial objective behind the establishment of the European Communities has been completely and successfully achieved, i.e. to avoid war between Member States and thereby improve societal welfare.

One should recognise this achievement. The fact that the Member States of the European Communities / European Union have managed to coexist peacefully for more than sixty years, is possibly one of the defining achievements in the history of the European continent.

One might even argue that this simple and convenient truth should be communicated more confidently to today’s young generation that has never experienced war and related suffering. In this respect,
the European Union of today is a success story that all Europeans can justly be proud of.

THE REALITY

Even the most casual observer will notice that against the aforementioned, public sentiment in “family Europe” is deviating considerably from expectation. The population is disillusioned and the mood is such that the achievements of the European project are no longer acknowledged. War seems a distant memory and prosperity a hollow promise. Many are suffering as a direct result of global economic and financial turmoil. The situation is further exacerbated by up-coming national elections so that political agendas are dominated by inward looking, national issues. Hence extremist political movements are raising their voices and more people are listening – national politics are as a rule becoming more populist.

Current EU leaders are failing to inject visionary, long-term objectives that could catch attention and raise hope for a better and joint future – the founding fathers managed to do this. Maybe unsurprisingly, the European project is losing its appeal and interest for the population at large.

The vision, objective and implications of the “Lisbon Strategy” and now the “Europe 20-20-20” fail to appeal intellectually and emotional to the population – and are of even less interest to the young generation. They are not easily understandable and emotionally accessible.

Against this background, a dualism has developed. This dualism between the EU and its Member States can be seen in various fields. Most strikingly, it is assuming the form of a contrast between law and politics. By and large, Member States will obey the legal provisions of the EU, but their political objectives can point in other directions. And where law and politics are at variance, at variance precisely because the national interest overrides the European, solidarity suffers. The sense that Europe once had, that Member States shared certain ideals that no Member State would go entirely against the interests of others, is much weaker than it once was.  

In the context of the current global financial turmoil and budgetary crises in various Euro-zone economies, the described political divergence appears to be approaching open conflict. In such a climate of conflicting messages from the media, national politicians and the EU, European citizens are maybe justified to be confused and sceptical. Some might even argue, that more than ever before the “product needs to be sold”.

THE WORLD IS CHANGING

The external- and internal circumstances for the EU are continuously changing. Noticeable symptoms for this development are:

- global dialogue has moved to a much broader level;
- fatigue seems to have snuck-in to the European integration process; and
- the public is ready to “go to street” in defence of established and hence now expected privileges.

FROM 8 TO 20

At the highest international level, the dialogue on the global economy has been moving from G8  to G20, the latter becoming the premier forum for international economic co-operation. This development is significant as the G20 includes the most important emerging economies such as Brazil, India and China (the so called BRIC countries).

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34 György Schöpflin, XLV COSAC meeting, 31 May 2011, Budapest
35 Group of Governments of eight major economies: Canada, France, Germany, Italy, Japan, Russia, the UK, and the USA with representation of the EU. Created to discuss international politics at the highest level. Initially a forum of six, initiated in 1975.
36 Group of Finance Ministers and Central Bank Governors of twenty industrial and emerging market countries “to bring together systemically important industrialized and developing economies to discuss key issues in the global economy”. In addition to G8 members, it includes Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, Republic of Korea, Turkey and the EU and the European Central Bank. Initiated in 1999.
With regard to the current crisis, the G20 has so far not been a particular great success as the interests of the members are poles apart. In this group where members have such diverging interests and opportunities to move on their own, the EU has the ungrateful - not to say impossible - task to defend the interest.

EUROPEAN INTEGRATION IS AT A STANDSTILL

The hesitation of EU leaders to stand united and efficiently tackle the current financial crises is weakening the EU and its credibility. What is worse, it is feeding integration fatigue. If we look at the integration process from outside active politics, we see it has rather stopped, with some risk of going backwards. Integration is not going forward. There is no political will to make it go forward. 37

Most strikingly, to some extent in consequence, we are witnessing a rise in intergovernmentalism, the natural consequence of the rise of the national interest perhaps. The problem with intergovernmentalism is the declining asset of trust; states in Europe compete, they compete for markets, for investment opportunities, for prestige and above all, for power. The community method was devised to prevent this competitiveness, which had reached tragic lengths during the first half of the 20th century, from reproducing the same in the second half. This has worked, and worked well, but the lessons of the 1940s seem to have receded too far for them to serve as a warning for the 21st century. (Ref.: see footnote 1).

From the perspective of European integration, it would appear that the situation is continuing to worsen. In the mind of most people the overwhelming uncertainties about “today and tomorrow, i.e. my job and bread” and general weariness and scepticism about the European project, overshadow the demonstrable benefits European citizens are already gaining from being part of the “EU family”. Combined with the apparent lack of political will (or ability?) by the EU leaders to act in a united and resolved manner when there is an urgent need is a treacherous downhill slope for the European Union.

REFORMS ARE UNPOPULAR

The current economic crisis (that politicians are at pains not to call by name: depression) started as a financial crisis that culminated in late 2008 in a sudden loss of business confidence and a rapid decline of world trade. Within the period of a few months, trade flows collapsed at a speed unprecedented since WWII. The decline in world trade was followed by an equally steep decline in production and hence leading directly to a steep recession. The proximity of the financial meltdown and the world trade decline resulted in manufacturing plants shutting down for weeks or even months.

It is highly probably that uncompromising political determination and leadership at this critical juncture could have had reversed the decline or at the very least brought it to an end. But what happened instead? While political leaders have continued to meet in various emergency sessions, the credit-rating agencies 38 have taken control of the “field” and promulgated doubts and speculation about the financial stability and credibility of Euro-zone countries like Greece, Italy, Ireland, Portugal and Spain, and also several other countries outside the zone.

The apparent endless financial turmoil together with austerity measures announced by national governments in the EU, triggered massive riots in various cities including Athens, Madrid, London and other cities. Fears of loss of job, pension, social security, as well as increased tuition fees at universities, etc. brought people to the streets, and often resulted in violent demonstration. As could be expected, the austerity measures announced by governing parties on the insistence the EU also resulted in political turbulence at the highest level in these countries.

Slowly, step-by-step it looked like the European Union would pull itself out of trouble and back onto the path of growth (with Germany leading the way) and politicians insisting at every turning that things were improving and much better than was exactly the whole story.

With rising uncertainties about the refinancing of the public debt of Greece, the crisis reared its ugly face with renewed vigour in May 2011. Accompanying these announcements were violent clashes in Greece between demonstrators and police that lasted several days. The situation was temporarily brought under

37 Josep Borrell (former EP President), Festival of Europe, 13 May 2011, Florence.
38 A credit-rating agency is a private company that assigns credit ratings for issuers of certain types of debt obligations as well as for the debt instruments themselves. The US Congress received recommendation to investigate the anti-competitive practices and conflict of interest of credit rating agencies.
control by the Greek government although the Greek economy remains in a financial mess to the increasing frustration and disillusionment of the other Euro-zone governments. 39

The Italian Economy Minister Giulio Tremonti unequivocally compared the Euro crisis to the sinking of the Titanic. Within the Euro-zone first of all Greece, but also Ireland, Italy, Portugal and Spain, must urgently bring their public spending household in order.

At the time of writing this article (early September 2011) the crisis is far from over.

What is worse for the world economy, the US has an identical problem: President Barack Obama is struggling to avoid a debt defaults for his country.

There are important lessons to draw from this first Euro-zone crisis.

It is a powerful reminder to political leaders: austerity measures are unpopular; the population will not readily accept a reduction in living standards and is no longer complacent and ready to “go to the barricades”.

Political leaders would be wise to ask themselves: has the above experience changed the mindset of the young generation, will they be more easily exposed to radicalisation in the future?

It would be equally important to pay much more attention to underlying currents in Europe society. According to a global intelligence company, 40 Against this backdrop [i.e. economic crises etc] sits a massive disconnect between what the European elites - especially in the financial sector - desire and what the general population prefers [...] [...] They [the elite] have already made it clear that they will pay any price to keep the European Union alive.

However, the average German, Frenchman or Latvian feels somewhat differently. With the benefits of the European system losing their luster, questions are starting to be asked about not just the EU institutions, but about whether European leaders are still fit to lead.

Polls regularly indicate that half of Germans want the deutschmark back, and more than half think the Greeks should be unceremoniously ejected from the euro zone.

So far these attitudes have not translated into a rejection of any major state’s political mainstream — but the Germans’ general disgust with the bailout programmes is hardly an enthusiastic endorsement.

THE ENEMY FROM WITHIN

The ugly face of the Financial Market

The lack of political determination has given free space for pinpoint speculative attacks by the financial market upon several Euro-zone countries. It is interesting that most of these countries are in the same trouble they have been for years and one is lead to ponder what the rationale for the rating agencies behaviour is. Were they to lenient before or are they to stringent now? Either answer would lead to a whole host of questions and logical consequences that need to be addressed.

In fact the rating agencies may be too closely linked to the financial market and its major players rather than the “honest broker” that they profess to being. As long as this conflict of interest is not resolved satisfactorily and the rating agencies regain their credibility, the voices that are calling for a public supranational rating agency seem justified.

Internalising the Externalities or externalising the Internalities

One cannot but admire and congratulate the financial sector for their successful handling of the crisis. Not in macroeconomic or societal terms, but in the manner in which they have managed to sell their risk to the tax-payer.

Effectively the financial market has ensured that the tax-payer will cover any losses made by overly risky and speculative investments, while windfall profits (that such risk potentially offers) are kept by the risk-takers. As a financial actor, one would have to be a fool not to partake in such a one-sided arrangement.

The irony is brought home to a point when the same actors speak about the need to “internalise the externalities” – and what they possibly could mean by that.

39 According to the billionaire investor George Soros (7 July 2011), Greece is heading toward disorderly default and/or devaluation [...] A Greek default may be inevitable but it need not be disorderly [...].

Calling the child by its name

The current discussion about the possibility of a future joint “Eurobond” has politicians, economists, bankers and lawyers up in arms in equal measure. No-one can sit on fence, but comes down on one side or the other.

The proponents argue that it would counteract speculative attacks upon individual economies of the increasingly reckless and powerful financial market. It would also ensure that weaker economies would not become trapped in a downwards debt-and-interest-spiral, where debt-servicing would become the modus-vivendi of countries and economies.

The opponents on their part make the point that such bonds would reduce the incentive for individual countries to maintain budgetary stringency and rather let the other partner countries “pay the piper”. According to this logic, the Euro-zone would become a transfer union, leading to an even worse downward spiral. Furthermore, the stronger economies (such as Germany) would have to accept to pay higher interest rates than they currently have to. A hard sell for politicians in a domestic election year.

An observer might be tempted to ask if the Euro-zone economies have not already created a de-facto “Eurobond”? Is the discussion about a possible “Eurobond” not already overtaken by the fact that through the European Central Bank (ECB) the various governments have committed themselves to guarantee each other’s debt? However, they have avoided taking the necessary step to have a say in each other’s fiscal and budgetary affairs (and boy do they regret that now). Does this development not give all the nuisance of a common currency without any of the benefits? And again, is it not the European citizen and tax-payer that is left to pay for such political fallacy?

The rating agency Standard & Poor’s 41 has threatened that should the Euro-zone reach an agreement to issue “Eurobonds” that would counter speculative attacks by the financial sector, these bonds would receive a “junk” rating, making them uninvestable by most institutional investors.

2011 IN A NUTSHELL

Annus Mirabilis

But not all is doom and gloom. There are also clear and decidedly positive signals for Europe and the world.

- Although Europe is in economic crisis, it remains as attractive as ever for immigrants (legal or not) if the official statistics are anything to go by. Does it mean that Europe may be able to grow itself out of trouble and find back to its roots and purpose?

- The so called “Arabian (or Arabic) Spring” indicates that people in the Middle-East and North-Africa desire more moderate and thoughtful leadership that may allow more individualism and self-determination. Can one in fact be hopeful that constructive dialogue and peaceful co-existence is on the cards?

- The tide is turning in the fight against international terrorism and real advances have been made in promoting pluralistic representational leadership and societal structures. Is Europe ready to acknowledge its historical value-added is in having found a manner in which traditional adversaries are able to build a common, prosperous and peaceful future?

