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info@erenet.org
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SUMMER MESSAGE OF THE SCIENTIFIC DIRECTOR

Dear Readers, Distinguished Friends,

Recently the weather has been very unstable and the turbulence reflected in European politics. The turmoil began on 10 April 2010 with the plane crash that killed Polish President Lech Kaczynski, his wife, and many of Poland's political, military, and economic elite. It was a catastrophe not only for Poland, but equally for Poland's allies in Europe and, especially, those in the Visegrad-countries.

Following the tragedy, left wing parties in several countries lost their mandate. The failures began in the UK. Here the Conservative party won the greatest number of individual votes in the May 2010 election. However, in a contest, where three major parties Conservative, Labour and Liberal Democrat were competing, meant that this number of ballots did not translate into sufficient constituency seats to provide the Conservatives with an overall majority in the House of Commons. They had to go into coalition with the Liberal Democrats.

In Hungary, the June elections saw the centre-right opposition, Fidesz party claim a two thirds parliamentary majority. This ended eight years of Socialist rule mired in suspicions of corruption and mendacity. Since the fall of communism, the upheaval marked the most emphatic electoral victory for the right.

Two weeks later in Slovakia, the former authoritarian Premier, Vladimir Meciar, was forced out of office along with the Fico's SMER-Social Democracy, a party full of antagonism toward the Hungarian minority. They had to hand over government to a centre right coalition. The latest signs of disaffection come from the recent Belgian election. The results were not clear cut but indicated further support for a separation between the Dutch speaking and French speaking areas of population. This is in spite of Belgium providing the headquarters for the European Union and so supposedly a beacon for cooperation. As the proverb says "the dog gets mad in welfare." I have the sense that a good deal of the Belgian angst and talk of separation is the result of politicians hunting for power rather the benefit of all their communities.

Despite the arrival of spring, it failed to bring warm sunshine. Instead, there were storms characterised by floods and monsoon type rains across Central-and Eastern Europe. Ten thousand people lost everything and were homeless. Despite this misfortune, there was also good news. As editor I was glad to see that our neighbour, Romania was the the first country which provided humanitarian aid to cope with the flood. At the same time from our Western neighbour Austria we heard that a decision had been made to site an incineration plant close to the Hungarian border. It is really a pro-Hapsburg so called "labanc" gift for the Hungarian people.



The world-wide financial and economic crises continue to affect North America and all European economies. Already this year in the US nearly 80 banks have gone bankrupt. The saga of the largest ever man made ecology disaster continues in the Mexico Gulf. The average GDP of 27 European Union countries fell by 4% in 2009; industrial production dropped back to the levels of the 1990s and 23 million people - or 10% of the active population - are now unemployed.

The global recession plunged Central and Eastern Europe including those countries which are newly members of the European Union into crisis, - an unfortunate way to celebrate the 20 year anniversary of the fall of the Berlin wall.

Some financial pundits, such as Georges Soros, speculate that the economic crisis might be ending and the Asian economy led by China and India will pull the world out of its slump. Whatever happens, the economic crisis indicates that the free market economy is not a panacea and not a perfect system for safeguarding the economic welfare of the mankind.

Photo by Dr. Antal Szabó ©

In May 2010 within the framework of the Black Sea Economic Cooperation (BSEC), a Workshop on “SMEs in Time of Global Crises” was held in Tirana (Albania). The Workshop was financially and technically supported by the Representative of the Konrad Adenauer Foundation. ERENET provided assistance in nominating key-note speakers and compiling the conclusions and recommendations. The majority of our papers were delivered during this event. I am very happy to say that Albania is not only a country of the legend of Skander beg, and the brandy named after this hero, but a country of friendly people and rapid economic development.

Finally it is a great honour and pleasure to record that the Hungarian Branch of the ERENET – nearly 30 experts – elaborated a ten points Declaration on the Tasks needed to improve Hungarian Government policy in the interest of SMEs .. This is the Gy•r Declaration – after the name of the city where this document was prepared. It has been well received by the new Hungarian Prime Minister, Viktor Orban.

For the coming weeks I wish everybody excellent holidays.

Dr. Antal Szabó
Scientific Director of ERENET



Flood in Budapest, June, 2010

Photo by Dr. Antal Szabó ©

Ambassador Traian Chebeleu
 Deputy Secretary General
 Organization of the Black Sea Economic Cooperation, PERMIS
 Istanbul, Turkey
 E-mail: bsec@tnn.net



OPENING STATEMENT AT THE BSEC-KAS
 WORKSHOP ON
 "SMEs IN THE TIME OF GLOBAL CRISES"

1

Excellency Vice Minister, Distinguished Resident
 Representatives, Distinguished Participants,

I am honoured and privileged to address you on behalf of the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation.

Let me express my thanks and appreciation to Konrad-Adenauer-Stiftung (KAS) for co-organizing this Workshop which allows us to exchange views and hopefully formulate recommendations on the future and potential activities of SMEs at a crucial time for them in the current economic context.

Today's workshop is dedicated to a specific topic – SMEs in the time of Global Crises. It aims at contributing to the endeavours undertaken by governments and non-governmental organisations at national, regional and international levels to find out ways and means of alleviating the financial constraints on SME and orienting and guiding the small business in the time of financial crisis. And these endeavours are fully justified, as the SMEs are in fact the greatest creators of jobs everywhere. The economic potential of SMEs should not be undermined by a crisis that they have neither created nor contributed to.

The adverse effects caused by the global financial crisis included a rise in unemployment and inflation, as well as a decrease in foreign exchange reserves, in exports, in capital inflows from abroad, in foreign direct investments (FDI), in bank deposits, in confidence to the banking institutions. They also included a greater difficulty for SMEs to have access to operating capital and loans. While businesses of all sizes have been affected by the crisis, the SMEs stand to be the most vulnerable to the potential global and regional ramifications of the ongoing financial crisis.

In addition, 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 financial crisis has made it more difficult and more costly for SMEs to receive credits and loans. Or, access to sources of financing is vital for small business. Therefore it becomes obvious that one of the first lines of action for governments is to secure a simple and straightforward access to finance for SMEs, by providing enough liquidity and simplifying as much as possible the criteria for their access to financial resources.

In a broader perspective, re-designing the future financial system has to focus on supporting the needs of consumers and enterprises, particularly SMEs, rather than on the "global speculators" which, in a way, are not associated with production cycle.

On the other hand, the crisis itself and the changes it brought about, precipitated the need for SMEs to re-examine and adapt their competitive performance and innovation strategies. Their flexibility enables SMEs to match the quick changes in the market demand, re-orient their activities and diversify their business using innovative approaches in order to reduce losses and increase profitability.

¹ Held on 5 May 2010 in Tirana, Albania

Distinguished Participants,

The very existence of the BSEC Working Group on SMEs is an acknowledgement by the BSEC Member States of the important and significant role the SMEs play in their economic, social and political development. This awareness, through the joint work conducted in the framework of BSEC, is translated into effective policies and concrete measures to support the sustainable development of the SME sector in our region.

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 endeavouring to bring together and link 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 with 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.

One of the ways to increase the competitiveness of the SMEs is the creation of conditions for their fair competition at both national and regional levels. It allows the small business to set up higher targets on quality of services and goods, as well as a better management policy.

Guided by these principles, the BSEC proposed to organize the quality performance competition for companies from the BSEC countries. In order to organize the competition, it was proposed to establish the BSEC Quality Award for SMEs from the BSEC region, based on the Total Quality Management (TQM) principle and in accordance with the standards of the European Foundation for Quality Management (EFQM).

This initiative is in line with the decision of the Council of Ministers of Foreign Affairs of the BSEC Member States which, "acknowledging the system of quality performance competition for companies from Central and Eastern Europe, recommended to the BSEC Business Council and the BSEC PERMIS to extend to the BSEC countries and organize a similar competition among the companies of the Black Sea area".

It seems that the BSEC initiative could contribute to stimulating the SMEs from the BSEC region to improve their quality performance and to allowing them to approach the level of excellence of the advanced European companies.

Distinguished Participants,

In concluding my remarks, I wish to underline that BSEC will continue to promote SMEs in the Black Sea region. In this process, we will maintain the traditional cooperation with our partners, in particular Konrad-Adenauer-Stiftung, with other regional organizations and initiatives as well as with international organizations and institutions.

I look forward to listening to evaluations and visions of policy makers, academics and practitioners attending this Workshop on lines of conduct and action to be taken in the BSEC Member States in supporting SMEs, which is essential for their economic recovery and growth. I wish all of us a fruitful Workshop with concrete and promising results.

Thank you.

Family Photo of the BSEC Workshop
by Bekir Öncel ©



Dr. Antal Szabó
Scientific Director of ERENET, UN Retired Regional Adviser
Desislava Yordanova
Assistant Professor of the Faculty of Economics and Business Administration
Sofia University »St. Kliment Ohridski, Bulgaria
Darija Kristić
Manager of the Center for Entrepreneurship of Osijek, Croatia
Dr Eric Dejan
Director of the Institute of Economic Sciences, Serbia
Dr. Zsuzsanna Szabó
Dean of the Faculty of Economics, Law and Administrative Sciences
"Petru Maior" University, Targu Muresh, Romania
Dr. Marián Gál
Assistant Professor of the Technical University of Kosice, Slovakia
Oksana Dugert
Owner and Manager of the Management Consulting Company, Kyiv, Ukraine
E-mail: erenet.hu@gmail.com

THE IMPACT OF THE ECONOMIC CRISES ON SMEs IN SELECTED CEE COUNTRIES

INTRODUCTION

The world-wide financial and economic crises affected all European economies. Europe is in the deepest recession since 1930s. The steady gains in economic growth and job creation witnessed over the last decade have been dried out – the 27 EU average GDP fell by 4% in 2009, the industrial production dropped back to the levels of the 1990s and 23 million people - or 10% of the active population - are now unemployed. With 9.4 million jobs created between 2002 and 2008 SMEs outperformed large firms. This is in sharp contrast to an estimated loss of 3.25 million jobs in the SME sector over 2009 and 2010. It means that the economic crises did not finished yet.

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% as compared to EURO and USD. In April 2009, 11 countries requested financial help from the International Monetary Fund (Bosnia and Herzegovina, Belarus, Hungary, Latvia, Lithuania, Poland, Romania, Serbia and Ukraine). Until Autumn 2008 the financial crediting institutions considered CEE as zone with stabile and growth potential, they talked about the „Slovak Dragon“ and the Baltic Small Tigers“, these countries are down in the face. Following the collapse of the Berlin Wall in 1989, only Estonia, Poland and Slovenia achieved significant economic growth. In spite of the crises, Poland reached 1.7 percent economic growth in 2009 in consequence of the fact, that Poland is less dependent of the export, and the economic growth is stimulated by domestic consumption in increase of investment. Majority of the crises compensation measures were focused on the SMEs and the employment was safeguarded by protection measures.

The EBRD's Transition Report 2009 addressed the implications of the crisis both for the transition region – the countries from central Europe to central Asia - and for the whole transition process of economic transformation. The report also says that the global crisis has disrupted the pace of economic reform in CEE, but there have been no significant reversals. The political and reform orientation of the Governments has been preserved. The economic institutions and political systems remain mature.

The global recession plunged the transition region including the new EU countries as well into crises, and it is a strange way to celebrate the 20 year anniversary of fall of the Berlin fall. In any case the economic crisis indicates that the free market economy is not a panacea and not a perfect system for safeguarding the economic welfare of the mankind.

The current paper was prepared based on the research on “Reactions and defeating mechanisms of small firms against the stress factors of the financial and economic crises in selected countries in CEE”. Individual country studies were prepared by the Members of the Entrepreneurship Research and Education Network among the Central- and Eastern-European Universities ERENET. The selected countries are Bulgaria, Croatia, Romania, Serbia, Slovakia and Ukraine.