- The internationally popular (and some would argue uncompromising) Pope John Paul II has been beatified with a hitherto unseen speed and has been welcomed by many millions of people. Did his positions – even if often considered old-fashioned and conservative – provide many with needed reassurance and stability in a world where values, ethics and traditions are outmanoeuvred by fashion and short-termism?

- The royal wedding in the United Kingdom of an immensely popular couple seems to be able to help secure the British monarchy for the foreseeable future and rekindle public imagination. Does this age old demonstration of a “bygone era” in fact touch upon a deeper need for continuation and tradition?

Annus Horribilis

Yet the naysayers will still also be able to claim their pound of flesh.

- The world is still in the grasps of a deepening global economic and financial crisis, the solution to which still seems to elude decision-makers. Is the solution truly so difficult to ascertain or have the linkages between politicians and individuals controlling the market become so close that conflict of interest prevents effective action?

- We were forced to watch helplessly as the triple-tragedy of earthquake, ensuing tsunami, and resulting nuclear accident unfolded in Japan. The consequences will remain with us for the foreseeable future even if their full extent still needs to be appraised. Are we able to draw the right conclusions from these terrible tragedies or are we acting out of knee-jerk-reaction and political?

- While Egypt has shown how a peaceful transition of power can take place with rule of law and a responsible military leadership, Libya and its leadership chose the route of military repression and substantial loss of civilian life. With regards to Europe, it triggered a near uncontrolled flood of refugees and emigration towards Europe from Africa. How will Europe stand by its principles of protecting the primacy of every human life, while needing to ensure the continued viability of the European Union and its Culture?

- In the context of culture, more than ever before, Europe seems to be on the slippery slope of abandoning and forgetting its moral, ethical and even spiritual legacy and tradition. Certain retired political leaders are asking why politicians are currently so ready to give-up the things that define the very core of what is Europe and the value-added it offers? Has the pursuit of “political correctness” hollowed-out the ability to define oneself and hence the ability to relate to others (and care for them)?

Moving Forward

In this ever-changing world it is vital that one is able to unambiguously identify the cause of problems in order to be able to deal with them adequately. Neither muddling through the economic turmoil nor nationalist political shifts will resolve the problems. The Euro crisis is not just about liquidity - it is primarily about solvency. The advanced economies can live beyond their means some of the time, but not all of the time.  

The following should simply be considered as examples of contributions to solutions – no claim is made that any of them hold THE patented solution.

Recognise the challenge

The greatest challenge for the 21st century is the peaceful sustainability of our culture and societal choices. Therefore:

- Political- and societal leaders must do their utmost to develop and use global value-based decision tools as soon as possible.

- These tools will make it possible for societies, cultures and the economy to make appropriate sustainable development decisions.


The Global Round Table, 2010 Annual Main Event, 5 November 2010, Budapest.
• Decisions must involve respect, reciprocity and solidarity. Such a value-based approach will logically make the ecological dimension a preeminent factor in these decisions.

One suggestion: live-up to European ideals

Ideally, the EU should be able to move forward jointly in a sustainable manner. The EU is part of the Western civilisations and hence related basic principles must include uncompromising defence of- and support for: the primacy of individual human being, dignity and human rights, equality between men and women, democracy and secular governance, and the rule of law. This means also: promotion and protection of fundamental rights, solidarity within and between generations, the guarantee of an open society with representative government, involvement of citizens, involvement of businesses and social partners, policy coherence and governance, policy integration, use of best available knowledge, the precautionary principle and the polluter-pays principle.

This means also that the concept of the quality of life has to be modified stressing the non-consumer, non-materialistic elements. To this end, new attitudes have to be developed based on knowledge, tolerance, consensus, responsibility, and representative government. And this radical shift should and could be based only on education in line with the Chinese wisdom: If you plan for a year sow seeds, if for a decade plant trees but if for a century educate people.

One of the assets of Europe AND of our planet is cultural diversity. It should be preserved even if competition among various cultures cannot be neglected. We have to find ways to live with within these conditions while at the same time base it on cooperation. Co-operation in competition practice has to be raised to an acceptable level, to achieve the ambitious but imperative plans for sustainability.

Another suggestion: mobilize citizens

According to Giscard d'Estaing, in order to revitalise their European integration process, a real Congress of the People is needed where the European- and National Parliamentarians would come together to debate the state of the Union and address major challenges [...] It is high time to reconsider the lack of a European public space and bring the EU closer to its citizens [...] The European Council should make this a priority after the renewal of his mandate in 2012.

We must give people back their European dimension and reconsider the project of creating the Congress of the Peoples of Europe... Other large and populous countries in the world, like China and the United States, convene such congresses every year.

And another suggestion: make the Single Market more efficient

According to experts, a functioning Single Market would be one of the best means to overcome the current economic crisis. To this end, greater effort is needed to build on the potential and tackle the existing barriers to its achievement.

The Single Market Act, adopted by the European Commission (April 2011), identified 12 areas for action that could help to generate economic growth and increase Europe's competitiveness. These include efforts to strengthen the Digital Single Market that could eventually add at least 4% to EU GDP by 2020.

And yet another suggestion: make better use of an untapped potential

European SMEs are a key driver for economic growth, innovation, employment and social integration being the only sector of the European economy that shows continued growth and job-creation potential. On the other hand, large industry is making the unemployment situation worse by consolidating due to global competitive pressures".

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47 www.epc.eu/dsm.
There are currently around 23 million SMEs in Europe representing 99% of businesses. They account for some 50% of total employment in the EU and the trend is growing.

In May 2011, 22,378 million men and women were unemployed in the the EU-27 of whom 15,510 million were in the Euro-zone area. Compared with a year ago, the unemployment rate fell in nineteen Member States and increased in eight.

The above numerical figures has led some European academics and politicians to suggest that the European unemployment problem could be resolved if each SME were given the means to create one more job. For various practical reasons this is of course not translatable in such a simplistic manner – it does highlight the enormous untapped potential that Europe possess in its entrepreneurs and one should consider ways and means in which policymakers could facilitate administrative and legislative life for this enterprising part of the population willing to risk everything. It is a paradox that these potential engines of European growth and competitiveness have for long been largely underutilized, even ignored, by policymakers.

Is there a White Knight on the horizon?

There is hope in the horizon with the current Polish Presidency (second-half of 2011) with its Euro-enthusiasm, optimism and good economic performance. Poland is taking on the exciting challenge of countering a new wave of Euroscepticism and convincing other members of the Union that the European project is a great thing.

Notably, the Polish Presidency is considering assessing how to rescue the EU from the current crisis: Poland wants to draw up a new 'contract' for the EU that would highlight the benefits of EU membership and redefine the joint responsibilities of Member States [...] It is a political contract, understood in its conventional sense, rather than a new treaty. Member States need to have a better understanding of the benefits they gain from the European project as well as of joint responsibility, which is a novelty. The process of European integration will be accompanied by mutual control, a phenomenon which has never been observed to work on such a scale in the past [...] The 'trust but verify' rule stands for self-discipline – a new characteristic of the Union.

The proof is in the eating. We now need concrete actions. The trust in the Polish Presidency will not last forever. In particular as previous experience has shown that expectations for individual six-month EU Presidency terms often prove unrealistic given the political- and bureaucratic burden of steering the Council of Ministers. The new arrangement of an 18-month period for each EU Trio Presidency should represent a more practicable approach to deliver tangible progress and results.

In the international policy context the European Union need to emerge from the shadows of other, historically larger players (notably the USA). Europe and the EU can offer unique value-added at the dawning of a new era where dialogue and peaceful co-operation are trumps.

It is a simple fact that if the challenges that face humanity today (climate, etc) are to be addressed and overcome, humanity must irrevocably co-operate and put aside petty disputes.

CONTINUING KEY QUESTIONS

Several politically highly sensitive and intricate questions are remaining:

- Do we need to save or grow our way out of the crisis? – To think that doing nothing or both together will reach the desired outcome is naive and has proven to even be counterproductive.

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49 E.g.: Poul Nyrup Rasmussen (former Prime Minister, Denmark).
• Will “Eurobonds” coupled with budgetary stringency ensure stability and promote economic growth?
• Why is the financial world operating at the whim of rating agencies that are clearly not as objective as they claim, or at the whim of rumour?
• Why is the financial stability of a country depending upon a limited number of financial enterprises with clear vested interest – and how can countries and their economies be made less vulnerable to speculative attack?
• Can the whole EU move together at the same time towards the same goal? or,
• Is the EU chasing an unattainable vision?

The intellectual basis is available in Europe to address these issues – visionary and courageous political leaders need still to emerge.

EUROPA QUO VADIS?

According to one of the Founding Fathers of today’s European Union, Europe before being a military alliance or an economic entity must be a cultural community in the highest sense of the expression.  

In the recent past when problems arise, it is heartbreaking to observe that EU leaders take a "patchwork approach" and rush to Treaty modification or new Treaties in lengthy cumbersome processes.

It must stop.

European values must not be eroded by the eagerness of political leaders to agree on short-term piecemeal fixes.

The very fundamentals of the EU existence must be revisited and we must develop and agree on a truly long-term vision – such as a community based on European values. Only then will we be more than just a political and economic community – but a community with a shared peaceful destiny.

We must face the fact, we are Europeans not just by law - but by hart.  


Logo of the EU Polish Residency ©
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LEADING WITH VISION, INSPIRATION AND INTEGRITY

ABSTRACT

Managers and company owners/leaders are challenged to take into consideration the necessary correction of their activities. This includes business ethics. The enterprise philosophy has been changing with the connection of corporate social responsibility. Visionary entrepreneurs must acquire and exert the ability to set attainable goals in due course of time. To cut an extensive invitation for social responsibility short, it is to record that an earnest leader with vision, inspiration and integrity illustrates a personality who persistently verifies how the matter stand with business ethics.

Key words: Business leaders, business ethics, business vision and inspiration, corporate social responsibility.
JEL Code: L21, L26, M12

Politics, economy and environment - as special spheres - do not know any standstill relative to their appearance. Therefore the possible events must observed permanently. Essential factors of influence because of political imponderables originate from the behaviour of voters respectively democratic election results. Concerning economy further influences depend on the effects of globalization. And with reference to the environment the changes of climate and state of pollution can also play and important role.

In view of such external symptoms managers or company owners are challenged to take into account in time internal corrections of their activities. Indeed, entrepreneurs would be overtaxed if they should remove negative public developments beyond their regular business tasks. They must handle very carefully as usual the conditions of all the in-house operations such as purchase, production, marketing, sale, service, financial order, staff employment, etc.

However, since the eighties the so-called business ethics have gained additionally increasing considerations within the every day management. At this, entrepreneurs as leaders with vision, inspiration and integrity can take up initiative pursuant one's own requirements.

In order to accomplish hitherto unaccustomed supplementary functions running a profitable business, entrepreneurial personalities must not only be excellent traditional technicians but as well outstanding humanitarian psychologists. Within the meaning of a qualified leader a combination of abilities, of attributes - not at last passion - remains advisable to do well what one does. Who believes that somebody learns at a highschool what is necessary to become, to be accepted “captain”, makes a mistake. Above all: practical experiences count. Of course, it is necessary to perfectly master the daily managerial duties, but when motivation to encourage the engagement of workforce, to treat them as human beings, as partners, is missing no mobility in favour of introduction and realisation of business ethics will happen.

Bright entrepreneurs of to-day do not like any restriction from outside, e.g. from public authorities or credit institutes. Noticeably, younger entrepreneurs and business starters plead for liberal agility and interdependence. They find it troublesome to get going within out-dated limits. With their future-oriented eyes open, they are constantly striving for new methods of receiving ideas and transporting plans. Mobile, versatile, flexible and productive are directive notions to describe modern company heads.

Entrepreneurs are viewed by many as always hard working eccentrics scarcely enjoying leisure time, narrowed to continue recurrent studies up-dating guidance knowledge, confined to evaluate information and

54 Statement at the 7th European Day of Entrepreneurs held on 27 september 2010 in Split (Croatia)
often prevented from participation in meetings of chambers of industry and commerce or active membership at business associations or even attendance in political bodies as elected representatives. To be an appreciated entrepreneur within altered competition surroundings in-house operations must be reorganized by delegation of selected management tasks to competent work-fellows.