THE SME SECTOR IN THE SELECTED COUNTRIES

The role of the SME sectors in the whole CEE region is very significant. The share of the SME sector in GDP varies between 40-70% except of Ukraine where SMEs contribute in very modest manner to the GDP below 20%. The Index of SME Development based on the UNECE methodology see in Table 1. The Index of SME Development is a complex indicator which takes into consideration the three major economic data, like

- Share of private sector in whole economy,
 - Share of the SME sector in GDP, and
 - Share of employees in SMEs in total labour force in the country
- expressed in EURO or USD per capita.

Table 1

INDEX OF SME DEVELOPMENT ²

Country	Year	Share of the private sector [%]	Share of SMEs in GDP [%]	Share of Employees in SMEs in total labour force [%]	GDP per capita [USD/capita]	Index of SME Development [USD/capita]
Bulgaria	2001	70	16,2	46,1	1723	90
	2007	75	39	48,9	5176	740
Croatia	2003	65	57	55,7	7402	1527
	2005	65	56,3	56,5	8925	1845
	2007	70	56,6	64,2	13120	3337
Romania	2000	60	65,6	46,9	1674	309
	2007	70	72,2	64,4	7636	2485
	2008	70	70,8	76,7	8185	3111
Serbia	2001	40	40	45,1	1536	111
	2007	55	58,3	65,5	5387	1131
	2008	60	59,1	67,2	6782	1616
Slovakia	2001	80	40,8	59,1	3907	754
	2007	80	45,5	71,9	13887	3634
	2008	80	48,1	72,4	22081	6152
Ukraine	2001	60	8,1	15,1	632	5
	2007	65	18,1	23,7	3061	85
	2008	65	16,3	24,3	6900	178

Source: Country studies, EBRD and IFM database, 2009

In Bulgaria during the recent years the role of SMEs in Bulgarian economy is steadily increasing. According to NSI (2009) the number of non-financial SMEs exceeds 282,600. In the period 2000-2007 the number of SMEs increased with more than 21%. SMEs represent more than 99% of the non-financial enterprises. SMEs create nearly 40% of the GDP and more than 60% of the gross value added. In 2006 the contribution of

² <http://www.iem.bg.ac.rs/conferences/02/Szabo%20Antal.htm>

private SMEs to gross value added in the entire economy was only 30.2%. In terms of persons employed, SMEs dominate largely the sector real estate, renting and business activities employing more than 93% of persons employed and play a significant role the following sector followed by the hotels and restaurants (92%); construction (83%), Real estate, renting and business activities" (79.2%); while transport, storage and communication (76.2%).. (Desislava)

In Croatia small businesses are the most dynamic segment of Croatian economy. The small businesses account for 99.5% of the total number of companies in Croatia and for some 66.3% of the total number of employed persons in Croatia. The official definition of the small business industry according to the size of the small business entities in Croatia is provided by the Small Business Development Promotion Act (Official Gazette; NN 29/02, 63/07). The Croatian SME sector contributed 55-57% of the GDP during the last years. The Croatian small businesses account for 66.3% of total employment in Croatia (618,841 persons). Small businesses (companies) generate 53.6% of the total revenues, 40.8% of the exports, 56.4% of the net income, some 45% of the total assets and 35.6% of the total equity of Croatian economy. The majority of entrepreneurs in Croatia (about 70%) work in four activities: wholesale and retail trade; servicing of motor vehicles and motorcycles, than expertise, science and technical activities, construction and processing industry. In the same time, around 61% of employees are employed in three activities: processing industry, trading and construction industry. While in processing industry the employment was decreased for 4.3%, in the two others activities increase from 1.6% and 1.8% was noted.

In Romania, for the first semester in 2008 the number of total enterprises was 469285 and the total number of SMEs was 465594 which for the first time after 1992 show a decreasing tendency. The number of active SMEs decreased with 17%. Recent data shows that in 2009 the decreasing tendency became more accentuated suspend the activities 12 times more enterprises than in 2008 in the same period, more than 105,500 enterprises suspend the activities in comparison while in the same time only 8,200 ones registered.

According to the estimates over 90% of the SMEs feel the recession. The difficulty of financing, the reduced accessibility of credits and the existing high interest (25%-30%) all are big impediments, barriers for SMEs. In the same time the export decline, there is no internal call for some products (the demand increasing in the case of some products) due to the diminution of income, earnings. The number of SMEs going bankrupt has doubled over the same period 2008 – as the effect of the fact that the credits for SMEs have declined by 30% so has reduced their solvency. Studies indicated that in the current economic circumstances 25% of SMEs could close down this year and 90% of SME managers plan layoffs this year 10% of the personnel.

In the Republic of Serbia the total number of enterprises is 304,017, out of which 303,449 or 99.8% from SMEs sector. According to the latest data of the Agency for Business Registration as of 24 September 2009, the total number of registered companies was 109,142 with 223,733 entrepreneurs. 67.2% of the total labour force – 940,159 persons) is employed in the SME sector. The SME sector generates 66.6% of the GDP. A high unemployment rate of around 20% at the national level is one of serious issues the Serbian economy is facing. In the period 2004-2008, SMEs sector increased number of vacancies by 187,419 employees or 24.9%. To illustrate this, we may have a look at a non-financial sector and notice that the total number of employees was 1,398,721 persons, of who 940,159 employees (or 67.2%) were working in the SMEs sector. Almost a half of this number was engaged in micro enterprises.

In Slovakia 98.8% of the total number of enterprises are SMEs. These enterprises cover 66% of the employment. There exist also 1,460 active co-operatives employing almost 53,000 people. About 74,000 enterprises are run by women. The main economic sector, in which SMEs perform, is industry, mainly industrial production.

In 2008, they employed more than 530,000 workers. The share of the SME sector in GDP before the crises increased from 45.5% in 2007 to 48.1% by the end of 2008, and parallel with this the share of employment also increased from 71.9% in 2007 to 72.9% in 2008. This process has been reserved in consequence of the economic crises. This number decreased due to the economic crises to 430,000 by the end of September 2009. The other important sectors where SMEs provide their activities in Slovakia are

construction with average employment rate over 180,000 workers in 2009, retail trade with over 160,000 workers, and wholesale with over 130,000 workers. The lowest number of workers employed by SMEs perform in sectors such as sale and repair of motor vehicles (about 25,000 employees), restaurants (over 30,000 persons), accommodation and hotel services (10,000 employees), and industries such as mining, electricity, gas and water supply (in average from 8,000 to 20,000 workers).

In Ukraine, since 2009, companies where average number of employees is up to 50 persons and volume of gross revenue is under Ukrainian Hryvna – UAH 70 million (1 Euro is 10.5 UAH) are referred as small business. Big companies are considered those where the number of employees are more than 250 and the volume of revenue after sales of products exceeds UAH 100 million. All other are referred as medium. Furthermore, individuals registered as entrepreneurs are also considered to be SMEs. The last changes have been introduced in 2008 (Law of Ukraine «About introducing changes to some legislation acts of Ukraine on the issues of entrepreneurial activity's regulations» of 18.09.2008 • 523-VI) according to EU recommendations. As a result of the new classification, the number of SME has increased considerably starting from 2009. It is expected that by the end of 2009, 93% of all companies will be small businesses. However, that share of the SME-sector in GDP as well as the share of the number of employees in SMEs as compared to the total labour force is very low. Only Belarus has worst figures in these fields.

The World Bank Doing Business Project looks at small- and medium-sized enterprises and measures the regulations applying to them through the business cycle of life. The first report was published in 2003, covering 5 indicator sets from 133 countries. The Doing Business 2010 report covers 10 indicator sets in 183 countries. The initial goal of the Doing Business project is to provide an objective basis for understanding and improving the regulatory environment for business. Doing Business provides a quantitative measure of regulations for starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, foreign trade, enforcing contracts and closing a business—as they apply to domestic small and medium-size enterprises. Doing Business does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure the macroeconomic stability, corruption, unemployment, indebtedness and competitiveness. Therefore you must not draw far-reaching consequences. However, comparison with the previous year performance provides a basis for judgement of the general economic situation of a selected country.³

From this comparison we should not draw considerable conclusion, because it does not include important economic items such as unemployment, indebtedness, poverty, competitiveness, etc. However, a relative comparison with the achievement of the previous year might be a good basis for the evaluation of a country performance. The World Bank Doing Business 2010 report contains 183 countries and covers the period between June 2008 and May 2009. It includes 27 countries from Central- and Eastern-Europe and Central-Asia. However, this group does not include the other 27 OECD countries out of these Slovakia ranks the 20th place, Hungary 21st and the Czech Republic the 25th one. From the previous year report Slovakia ranks 42, Bulgaria 44, Romania 55, the Czech Republic 73, Serbia 88, Croatia 103 and Ukraine 142. Table 2. demonstrates the situation of the selected countries in 2007 and 2009 respectively.

The Global Entrepreneurship Monitor (GEM) is a research consortium dedicated to understanding the relationship between entrepreneurship and national economic development.

It contains comparable data across a large variety of countries on attitudes toward entrepreneurship, start-up and established business activities, and aspirations of entrepreneurs for their businesses.⁴ One of the principal measures in GEM is 'total early-stage entrepreneurial activity' (TEA), the proportion of people who are involved in setting up a business or owners-managers of new businesses. The general picture shows a decline in overall levels of TEA with increasing economic development. The 54 economies included into the GEM 2009 report are grouped into three stages of economic development: factor-driven, efficiency-driven and innovation-driven countries. Croatia, Hungary, Romania and Serbia are listed in the efficiency-driven economies. The other two selected countries are not listed in the GEM report.

³ World Bank Doing Business 2010, Reforming through Difficult Times, ISBN: 978-0-8213-7961-5

⁴ http://www.gemconsortium.org/about.aspx?page=pub_gem_global_reports

2. Table

Doing Business in CEE and Ukraine

Countries Economies	Ease of doing business rank	Starting a business	Dealing with construction permits	Employing workers	Regis-ering property	Getting credit	Protec-ting invcestors	Paying taxes	Trading across borders	Enfor-cing contacts	Closing a business
Bulgaria	10	12	11	8	12	1	7	12	17	21	11
Slovenia	11	8	5	26	22	22	3	11	14	17	4
Romania	12	10	10	19	20	4	7	20	7	16	17
Serbia	19	15	23	14	21	1	15	17	13	23	21
Croatia	21	21	17	27	23	18	26	4	15	13	12
Ukraine	25	24	26	12	27	9	22	26	20	11	26

Source: World bank Doing Business 2010 covering the period June 2008 through May 2009
<http://www.doingbusiness.org/EconomyRankings/?regionid=2>

Remark: the Czech Republic, Hungary and Slovakia are listed in OECD group, for this reason we can not do any comparison

THE IMPACT OF THE ECONOMIC CRISES ON THE SME SECTORS

The Economic crises significantly affected the Central- and Eastern-European (CEE) countries, the new member States, especially the export oriented ones due to the devaluation of their national currencies. The recession has been increased and the crises more sever and expanded than it was prognosed by optimistic politicians and governmental economic research institutions. The crisis has disrupted the pace of economic reform in CEE, but there have been no significant reversals. Governments remain committed to the process of economic reform.

According to EUROSTAT, in the first quarter of 2009 all V4 states registered negative growth except Poland (+ 0,4 %). Slovakia recorded the biggest (- 11,4 %) GDP fall in EU compared with the last quarter of 2008 when it in contrast registered biggest GDP rise in the bloc of 27 countries.⁵

In Bulgaria, the first signs of the international global and economic crisis coincided with the effects of various internal crises such as the gas crisis and crises in various sectors due to the contraband of goods, which is estimated to be 50% (Makris, 2009). It should be acknowledged that until recently there were few official data, analyses and discussions about the effects of the international global and economic crisis on Bulgarian economy and particularly on Bulgarian SME sector. This could be partly explained with the reluctance of the former government to draw public attention to this issue before the elections for national and EU parliaments in June-July 2009. The former government was too optimistic that Bulgaria is well positioned to the upcoming economic crisis due to significant fiscal surplus, stable currency, low level of gross debt, well performing banking sector, and sufficient time to prepare for the crisis. Recently, there are growing concerns about the adverse impact of the crisis on SMEs expressed by policymakers, experts, and non-government organizations in relation to:

- weaknesses and vulnerability of SME sector;
- declining exports and diminished investment;
- liquidity problems and inability to serve debts;
- survival of SMEs;
- employment effects in SMEs;
- need for support of SME sector;

⁵ Economic Crises in CEECs. Visegrad.info as of 24.09.2009, <http://www.visegrad.info/print-version/factsheet/economic-crisis.html>

- access to finance;
- high interest rates offered by banks.