Anyhow, it is above-average leadership and also extraordinary team-arrangement qualities that show off the successful from the unsuccessful entrepreneur. Successful employers realized that employees are their greatest resource if nowadays business ethics are sustainable applied. Forward oriented entrepreneurs are open-minded, attentive, upright, communicative doers; they like practice not theory. Failure because of negligence can never be an option.

True entrepreneurs surmount challenges, they exhibit sustainable drive, self-confidence and tolerance of uncertainty. They are always in charge of the own destiny and they are convinced that their own action initiative - not these taken by third parties - are the safe starting basis that determine profit and company survival.

Excellently educated and level-headed advised entrepreneurs who follow reasonably well planned objectives of business seconded by cooperative staff, suppliers, subcontractors, customers and financial institutes are not careless fanatic philanthropists. They have a way with moderate, well researched and calculated risks to eliminate bankruptcy.

Visionary entrepreneurs must acquire and exert the ability to set attainable goals in due course of time, they must maintain durable commitment and comply with self-imposed action standards. Moreover, feedback is indispensable rating the results of the efforts. Should the occasion arise afterwards looking for the reasons of shortcoming and for introducing better measures to do things is of importance. If deficiencies play a part it must be examined whether it is just a temporary setback or a far-reaching defect. The controlling procedure should be regarded as learning experience: perhaps disappointing, but never discouraging.

At present there occurs more and more debating on enterprise philosophy or enterprise culture in connection with the slogan “Corporate Social Responsibility”. In fact, the voluntary societal mission is rarely embedded in long-term superior conceptions and strategies of management. It happens prevalingly spontaneous, not coordinated, accidental - mainly when the smaller business are concerned.

On the other hand, a recent survey of the German Institute for SME Research at the Mannheim University - Institut für Mittelstandsforshung - has surprisingly investigated that almost 95% of all SMEs in Germany take upon action in favour of social and ecological interests by allowances to charitable organizations. Obviously, in particular family-owned private firms are opposed to an unleashed capitalist pure profit making attitude. They demonstrate integrity, they manifest business ethics and show social conscientiousness.

Many long-sighted entrepreneurs know that centrally administered plan-economy appears immoral, even fatal, because it does not guarantee individual civil liberty and therefore undermines systematically the readiness of people to succeed in doing a societal interaction. State command seduces with its bureaucratic restrictions to demotivation at working efficiency, it misleads to unfair taken benefits and rewards political intrigants instead of realization of honest performance principles.

The moral of business behaviour within a free market economy reflects an ethical value-added orientation of an enterprise in view of its decisions and their implementations. This type of companies and leaders look after the tasks to grant the workforce a positive meaning of the accomplishment of their occupation; the management accounts to the salaried employees for the business targets. Unquestionably, the goal contents must be concretely transformed into profitable completion. However, each staff member often comprehends his job differently from other colleagues; willingly he envisages his own imagination. Such divergences must be abolished in order to avoid expensive disputes.

Normally all departments within an establishment are based on particular structures and hierarchies of value creation. A reform is unalterable that interdisciplinary teams are not hindered to co-operate by divergence of the interpretation of problem-solving. An uniform identification of all employees with their enterprises is imperative for the sake of stability of further positive business development. At any rate, this can only be possible when human beings involved will be considered not only as charged executive bodies, but it is rather paying to meet their demands, expectations, interest and value mentality. Pedantic orders results in contradiction or at the worst in resistance.

Sympathetic understanding by leaders with respect to the proper conduct of their work-fellows reflects the ethical image of an enterprise. Mutual loyalty of both parties signifies an essential source on which
the performance productivity depends.

Although management acts already predominantly with integrity there are still dubious exceptions at hand. Immorality plays for example a part in the pollution of the environment (such as malicious disposal of toxic waste), also in corruption, in children's work, in window-dressing of financial balance-sheets or in neglect of security regulations within a company.

The fundamental idea of a socially constituted market economy combines the entrepreneurial free hand with the material equalization for people of moderate means. In Germany something has become wrong. For several years mainly politicians have undermined the principles of the spheres of responsibility: it exists increasingly the faulty rush to public supply instead of taking care of one's own requirements. Such a welfare state of too far-reaching public relief provokes the risks of losing the solidarity of the total society.

When governmental authorities, backed up by economically awkward parliamentarians, decide on the redistribution of more then 50% of the social product, then it remains for the investment of private entrepreneurs much to low free play to stand up for commercial chances. A representative democracy must resist plebiscitarian elements, which additionally has to hold out considerable overheat by indecent media.

Modern enlightened business leaders recognize the advantage of subsidiarity as help to self-help as temporally limited subsidy aiming at the dismissal or even prevention of unemployment. Since these top people are bound with a net of conditions to the internal and external environs they pursue a doing well by doing good as guiding line of their social common sense and insight.

The social assessment covers two ranges. Beyond the instructions on the inside of a company according to frictionless business steps many-sided initiatives have been realized in so far money is available or organizational structures permit generosity. Worth mentioning for example are donations to the youth team of a local football union, the handling over of computers to a school in the neighbourhood, participation in cultural theater-programmes, enrichment of hospital equipment or financial medical help in a less developed country.

The second trend of entrepreneurial social care deals with in-house newness. Besides better transparency face to face with the public the individualized partnership between company leaders and workforce as communication, manufacturing and destiny community makes plain that business ethics has become the hot topic in moving steadiness of a firm. The entrepreneur cannot but to take seriously in account the welfare of employed men and last not least of women. He should incessantly inform those who are mediators or have the right of co-determination what is going on and foreseen. The entrepreneur must promote the workforce know-how by recurrent training facilities in order to widen timely and future-oriented qualifications and thus to encounter easier the offers of the competitors and the request of customers.

Another directive matter calls for leadership liability: moreover than before an increasing number of employees suffer from psychical trouble. That refers to the state of anxiety whether income continues; it refers to persons who are addicted to alcohol or drugs. If people are sick, what finally shows itself in human burn-outs, then companies are likewise affected by working time debits or insufficient working results. For these reasons health management is a precautionary object of managerial attention. leaders have to mind the improvement of job security, of working place and methods, of regulation of working hours, of division of labour, of manual work-saving machinery, etc.

The market economy is open to a multitude of talents, individual aims and life-style endowment. Moral disciplines have become in the meantime an extraordinary business case which releases creativity, enlarges solutions across joint cognition process and enhances solidarity holding together. Employers and employees do not only inspire each other by mutual consent, but they can turn off personal errors by intensive exchange of experience.

To cut an extensive invitation for social responsibility short, it is to record that an earnest leader with vision, inspiration and integrity illustrates a personality who persistently verifies how the matter stand with business ethics.
ABSTRACT

In this article we make comments on the EU Commission’s Review on “Small Business Act for Europe” which was published in February 2011 and which is the official viewpoint of the EU concerning the progress made in the implementation of SBA on European and national levels. As we have already emphasized in previous articles, for historical reasons SMEs of the new Member States had to start from a backward position, among others that is why we need a differential and more sophisticated approach for the SME policy. From the point of view of the needs of Hungarian SMEs we comment on the Commission’s Review on “Small Business Act for Europe”.

Key words: competitiveness, SMEs, policy making, access to finance, national interests

JEL Code: F15, L26, M16, M2

INTRODUCTION

In our previous articles we have analyzed the basic document: “Small Business Act for Europe”. (Borbás 2009, Borbás-Kadocsa 2010). Other authors examined different aspects of SME’s position. (Horváthová 2009, Maková 2008, Mikusová 2008, Mustafa-Michelberger 2005) In February 2011 the Commission launched its new document: Review on the “Small Business Act for Europe”. In the present paper we comment on the statements of the Commission from the viewpoint of the Hungarian SMEs.

COMMISSION’S POSITION

Commission states that the “Small Business Act” for Europe (SBA), provides a comprehensive SME policy framework, promotes entrepreneurship and anchors the “Think Small First” principle in law and policy making to strengthen SMEs’ competitiveness.

In its review EU Commission presents an overview of progress made in the first two years of the SBA, and sets out new actions to respond to challenges resulting from the economic crisis.

In the Commission’s view the implementation of Small Business Act is progressing steadily, but more needs to be done. EU’s main focus was, and remains, structured around three areas: ensuring access to finance, taking full advantage of the Single Market and smart regulation.

Based on the first report on the Commission’s and Member States’ measures to implement the SBA which was published in December 2009, in which EU Commission accessed the results and determined how and to what extent the EU and Member States have implemented the SBA.

In its assessment in which Progress made by the European Commission was focused the Commission declared that businesses with a turnover of less than €2 million may benefit from an optional cash accounting scheme which makes it possible for them to delay accounting for VAT until they receive payment from their customers. At the moment a vast majority of Hungarian enterprises are complaining about this kind of problem, but the Government is against this particular solution for mere budgetary reasons. According to the opinion of reliable experts, it would mean around HUF 100 billion extra burden on the shoulders of the central government to introduce this solution. On the other hand it could ease the financial position of many of the SMEs in Hungary, mostly the most sensitive micro enterprises.

The Directive to combat late payment adopted by the Council in January 2011 requires public
authorities to pay within 30 days and sets an upper limit of 60 days for business to business payments, unless businesses expressly agree otherwise and if it is not grossly unfair to the creditor. Member States are invited to implement the Directive without delay. In addition, the Commission has begun to use an SME test in its impact assessments. The implementation of these rules would solve at least partly the problem of so called “chain owing”. The vicious circle originated basically from the non-payment of government bodies. If they paid within 30 days, the situation could turn to much better. As far as non payment for business to business is concerned, government should make serious efforts and effective measures to force big multinational companies to refrain from forcing smaller ones to accept 90 or sometimes 180 days period for payments.

As far as the SMEs access to finance is concerned the EU Commission states that “To improve SMEs’ access to finance, financial instruments within the Competitiveness and Innovation Framework Programme (CIP) continue to facilitate venture capital investments and provide guarantees for lending to SMEs. Microenterprises represent 90% of the over 100,000 SMEs that have benefited so far from the CIP financial instruments. A further 200,000 SMEs are expected to benefit by 2013. On average, each SME that is granted an agreed loan in the EU creates 1.2 jobs” Based on our survey, asking SMEs about the obstacles because of which they are not able to grow in an acceptable speed, we have to state that the kind of financial instruments Commission proposes, most of the Hungarian enterprises said definite “no”. Mostly micro entrepreneurs does not consider venture capital as a solution for their growth problems. Among others, that is why differential approach is needed from both EU and national sides to be able to find appropriate solutions. It is a positive sign that in this document EU Commisssion emphesizes severl times the need for differential accessment of the companies by sizes.

According to the review entrepreneurship takes its place in the new innovation policy. In this area much has to be done, it is also true that Hungary made considerable efforts. E.g. the "European SME Week" which was continued and provided a pan-European platform with more than 1,500 events and 3 million participants was a success story in Hungary, too. We do not have enough experience concerning Erasmus for Young Entrepreneurs’ programme, launched in 2009. But some progress can be recognized in fostering cross-border networking and business cooperation with experienced entrepreneurs. It is also a kind of success that out of the 250 successful female entrepreneurs who form the European Network of Female Entrepreneurship Ambassadors, Hungarian group is very active.

The Commission has put entrepreneurs and SMEs at the heart of its innovation and research policy. Its aim is to remove the remaining barriers to "bringing ideas to market" and promoting entrepreneurial mindsets among students and researchers. In this area very few progress can be recognized among Hungarian stakeholders. The diverse interests should be taken in fewer hands. In lack of cooperation any efforts from the Commission side which intends to support internationally competitive clusters, bringing together large companies and SMEs, universities, research centres and communities of scientists and practitioners to exchange knowledge and ideas would remain mere dreams.

As it is well known, but refused by some of influential decision makers and researchers, Hungary’s key competitive advantage is the outstanding quality of its soil and traditions of agriculture. Cohesion Policy programmes and the European Agricultural Fund for Rural Development (EAFRD) are both key means of turning the priorities of the SBA into practical action on the ground while ensuring complementarity between EU, national and regional support.

Further investment should encourage regions, to find specific niches in the innovation landscape, based on ‘smart specialisation strategies’. The new, recently launched for public discussion, Hungarian Plan for the Improvement of the Countryside fits into these programmes and entirely adopts EU requirements.

EU Commission separately access the developments in the Member States in the area of SBA implementation.

Progress in improving the business environment is considered to be slow, although all Member States have acknowledged the importance of a rapid implementation of the SBA, but the approach taken and the results achieved vary considerably between Member States.

While, among others, Hungary adopted national targets for reducing administrative burdens, we could not effectively reduce them. In case of SME Test we also failed, it did not become integral part of our national decision making approach.

In EU Commission’s view, access to finance has improved but the challenge remains in the hands of the Member States. We are listed among the ones who have created a "credit ombudsman", and new support programmes for SMEs and have started to promote the European Code of Best Practices in order to facilitate
SMEs’ access to public procurement. Although not listed by names, we are also among the Member States who made good progress in making it cheaper and faster to start up a company. “The average time and cost to start up a private limited company in 2010 was 7 days (12 days in 2007) at a cost of €399 (€485 in 2007)."

NEED FOR FURTHER ACTION

EU Commission stated that “Much has been achieved since the adoption of the SBA. The Commission has been faithful to commitments and implemented most of the measures promised. Member States, on the other hand, present a patchier record. For the SBA to achieve its objective of an SME friendly economic policy, it is important to ensure that the actions to which the EU and Member States committed themselves at the time of its adoption are fully implemented. On this basis, the SBA Review proposes a set of new actions aiming to respond to the challenges resulting from the economic crisis, and further developing existing actions in line with the Europe 2020 strategy, in the following areas:

• making smart regulation a reality for European SMEs,
• paying specific attention to SMEs’ financing needs,
• taking a broad-based approach to enhancing market access for SMEs,
• helping SMEs to contribute to a resource-efficient economy, and
• promoting entrepreneurship, job creation and inclusive growth.”

CONTRADICTIONS OF THE EU’s SME POLICY IN THE MIRROR OF THE SMALL BUSINESS ACT AND ITS REVIEW

Although the Commission emphasizes the necessity of the differentiated treatment of enterprises by sizes and profiles, the effect of this approach would be bigger if at least we could find the appropriate place of the category of small and medium sized enterprises.

The SME sector is so broad, it includes so many firms from self employed sole entrepreneur to the medium sized companies with huge export capacities on EU levels, that it is basically impossible to handle them as an overall category either on scientific or political levels. One can say that clarifying this question should not be made in SBA but in scientific and political debates independently.

The reviewers were in trouble when they drafted the text, because of the lack of clearence. Probably that is why once they wrote about the necessity of comprehensive and unified regulation framework while later elsewhere they emphasized the importance of a differentiated approach. Through domestic eyes it is a pivotal point of the EU’s SME policy that differences between new and old member states were absolutely left out of consideration. taking into account the principles of the community we could even say that expressing the differences or even emphasizing them in EU documents, it could be considered as a kind of discrimination. In contrary to this, on the basis of our experience in the transition period after socialist era, it seem to be inevitable to use differential approach, it is high time we concentrated on real problems instead of ideologically based pseudo ones.

The material of the Commission strictly concentrate on financial problems. It is in accordance with the entrepreneurs’ view. In my opinion the Commission’s proposals do not bring us closer to the solution. The offered therapy seems to be useful for only a minority of the entrepreneurs. On one side, as a result of the robust role of the European Investment Bank, medium sized enterprises may earn favourable solutions. On the other side their participation in microfinancing can not easily be justified.

Identification from EIB’s side can not be expected and observed. Risk capital and mezzanine financing do not serve the interest of the firms, but it is much more favourable for the financing institutions. Much, perhaps too much, is expected from the improvement of the business environment. No doubt, without the improvement of the elements of the business environment, the chances of the firms for long term survival reduced and the propensity for entrepreneurial activity weakens.

Quick registration of the new firms, the spreading of e-envoicing system etc. may really amend framework conditions, but do not create markets. Mainly in case of microfirms, the system may work in a disfunctional way, and loose circumstances may encourage irresponsible founding of new enterprises endandering previous savings of families. In connection with the above, we have to refer to the fact that SBA
intends to help self-employment as much as possible. Our domestic experiences put us on guard. The privatization process at the beginning of 90’s, followed by wave of closing down factories, created a huge amount of business compulsions, without effective entrepreneurial talent and propensity. Many of these businesses went bankrupt and now, during the global crises, lots of previous employees are forced to become self-employed. The review document of the Commission seems to forge a virtue out of the above mentioned fact.

In the literature there are well defined traits which enable people to become an entrepreneur. In my opinion when forming community programs, these elements should be taken into consideration. Small Business Act considers public procurement and via this free access to public procurement markets overseas as a kind of panacea. The majority of expectations and planned actions are connected to this. Without denying the good intentions, taking into consideration the difficulties of the accessing to the public procurement of SMEs, it is worth drawing the attention to the fact, that public procurements are the hotbed of corruption. If it exists, we can accept that it is very important that SME’s can rip as big part as they can out of these opportunities. Naturally possibility do not automatically mean the effective making use of the possibilities. Companies of developed Western European countries have much better chances to penetrate into other countries, such as our country’s, markets. When designing domestic regulation, this aspect should not be left out of consideration.

In its preface SBA touchingly depicts the social and economic importance of family businesses. I agree with every word of this short appreciation. In contrary to the above, there is no concrete word in the text about possible measures improving the position of family businesses. The review document does not evaluate their performance at all.

The basic document wants to promote SMEs’ participation in global value chains. If the final goal is simply this, no wonder that beyond fine words, no energy remained for family business. We can repeatedly say, these are no essential factors which would hinder national policy makers to take, on their own level, the issue of family business more seriously. Both the basic and the review document put strong focus on fast growing innovative enterprises. The number of this kind of firms is obviously relatively low in less developed countries in comparison with the stable Western European market economies. In my opinion for these “gazelles” in the circles of political economists and economic researchers the expectations are too optimistic.

We have to count with the fact that financially strong big companies and risk capitalists are hunting for these gazelles. Because of this, sooner or later, the original owner loses control over his „child” . What is perhaps more important, they easily land on an offshore territory curtailing domestic state budget of future tax incomes. In other words, it is a specific reflection of centrum-periphery relations. it would be interesting and important to examine the balance of payments of gazelles through their life-cycles. How much do they pay into our common budget and how much do they get as a subsidy in comparison with other non-gazelle SMEs. All in all, it would be worth revising over views and hopes connected to the working off our handicaps. SBA repeatedly and thoroughly analyses the possible ways of penetrating into other markets. The texts based on the mainstream approach of „free market” argumentation, exclusively prefer the offensive behaviour, while in any kind of competition, it is at least as important to defend existing markets, as to be able to penetrate into new ones.

Defending markets is considered to be, without further considerations, a blasphemy. With modest sociological preparedness, it is easily perceptible, that protection of local markets is of vital interest of local communities. If doors are not entirely opened for stronger competitors, local communities have the chance to survive for the long run. The example of Hungary and many other countries around in their transition period, and of course many other countries all over the world,prove how quickly can local communities collapse and lose cohesion if their vital resources, activities and markets are controlled external forces(owners). These „side-effects” could be calculated on European SMEs’ desired external markets,too. It is not at all self-evident, what’s more experiences prove the opposite, that the products which arrive instead of local ones, have better quality. Mainly in case of foodstuffs, we have to face hurtful and shocking examples. In many cases poor quality oodstuffs, after travelling hundred of kilometers, backed by sophisticated marketing tricks and low prices, displace the local products. Basic competitive advantage is not quailty and effectiveness, but the ability for externalizing costs. Surprisingly in this ‘competition’ not the local firms enjoy privileges at their authorities, but the newly appeared international ones. That is why it would be important that domestic regulation should focus on he maintenance of the domestic markets and through this it could hinder sweeping-out of incomes.
If value chain is closed locally, at least not too far, the locally created incomes may stay in the country, and the possibility for tax payment significantly rises. If national governments, in our case Hungarian government, used subsidies for the maintenance of their own existing domestic markets, this kind of activity is not more negative than subsidizing the penetration of their SMEs into new foreign and uncertain markets. Those who had been successful locally and could satisfy real needs, from social point of view acted responsibly. This kind of behaviour is eminently supported, at least in its documents, by the EU. If the above mentioned values are attacked from outside, it can be considered as legitimate self-defence and protection is acceptable and rational.

Penetration into foreign and uncertain markets is much more risky than the average. SBA calls several times for penetration into these markets. Most of SME’s are unable to stand these risk premiums. A part of the risks could be taken over by the government, even SBA offers such kind of solution. We should think it over if it is worth encouraging SMEs, without making differences, for this risky behaviour? To my mind government should make it clear through regulations, which is the narrow strata of entrepreneurs in Hungary and other less developed countries, which can take part in foreign trading activities with the hope of success. Others should not be tempted for such an adventure.

Among researchers there is a need for clarifying discussions. In itself export activity should not be handled as a value. It has sense if all the necessary financial and material conditions are given, and it couples with net inflow of incomes. When EU Commission laments over European SMEs’ low export turnover, it is only 8% average, but micro firms produce only 7%, which is by far less than multinational company’s 28%, it is clear what kind of thinking is behind. Although, according to my best knowledge, there is no objective reference base for the desirable, acceptable or reasonable level of exports, EU Commission criticizes SMEs as a single block.

For developing useable export orientation programs, we can recommend that deep, sophisticated analysis should be carried out on sectoral, regional and professional levels. In other words, in the same manner as EU Commission desired in SBA. It is important to note, that no sectoral approach can be observed in Commission’s materials.

It is not easy to imagine a whole continent in which leading institutions, responsible decision makers and simple residents live without commonly, openly expressed and confessed identity and vision for the future. Based on this, there should be a comprehensive concept concerning the structure of the economy with a certain mobilizing force. I could not read out such a concept from the SBA. For the SME sector, clear guidelines could help. Such a compass would be even more useful for the SMEs of the newly accessed countries. In possession of the guidelines SMEs could more easily meet the expectations as far as forming networks and clusters are concerned. If we accept the top-down approach in case of clusters and networks, although they are typically bottom-up creations, we can not oppose structural policy on EU level.

THE HUNGARIAN INTEREST

From the point of view of the Hungarian Small- and Medium Sized Enterprises which are the most important actions? What government actions should be made and should be avoided?

- Only a few of the Hungarian SMEs are able to compete on the EU markets and abroad. Differences, in accordance with EU proposal, between micro-, small and medium-sized enterprises need to be recognised and be taken into account. Enforcing competition is not our interest without any further consideration.
- Meeting the plans of the EU, specific measures such as reduced fees or simplified reporting obligations should be envisaged, because the option to implement these types of measures is left to the Member States.
- Avoidance of ‘gold plating’, i.e. exceeding the requirements of EU legislation when transposing Directives into national law is also essential, we have lots of best practices in this field.
- Simplification is considered to be a major objective. We should join to this effort. by simplifying the transparency reporting and audit requirements for smaller companies.
- Use of E-government solutions should also be supported.
- We should join to new regulatory provisions for financial institutions introduced either at EU level or by the Member States.
• We should join the Progress Microfinance Facility launched by the Commission.
• Government has to combat against unfair commercial practices and contractual clauses.
• Anti-competitive practices, cartels and abuse of dominant position are against not only of the interests of SMEs, but all of us. Strict measures should be implemented.
• Best practices of other Member States should be thoroughly examined and adopted where they are appropriate.
• Promoting entrepreneurship and job creation are the most important initiatives we should join.

In the time of economic crises EU’s proposals for the future development can be considered as basically adequate to the existing problems, although national interests should be taken into consideration. Founders of the EU do this, it is not a shame to follow them.

INTERESTS IN REFORMING EU’s SME POLICY

Studying Small Business Act and its review document reaffirmed my conviction that it is vital interest of the less developed member states, that they, after coordinating their views, should try to deeply influence EU’s SME policy. Taking into account the priorities formulated in EU documents, for me it seems that they mainly serve the interests of and offer solutions for medium sized companies located in developed member states. For them even becoming multinationals is a realistic option. In less developed countries medium sized firms are the relatively weakest type of SMEs.

The way of thinking and the offered trajectory which can be read out of the text is not for the favour of our SMEs. That is why, undertaking conflicts on EU levels, we have to be able to express our interests and find our own ways for SME development. The slavish copying of the patterns and practices of the developed countries do not belong to the fruitful solutions. Academics have to take part in the common efforts.