According to a survey by the Bulgarian Chamber of Commerce and Industry (BCCI) made in September 2009, only about 32% of the Bulgarian firms have not been affected negatively by the global financial and economic crisis. More than 40% of the respondents said they were likely to lay off workers, 54% believe they would keep all of their employees despite the crisis, and 5% have even said they would be looking for new workers. Bulgarian SME sector is particularly vulnerable to the effects of the international economic and financial crisis disposing with fewer resources to survive the downturn than large enterprises and being poorly developed in comparison with the developed EU member states

The unemployment in Bulgaria is set to worsen to close to 10 per cent by the end of 2009, exports are decreasing almost across the board, with cosmetics the only exception. A report by the Bulgarian Industrial Association said that in the first quarter of 2009, production, sales and exports dropped in almost all sectors, with the wood-processing industry among the worst-hit, registering a 44.6 per cent decrease in sales while exports dropped by 21.3 per cent. National Statistics Institute figures released on August 21 2009 said 72,000 people in Bulgaria had lost their jobs in the second quarter of 2009. It is envisaged that 70,000 white-collar workers would be losing their jobs, while Finance Minister Simeon Dyankov said that ministries would have to reduce their staffs by about 15 per cent as of January 1 2010. ⁶

The crisis in Bulgaria follows with a significant lag the crisis in Western countries. The low consumption, increasing unemployment, falling prices and low level of credit activity will result in decreasing GDP in 2010 too. The recession might end in the beginning of 2011. The averaged recovery period for the different sectors will be 9-12 months.

(Desislava)

In Croatia Real drop of GDP of 6.3 % on annual basis was noted also in the second quarter of 2009. That results to real drop of personal consumption for -9.7% and to drop of gross investment in permanent capital for -12.6%. Only category of domestic demand by which increase was noted, was state consumption. In the processing industry the employment was decreased for 4.3%, however in the science and technical activities, as well as in construction we observed an increase of jobs from 1.6% and 1.8%

There are some companies which succeeded in the areas highly hit with crisis. Those are food producers who produce so called "basic" food (flour, oil, margarine etc.), financial and business advisors and family accommodation in tourism.

As the crisis act, it went to the change in entrepreneurs' structure according to their size. Small entrepreneurs took their chances for improving their position for a small share. The biggest losers are medium entrepreneurs whom were less in first six months of the year 2009 for 127 in total, so they reduce their share from 2% to 1.7%. Employment for the first six months of this year is lower for 12,721 work places. For the fact 20,180 work places were closed down by big and medium entrepreneurs, but negative picture was moderated by small entrepreneurs, employing 7,459 persons

At handcrafters similar movements were recorded, but on monthly and annual basis trends of grow of those markers are slower then at legal entities. In the August this year 34,368 insolvent handcrafters were registered, and their number on annual basis is larger for 12%. By those subjects are employed 23,622 workers (more for 42.3%), while their non-paid bonds were 4.65 bn Kunas (+20.9%).

Situation on market is considerably changed, because of all this factors, demands and consumption at the markets were decreased. Due to these facts, consumer's habits are changing, but traders and producers as well. Consumption goes towards "good enough" products, to those which fulfil basic functions and are of acceptable price. More expensive or for use more complicated products have less of a demand than in period before the crisis. (Krsti•)

⁶ The Sofia Echo http://sofiaecho.com/2009/08/25/774311_economic-crisis-reshapes-bulgarias-exports-structure

We could expect recovery from the crises in a period of 1.5-2 years. But even greater impact on social and Economic situation though reform which must be adopted and implemented to assure sustainable development in the country. These changes are reflected to the healthcare system, pension system, public administration and companies.

(Krsti•)

In Romania, according to the estimates over 90% of the SMEs feel the recession. The difficulty of financing, the reduced accessibility of credits and the existing high interest (25%-30%) all are big impediments, barriers for SMEs. In the same time the export decline, there is no internal call for some products (the demand increasing in the case of some products) due to the diminution of income, earnings

The number of SMEs going bankrupt has doubled over the same period 2008 – as the effect of the fact that the credits for SMEs have declined by 30% so has reduced their solvency. Studies indicated that in the current economic circumstances 25% of SMEs could close down this year and 90% of SME managers plan layoffs this year 10% of the personnel.

83% of the SME owners have negative expectations about the profit. 76% of the SMEs intend to adjust the current economic situation by downsizing, whereas 16% of SMEs are looking for investors to recapitalize their business. 50% of the companies surveyed expect the crisis to end in late 2010.⁷

On the other hand can be observed that different SME sectors are affected in different manner. In which measures are affected depends on the activity area. SMEs with activity in the domain of food, consultancy for EU funds, executor, and pharmacy weren't affected because these activities are indispensable. The stabile sectors with linear evolution are low affected by the crisis such as public services, medical, veterinary, food, and agriculture. Some companies, some fields, couldn't be affected by crisis because they are underdeveloped in Romania (for example agriculture).

Due to the crises the Ministry of Labor, Family and Social Protection for 2009 was 525,000 job los. The jobless figure could rise to one million by the end of the year, as Romanians having lost their jobs in Spain and Italy and return home.

(Dr. Zsuzsanna Szabó)

50% of the companies surveyed expect the crisis to end in late 2010. The most affected are the microenterprises. 74 percent of the population believes that the crisis in a result of external reasons and only 26 percent thinks that it is the consequence of bad government decisions, because missing of the necessity corrective and adjustment measures.

(Dr. Zsuzsanna Szabó)

In Serbia according to the research, the economic crisis is felt through reduced demand for products and services in the business operations of 48.6 percent SMEs, while 31.4 percent are exposed to the risk of insolvency due to reduced collecting of outstanding debts. Most of these companies - 54.6 percent, are financed from own sources, while around 40 percent of such enterprises are financed from outside sources, such as bank credits, and around 10 percent are financed with credits from state funds. Regarding the plans for the next three years, around 45.1 percent of these entrepreneurs plan to expand their business operations, 40.7 percent plan to maintain the current level, and around 4.5 percent plan to reduce the scale of their business operations, while 4.1 percent plan to close down their companies

At the same time, around 14 percent of these companies have not felt any negative consequences, according to the results of research conducted by the Republic Agency for the Development of Small and Medium-Sized Enterprises and Entrepreneurship – RASMEE. According to the research 21% of respondents claimed that the crisis jeopardized company's survival, 24% that the crisis required redundancies, 36% that the crisis influenced but with no redundancies needed. Only 14% respondents admitted the crisis had no influence on their business. On the basis of these results on a representative sample comprising almost all economic activities and regions in Serbia, it is obvious that over 80% of SMEs have been more or less influenced by the crisis.

⁷ Roxana Gabriela Hodorogel: The Economic crises and its effect on the SMEs. Academy of Economic Studies, Bucharest, 2009.

The economic crisis is having a significant effect on the scale of business operations and requires a reduction in the work force in 24.1 percent small and medium-sized companies, while 35.8 percent of them are managing to avoid dismissing workers as a result of the crisis consequences, the results showed.⁸

This research discloses particularly interesting differences in influence of the crisis depending on the size of enterprise. Entrepreneurs, owners of independent shops feel much more threatened (almost 27% respondents) than small and medium sized enterprises (16%). On the other hand, a small number of shops (only 17%) have envisaged redundancies in comparison with SMEs (the figure even up to 30%).

A high unemployment rate of around 20% at the national level is one of serious issues the Serbian economy is facing. In the period 2004-2008, SMEs sector increased number of vacancies by 187,419 employees or 24.9%. To illustrate this, we may have a look at a non-financial sector and notice that the total number of employees was 1,398,721 persons, of who 940,159 employees (or 67.2%) were working in the SMEs sector.

It is not easy to give an answer to the question which sectors gained and which lost. It is a difficult answer since all negative effects of the crisis cannot be reviewed yet. Next year, we will be able to carry out more serious analysis on which sectors have been more and which less hit, once all delayed crisis effects are taken into consideration, those manifested in the second half of 2009. For the time being we may say that services sector (64.2%), followed by industry (20.4%), agriculture (11.8%) and finally civil-engineering (3.6%) had the biggest share in gross added value in 2008.

(Dr. Dejan)

In 2009, GDP in Serbia will fall about 3%. The first signs of recover we can expect in the second part of 2010. We can not expect some rapid growth, but growth rate about 1 – 1.5% could be realistic one, if the Serbian Government provide significant support in the field of credit guarantee schemes, microcrediting and job creation.

(Dr. Dejan)

In Slovakia, the former Central European tiger, the crisis hit most hard the industrial sector. This is the sector, in which SMEs perform mostly. They employed more than 530,000 workers in 2008. This number decreased due to the economic crises to 430,000 by the end of September 2009. The other important sectors where SMEs provide their activities in Slovakia are construction with average employment rate over 180 thousand workers in 2009, retail trade with over 160 thousand workers, and wholesale with over 130 thousand workers. The lowest number of workers employed by SMEs perform in sectors such as sale and repair of motor vehicles (about 25 thousand workers), restaurants (over 30 thousand workers), accommodation and hotel services (10 thousand workers), and industries such as mining, electricity, gas and water supply (in average from 8 thousand to 20 thousand workers).

The year 2009 has been more difficult for doing business than previous ones. The decline in demand caused decline in employment in SMEs. Trade has slowed down not only in Slovakia, but also in such foreign countries that influence Slovak companies at most – Germany and the Czech Republic.

Instead of robust growth of 6.9 % predicted for 2009 before the crisis loomed, the largest per capita car producer in EU now faces 6.2 % contraction, Ministry of Finance estimates. Electronics and three car factories helped Slovakia to gain 10.4 % growth in GDP in 2007. Minister of Finance Jan Poľáček admitted that strongly focusing on vulnerable car production, in not any good.

SMEs consider the difficulties in access to finance, which hamper their growth. In practically access to finance stopped for SMEs.

The recovery period for the Slovak economy is expected in 2010. However, the unemployment rate might increase up to 13.5 %. Decrease of the unemployment to 12 % is expected only beginning of 2011. The same is true for the GDP: Following the good achievement in 2008, we expect a slight increased in GDP by 1.5 % in 2010 and 2.5 % in 2011.

(Dr. Gál)

⁸ Research B92. Almost quarter of SMEs feel pinch. http://www.b92.net/eng/news/business-article.php?yyyy=2009&mm=08&dd=31&nav_id=61477

Ukraine became a member of the World Trade Organization (WTO) in May 2008, paving the way for negotiations on a Free Trade Area with the European Union and the abolition of the EU import quota for Ukrainian steel products. The export sectors most likely to benefit from greater trade integration with the world economy are steel, chemicals and food processing.

The country economic output significantly depends on the Russian one. While in the first quarter of 2009 the GDP dropped in Russian by 10 percent, it shrank 22 percent in Ukraine and 18 percent in the second quarter too. The main Ukrainian export goods are the iron and steel. In spite of the large export volume, the competition in the world market is very high, even from Russian, where the income from oil and gas remain significant.

In the report revealed by IMF on the 10 September 2009, Ukraine was cited as a country hit very hard by the global slowdown due to sharp decline in the price of steel and a significant increase in the price of natural gas from Russia. Ukraine also suffered from a reversal of capital flows, threatening liquidity in the banking system. From October 2008 to March 2009 the National Bank of Ukraine lost 14 billion USD in reserves.

Metallurgical and construction companies were hit the most by the crisis. There is a big share of small and medium enterprises in construction field. Banks stopped providing credits, and immediately the cost of a square meter of housing space has dropped, and as a result most of the construction projects were frozen for uncertain period.

On the other end, tourism and recreation businesses posses good perspectives even under crisis – this field is developing and even very quickly. One of the widespread explanations of this phenomenon is that most of the Ukrainians do not believe any more in banking system, and instead of saving money they started to spending them on leisure and travelling.