We have to be able to formulate our usable models which can be the basis of our economic recovery. This process began last year at Győr Roundtable in the framework of ERENET.

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Statue of Sándor Márai in Košice
The world-wide know writer is being remembered by via the Project Culture of Košice - The European Capital of Culture 2013.
Photo by Dr. Antal Szabó ©
TWENTY YEAR IN THE SERVICE OF HUNGARIAN ENTREPRENEURS

ABSTRACT

The paper summarizes the achievement of the Hungarian Regional Foundation for Enterprise Promotion of the Town Székesfehérvár, one of the most effective SME and business support institutions during its 20 year existence. The business service institution started its activities within the PHARE framework provides one of the most successful microcredit program in Europe. The microcredit practice of FEA® relying on this Internet-based service-providing system was included among the five best practices by the scientific committee in the MICROFINANCE GOOD PRACTICES “EUROPE AWARD” 2009. The newest strategy is implemented though the New Széchenyi Plan Consultation Point Network.

JEL code: G21, L84, M13, M16, O12

THE BEGINNINGS

The Regional Foundation for Enterprise Promotion of the Town of Székesfehérvár (Fejér Enterprise Agency) was founded in 1991 by 47 founders with a start-up capital of HUF 5,577,000. Among the founders were the Local Government of Székesfehérvár, the General Assembly of Fejér County, several chambers, banks, enterprises and private people.

Its establishment was enabled by the fact that by winning the tender of the Hungarian Foundation for Enterprise Promotion (MVA) the foundation could join the PHARE enterprise promotion project (Poland and Hungary Assistance for the Reconstruction of the Economy) similarly to other counties, and it could participate in the implementation of the enterprise promotion programmes of PHARE in Fejér County.

Since its establishment, the foundation has been managed by the Board of Trustees consisting of 13 people, headed by Dr Tamás Bódizs. With financing coming from the PHARE project the foundation managed to implement a lot of programmes which efficiently prepared Hungary for the integration in the European Union and the economic changes.

SERVICES

Conforming to the requirements of the PHARE programme the foundation opened its enterprise promotion office and provided the following services:
- advisory services
- provision of information, database
- the creation of consultation points and regional offices
- assistance in obtaining financial sources
- facilitating local business relationships, organizing trade fairs
- the creation and launch of the microcredit system
- trainings
- seeking foreign capital, investment promotion

Dr Tamás Bódizs
President of the Board of Trustees
Mainly due to the financing of the European Community and the Hungarian government as well as the increased demands of the starting market economy these initial programmes achieved spectacular results.

It was then that the first modern office block of Székesfehérvár (Trade Centre in Budai street) was built, the creation of the third industrial park of the country was started and the arrangements for setting up the Városkapu Industrial Park began with the participation of the foundation. The foundation also published several studies in the English language, and organized conferences to promote investment in the region.

The Siker Vállalkozói Központ (Success Entrepreneurial Centre) set up by the foundation provided book-keeping services and prepared loan applications for enterprises. The Centre also prepared several promotion studies for the region.

The foundation organized Entrepreneurial Days and Entrepreneurial Balls in Székesfehérvár and also participated in the organization of Car Festivals. With the help of external financing it assisted several enterprises to present themselves in international trade fairs.

The advisory services, the adult training activities as well as microcrediting have provided help and support to thousands of clients in the past twenty years.

THE FOUNDATION AND THE LOCAL GOVERNMENT OF SZÉKESFEHÉRVÁR

The foundation has a traditionally good relationship with the local government of Székesfehérvár. Within the scope of the co-operation the foundation launched the investment promotion activity of the town, participated in the development of the strategy for economic development and the writing of applications of development purpose. Also, the foundation organized the language training of the civil servants of the mayor’s office.

Our most successful joint programme is the local microcredit programme developed and launched in addition to the Phare Microcredit Programme. Uniquely, these programmes offered an alternative financing opportunity wishing to attain local social purposes for micro entrepreneurs. The IBM Restart Microcredit Programme applied as a tool to tackle the crisis caused by the closing down of the IBM factory in 2003 in Székesfehérvár was such a local initiative launched by the foundation.

The microcrediting rules of procedure of Székesfehérvár served as an example for the local microcredit programmes that have been extended country-wide. The local microcredit programmes of the Hungarian Microfinance Network are operated in accordance with the rules and procedures elaborated by the foundation, and their operation is based on the information technology background developed by the foundation. The legal regulatory framework – elaborated by the foundation – providing the legal background for the operation of the programmes has become an example for other Western European countries as well.

As a result of the co-operation between the local government of Székesfehérvár and the foundation, a new loan product was born within the scope of the New Hungary Microcredit Scheme in 2009. Owing to this loan product the entrepreneurs of Székesfehérvár received loans for development purpose on the best interest conditions (2.99%).

CHANGING TIMES NEW CHALLENGES

With the termination of the Phare and state financing, the operating conditions of the foundation have changed significantly. Sustainability has become a serious issue. The foundation has changed its scope of activities, organizational structure and new enterprise promotion strategy
in line with this requirement, in which microcrediting plays an important role.

NEW STRATEGY  FOCUS ON SUSTAINABILITY AND INNOVATION

In addition to the continuous development of the financial services, training and information provision also play an important role in the activity of the foundation. In conformity with the needs and demands of the new generations, the emphasis has shifted towards advanced Internet-based technologies. Owing to the change of approaches and continuous development, the foundation has created a complex Internet-based service providing system in co-operation with its IT partner, Monitor and CREDINFO Kft. The system provides unique services for Hungarian entrepreneurs free of charge. These services include the possibility to submit loan applications and to prepare a financial analysis on the basis of the figures of the abridged annual accounts online. It has a company database with business partner search function, credit calculator, credit rating function, and enterprises may present their activities on a micro-site (www.rva.hu; www.mvfportal.hu; www.credinfo.hu).

In order to teach entrepreneurial, financial and economic knowledge at schools, the foundation has created and operates a portal together with its IT partner (www.vallalkozastan.hu), which can be used as an educational tool.

The representatives of the foundation and the Regional Education and Innovation Centre of the Technical College of Budapest (ROIK) (currently Alba Regia University Centre of the University of Óbuda) and Stephen I Secondary School signed an agreement in 2009, according to which the organizations will start using the system in the teaching of financial and economic knowledge at the school. The system provides practical help to acquire financial and economic knowledge at both secondary and advanced level.

Opportunities provided by the system: learning the use of the Internet-based online loan application system in practice, preparing financial analysis on the basis of the figures of the abridged annual accounts, preparing business plans. Internal communications system for the subject teachers and trainers using the system to exchange working methods, and a continuously expanding task pool for problem-solving is available for both students and teachers.

The system may be used free of charge by all educational institutions and teachers dealing with financial education.

INNOVATION AND INTERNATIONAL RECOGNITION

The microcredit programme seems to be the most successful programme of the past twenty years. During this period the foundation has handled more than 4,000 loan applications and granted more than 4.3 billion HUF to nearly 2,200 entrepreneurs in Fejér County. Currently its portfolio exceeds 1 billion HUF.

In addition to being popular with entrepreneurs, the programme has won significant international reputation and recognition due to the innovative developments. The microcredit practice of FEA relying on this Internet-based service-providing system was included among the five best practices by the scientific committee in the MICROFINANCE GOOD PRACTICES EUROPE AWARDS 2009 announced by the Giordano Dell Amore Foundation and the European
Microfinance Network. The foundation received this significant professional appreciation ‘in recognition of the contribution in advancing the microfinance best practices frontier and in introducing innovative and valuable elements for the economic and social development of the microfinance clients’.

There is great international interest show towards the developed Internet-based technology. The foundation has had visitors from the Netherlands, Germany, France, Italy and Norway to study the system. The representatives of the foundation were asked to present the technology in Barcelona, Spain and at a big international conference in London. The introduction of the technology is under way within the scope of a pilot project in Norway.

CURRENTLY AVAILABLE SERVICES

The foundation based on its experience of two decades in enterprise promotion and microcrediting – keeping in mind its new operational and enterprise promotion strategy – has undertaken an important role in the strengthening of the Hungarian entrepreneurial sector and the Hungarian economy.

It was the first to announce the new Széchenyi Microcredit and the Microcredit loan products combined with non-refundable support within the scope of the new Széchenyi Plan and made their application possible via the Internet.

Despite the fact that all the information is available on the Internet, by joining the New Széchenyi Plan Consultation Point Network the foundation opened its new office on the ground floor of Trade Centre office block in Budai street, Székesfehérvár. The purpose of the new office is to support those requiring personal information about the New Széchenyi Plan and other support available for enterprises.

As an official financing institution of the new programmes the foundation awaits the applying enterprises with a HUF 4 billion refinancing credit limit. In connection with the new Széchenyi Plan the consultation point provides free advice on how to apply, and prepares and monitors application for a fee.

In addition to the financial services the foundation, as an accredited adult education organization, will launch special language courses (logistics, finance, law). Enterprises may also turn to the foundation with their translation, foreign language correspondence or international business partner mediation needs.
GROSS NATIONAL HAPPINESS

ABSTRACT

The paper summarizes the philosophy of the Gross National Happiness - GNH - coined by Bhutan's King Jigme Singye Wangchuck, a new economic indicator for economic development, which is a complex holistic indicator more suitable for evaluation of the development of any society that GDP and GNP. The world's most recognizable leaders like the French President and the UK Prime-Minister are considering to evaluate their national well-being using this methodology. The UN General Assembl called Member States to undertake steps that give more importance to happiness and well-being in determining how to achieve and measure social and economic development.

JEL Code: D63, H00, I31, O00, Q3

The Gross Domestic product - GDP - is the most widely-used measure of economic activity. As a main economic indicator GDP has many limitations long know to economists. The commonly used statistics may not be capturing some phenomena, which have an increasing impact on the well-being of citizens. For example, traffic jams may increase GDP as a result of the increased use of gasoline, but obviously not the quality of life. As highest the criminality in a country, it again leads to increase of the GDP including expenditure for jail and other penalit operations. Moreover, if citizens are concerned about the quality of air, and air pollution is increasing, then statistical measures which ignore air pollution will provide an inaccurate estimate of what is happening to citizens’ well-being.

"At present, we are stealing the future, selling it in the present, and calling it GDP. We can just as easily have an economy that is based on healing the future instead of stealing it. Whenever we exploit the earth, we exploit people and cause untold suffering. Working for the earth is not a way to get rich, it is a way to be rich.”

Environmental activist Paul Kauken

The term “gross national happiness” was coined in 1972 by Bhutan’s King Jigme Singye Wangchuck, who has opened Bhutan to the age of modernization, soon after the demise of his father, King Jigme Dorji Wangchuk. He used the phrase to signal his commitment to building an economy that would serve Bhutan’s unique culture based on Buddhist spiritual values.

"Gross National Happiness is far more important than Gross Domestic Products.”

His majesty Jigme Singye Wangchuck

In his royal address of 17 December 2006, His Majesty Jigme Khesar Namgyel Wangchuck proclaimed that fulfilling the vision of Gross National Happiness (GNH) will be one of the four main responsibilities of his reign. His Majesty underlined that the ultimate goal for social, economic and political changes in Bhutan is fulfillment of GNH. According to the address, a GNH society means the creation of an enlightened society in which happiness and wellbeing of all is the Bhutan ultimate purpose of governance.

Gross National Happiness (GNH) measures actual well-being of a country’s citizens rather than consumption, accounting more fully for social, human and environmental realities. Its premise is that basic happiness can be measured since it pertains to quality of nutrition, housing, education, health care and community life. By contrast, the conventional concept of Gross National Product (GNP) measures only the sum total of material production and exchange in any country. The four pillars of the GNH are the...
The following:
1. Promotion of equitable and sustainable socio-economic development
2. Preservation and promotion of cultural values
3. Conservation of the natural environment
4. Establishment of good governance.

The fact that gross domestic product needed to be channelled towards happiness was quite new in the 1970s. GNH has since attracted significant global attention. In the summer of 2011, the United Nations General Assembly passed a non-binding resolution noting the pursuit of happiness as a valuable international and national aspiration.55

According to GNH, true development of human society taken place when material and spiritual advancement complements or reinforces each other. The philosophy of GNH attempts to harmonize economic progress with the spiritual and emotional well-being of the people. But than believes that the holistic development of the individual and society can be achieved only through a sustainable balance between the economic, social, emotional, spiritual and cultural needs of the people. Development initiatives based on GNH values are therefore not restricted to the present population of any given society; it includes future generations and other societies.