According to the State Statistics Committee report as of September 2008, the unemployment reached 513,000. Significant drop of labour was observed in coalmining industry, metallurgy, machine building and chemical industries. The dismissed population is trying to escape in the active economic sphere and becomes forced self-employment. By this means people are trying to solve their social problems, and find balm to alleviate poverty. Recent report highlights also the creations of new firms are not hampered by lack of consciousness and personal factors of the citizen rather than government institutions.

(Oksana Dugart)

I believe those optimistic forecasts, which promise Ukraine's recovery till the end of 2010-mid 2011. "Economic growth will be supported by growing external demand and strengthening positions of Ukrainian exporters as prices for products of chemical and steel industry are growing". However, some economists give for recovery 3 to 5 years, and the main reason why it can not happen earlier is lack of political stability

(Oksana Dugart)

GOVERNMENT MEASURES TAKEN FOR EASING THE IMPACT OF THE RECESSION

In order to smooth the impact of the global economic crises, the EU decided to stabilize, restore and reform the banking sector, the European Economic Recovery Plan (EERP) was launched in December 2008. The objective of the EERP is to restore confidence and bolster demand through a coordinated injection of purchasing power into the economy complemented by strategic investments and measures to shore up business and labour markets. The overall fiscal stimulus, including the effects of automatic stabilisers, amounts to 5% of GDP in the EU. Based on the coordinated EERP, a discretionary fiscal stimulus of some 2% of GDP (around EURO 260 billion) was released – of which two-thirds to be implemented in 2009 and the remainder in 2010 – so as to hold up demand and ease social hardship. The EU has played also an important role to provide guidance as to how state aid policies – including to the financial sector – could be shaped so as to pay respect to competition rules. Moreover, the EU has provided balance-of payments assistance jointly

with the IMF and World Bank to Member States in Central and Eastern Europe. ⁹ National Government implemented the following measures:

In Bulgaria the first anti-crises measures were done in order to save the employment. Social Minister Emilia Maslarova announces that since April 2009, the Bulgarian Government established a EURO 180 million fund for creation of 87,000 new jobs. The aim is to avoid the mass release of workers, especially qualified ones. During autumn 2009, 76 large companies launched a comprehensive research project. Managers of these enterprises believe that preserving qualified workers is the most important element of anti-crises measures.

The Bulgaria Industrial Association suggested a package for diminishing the effects of the crisis, which could be classified in the following groups:

- direct financial aid from the government to sectors and companies;
- introducing laws and regulations for protection of distressed companies from creditors;
- increasing access to financing;
- improving access of SMEs to public procurement;
- initiating infrastructure projects financed by the government;
- increasing government spending on marketing and advertising of Bulgarian sectors and products abroad;
- supporting Bulgarian companies to participate on international fairs and exhibitions;
- providing information and consulting services to companies for obtaining EU funds;
- introducing legislative and regulatory changes for removing barriers to doing business in some sectors;
- attracting European distributors to some sectors;
- diminishing contraband and grey economy; and
- liberalizing labour legislation.

In September 2009, the Government launched 872 new measures to ease the impact of the crises and save the jobs. With these measures the Government tries to accelerate the implementation of the EURO in the course of 2013.

According to the Bulgarian Industrial Association, the economy may overcome these negative effects not earlier than 2012. However, in the medium and long run the Bulgarian economy may experience some positive changes as a result of the crisis, mainly:

- improvements in the quality of the products and services in the tourism sector;
- increase in the efficiency and productivity of the companies in various sectors;
- decreasing energy consumption;
- ceasing over-construction on the Black Sea coast and in the mountains;
- ceasing speculative growth of real estate prices;
- reorientation of investments and workforce from construction and real estate sectors to agricultural sector.

There is a general understanding among the government, the business, the syndicates, and the civil society that now is the time to make reforms in some sectors including health care, education system, and pension system. In addition, concrete sector policies are necessary in order to increase efficiency, productivity, and export orientation of the economy.

(Desislava)

Candidate EU member, Croatia took the unusual step to eliminate the effect of the crises: on 1 2009, the Croatian government adopted a crises tax law, which adds a special crises tax of 2% on incomes higher than 3.000 Kuna – equivalent to EURO 400 a month - and lower than 6.000 Kuna, on incomes higher than 6.000 a 4% crises tax was added. It will provide an extra EURO 600 of revenue. The measure is temporary and the government hopes to lift it by the end of 2010. The government increased also the value-

⁹ Economic Crises in Europe. Causes, Consequences and Responses, European Commission, ISBN 978-92-79-11368-0, 2009

added tax (VAT) from 22 to 23%. The situation made difficult because Croatian Prime Minister Ivo Sanader resigned due to this decision. However, he had no real vision how to handle the effect of the crises. The newly appointed and first women Prime Minister Jadranka Kosor promised to lift this tax as soon as the situation it allows to do so.

As compared with the neighbouring countries, Croatia is in a good geographic position being in the cross-road of Central- and South-Europe and provides a reasonable favourable export possibilities due to the Adriatic sea.

Croatia's foreign debt totalled EUR 42.4bn at end-February, excluding circular direct investments, which is EUR 600mn less than at end-2009, the Croatian National Bank (HNB) reports.¹⁰ This indebtedness means EURO 9,450 for each citizen, which is a very large figure. The country agricultural export amounts at EURO 1.3 billion only. Economic research institutions warn Zagreb because the level of investment, which is about EURO 1.6 billion, is not sufficient to preserve the competitiveness. The investment of the new Zagreb airport amounts at EURO 250 billion alone, and in consequence of this the government has to decrease all other expenses.¹¹

In Romania in the first nine months of 2008, Romania's economic growth reached unprecedented heights and the then Prime Minister, C•lin Popescu-T•riceanu, remarked with satisfaction that the economy was going at 'full steam'. During the election campaign of October–November 2008, there was no talk of a national crisis. The European Commission express deep concern regarding missing the anti-crises measures, so the Prime Minister asked his ministers on 17 November 2008 to start thinking about measures to support the national economy. The proposed plan of measures was going to inject some €10 billion into the economy, including tax incentives, such as a 10 percentage point cut in social security contributions, tax exemptions for reinvested dividends and a 5% tax bonus for the timely payment of taxes.¹² In consequence of the impact of the crises the Government adopted the necessary legislative law No. 34/2009 on budgetary rectification and regulation of the financial and fiscal measures.

After the 5 February 2009 cabinet meeting, the new Prime Minister, Emil Boc, stated that the anti-crisis measures attached to the draft budget act and forwarded to parliament for debate included:

- investments worth €10.2 billion – or 20% of all budget spending and 7% of gross domestic product (GDP) – for infrastructure works, and the allocation of an extra €2 billion to pay for the outstanding debts of the previous government;
- tax exemptions for reinvested profits, effective from the second quarter of 2009 – following a motion by the social partners;
- support for small and medium-sized enterprises (SMEs) through a guarantee fund for the loans granted to SMEs and through the capitalisation of two banks – following a motion by the social partners;
- improved mechanisms for absorbing European funds, accelerated fund drawing procedures, the promotion of public-private partnerships and the elimination of bureaucracy – following a motion by the social partners;
- an extension of the unemployment benefit period by three months, as well as an exemption from taxes and charges for technical unemployment benefit – that is, when employers temporarily suspend workers;
- co-funding of 50% towards continuing vocational training for unemployed people and employees;
- legislation regarding the minimum welfare pension;
- consultation, after 15 April 2009, with the social partners on matters related to pay increases and the law regarding standard principles of wage formation for public servants;

¹⁰ <http://www.seebiz.eu/en/macro/croatia's-foreign-debt-at-eur-42.4bn-at-end-february,79787.html>

¹¹ MmD Corporate, Public Affairs & Public Relations Consultants

<http://www.mmdcee.com/index.php?page=2054&l=1>

¹² <http://www.eurofound.europa.eu/eiro/2009/02/articles/ro0902039i.htm>

- a moratorium for 2009 on the salaries of high-ranking civil servants and public officers, affecting about 7,000 persons.¹³

(Dr. Zsuzsanna Szabó).

Since 1 January 2009, Slovakia joined EUROzone; it provided some protection against negative impact of global downturn. But the indicators showing that economy is going to feel full force of turmoil were growing. Government had to launch a EURO 332 million plan to protect jobs and boost domestic demand. Instead of helping domestic market Slovaks started shopping trips to Poland or Hungary as their national currencies plunged against Euro.¹⁴ However, the populist slogan "we're to bail out a richer country!" turn to opposite when Brussels urged Bratislava to provide financial assistance to bail out Greece from the crises.

To help plunging car industry government also introduced car-scrapping bonus to boost car sales, mirroring similar subsidies in France and Germany. The first wave was launched in early March and the second in April. Government allocated EURO 55 million to subsidy purchase of 44,200 new cars. For every withdrawal old car the buyer receives a € 2000 "stroke" bonus easing the purchase of the new Slovakia-made car.

The main guideline for the Slovak Government is "keeping employment at any price". In spite of this motive the rate of unemployment is increasing.

According to the Paying Taxes study recently issued by the World Bank, Slovakia is ranked 119 out of 183 countries worldwide and improved the ranking from 130 places in 2008. Government is trying to avoid changing 19 % flat tax and raised duties on alcohol products and hazard games but so far is not doing much to slash own spending and bring in further necessary reforms. However, the Prime Minister, Róbert Fico decided to decrease the current VAT tax rate.

In beginning of 2010, the Slovak Government cut the diesel tax, which would cost 102 million Euros in lost budget revenue this year. However, lowering the price of the diesel fuel to the level of Austria will make the Slovak transport business more competitive.

As far as the SME sector is concern, the Government eases the bookkeeping for self-employment, accelerate the depreciation, increase the state guarantee and accelerate the return of the VAT. The maximum amount of state guarantee for enterprises with less than 100 employees might be 55 percent.

(Dr. Marián Gál)

In Serbia during following posting average annual growth rates of more than 5% between 2005 and 2008, the economy contracted by 3.0% in 2009 due to slowing capital inflows and shrinking domestic demand. The budget deficit is the major problem. Household consumption accounts for the largest share of GDP, over 70% in recent years.

To avoid the state bankruptcy, Serbia applied for assistance from the International Monetary Fund (IMF). The Executive Board of the IMF in beginning of 2009 approved a 15-month SDR 350.8 million Stand-By Arrangement (about €402.5 million or US\$530.3) to support the authorities' program aimed at maintaining macroeconomic and financial stability. Strong fiscal measures are being taken to achieve the tighter 2009 deficit target.

After several month of negotiation on 3 November 2009, the Serbian government and the IMF on Tuesday defined the conditions on replacing the US\$530.3 stand-by loan with a 27-month EURO 2.9 billion loan deal. Under the new arrangement, an estimated 9,000 state administration and local government employees may lose their jobs. Serbia has also agreed to keep salaries in the public sector frozen in 2010 and set the overall deficit for 2010 at about EURO 1.3 billion -- around 4% of the GDP.

At the beginning of 2010, the recovery is significantly slower than expected partly was the result of continued insecurity caused by the Greek debt crisis. This is the IMF blackmailed Serbia to pass a pension law to the parliament and make cuts in public administration before the it gives the final approval next draw. In IMF view 2010 and 2011 will be an other two difficult years for the Serbian economy.

(SETime)

¹³ ibid

¹⁴ Economic crises in CEECs. Vigerad.info, 24.09.2009

Ukraine

The treatment of the crises in Ukraine is lack in consequence of the everyday political quarrel at the Verhova Rada – the Ukrainian Parliament. In spite of the fact, that the current crisis caused not by the politicians, the situation is worsening if no consensus will be made.

In March 2009, the Ukrainian Parliament cut in half the salary of the president of state, the members of the government. This decision made by the Prime Minister Julija Timosenko remains in force until 2010. The Ukrainian currency hryvnia (UAH) devaluated by 40 percent between autumn 2008 and spring of 2009. (The time being 1 € = 11.50 UAH)

After lengthy negotiation the President on 19 November 2009 signed the Law of Ukraine No. 1533-VI, dated 23 June 2009, "On the Introduction of Amendments to Certain Laws of Ukraine for Overcoming the Negative Consequences of the Financial Crisis" (the "Law No. 1533"), which became effective on 24 November 2009.