At the GNH International Conference in 2004, participants adopted a declaration that said that the facilitation of GNH should be accompanied by “the development of indicators that address human physical and emotional well-being. They must be capable of use for self-evaluation, so that individuals and groups may gauge their progress in the attainment of happiness. In addition, indicators should facilitate full accountability, good governance, and socially constructive business practices, both in day-to-day life and in long-range policies and activities.”56

GNH has caught the eye of some of the world’s most recognizable leaders, including David Cameron and Nicholas Sarkozy. Both Sarkozy and Cameron announced plans to begin measuring GNH in both France and England. Sarkozy believes in GNH so much that two years ago he enlisted the help of Joseph Stiglitz and Amartya Sen, two Nobel prize-winning economists, to begin formulating how they could best calculate national happiness. Cameron announced plans in 2010 to have the first report on GNH in England complete in 2011.

Cameron made a fascinating point in 2010 when he stated that despite enormous growth in the average living standards in the U.S. and Britain in the last 50 years, the average happiness has not increased. His statement makes the practice of only measuring a country’s success by its GDP seem narrow and constricted. I truly wonder what the U.S.’s report on GNH would look like and what would happen if the government put as much emphasis on improving GNH as GDP.

In February 2008, the President of the French Republic, Nicholas Sarkozy, unsatisfied with the present state of statistical information about the economy and the society, asked, Joseph Stiglitz (President of the Commission), Amartya Sen (Advisor) and Jean Paul Fitoussi (Coordinator) to create a Commission, subsequently called “The Commission on the Measurement of Economic Performance and Social Progress” (CMEPSP). The Commission’s aim has been to identify the limits of GDP as an indicator of economic performance and social progress, including the problems with its measurement; to consider what additional information might be required for the production of more relevant indicators of social progress.57

According to the study trends in citizens’ material living standards are better followed through measures of household income and consumption. Indeed, the available national accounts data shows that in a number of OECD countries real household income has grown quite differently from real GDP per capita, and typically at a lower rate. The household perspective entails taking account of payments between sectors, such as taxes going to government, social benefits coming from government, and interest payments on household loans going to financial corporations.

56 http://www.grossinternationalhappiness.org
The study makes an attempt to determine the well-being, which is multi-dimensional. Based on academic research and a number of concrete initiatives developed around the world, the Commission has identified the following key dimensions that should be taken into account. At least in principle, these dimensions should be considered simultaneously:

- Material living standards (income, consumption and wealth);
- Health;
- Education;
- Personal activities including work;
- Political voice and governance; vi. Social connections and relationships;
- Environment (present and future conditions);
- Insecurity, of an economic as well as a physical nature

The Commission regards its report as opening a discussion rather than closing it. The report hints at issues that ought to be addressed in the context of more comprehensive research efforts. At the national level, round-tables should be established, with the involvement of stakeholders, to identify and prioritise those indicators that carry potential for a shared view of how social progress is happening and how it can be sustained over time.

THE NINE DIMENSION OF GNH

Dr Karma Phuntsho, Research Associate at the department of Social Anthropology at the University of Cambridge and Editor of the Oxford Journal for Buddhist Studies delivered a paper on “The Journeys of the Thunder Dragon: Bhutan’s transition from a medieval country to a postmodern happiness state” during the inauguration event of the Hungarian Bhutan Friendship Society in Budapest in Mid September 2011. He summarized the 9 dimenzions of GNH as following:

1. PSYCHOLOGICAL WELL-BEING
   Assesses the degree of satisfaction and optimism in individual life. The indicators analyze self-esteem, sense of competence, stress, spiritual activities and the prevalence of positive and negative emotions.

2. HEALTH
   Measures the effectiveness of health policies, with criteria such as self-rated health, disability, patterns of risk behaviour, exercise, sleep, nutrition, etc.

3. USE OF TIME
   The use of time is one of the most significant factors in quality of life, especially time for recreation and socializing with family and friends. A balanced management of time is evaluated, including time spent in traffic jams at work, in educational activities, etc.

4. COMMUNITY VITALITY
   Focuses on relationships and interactions in communities. Examines the level of confidence, the sense of belonging, the vitality of affectionate relationships, safety at home and in the community, and the practice of giving and volunteering.

5. EDUCATION
   Takes into account several factors such as participation in formal and informal education, development of skills and capabilities, involvement in children’s education, values education, environmental education, etc.

6. CULTURE
   Evaluates local traditions, festivals, core values, participation in cultural events, opportunities to develop artistic skills, and discrimination due to religion, race or gender.

7. ENVIRONMENT
   Measures the perception of citizens about the quality of their water, air, soil, forest cover, biodiversity, etc. The indicators include access to green areas, system of waste management, etc.

8. GOVERNANCE
   Assesses how the population views the Government, the media, the judiciary, the electoral system, and the police, in terms of responsibility, honesty and transparency. It also measures involvement of citizens in community decisions and political processes.

9. STANDARD OF LIVING
   Evaluates individual and family income, financial security, the level of debt, employment security, the quality
of housing, etc.

**Thangka** - a Tibetan silk painting with embroidery - portraying the mythical four animal friends, gift from Dr. Karma to the Hungarian-Bhutan Friendship Society.  

The UNDP 2011 National Human Development Report highlights, that "from a Buddhist perspective, a Bhutanese would understand environment as the four elements of nature (*jung un zhi*): earth, water, fire and air. A balance of these elements is important for a person's wellbeing just as the right balance of these elements is critical for all forms of life to flourish in the environment. Imbalance in the outer environment can impact our collective consciousness negatively, and vice versa. This fits together with environmental conservation as one of the four pillars of GNH.

The ecological diversity and resilience domain of GNH is based on Buddhist principles such as interdependence, respect for all life forms and diversity, in addition to pre-Buddhist culture of worshiping nature. Drawing its strength from past heritage and modern science, it aims to bring about a marriage of tradition and modernity and promotes community-based natural resource management to complement modern institutions and legislation.

GNH includes people in the conservation effort and weighs social and economic welfare at par with ecological concerns. It integrates local customs, culture, beliefs, knowledge and practices of people with scientific knowledge to produce a resilient, practical and equitable natural resource management system. The domain addresses the quality and quantity of both supply and demand of natural resources such as arable land, clean water, air and timber and non-timber forest products. It also looks at emerging environment problems like land, air and water pollution, land degradation, forest fires, waste, fuel wood consumption, chemical fertilizer and pesticide use, and climate change.

The creation of a sustainable society is one important goal of GNH, and the sustainability of any viable community depends on how the natural environment around it is conceptualized, understood and appropriated. The community should not thrive at the expense of the environment, and vice versa; both should flourish side by side.

Some of the core values of GNH promoted through the domains of culture, community vitality and ecology provide opportunities to mitigate and adapt to climate change in a way that integrates all aspects of the ecosystem."  

The UNDP Report sets a high value of Bhutan's development. "Advances in income drive Bhutan's human development progress. Economy grew at an average of 8.7% a year with inflation largely contained at 7% over the period 2005-2010. In the same period, life expectancy at birth increased from 66.3 to 68.9 years. Changes over time in the literacy rate for Bhutan are difficult to estimate, but indications suggest that 45% of adults could read, write and do basic arithmetic in 1994, progressing to 55.5% in 2007. These achievements produce a steady rise in Bhutan's human development index.”

However, the globalization and westernization called for challenges and danger for the conventional Bhutanese society. Already we are eyewitness of changes in attitude to people and life. Dr. Karma pointed to the following signs:

(i) rise of materialistic trends, consumerism, unrealistic expectations, unemployments, job mismatch, substance abuse and gang culture;

(ii) urbanization, individualism, nuclear families, disintegration of social fabrics and community systems, new urban culture and problems of identity.

It is a big questionmark how the King could lead the country to a real "posmodern happiness state".

**CONFERENCE PAPERS**


59 [http://www.bhutan.info.hu/bhutan.info.hu/Kezd%C5%91lap.html](http://www.bhutan.info.hu/bhutan.info.hu/Kezd%C5%91lap.html)

EUROPEAN UNION – UNITED STATES SME BEST PRACTICES EXCHANGE  
(Brussels, 28-29 June 2011)

Joint report

Small and medium-sized enterprises (SMEs) are vital for the EU and U.S. economies and represent critical engines of job creation and innovation. SMEs create over 60% of private jobs in the EU and 2/3 of all new job creations for the last 15 years in the U.S. But the potential of SMEs to promote job growth and innovation can only be fully tapped if our respective policy frameworks create the right conditions for SMEs to compete in the transatlantic market and beyond. SMEs, by their very nature, may face challenges in such areas as export performance, entrepreneurship, access to finance, administrative burdens, access to standardisation, and public procurement - challenges that may differ from the ones faced by large companies.

Therefore, the EU and the U.S. decided at the December 2010 meeting of the Transatlantic Economic Council (TEC) to enhance cooperation in the development of policies that support SMEs and their increased participation in transatlantic and international commerce.

Following-up on this commitment, an SME “Best Practices” conference on 28 and 29 June in Brussels brought together government officials and SME executives from both sides of the Atlantic. The conference was hosted by the European Commission, with active participation by major SME business organisations. It was opened by the SME Envoy Mr. Daniel Calleja Crespo from DG Enterprise and Mrs. Signe Ratso, Director in DG TRADE for Market Access and Industry, for the EU side and by Mr. Thomas White, Deputy Chief of US Mission to the EU, for the U.S. side. After presentations of the EU and U.S. general SME policy frameworks, participants discussed a number of specific topics, including the reduction of trade barriers impacting SMEs, standardisation and regulation, reduction of administrative burdens, environmental challenges and green technologies, access to markets and market access cooperation in third countries, and the new transatlantic online portal on intellectual property.

SMEs are particularly dependent on a local business-friendly environment and easily available services addressing their needs, ranging from streamlined administrative procedures to innovation and financing support measures. In addition, to access attractive third country markets, SMEs rely on a rules-based and fair international trading system, which is being developed in multilateral and bilateral negotiations. National policies play a crucial role in achieving these objectives at the local and international level.

The SME seminar helped each side develop a better understanding of the numerous activities on both sides of the Atlantic to improve the regulatory framework for SMEs and foster SME participation in transatlantic and global trade. The seminar also explored future joint initiatives to assist SMEs. Participants on both sides agreed that the ongoing exchange of experiences can increase the effectiveness of EU and U.S. SME policies and provide opportunities for expanded input from stakeholders, who welcomed the lively discussions and expressed interest in a continuation of the exercise.

In view of the above, the EU and the U.S. agreed to hold a follow-up seminar in Washington D.C., in the autumn, which will revisit certain issues raised at the Brussels event and also consider additional topics, such as regulatory cooperation, access to finance, entrepreneurship, second chance or serial entrepreneurship for entrepreneurs, export promotion and support for SME access to export markets.

Source:  
http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5308&lang=en&tpa=174&displayType=news
Message of the Secretary-General

Every year on the International Day of Peace, people around the world commit to non-violence and to harmony among all peoples and nations.

Peace is our mission; our day-to-day quest.

This year’s theme focuses on the timely issue of peace and democracy.

Democracy is a core value of the United Nations.
It is crucial for human rights.

It provides channels for resolving differences.

It gives hope to the marginalized and power to the people.

But democracy does not just happen; it has to be nurtured and defended.

The world needs you to speak out:

- for social justice and freedom of the press;
- for a clean environment and women’s empowerment;
- for the rule of law and the right to a say in one’s own future.

This year, young people have been on the frontlines for freedom.

I salute the activists and ordinary people for their courage and determination to build a better future.

We at the United Nations will work in common cause to realize our shared aspirations for dignity, security and opportunity for all.

To all those seeking peace, this is your day, and we are with you.

Ban Ki-moon

Source:

HAPINESS SHOULD HAVE GREATER ROLE IN DEVELOPMENT POLICY
UN MEMBER STATES

19 July 2011 – The General Assembly today called on United Nations Member States to undertake steps that give more importance to happiness and well-being in determining how to achieve and measure social and economic development. (Sixty-fifth General Assembly Plenary 109th Meeting: document General Assembly GA/11116)

In a resolution adopted without a vote, the Assembly invited countries to pursue the elaboration of additional measures that better capture the importance of the pursuit of happiness and well-being in development with a view to guiding their public policies. The resolution said the pursuit of happiness is a fundamental human goal and embodies the spirit of the globally agreed targets known as the Millennium Development Goals (MDGs).