The financial crisis in Ukraine has had the most severe hit on small and medium businesses. The state has to work hard to eliminate its consequences and to strengthen the institute of private entrepreneurship in Ukraine. The State Committee for Regulatory Policy and Entrepreneurship (CRPE) headed by Olexandra Kuzhel put forward an initiative to increase the income threshold of businesses which are allowed to pay a fixed tax from 500 thousands UAH to one million UAH and is trying in vain for last year to persuade the members of the Ukrainian Parliament to pass the relevant bill.

(Oksana Dugart)

ADDRESSING THE SME FINANCIAL GAP AND THE ROLE OF FINANCIAL INSTITUTIONS

The weakest chain loop to support the Central- and Eastern-European SMEs is the difficulties to access to financial resources. Below we show the situation in individual countries.

Bulgaria

Access to finance is a main constraint for investment and doing business as identified by firms in Bulgaria and particularly by firms with less than 100 employees, which more often than other firms report it among the top 3 constraints (World Bank, 2009) According to the Annual Report on the Condition and Development of SMEs in Bulgaria for 2007, SMEs used to a small extent external financing and relied mainly on internal sources of funds, which allowed them to remain independent from the financial institutions. Despite the credit expansion in Bulgaria in the recent years, the majority of SMEs at start-up phase (60%) used predominantly own financial fund, while only 20% used credit. About 45% of active SMEs report having access to credit. About 40% of these SMEs use trade credit and only about 20% use investment credit. Some SMEs rely on consumer credit obtained by their owners because of less stringent conditions for its acquirement. Even during the peak of credit expansion in Bulgaria, banking loans remained expensive for most Bulgarian SMEs. Newly established SMEs in Bulgaria and SMEs undertaking innovative risky projects tended to rely more on own resources than other SMEs. Approximately 3 of every 4 Bulgarian enterprises finance their innovative activities with own financial resources.

A recent survey in EU member states reveals that 11.8% of Bulgarian SMEs report access to finance as the most pressing problem they are facing. More than 68% of Bulgarian SMEs have used internal funds in the past 6 months. With respect to external financing in the past 6 months, Bulgarian companies use mainly credit, leasing or factoring schemes:

- bank overdraft, credit line or credit cards overdraft – 17%;
- bank loan (excluding overdraft) – 20.9%;
- trade credit – 9.6%;
- leasing or hire-purchase or factoring – 23.9%.

The banking sector in Bulgaria is the main source of external financing for Bulgarian SMEs because it is more developed and controls more resources than non-banking financial institutions. In the last years, the interest of banks operating in Bulgaria (24 licensed banks and 6 foreign banks' branches) to SME financing was increasing due to the increasing competition and the general upsurge observed in the banking sector. In 2008 Bulgarian Development Bank was established to support the development of the Bulgarian economy by

promoting export and supporting the implementation of the economic policy of the government in terms of SMEs.

Most Bulgarian banks compete to attract SMEs as an important set of business customers offering financial instruments designed particularly for SMEs including investment loans, mortgage business loans; specialized loans for SMEs; credit lines, overdraft, etc. Some of these financial instruments are designed particularly for micro-enterprises or for SMEs in specific sectors such as agriculture. Innovative financial instruments for Bulgarian SMEs offered by some banks consist of various loan schemes considered with the funding and implementation mechanisms of the projects financed by the EU Structural funds.

Several loan guarantee schemes for SMEs operate in Bulgaria. The National Guarantee Fund, which is subsidiary of the Bulgarian Development Bank, support all micro, small and medium-sized enterprises registered in the Republic of Bulgaria and meeting the criteria of the Act on SMEs. The Fund will guarantee up to 50% of the loans to SMEs and the maximum term of the guarantee is 10 years. The Guarantee Fund for Micro-crediting established by the Ministry of Labour and Social Policy provides access to crediting resource by small and middle enterprises, unemployed physical people, craftsmen, co-operations and agricultural manufacturers, and starting business.

Business incubators are another way to provide financial assistance to SMEs and new businesses but their importance in Bulgaria is limited.

External financial resources for SMEs from venture capital funds and business angels are already available in Bulgaria but are rarely used by Bulgarian SMEs. These financial instruments are targeted at innovative business ideas, risky projects, and start-up companies with high growth potential. Both Bulgarian (Advanced Equity Holding, Capital Investment Fund) and foreign venture capital funds (NEVEQ (New Europe Venture Equity), Trans-Balkan Bulgaria Fund, Caresbac Bulgaria, etc.) operate in Bulgaria. The Capital Investment Fund is a subsidiary of the Bulgarian Development Bank, which aims to aid the development of Bulgarian SMEs with a proved potential for development, good financial condition and stable, but not dominant presence on the market by providing venture capital. There are also private equity funds (Global Finance, GED, SigmaBleyzer, Balkan Accession Fund, etc.), which sometimes invest in new companies. The Bulgarian Business Angels Network (BBAN) comprises private investors interested in doing business in Bulgaria and other South East European countries.

The National Guarantee Found – a subsidiary of the Bulgarian Development Bank – will guarantee up to 50 % of the loans to SMEs. The Found is in process of establishment.

(Desislava)

Croatia

According to the World Bank Doing Business 2010 Report, Croatia took 61. place from 183 countries included by research, when it's about of total conditions for getting credit for small and medium entrepreneurs. That rank represents improvement for 7 places comparing with the same period of last year, but in the aspect Croatia is still behind countries from region.

Research, done by UMIS-SMEA and ESBA in March and April of year 2009, was grounded on on-line questionnaire participated with 254 SME and focus groups with total of 19 company owners from different economy sector ¹⁵. According to the research results, 74% of respondents reported problems with accessing funds. Of those responding to this multiple-choice question, both starting and existing businesses reported not getting a loan was their biggest problem (32% and 31% respectively). Not being able to get help with access to finance was slightly more reported by new companies (27%) than existing firms (21%). Not being able to write a business plan was a problem for new as well as existing businesses (14% and 13% respectively). A specific question with regards to the impact of the Financial Crisis was answered by existing businesses. 35% saw reduced demand more of a problem than access to finance. 26% of complaint that interest rates have been increased and profits have reduced. 13% had their overdraft or loan withdrawn.

Croatian Bank for Recover and Development was founded in year 1992. It is bank for progress and export of Republic of Croatia with basic task is encouraging Croatian economy. Founder, and 100% owner of HBOR is Republic of Croatia. Activities of Croatian Bank for Recover and Development are:

¹⁵ Small Business in Croatia 2009, Brussels, Belgium, European Small Business Alliance, 2009.

- Financing of recovery and development of Croatian economy,
- Financing of infrastructure,
- Encouraging of export,
- Development support for small and medium undertaking,
- Nature saving encouraging,
- Ensure export of Croatian goods and services from non-market risks.

Looking for all HBOR's programs, interest rates are from 2,6% on annual basis, what is more favourable than commercial banks interest ones.

HBOR develop wide palette of credit programs, especially adjusted for new undertakers, innovative undertakers, exporters and farmers. As the answer to the crisis, in year 2009 new program are installed: solvency, permanent turning capital, production crediting and tourism season preparation. Credit program of solvency is assigned for companies, handcrafters and institutions with intention for paying debts to suppliers, financial institutions and other short term bonds. It is onetime payment with 7% annual interest rate.

Tourist season preparation crediting is assigned for acquisition of goods and services for tourist season preparation, for better service to tourists. Mentioned includes acquisition of food, beverages, small inventor, normal up keeping, salaries cost and service cost. The lowest credit amount is Kuna 80,000 and the highest is Kuna 10 million.

In cooperation of business banks, Ministry of enterprise work and entrepreneurs and regional government, program of micro crediting was established. Program is assigned for small and medium entrepreneurs for mostly production work. Minimum credit loan is Kuna 35,000 and maximum Kuna 200,000.. Payment period is 5 years, and interest rate is subventioned with one percent from Ministry and regional government-county, so for final user's interest rate is lowered to 5% annually.

The Croatian Agency for Small Enterprise (HAMAG - Hrvatska Agencija za Malo Gospodarstvo) is a state agency aimed to 3 basic group of activities:

- Giving guaranties on credits to small and medium entrepreneurs
- Operative stimulation of small and medium entrepreneurs by Ministry of enterprise work and entrepreneurs
- Co financing of consult services for small and medium companies

In context of finance small and medium companies, the most important role of HAMAG is to provide guarantees for credits. Guarantee is entrepreneur's helping instrument for those who do not have needed collateral for getting credit from bank. HAMAG guarantees credit payment to a bank, up to specific capital percentage, depending of guarantee program.

(Krsti•)

The Croatian Agency for Small and Medium Enterprises - HAMAG – is providing guarantee for SMEs. All details of their procedures should be cleared in direct contact with the Agency.

Romania

Due to the EU integration one of the most important Economic changes was the transformation of the banking sector.

Adoption and implementation of the Romanian Fiscal Code by Law no.571/2003 (It took effect on 1st January, 2004) constituted a meritorious work in trying to reclaim the past, expressed by normative inconsistency and in trying to harmonize the Romanian legislation with European law, with the principles of EC Treaty and the jurisprudence European Court of Justice. Business development intended Romania's alignment with the European legislation, reason for which it has assimilated as overriding objectives the ten courses of action set by the European Charter for Small Enterprises, the coordination and implementation strategy being entrusted to the National Agency for Small and Medium-Sized Enterprises and Co-operatives. Therefore, in Law no. 346/2004 we can find provisions regarding the administrative procedures (the SMEs protection is assured in their relation with the state; the simplifying of administrative procedures), access to public services and assets belonging to autonomous administration, national companies and state-owned companies (unifying the stages of notices and preliminary agreements issue, priority access to the hiring,

leasing or purchasing of available assets), priority access to public acquisitions of goods, works and services (they benefit from 50% discount for criteria related to turnover, warranty; they can benefit from technical consultancy, access to information electronic services), information services, assistance and consultancy, stimulation of the research – development and innovation authority, professional training (training programmes supported by the National Agency for Employment, state-owned and private educational institutions), small and medium-sized enterprises transfer (it refers to continuity, job security, the stimulation of economic activities), development programme (facilitating access to financing, non-reimbursable grants, the set up of guarantee funds, promotion of foreign investments, etc.).

Romania's flat tax system of 16% on personal income and corporate profits, which went into effect on 1 January 2005, is one of the most liberal fiscal policies in Europe and was introduced in order to boost spending power and salaries, encourage foreign investment and greater consumer spending. In consequence of this decision the GDP grew by 4.1 percent in 2005 and 7.7 percent in 2006.

After years of record economic growth fueled by easy credit and heavy foreign investment, people here are bracing for a sharp slowdown. As Ilie Serbanescu, economist and former government official said. "The entire Romanian economy is in the hands of foreign companies. If the international situation is good, then it's no problem. But if the situation is not good, like now, we are in trouble." Romania's biggest problem is its current-account deficit: Far more money has been pouring into the country than going out. Much of the money comes from the estimated 2.5 million Romanians -- more than 10 percent of the population -- who work in countries such as Italy and Spain and send earnings back. However, the Government does not know what to do with this money. This is why Romania has been forced to accept bailouts from the International Monetary Fund.

(Dr. Zsuzsanna Szabó).

The state SME support infrastructure is the most varied among of all CEECs. National Agency for Small and Medium-Sized Enterprises and Co-operatives is part of the Ministry for Small and Medium-sized Enterprises, Commerce, Tourism and Liberal Professions of Romania. The agency provides support to SMEs in many areas, including:

- § Support for implementation of international standards for increasing competitiveness through access to new markets and internationalisation;
- § Training for Romanian entrepreneurs through the UNCTAD/EMPRETEC programme and the Centre for Training, Management and Consulting;
- § Development of a guide for young entrepreneurs, sample business plans and a guide to funding sources for SMEs.

The financial portal for SME sees at www.finantare.ro.