Member States also welcomed the offer of Bhutan, which for many years has used gross national happiness rather than gross domestic product (GDP) as a marker of success, to convene a panel discussion on the theme of happiness and well-being during the Assembly's next session, which begins in September.

The resolution notes that the GDP indicator was not designed to and does not adequately reflect the happiness and well-being of people in a country, and unsustainable patterns of production and consumption can impede sustainable development.


Bhutan’s proposal to include “Happiness: towards a holistic approach to development” was made by the Prime Minister at the 65th session of the United Nations General Assembly in New York last year. The adoption of the proposal means happiness has been officially placed on the agenda of the United Nations. It is a fitting tribute to Bhutan’s development philosophy of Gross National Happiness (GNH).

The General Assembly of the United Nations has added Bhutan’s model of Gross National Happiness (GNH) on its agenda to see whether it can be used as a development indicator. In a non-binding resolution, the UN body called on member states to draw up their own measures of happiness based on Bhutan’s GNH principles. The goal is to measure economics not only in terms of production and per capita revenue but also in terms of people’s sense of satisfaction. The resolution was initiated by Bhutan and was co-sponsored by a record of 68 UN member states.

Prime Minister Lyonchhoen Jigmi Y. Thinley described the UN decision as historic for Bhutan, because Bhutan never initiated a resolution during its 39 years UN membership. The resolution is particularly significant as the decision was a major stride forwards by the international community towards a holistic and sustainable development for the entire human society. It will provide an opportunity for the international community to explore alternative measures for addressing well-being and social progress in their national policies and programmes.

SME Envoy's met in Brussels on 13 September 2010 to shape a strategy aimed at freeing the growth potential and competitiveness of SMEs.

Key elements agreed are: making it possible to start a company in 3 days for less than €100, increasing access to finance and public procurement and reducing bureaucracy, including by introducing an SME-friendly test for all new legislation at EU and Member State level. For this purpose, the European Commission and all Member States should introduce a specific SME test before any legislation is adopted. The test should ensure that no new obstacles arise that could hamper the smooth running of Europe’s 25 million small businesses. Twelve countries have already made the SME test a reality, and several more are in the process of introducing it. The SME Envoy’s agreed to implement the above measures in all Member States by September 2012. With these measures Europe is actively strengthening the position of SMEs, which are widely viewed as critical to restoring economic growth.

Background

The national SME Envoys today presented the progress in the national implementation of the Small Business Act for Europe (IP/11/218) and agreed an ambitious action plan at their first meeting in Brussels with Daniel Calleja, the EU SME Envoy. Earlier this year, each EU country appointed an SME Envoy to promote for the interests of small business and ensure that SME interests are not neglected (IP/11/642). There was consensus among SME Envoys and the representatives of the small business community that action over the next 12 months needs to focus on three concrete areas:

Simplifying the business environment and encouraging people to take up the challenge of becoming an entrepreneur. The SME Envoys signed up to the target of making it possible in all Member States to start a business in 3 days at a cost of no more than €100.

Improving SMEs’ access to finance through measures to increase the availability and use of bank loan guarantees for SMEs, together with micro-credit for start-ups and micro companies in particular. In the current situation, access to finance is the most pressing problem for SMEs. Furthermore, it is necessary to increase SMEs’ participation in public procurement contracts. The latest research shows that SMEs secure only 34% of public procurement advertised EU-wide despite their share to the wider economy being 52%.

Ensuring systematically that new legislation will duly take into account the potential implications for SMEs by means of an SME Test, at both European and national level. Alongside the SME Envoys, the SME Test is the second building block of the European Commission’s new governance plan for SMEs.

The SME Test already a reality in almost half of the EU

The SME Test, which is a vital component of the “Think Small First” principle, was first laid down in the Small Business Act (SBA) for Europe adopted in 2008. In 2011, with the publication of the SBA Review, the role of the SME Test was further strengthened.

Slightly less than half of all EU Member States report that they already apply the SME Test. Malta, Slovenia and the Slovak Republic are in the process of introducing it. Four other Member States – Greece, Belgium, Cyprus and Bulgaria - are currently discussing its introduction, while other countries most often take into account the interests of SMEs in regulatory impact assessments despite not having introduced a formal SME test. For instance, Austria has developed a special methodology, including a specific internet tool, which will become obligatory as from 2013. In the Slovak Republic, the SME test is part of all new legislation, and Malta recently drafted a law requiring all proposed legislation to undergo an SME test (as from early 2012) if it is established that the proposal has a potential impact on micro and small businesses. Finally, Finland is examining different ways of evaluating the impact of regulation on small businesses in order to put in place an improved SME test.

Source: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5398&lang=en&tpa_id=0&displayType=news

Madrid, June 2011

World Tourism Day 2011 will be celebrated under the theme Tourism – Linking Cultures, an opportunity to highlight tourism’s role in bringing the cultures of the world together and promoting global understanding through travel (27 September 2011).

“The message on this World Tourism Day is that, thanks to tourism, millions of people from different cultures are being brought together around the world like never before,” said UNWTO Secretary-General, Taleb Rifai. “This interaction between people of different backgrounds and ways of life represents an enormous opportunity to advance tolerance, respect and mutual understanding”.

In 2010, 940 million tourists travelled to a different country, coming into direct contact with tangible – art, monuments – and intangible – music, food, traditions – culture. World Tourism Day 2011 is a celebration of this unique interaction and aims at furthering understanding of the values of cultural diversity.

World Tourism Day 2011 will also draw attention to the importance of preserving and promoting the cultures of the world in all their forms. Culture, which compels millions of tourists to travel and spend, is of immense value in itself, but is also a vital tool for the development of a sustainable tourism sector. As such, it must be thoughtfully managed and protected, as set out in the Global Code of Ethics for Tourism which states that: “Tourism policies and activities should be conducted with respect for the artistic, archaeological and cultural heritage, which they should protect and pass on to future generations”.

“Culture is one of our most precious assets and needs protecting. As we launch World Tourism Day 2011, I call on all people to conduct tourism in a way that preserves and enriches the cultural wealth of the world for future generations,” said Mr. Rifai.

About World Tourism Day

World Tourism Day is celebrated annually on 27 September. Its purpose is to foster awareness among the international community of the importance of tourism and its social, cultural, political and economic value. The event seeks to address global challenges outlined in the UN Millennium Development Goals (MDGs) and to highlight the contribution the tourism sector can make in reaching these goals.

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Source: http://wtd.unwto.org/en
Established by the Hungarian Government, the Hungarian Investment and Trade Agency – HITA – (Nemzeti Külgazdasági Hivatal) commenced its operation as of 1 January 2011. The task of the Agency on the one hand is to encourage foreign companies to invest in Hungary, and on the other hand to support the foreign trade activity of Hungarian small and medium-sized enterprises. HITA is a central agency working under the direction of the Minister for National Economy and an independently operating budgetary institution with its own financial management.

The Agency aims to enhance investor confidence and promote investments primarily in economically disadvantaged areas. Contributing to increased employment, one of the key priorities of the new government programme, by strengthening small and medium-sized enterprises is an aim of utmost importance to the Agency.

The work of the Agency’s central office in Budapest is complemented by six regional branch offices and an international foreign trade professional diplomatic network, which, with their local knowledge and network of contacts support HITA’s investment and export promotion activities.

HITA is managed by Erzsébet Dobos (right), President and Dr. György Kerekes as Vice President.

The Agency consists of six directorates:

- Investment Promotion Directorate
- Business Development Directorate
- Strategy and Network Management Directorate
- Communications and Event Management Directorate
- Legal and Human Resources Directorate
- Financial Directorate

The Investment Promotion Directorate provides information and organises programmes in the interest of encouraging foreign companies to invest in Hungary. The project managers of the sector directorates seek out and maintain contact with potential foreign investors, assist in their decision-making process, and encourage their intentions to re-invest. As part of their activity, they provide company-specific consultancy, attend professional events, recommend locations and organise site visits.

The main aim of the Department of supplier programs is to facilitate supplier relationships between large companies and Hungarian firms, organise supplier trainings with the involvement of large companies and maintain contact with associations, particularly in the automotive and electronics sectors. Their most important aspiration is for Hungarian SMEs to be granted as great a role as possible in the supplier chain of integrators settled in Hungarian.

As part of the one-shop-stop system operated by the Incentives Division, foreign and Hungarian investors receive company-specific subsidy information about Hungarian and EU co-financed programmes. The department, as an intermediate organisation, manages the EKD (investments supported by individual government decision) programme.
The Business Development Directorate consists of the following four departments:

- Knowledge-Based Industries: life sciences, ICT, clean tech, creative sectors, logistics, defence sector
- Technology-based Industries: mechanical engineering: agricultural machinery production, food machinery, mechanical engineering technologies; metal industry, automotive industry, automobile industry: aerospace and space industry, railway, bus, construction, electronics
- Traditional Industries: textile and leather sector, food, wine, wood and furniture sector, paper, printing and packaging sector, plastic and chemical industry
- Enterprise Europe Network

The Strategy and Network Management Directorate coordinates the work of the foreign market network and, by operating the domestic network, assists the business endeavours of Hungarian SMEs and foreign investors. It organises business forums and economic programmes in connection with government delegations travelling to and from Hungary. It takes part in the shaping of medium and long-term foreign economic strategy and cooperates in the preparation of meetings of the Gazdasági Vegyesbizottság (Joint Economic Committee).

The contact details for the Customer Service Department are as follows:

Mailing address: H-1055 Budapest, Honvéd u. 20,
Phone (reception): +36 1 872-6520, Fax: +36 1 872-6699
E-mail: info@hita.hu and website: www.hita.hu,

Source: http://www.hita.hu/Content.aspx?ContentID=aceeb06-9776-4d34-874b-01e7639b61a8

Small and medium-sized enterprises (SMEs)
Erasmus for Young Entrepreneurs

*Erasmus for Young Entrepreneurs* is an exchange programme which gives entrepreneurs who intend to start a business or have recently started one the chance to learn from experienced owners of small businesses in other European Union countries.

The exchange of experience takes place during a stay with the host entrepreneur, which helps the new entrepreneur acquire the skills he/she needs to run a small firm. The host benefits from fresh perspectives on his/her business and gets the opportunities to cooperate with foreign partners or learn about new markets.

The stay is partially funded by the European Union.

Programme goals

Europe needs to boost its entrepreneurial culture and stimulate an environment in which small firms can be created, thrive and expand. European companies should be encouraged to make full use of the opportunities offered by the European market. Erasmus for Young Entrepreneurs can make a difference by:

- increasing the number of start-ups and boosting their resilience;
- fostering cross-border transfers of knowledge and cooperation between small firms,
- helping small firms innovate and go international, and
- creating jobs.

Take part – entrepreneurs

To know more about the practical and financial conditions, please check the programme's website [Erasmus for young entrepreneurs](http://www.erasmus-entrepreneurs.eu/index.php)

Take part – business support organisations

The programme is run locally by business support organisations (Chambers of Commerce, start-up centres, incubators, etc.), which match new and host entrepreneurs.

Your organisation can participate by applying to open calls for proposals.

The Turkish Foundation for Small and medium Business - TOSYÖV - was established in 1989 in Ankara. It is a non-governmental organization that adopts the progress of entrepreneurship and the development model with the private sector; holds the sense of a modern, democratic, secular and social law state; brought the SME notion for the first time into the economic literature as a catchphrase, used today as the ground of economy, growth and development. Carrying on its activities with the mission "increasing the competitive capacity of SMEs by mobilizing the potential of SMEs and their shareholders", TOSYÖV expresses its vision as "being the role model for mobilizing the SMEs and their shareholders".

The Board of Trustees, which initially consisted of 22 members, has reached 251 members within the years. The Board of Trustees consists of personalities, who have contributed with their successful work to the growth and development of the society, The Undersecretary of Foreign Trade, the Undersecretary of Treasury, the Turkish business; along with institutional members such as TOBB, TESK, KOSGEB, TÜBITAK, TTGV, MPM, ISO, ITO, ASO, ATO, ODTÜ, ITÜ, TÖGIAD, TÖGIK, KalDer, Yıldız Technical University, University of Marmara, Bilgi University, Istanbul Commerce University, the Economic Development Foundation and the Invention people Foundation.