The Romanian banking system, which consists of nearly 40 banks, except of the CEC saving bank is totally private. According to market share the largest bank is the Romanian Credit Bank – BCR -, which is already the property of the Erste bank. The next one is the French BRD-Societe Generale, followed by the Austrian Raiffeisen Bank. The fourth bank is the HVB Tiriak Bank, a part of the Unicredit group. The Hungarian OTP has full coverage in the country.

In the field of microcrediting we are eyewitness of several experiences. One of the first institutions is the Opportunity Microcredit Romania – OMRO -, which is part of the Opportunity International Network. During its 14 year of operation in the country OMRO provided more than 12,000 credits worth of USD 45 million and created more than 4,000 jobs.

On 1 July 2002, the MIKRO Bank was created by the EBRD (with 22.5 % share), Commerzbank (22.5 % share), IFC (22.5 % share), IMI (10 % share) and the German DEG/KfW (22.5 % share) with a capital of USD 9 million. In 2004, this bank was transferred to ProCredit Holding AG, a group with 21 financial institutions working in more than 830 branches, were serving 3.1 million customers in Eastern Europe, Latin America and Africa. The Romanian ProCredit employs nearly 1,000 people and operates in 43 branches.

(Dr. Antal Szabó)

On July 12 2007, the European Commission approved the European Regional Development Fund (ERDF) Operational programme for Romania for the period 2007-2013, entitled "Operational Programme Increase of Economic Competitiveness". The total budget of the programme is around EUR 3 billion. The Ministry of Economy and Finance the priorities determined as following:

- Modernization of the processing industry by new investments;
- Nation-wide application of international standard procedures; and
- Support to access to new markets and internationalization.

There is no credit guarantee scheme in Romania.

Slovakia

There is a wide range of programmes, funds and loans available for the support of enterprise, which may be divided into public sector financial instruments and private sector financial instruments.

Public sector financial instruments – the range of such instruments and the volume of finance provided by them has gradually increased since the accession of the Slovak Republic to the EU. For the 2007-2013 programming period, Slovakia will be able to take full advantage of the possibility to make use of EU funds. The greatest contribution to the increase in available finance has come from structural funds (European Regional Development Fund and the European Social Fund) and the Cohesion Fund.

As an EU Member State, Slovakia also plays a role in Community Initiatives, the aim of which is to assist the mobility of students, life-long learning, innovation, culture, the media, tax policy, growth in competitiveness and other areas. After receipt of financial support from public finances, public procurement procedures must be used when awarding public contracts.

For the 2007-2013 programming period, a total of 11 operational programmes are available from the structural funds, of which the Operational Programme 'Competitiveness and Economic Growth' (CaEG) is directly aimed at the support and development of enterprise. Further operational programmes complement CaEG and indirectly support the development of enterprise, for example through education and research and development.

The Operational Programmes for Agricultural and Rural Development and Fisheries are aimed at entrepreneurs active in the field of agriculture and piscine culture.

In contrast to the aforementioned operational programmes, one of the conditions set by the supranational and bilateral programmes is the creation of a supranational or bilateral partnership. Supranational programmes which, either directly or through the provision of assistance for the support of the development of innovation, give aid to enterprise and which territorially pertain to Slovakia include the following operational programmes: INTERREG IIIC, INTERREG IVC, Central Europe, and South East Europe.

The community initiative is a European Union instrument used for deepening cooperation and resolving the common problems of EU Member States in relation to particular EU policies. For the programming period 2007-2013, 21 community initiatives are available, of which the 2nd Competitiveness and Innovation Framework Programme and the 7th Framework Programme for Research and Development are considered to be key with regard to the support and development of enterprise.

The regulations governing State assistance for the support of enterprise is set out in the Act passed on 1st January 2008 on investment aid, pursuant to which investment aid for the support of initial investment and the creation of jobs is provided in the following forms:

- subsidies for the acquisition of long-term tangible assets and long-term intangible assets,
- income tax relief pursuant to special regulations,
- contributions for newly-created jobs,
- transfer of non-movable assets or the exchange of a non-movable asset at a price lower than the general asset value.

In the Government Department of Agriculture, State assistance is provided in the form of grants and subsidised goods and services. These are mainly support measures for small and medium enterprises. The legal

framework for the provision of State assistance is set down in the Slovak Governmental decree no. 369/2007 Coll. on Certain Agricultural Support Measures.

Establishment of the start-ups is regulated by the Trade Codex No. 513/1991. Coll. Support to SMEs in Slovakia is provided from several sources, both on state and private level. Central pillar of State economic policy for support for the creation and development of small and medium enterprise is the Ministry of Economy of the Slovak Republic which, through the National Agency for the Development of Small and Medium Enterprise (NADSME), endeavours to strengthen the competitiveness of the sector within the framework of the EU single market and in third country markets through the application of four basic priorities:

- stimulation of growth in the sector,
- enhancing its competitiveness,
- internationalisation - penetration of new markets,
- the facilitation of the access of SMEs to funding sources

In 1997 the agency changed its legal form into the professional association of legal entities

Support of SME crediting is provided by 15 Regional Advisory and Information Centres (RAIC) and 5 Business Innovation Centres (BIC) in the country.

Slovak Chamber of Commerce and Industry is an independent representative of the market economy protecting the interests of entrepreneurial subjects, supports their development and expansion in the national European and global dimension, mainly through influencing of creation the entrepreneurial environment.

EURES system aims to ease the freedom of movement of workers within the countries of the European Economic Area. It provides information on employment opportunities, assists employers who are trying to find workers from other countries and provides special advice for employers and workers in border regions.

Microcrediting is available for the following activities:

- Registered enterprises with trading license or permission to carry out business activities,
- For SMEs with up to 20 employees;
- Enterprises which carrying our activities in connection with the local regional development aims.

It is remarkable that from 1 January 1009, the interest rate of microcredit loans was decreased up to 4.99 %

Slovak Guarantee and Development Bank provides various guarantees, contributory and credit programmes for entrepreneurs. It also has a great deal of experience in the provision of financial support related to EU funds, especially in the form of long-term investment loans.

(Dr. Gál)

The Slovak SME guarantee system is one of the oldest and more advanced financial systems in CEE.

Serbia

In mid 2009 the Republic Agency for the Development of Small and Medium Enterprises and Entrepreneurship (RADSMEE) in cooperation with the Institute for Statistics conducted a very elaborate survey on the conditions, needs and problems in small and medium-sized enterprises and entrepreneurship in Serbia. 40% out of 3000 surveyed entrepreneurs and SME owners pointed out that the most important external sources of financing are actually domestic loans (in dinars) provided by the commercial banks; 15% of the surveyed opted for borrowing from friends and family, while 14% chose leasing. 17% of the surveyed referred to various sources from the broad scope of state support (this time we summed up all sources that are connected with different mechanisms of state support).

Majority of the loans for SMEs is provided by the commercial banks. SMEs are complaining because in addition to difficulties in accessing to credit 22% of the entrepreneurs complain due to the high interest rate and 16 % for high costs of the credit.

One of the problems which SMEs in Serbia encounter is the lack of mechanisms of microfinancing. Serbia still has no Law on microfinancing or microloans. To speak the truth, some commercial banks have entered this field, but without clear legislation there are not many facilities which small and medium business owners can use. This is a particular weakness and we think that it is one of the priorities in the following period.

Diversification and development of new sources of financing for SMEs sector in Serbia are the imperatives. Relying exclusively on their own sources, expensive and hardly accessible bank loans and restricted sources of government and international support patterns is not sufficient for serious growth of the sector of small and medium enterprises. The need for more dynamic growth of this sector gives incentives to development of entrepreneurship and requires the authorities (Government, Central bank, agencies, all participants) to support development of alternative sources of financing. Without that there are no significant investments, innovations, competitiveness and capacity of the sector to become export orientated.

Currently, there are no venture capital firms and business angels in Serbia. There are no microfinancing mechanisms as well, and there is no Law on microloans. On the other hand, financial system is bank-centric which means that banks are dominant as the major players. Capital market is less developed, mainly as a consequence of issuing shares in the process of privatisation. There were no real initial public offerings (IPO). Not a single small or medium enterprise appeared on the Belgrade stock exchange as the issuer of shares during the last 10 to 20 years.

It would be necessary to create credit guarantee scheme and venture capital facilities.

(Dr. Dejan)

In mid-2004, as part of its support for economic development the UNDP within the framework of the South Serbia Municipal Improvement and Recovery Programme established a guarantee fund. While credits of up to €5,000 had been available for small businesses and in excess of €100,000 were available for large companies, many SMEs struggled to obtain loans in the €10,000 – €50,000 range, due to the absence of loan collateral. Not only do banks in Serbia often request 200 percent collateral for a loan of this size, but most property and land holdings—particularly those outside Belgrade—are not registered in the land cadastre, so that title of ownership cannot be used as a guarantee. Even when property is accepted as collateral, banks often put a low value on it. Most of the guarantee fund's lending capital (some \$240,000) has been provided by the Norwegian Government via UNDP.

(Tom Thorogood, UNDP).

The Serbian Development Fund provide a certain guarantee for selected investments. The South Serbian Guarantee Fund was a successful project and it created a basis for further development.

Ukraine

Ukrainian small and medium business was the first to suffer from the shock of crises. The reason is that it does not have enough reserve resources and insurance mechanisms for independently overcoming the pleasure of crisis. One of the biggest obstacles for SME's activity is a lack of financial resources.

Majority of Ukrainian banks, such as Ukrsotsbank, Raiffeisen Bank Aval, Praveks Bank, Prokredytbank etc have frozen providing corporative credits for small and medium business. Only several banks, credit unions and direct investment funds still give credits to SME as they used to do this before the crisis.

In 2009, bank credits for corporative sector became almost 1, 5 times more expensive comparatively to 2007 and beginning of 2008. Now interest rate for credit to big companies is annual 20-25% in local currency (a year ago credit interest was 15-17%). Bank credits to small and medium companies are more expensive than to big businesses: from 30% to 50% annual in UAH. However, those who earn dollars or euro receive more attractive credits: 15-17% in euro or USD.

Today practically all banks give credits for business only with real property as collateral. Upon switching of majority of companies to grey reporting is it practically impossible to evaluate real situation at the enterprise, and banks offer businesses compensate lack of information about company with liquid collateral.

Few credit unions still provide credits for small business. Usually one can borrow only about 10-20 thousands of UAH (about 800 to 1700 euro) and mostly they are given to individual entrepreneurs. Interest rates are higher than in banks, for example, credit union «Narodnyi kredyt» propose credit at 47,6% annual interest rate. In order to borrow money in a credit union entrepreneur must bring warrantees and provide

liquid collateral. Without collateral and warrants credit union can provide at most five thousand UAH or about 450 euro.

Unfortunately no credit guarantee system exist is Ukraine.

There are several foreign funds of direct investments, which actively invest in Ukraine, such as East Capital, Sigma Bleyzer, Horizon Capital, Icon Private Equity. Before crisis this organizations were usually buying minority package of shares of Ukrainian company, invested money into its development and later were reselling their package 2-3 times more expensive. With the crisis investors' approach practically has not changed. Foundations continue evaluating how perspective is Ukrainian business to grow and be sold in the future.

(Oksana)

Establishment of state credit guarantee fund for SMEs is only discussed in Ukraine. The risk of investment is totally bear the entrepreneurs.

FUTURE TASKS IN THE FIELD OF DEVELOPMENT OF THE SME SECTOR

Bulgaria

According to IMF, the sectors that have contributed the fast economic growth in recent years such as financial sector, real estate, and construction are likely to decline in the near future because of a prolonged drop in capital inflows due to the global economic and financial crisis. The IMF calls for a market driven reorientation toward the tradable sectors, which will only be possible if the rapid rise in unit labour costs of recent years comes to an end and if there is swift implementation of measures for raising productivity and enhancing human capital.

Despite the problems in the sector "Agriculture, forestry and fishing" during the last 20 years caused by wrong reforms, lack of control and insufficient efforts to meet EU requirements, some experts believe that the sector could help the Bulgarian economy to overcome the international economic and financial crisis and will be attractive for investors after the end of the crisis. Other sectors with future growth potential are ICT sector, production of renewable energy, road construction and manufacturing of food products, pharmaceutical products, cosmetics, and chemicals and chemical products. The main challenge to Bulgarian SMEs in the future will be to remain competitive within the global market and to increase their capacity to expand to foreign markets.

Socio-demographic changes will exert an increasing influence on SME development in Bulgaria in the future. Bulgaria's population growth rate is currently negative. Population reduction has been compounded by emigration and brain drain. In addition, due to deterioration of Bulgarian education system the need for qualified employees will be growing. These changes will present challenges to Bulgarian SMEs for recruiting, developing and retaining employees.

(Desislava)

Croatia

After the passing of the crisis, Croatian accession to the European Union is imminent, and that will probably render specific opportunities and threats for small businesses. A new market, networking with new partners, the disappearance of customs barriers which will accelerate the circulation of goods and services, and thus reduce costs, are some of the opportunities that will be opened to small businesses with the accession of Croatia to the European Union.

On the other hand, it will bring about increased competition, and it will be a challenge for the "battered" small and mid-sized businesses just emerging from the "crisis" to be ready to face the upcoming tasks, and the competition from the European Union. Globalization will probably bring forth even stronger competition from the emerging markets of the East.

In the performed analyses, the most part of the business entities were covered (although there are no craftsmen) who represent small businesses according to the Business Incentives Law which gives a good insight into the importance of this segment of Croatian economy from which it can be concluded:

- Croatia has recognized the importance of small businesses on the overall development as have the EU countries
- The Croatian government has modulated its regulations on small businesses with that of the EU

- Implementation of incentive measures by providing support to various projects for small businesses

Economic experts presume that the Republic of Croatia will, after the fall of GDP by 3% in 2009, have an increase of 1.5% in 2010. The economists' optimism is led by the presumed optimistic tendency of the motivation index

With the matrix model analysis the structure of small businesses in regard to enterprises is estimated. The largest increase in shares of small businesses is expected in real estate, renting and business services, which have, in the last years, demonstrated high margins opposed to profit. With regard to the dynamics of the demining of arable land, and plenty of attractive eco-farming plans, more agricultural enterprises are expected. The consequences of the recent gas crisis that rocked Europe gave way to small businesses in this area of expertise through opening small renewable energy production drives, so economic growth is expected in this branch of small businesses. Since infrastructural and economic facilities, neglected because of the effects of war and later during the transition period and the squalid economy, are to be built, further growth is expected in the building industry sector in small businesses that occur very often as subcontractors of big companies. In the plan for development, we should also mention the development of the pillar of Croatian economy, tourism. There is room for development in this segment too, for small family hotels, restaurants with traditional gastronomic delights and similar facilities. Given the favorable geographic and traffic conditions in Croatia, the traffic business and infrastructure are extremely important factors for overall economic and social development of the state, so there will be prospects for development in this sector, but this segment has the lowest development because of the conditions of the vehicle fleets that will have to adapt to higher standards of the European Union.

(Krstić•)

Romania

The adverse effects of the financial crisis are visible particularly in the sector like commerce, constructions and real estate. The main effects of the financial crisis, with the repercussions on companies are: declining exports, diminished investment, and the liquidity blockage

Solutions to survive the crises from the point of view of managers, entrepreneurs are reorient the activities to more profitable business area (we have to remark that the majority of SMEs have limited the activities to 12 CAEN activity and exists 62 activity- it means that SMEs not diversificate activities, were not used all the opportunities); companies must take recession – proofing measures, have to cut costs for services.

The most important measures to save SMEs considered by the representatives of the National Associations of Romanian Employers are: resuming, credits, VAT payment by companies on collecting, deduction of excise duty on gas, electricity and fuel, facilitation of government guaranteed loans, regulation of the price of raw materials by the Competition Council, reorientation of the business to more profitable activities, deduction of social contributions, financing from banks and access to funds from CEC Bank and Eximbank

According to the White Charta of Romania SMEs Romanian SMEs propose to choose the following possibilities: to moderate extension of business (54, 08%); the rapid extension of business (6.85%); to sell business (2.91%); closing down of business (1.22%).

The anti-crisis plan propose for SMEs: tax exemption for reinvested profit, capitalization of CEC Bank and Eximbank, making the Counter-Guarantee Fund for SMEs operational, earmarking large funds from the state budget to promoting exports, and increasing the state's contribution to financing this activity. Romania is not in EUROzone therefore in the last month of 2008 and in 2009 have to confront with the depreciations of the national currency. In the case of Romania, according to the EC, the budget deficit in 2008 reached 5.2%.

Between October 2008 and March 2009 were registered the following data: 57, 58% of SMEs reduced their activity (generally enterprises between 10-15 years of activity); 23, 39% are working in the same conditions as before the crises (generally the youngest enterprises); to go bankrupt 14, 80% of SMEs (generally enterprises with activities under 5 years or up to 15 years) and 4, 23% of SMEs have an ascendant evolution (generally enterprises between 5-10 years of activity).

(Dr. Zsuzsanna Szabó)

Serbia

Having compared Serbia with other countries in transition, we could say that there is a significant level of entrepreneurial culture. In ex-Yugoslavia, business people in Serbia could travel freely and accept the newest achievements in marketing and management in the developed western countries. Years of sanctions and isolation caused loss of that competitive advantage, but not entirely. High flexibility and the ability to accept changes quickly is the great advantage of the SMEs sector in Serbia.

On macro level, Serbia has not completed the process of transition of the real sector yet. During the last year several big changes took place which could have influenced business of some big companies, having at the same time important implications on business activities of many SMEs. Here are several examples:

- Arrival of the Italian Fiat – which became the majority owner of the only Serbian producer of Zastava cars from Kragujevac.
- Oil industry of Serbia sold to the Russian partners.
- Announced liberalisation of the services of stationary telephony from January 1, 2010 which would replace monopoly of Telecom Serbia.
- Announced construction of the pipeline and large gas storage facility Juzni tok (South Stream) from Russia towards West Europe – which puts big company of Srbija gas in the first plan

There are big opportunities in the following:

- Further development of domestic market – despite the drawbacks caused by the global crisis. It is the market which grows and develops. Apart from that, there are huge possibilities for export, first of all in the countries in the region – CEFTA, Russia, Turkey (with which Serbia has signed agreements on free trade)
- Great support provided by the Government of the Republic of Serbia to the development of entrepreneurship and small and medium-sized businesses. Although financial resources are limited, awareness has been raised in Serbia on the importance of entrepreneurship and concrete efforts are made which show determination to provide support to this sector.
- International support – both financial and non-financial.
- Developed institutional infrastructure for offering a set of services to entrepreneurs, starting from provision of information, training, financial support and consulting, etc.

In political sense, still sensitive political situation – Serbia does not recognise Kosovo independence; it is not a candidate for the EU; it has problems with the extradition of Ratko Mladic accused with the Hague Tribunal for war crimes in Bosnia and Herzegovina.

In some segments, insufficient legal regulations and firm legal framework hamper the development of the SMEs. The Government of the Republic of Serbia in 2009 announced guillotine of regulations and solution to some problems.

Further development of the SMEs sector in Serbia could be expected. Many macroeconomic parameters speak in favour of the fact that Serbia has bright prospects and stable growth rates in future. The influence of the world economic crisis hindered these trends. It also showed certain systemic weaknesses. In our opinion one of the weakest links refers to financing SMEs sector. Currently, two groups of external sources of financing are dominant – patterns of state support and bank loans

It is difficult to say who would grow and who would die off in future. The example of Serbia shows that SMEs sector is very vital and durable in relation to many negative influences from the external environment. Changes would happen for sure, but it is difficult to predict in which field. We can conclude that it would happen to those entrepreneurs who do not understand the need to improve knowledge and apply continuous innovations and who do not accept international business standards.

Finally, it has to be pointed out that the crisis struck the middle class in Serbia which has started to develop. Without developed middle class there is no political stability and true democratisation of the society. Having in mind recent past of Serbia, characterised by isolation and extreme nationalism, the impoverishment of the middle class can represent a particular social problem.

(Dejan)

Slovakia

The recent economic success can be attributed to past progress with privatization and improvements in the business climate. However, the current government has taken decision not to proceed with important

privatizations of strategic enterprises. On the other hand, improvements in the regulatory environment and labour market attracted foreign direct investments in huge numbers and created favourable trading conditions for Slovak SMEs.

Although the economy is dominated by the automotive sector, there have also been important investments in the electronics sector. Except of these two sectors, financial sector has also made great, impressive progress within several past years in catching up to the productivity levels of developed EU countries. This highlights the continued need for financing of SMEs and infrastructure reforms. Increased labour market flexibility lowers regional differences and high structural and youth unemployment.

The rate of unemployed people decreased to record level of 9 percent in 2008. Due to the economic crisis and only few radical necessary actions and impacts of the government, the unemployed rate increased back to high level almost 13 percent in 2009. In July 2007, the government approved a new labour code that tightens labour protection laws and increases worker's rights.

The other chance for SMEs for new businesses is to participate in PPP projects supported by the government and local municipalities. Unfortunately, entrepreneurs have few information how to contribute and in which calls. Noteworthy for private sector is participation in district heating. Limited and rare opportunities for SMEs are their participation in public transport, water and waste management.

Innovative projects will be from the area of energy projects, since Slovakia has significant geothermal potential.

Great contribution of the government will be paid to construction industry and to heating of blocks of flats. The Slovak government decided to invest more than 71 million € from selling the emission quotas for heating. It will increase the employment in the construction industry sector as well as number of orders for these SMEs.

On the other hand, SMEs performing in hotel and accommodation sector, restaurants, and agriculture are expected to bankrupt in big numbers. They have noticed significant drops in their revenues due to decreased number of tourists and common Slovak and foreign customers.

Despite of positive trends that are expected by not only Slovak experts but also by European Central Bank, IMF and other institutions, it would take longer time before the unemployment rate starts to decrease and even GDP starts to increase at least in the same manner as it did in 2008. It is expected that unemployment rate will increase up to 13.5% in 2010 and only from 2011 it will start to decrease to 12%. The same not very optimistic expectations are dedicated to GDP growth. While GDP grew in 2008 by 6.4 percent, in 2009 it will decreased by 5.4% and in 2010 it will rise by only 1.5% and by 2.5% in 2011.

(Dr. Gál)

Ukraine

At the present stage of Ukraine's economic development, when it is recognized as a country with market economy, it is necessary to analyze existing problems in entrepreneurship provided that Ukraine has joined the World Trade Organization and is developing new ways of cooperation with the European Union. That is why the problems of institutional and financial support to SMEs are especially important.

According to the Ministry of labour, number of unemployed will grow 2.4 millions of persons before the end of 2009. All of them are potential candidates to be involved into entrepreneurship because unemployment centres are not able any more to accommodate them.

The most pessimistic prognosis says that there is no long-time perspective for majority of the Ukrainian SMEs. Human resources management, marketing approaches, evaluation of perspective investments, – everything has changed or is going to change as a result of the crisis. Thus, the experts predict that only those entrepreneurs have the future, who will quickly understand that their profits depend on loyalty of their geographically closest clients, in clever selection of their own „niche“, in loyalty of employees, which have been grown in the company and not «bought» on the labour market for often an overstated price.

However, successful solution of the SMEs problems under the crisis may change the situation for a more optimistic. If the state will create favourable conditions for functioning of existing SME structures and smooth entry of unemployed into the small business, in this case entrepreneurial potential is able to become a powerful resources in solving, first of all, social problems (overcoming unemployment and lowering social tension) and, secondly, will help filling gaps in budgets of different levels and strengthening of regional economy.

Who can save and develop further the Ukrainian economy? Family owned companies, family farms, small and flexible innovative client-oriented companies, which are able to offer unique product or service to their clients, for which it makes sense for a customer to pay.

Small and medium entrepreneurs refer to the world practice of overcoming crisis situation when certain regulated prices are not raised. SMEs organizations demand introducing changes to the Law of Ukraine «About prices and pricing» to prohibit increase of state fixed and regulated prices during the time of overcoming the crises in economy and implementing the actions towards financial and economic situation in the country. If such price rises is absolutely unavoidable, all the main agents of the market must be informed in advance.