Accessible under www.tosyov.org.tr the TOSYUV corporate website was renewed in 2007. It has been prepared taking into account the needs of today's Internet users and the themes interesting for Turkish enterprises. TOSYUV events, relevant announcements and the news can be followed through the web site. It is pity that the web-site does not contains an English version, which could be useful for contribution the Turkish entrepreneur in internationalization and helping foreign entrepreneurs in matchmaking.

On 17 March 2011, Mustafa Kaplan, Chairman of the KOSGEB, the Turkish Small and Medium Industry Development Organization, has announced during the 7th SME Summit in Istanbul the start of a large campaign to support small and medium businesses, or SMEs, and new entrepreneurs. Speaking, Kaplan said SMEs created 78 percent of Turkey’s total employment and 55 percent of the economic added-value as well as actualizing 59.8 percent of Turkey’s total export.

Source:

http://www.tosyov.org.tr/
http://www.hurriyetdailynews.com/h.php?n=0316121759399-2011-03-17
The II International Conference "Public Diplomacy and Youth Volunteering," which will be held at the Palace of Nations (Geneva, Switzerland), 4-5 October 2011. Conference participants will also take part in UN Social Forum activities, including side event “Youth as a Resource for a Sustainable Development” on October 3, 2011 from 13.30 pm to 14.45 pm (Room XXI), additional working sessions on October 6th and cultural program (excursion) on October 7th.

Conference is organized by International Investment Center, NGO in special consultative status with ECOSOC UN. In view of celebration of UN-announced tenth anniversary of International Year of Volunteers (2011) and International Year of Youth (2010-2011), the main objectives of the conference are: development youth volunteerism and public diplomacy, promoting international youth cooperation and Olympic movement, addressing issues of social development and improving intercultural relationships.

The conference participants will be representatives of public and private sector from Russia and EU countries: representatives of International non-governmental organizations, foreign youth associations, Centers of volunteerism, grantmaking foundations, UN officials and high-ranking government officials.

As a result of conference activities will be formed international groups for social projects implementation, aimed at public diplomacy development, efficient technologies and forms of youth volunteering.

The UN Social Forum side event “Youth as a Resource for a Sustainable Development” which will be held on October 3, 2011 from 13.30 pm to 14.45 pm (Room XXI) in connection with the II International Conference "Public Diplomacy and Youth Volunteering.

TOPICS FOR DISCUSSION

• How Declaration on the Right to Development can progress and deepen provision of conditions and opportunities for the development of youth?
• How can education serve as a resource for the development of innovative potential of youth?
• How can health issues become a resource for self-development of youth?
• How can social activity of youth and their participation in the voluntary practices help to develop civil society?
• How can information space become a condition of self-actualization of youth?
• To what extent is youth employment used to build entrepreneurial thinking on local and international level?
• How can socio-cultural potential of youth contribute to sustainable development?

Yours sincerely,
Co-Head of Organizing Committee

IIC President
Andrey Generalov
European SME Week 2011

Coordinated by the European Commission, this campaign promotes enterprise across Europe in line with the Small Business Act for Europe.

It is taking place in 37 countries, so events and activities – national, regional or local – will be as close as possible to existing and potential entrepreneurs.

These events – organised by business organisations, business support providers and national, regional and local authorities – will also enable existing companies to share their experience and develop further themselves.

Last year's European SME Week (2010)

Examples of the 1,500 events that were held across Europe in 2010:

- conference on innovative handicap food processing in Vienna
- Entrepreneur Days events in Barcelona and Valencia
- SME & Entrepreneurship Run in Porto
- Success Flowers awards for Best Women Entrepreneurs in Belgrade
- 2-day Enterprising Lithuania event in Vilnius
- workshop on Female intuition in business in Ravenna, Italy
- awards ceremony for the Most Innovative Business Plan Competition in Skopje, Former Yugoslav Republic of Macedonia
- What can the EU offer my company? – 1-day seminar and exhibition in Stockholm
- 54 SME-related events were held in Hungary

European SME Week 2011 - 3 to 9 October - aims to:

- provide information on what the EU and national, regional and local authorities are offering as support to micro, small and medium-sized businesses;
- promote entrepreneurship so that more people, and in particular younger ones, seriously consider becoming an entrepreneur as a career option;
- give recognition to entrepreneurs for their contribution to Europe's welfare, jobs, innovation and competitiveness.

Registration for the SME events can be made between 15 July 2011 to 31 December 2011 via Internet at http://ec.europa.eu/enterprise/intsub/sme-week/index.cfm?FuseAction=sme.addEvent&lng=en

Source: http://ec.europa.eu/enterprise/initiatives/sme-week/about/index_en.htm
PUBLICATIONS - NEWS

ISO 26000: NORMAPME User Guide for European SMEs available

Corporate Social Responsibility (CSR) is the ongoing commitment of enterprises to sustain equilibrium between contributing to their economic development, and assisting sufficiently to society at large. Companies can benefit greatly from this as it leads to higher motivation and productivity amongst employees, greater economic success due to the ameliorated relations between customer and supplier, and acts as an acknowledgment of commitment.

The ISO 26000 Guidance on Social Responsibility is a first international attempt to harmonise the socially responsible behaviour of enterprises. However, standardisation of CSR proved to be a difficult task as it cannot be applied equally to all types of organisations. Therefore, NORMAPME created a specific User Guide for European SMEs, in order to help them understand and implement ISO 26000.

NORMAPME (http://www.normapme.eu/) has produced an SME User Guide on ISO 26000 Guidance on Social responsibility. This user guide will serve to breakdown and interpret the parts of ISO 26000 that are relevant for European SMEs.

Guidance on social responsibility, not a standard

ISO 26000 Guidance on Social responsibility was officially launched by the International Standards Organisation (ISO) on November 1st 2010. It is a guidance paper, not a standard, meaning that it is not intended to be used for certification purposes or in contracts. However, ISO 26000 is a first international attempt to harmonise the socially responsible behaviour of enterprises. Over 400 experts from all over the globe have worked for six years on the document that aims to offer guidance on social responsibility to all types and sizes of organisations.

NORMAPME, as the representative of European SMEs, participated throughout this process. While progress was made in reducing the document’s length and complexity, the final document remains lacking in its relevance for SMEs.

A butcher is not a chemical factory

NORMAPME objected that socially responsible behaviour depends very much on the culture and society in which the enterprise operates. Moreover, Corporate Social Responsibility (CSR) does not apply equally to all types of enterprises. For example, a butcher does not have the same impact on environment as a chemical factory. NORMAPME has repeatedly expressed that CSR cannot be entirely standardised. A significant margin of interpretation should be allowed for depending on the type of organisation and the culture and country in which it operates.

For these reasons NORMAPME decided that it was useful to develop a specific guidance document for European SMEs. The user guide has been developed over the course of the past year by a Working Group of European CSR experts nominated by SME representative associations. Its objective is to help SMEs breakdown the relevant aspects of this guidance standard for their purposes, thus easing the utility and uptake of this guidance standard for European SMEs.

The SME user guide is available in six languages (EN, DE, FR, ES, IT, PL) to download from the NORMAPME webpage on Corporate Social Responsibility (see http://www.normapme.eu/en/page/45/corporate-social-responsibility)

ORGANIZATIONAL BEHAVIOUR AND CULTURE
Globalization and the Changing Environment of Organizations

by
Mirjana Radovic-Markovic

ISBN-10: 3639359232

Published at: 12.07.2011

This book focuses on a body of knowledge that balances and requires that many disciplines should be brought together to create a contemporary approach to organization behavior and transformation (of both organization and the individual) in a changeable business environment. The challenge in this book is to explore the organization behavior, culture and strategies relating to effective organizational and managerial performance. The chapters of the book cover the topics as: communication, motivation, organizational structure, workplace behaviors, teams, managing distances and differences, organizational culture and diversity, organizational change and learning organization, and more. This is a very rich collection of thinking and empirical research findings on the subject. For anyone trying to understanding modern organization and the today's world of work as well as what the future may be like, this is the book of choice.

Dr Mirjana Radovic-Markovic is the Deputy Director of the Institute for Economic Sciences (Belgrade, Serbia) She is a full Professor of Entrepreneurship and member of the EREN network. She has written twentytwo books and more than hundred peers' journal articles. She is a Fellow of the Royal Society of the Arts in the UK (the RSA), London and also a Fellow of the World Academy of Art and Science, US.

VDM Verlag Dr. Müller e.K.

Source: http://www.bod.de/index.php?id=296&objk_id=536920

PREFACE

Organizational behaviour is concerned with all aspects of how organizations influence the behaviour of individuals and how individuals in turn influence organizations. Organizational behaviour is an inter-disciplinary field that draws freely from a number of behavioral sciences, among them economy, psychology, sociology, and many others.

The New Economy has brought with it a new type of organization and thus initiated organizational change. Organizational change means adapting to an organizational environment for the sake of survival. There are several types of organizational changes that can occur – strategic changes, organizational cultural changes; these involve organizational structural change, a redesign of work tasks and technological changes. In line with these changes, high expectations are aroused among the employees that they permanently improve their knowledge and become an integral part of successful business formula in order to respond to the challenges brought by the global economy. It means a request for a learning organization which is described as an organization that creates, obtains and transfers knowledge, thus constantly modifying the organizational behavior.

This book focuses on a body of knowledge that balances and requires that many disciplines should be brought together to create a contemporary approach to organization behavior and transformation (of both organization and the individual) in a changeable business environment. The challenge in this book is to explore the organization behavior, culture and strategies relating to effective organizational and managerial performance.
The chapters of the book cover the topics as: communication, motivation, organizational structure, workplace behaviors, teams, managing distances and differences, organizational culture and diversity, organizational change and learning organization, and more. This is a very rich collection of thinking and empirical research findings on the subject.

For anyone trying to understanding modern organization and the today's world of work as well as what the future may be like, this is the book of choice.

Prof. Dr Mirjana Radovic-Markovic, FWAAS and FRSA

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Dr. Sonia Heptonstall, Professor of the UBIS, Member of the ERENET PROFILE International Board, having talks with Dr. Antal Szabó, Scientific Director of EREN on possible future of the organition at the Palais des Nations in Geneva.

Photo by Lajosné Nagy ©
THE PALGRAVE HANDBOOK OF SPIRITUALITY AND BUSINESS

Luk Bouckaert & Laszlo Zsolnai (eds.) *The Palgrave Handbook of Spirituality and Business*
Palgrave Macmillan, 2011. (This book may be available at: [Amazon](http://www.amazon.com))

The handbook summarizes the most important issues, approaches and models in the field of spirituality in business, economics and society. It presents a comprehensive pluralistic view covering all the major religious and spiritual traditions. It is a response to three developments that challenge the business-as-usual mindset.

*Firstly*, in response to a growing interest in spirituality applied to models of transformational leadership, in theories of social capital and in practices of values-driven management, it explores the emerging field of business spirituality—its main concepts, models and practices.

*Secondly*, there is a growing awareness that the world is unsustainable without a strong commitment to frugality and self-restriction, and that material resources such as clean air and water, as well as non-material resources such as trust, compassion and peace, are fragile. Managing our vital resources will not succeed without good management of our spiritual resources. Therefore, this handbook aims to elucidate some of the conditions for a transformation towards a post-capitalist, values-driven global economy.

And *thirdly*, although the interest in spiritually-driven entrepreneurship and governance is increasing, spirituality remains a vague and confusing concept that needs intellectual clarification. Hence, it seeks to clarify the concept of spirituality in the field of business and economics.

Heuristic in style and content the handbook explores new ideas on the frontier of the discipline which will appeal to scholars and practitioners looking for up-to-date and insightful knowledge. It is structured in five parts:

- the nature of spirituality;
- spiritually inspired economics;
- socioeconomic problems in spiritual perspective;
- business spirituality; and
- good practices and working models

*Source:* [http://laszlo-zsolnai.net/content/handbook-spirituality-and-business-0](http://laszlo-zsolnai.net/content/handbook-spirituality-and-business-0)
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