Representatives of Ukrainian small and medium business need introducing of transparent „rules of game“, eliminating the barriers for business activities and encouraging competition. This will be a renewed approach to the development of local SME as an integral element of the Ukrainian economy.

(Oksana Dugart)

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Prof. Dr. Hans-Jürgen Weißbach
 Fachhochschule Frankfurt am Main, Fachbereich 3: Wirtschaft und Recht
 Institut für Entrepreneurship
 60318 Frankfurt am Main, Germany
 E-mail: weissbach@ife-frankfurt.net



FEELING AND OPINION OF GERMAN ENTREPRENEURS IN THE TIME OF CRISIS - HOW CAN WE BRING ABOUT A TURN TOWARDS ECONOMIC GROWTH? ¹⁶

The crisis of 2008/09 was considered as the most far-reaching and dramatic crisis since WW II, or even since the 1930s. According to the researchers of the IFO Institute Munich who are have been measuring a monthly business climate index based on the self-estimation of 7,000 companies since 1972, a dramatic decline of the business climate was registered between the long-term maximum reached in December 2006 (108,8) ¹⁷ and the lowest value ever measured in March 2009 (82.1). The decline of the medium term expectations was even worse (maximum in March 2006: 105.3 – minimum in December 2008: 76.9).

However, the number of insolvencies did not rise as much as expected. While in 2007 29.200 companies failed, in 2009 this number rose up to 32,700. This cannot be compared with the all-time maximum of 39,300 companies after the failure of the dot-com-economy in 2003. The relative mild impact the crisis had on many segments of small and medium business was due to the fact that it mostly concerned export-oriented industries and larger businesses.

CONSEQUENCES FOR EXPORT-ORIENTED COMPANIES WORSE THAN FOR LOCAL SUPPLIERS

From January to September 2009, a reduction of exports by 22 percent could be observed. In the same time, orders went back even by about 30 to 40 percent. Export-oriented core industries were much more hit by crisis than local suppliers. The fact that SME had not been so active on emerging export markets like India or Brazil has protecting them from the worst consequences of the cutback of exports. However, many well-reputed corporations in the retail sector crashed because of abstinence of the customers. Among these companies were Quelle-Karstadt, Woolworth, Schiesser, Rosenthal, Märklin and others. They did not only suffer from competition of internet-based business but also from high rents for their shops and management defaults.

As far as the SME were concerned, the most dramatic impact of the financial crisis were the liquidity problems which have been lasting since then. In 2010, 25 % of SME complain about the deterioration of loan condition compared with 2009. In 2010, 80 % of all companies got worse ratings according to the Basel II criteria compared with 2009. Even companies with good assets were badly rated because of cash-flow problems.

LESS FOUNDERS BY CHANCE, MUCH MORE BY NECESSITY

Germany clearly belongs to the cluster of innovation-driven economies in which the barriers to establish a start-up are rather high. Within this cluster, Germany has the lowest level of entrepreneurial activities of all nations of this sector (see GEM 2009) which is similar the trend in other rapidly aging societies (Japan, Italy.).

Only about 4 % of the German between 18 and 64 have have tried to establish their business in 2009 or during the 3 years before. This is rank 15 of 20 of the countries with innovation-driven economies.

¹⁶ Presentation was made on 6 May 2010 at the BSEC-KAS Workshop on “SMEs in global financial crises”

¹⁷ The business climate index is calculated as following: $I = 100 + (\% \text{ of companies expecting improvement}) - (\% \text{ of companies expecting deterioration of the situation})$.

848,00 new businesses (companies and start-ups with sole proprietors) were founded in 2009 which is 1.8 percent more than in 2008. However, 740,000 businesses were deleted in 2009 which is 1.1 percent more than in 2008. This makes a net increase of 108,000 businesses with 435,000 jobs. Among those jobs, 250,000 have been established in services, mainly in business-related services.

Three trends have contributed to this growth:

- the ongoing outsourcing process of services by big corporations
- an increase of the number of start-ups founded by migrants
- a strong increase of necessity founders caused by the recession. These founders are relatively old (35-44), and although well qualified, they often see that their chances to grow are limited by the crisis.

Among the German opportunity-driven founders (founders by chance), many estimate that they have good opportunities to enter international markets. While in 2009 the institutional framework is considered to be as good as never before, the market chances are estimated to be the worst since years by most of the necessity-driven founders.

INSTRUMENTS TO STABILIZE THE SITUATION

The German Government reacted to the crisis by the implementation of a range of instruments:

- Short-time work paid was paid from guarantee funds of the social insurance, concerning 2.2 million workers from October 2009 to March 2010. Most short-time workers are employed in the car industry, engineering industry and by suppliers of mechanical components. The wage guarantees were extended up to 2012. This helped to avoid a bigger employment crash. The increase of unemployment remained modest (about + 500,000). Much more men than women in bigger companies have been concerned by threat of job losses. At the same time, the reduction of temporary employment by about 300,000 served as a buffer to protect the core personnel of the companies. At the same time an increase of employment of women in services and part-time work could be observed.
- An economic stimulus package for local building trade, handicraft etc., financed by loans of € 15 billion plus additional loan guarantees.
- A microcredit program for loans under 20,000 € operated by the state-owned KfW
- A car scrapping incentive
- A programme to save banks by public equity
- A loan guarantee and equity fund („Deutschland-Fonds“) to assist companies that are under-capitalized with a volume of up to 100 million €. Under this program operated by the KfW bank, about 4.000 loan guarantees have been granted of € 5 million on average. This is much less than expected.
- For SME with small equities there have always existed loan guarantee banks as regional self-help organisations. For small founders without any equity, another program exists called “loan guarantee without bank” (Bürgschaft ohne Bank, BoB) provides loans up to € 50,000 €.

MOST MEDIUM AND BIG FAMILY-OWNED COMPANIES PROVED TO BE STABLE

95 % of all German companies are family- owned. They account for 42 % of the sales and 57 % of the employment, and their equity makes about 15 % of the balance sheet. They are a flexible factor in the economy, not aiming at maximal profit but at maintaining the substance of the enterprise. Only about 30 % of SME have released part of the employees during the actual crisis. However, they are more depending than ever on loans and afraid of each deterioration of the loan conditions.

Family business in Germany does not necessarily mean SME. The 300 biggest family-based firms make for € 1.1 billion sales (2008). 1/7 of them are busy on export markets, one third of them have a sales profitability of over 5 %. Their average equity ratio is greater than 30 % and their R&D rate makes 4.7 % of their turnover while the German average is 3.9 %.

However, the weaknesses of these bigger family-owned companies are differing not so much from SME: Their liabilities to banks are much higher than those of corporations (25 vs. 6 %).

The feeling and opinions of SMEs have not been affected much by the crisis but rather confirmed. Their great concern is being treated differently compared with big corporations. E.g. the car scrapping bonus ruined a lot of small second hand car dealers, short-time work with guaranteed wage fund was mainly in favour of bigger companies, etc. Moreover, they are complaining about the discrepancy between the huge programmes made in order to save the banks and the restricted volume and impact of stimulus packages for SME. Fears about a credit crunch and complaints about taxes and indirect labour costs are not in the foreground although the rate of failing credits in Germany is higher than in Russia.

SPRING 2009: A SUDDEN TURN – “WHAT CRISIS?”

The policy of cheap money showed impact very soon and changed the negative mood in the economy. Public programmes successfully compensated the reduction of bank loans. Since there was no real big credit crunch in sight, the IFO business climate index improved quickly.

- Business climate in April 2010: 101.6
- Actual situation in April 2010: 99.3
- Expectations in April 2010: 104.0

The first industries that recovered from the crisis were the export-oriented ones. Since December 2007, the relation between US \$ and € changed from 1:0.65 to 1:0.8. This means that the € has lost about 23 percent of its value which stimulated the export industries.

AFTER THE CRISIS IS BEFORE THE CRISIS

Many problems have remained in spite of the take-off:

- the dependence of the German economy on the global premium car markets remains
- the dependence on exports while interior markets are stagnating
- the fact that the swell of cheap money and wage guarantees are slowing down the process of structural change, creating new overcapacities or even bubbles
- deficits in entrepreneurial culture, spirit and education (see GEM 2009)
- the lack of motivation of the younger generation to takeover existing SMEs or to continue family business
- the aging society
- the trend of offshoring also complex services, not only of industrial production.

The crisis of 2008-2009 has proven the stabilizing impact of SME on the German economy but also their vulnerability. Their strengths are:

- High employment creation rate
- Stability over decades
- Quality production
- Loyal and highly productive human resources

Critical factors are:

- Low equity
- Dependence on bank loans

An ambiguous factor is the low innovation rate of SMEs. Innovation in German SMEs take place rather in design, quality, processes, marketing, not in basic technologies.

How can be bringing around a turn to economic growth? By

- Creating fair conditions in the competition between SMEs and big corporations
- Avoiding selective and expensive rescue programmes that are designed for particular industries
- Providing special loan and equity programs for SMEs for encouraging innovation, growth and export orientation
- Acknowledging the important employment and training function of SMEs and their positive impact on local and regional business development

Bashkim Sykja
 Director of Business Promotion Department
 Ministry of Economy, Trade and Energy
 Tirana, Albania
 E-mail: bashkim.sykja@mete.gov.al

**“ROLE OF SMES IN CREATING A FAVOURABLE
 ECONOMIC ENVIRONMENT AND REDUCING
 IMPACT OF ECONOMIC CRISES IN ALBANIA”¹⁸**



Dear Your Excellency Mr. Ambassador CHEBELEU, Dear Mr. FREHNER, Dear representatives of the diplomatic corps, Dear representatives of the BSEC countries, Dear Ladies and Gentleman,

First of all, let me welcome you all in Tirana on the occasion of this workshop organized by the Organization of Black Sea Economic Cooperation, the Konrad-Adenauer-Foundation Stiftung Ankara, and in cooperation with the Ministry of Economy, Trade and Energy of Albania.

I express my belief that this workshop will give a boost multilateral cooperation for the countries of this region, in particular for the sustainable economic development, support for private sector development and especially to small and medium size enterprises.

Economic Development Initiative for Black Sea Countries is considered one of the most important platforms and extensive cooperation between our countries. BSEC is an organization that has developed within its intergovernmental structure and inter-parliamentary, business, banking and academic dimensions up, which generate and implement concrete projects.

Are all opportunities and we welcome that BSEC organization will intensify cooperation for development of the private sector in projects for the development of SMEs, for innovation and transfer of technologies, energy, environment, etc. There is no doubt that the encouragement of projects and related activities, seeks also to bring cooperation between itself of the private sector in this region, as the main contributor to strengthening our ties in the field of economy and trade.

Concrete expression of this commitment to the BSEC, is the organization of this workshop, which is the focus of SME development taking into account the effects of global crisis that affects this sector.

This important event held in Tirana, also coincides with the start of the activities of the European week for SME 2010. European Week of SMEs is a pan European campaign coordinated by the European Commission, Directorate General Enterprise and Industry, which is guided by the principles of the Small Business Act, to stimulate activities in the field of SMEs at national or regional to enable the conduct of experiences and best practices and in order to promote their achievements.

Ladies and Gentleman,

According to Policy Index SMEs -2009, the OECD report, "Progress in the Implementation of European Charter of SMEs", noted that for the Western Balkan countries, the global economic crisis, it is not endogenous but it is imported from the main channels, and generated through trade exchanges, FDIs, access to finance etc., and that also extends its effects on SMEs

This crisis is felt more in exporting companies, who have links with European and world markets, as well as to those companies that display this period of crisis that have made capital investments. Exporting and Innovative SMEs in fact represent a small number of the total SMEs in Albania. Negative effects of crisis (for reasons of external factors) that appear on this business segment, obviously affecting the rest of the SMEs, and as a result in reducing economic growth.

Before the real pressure of a crisis in such a situation, governments of countries in the region are oriented towards the implementation of policies, funding and supporting vulnerable groups of SMEs to cope with this crisis. Among these may be mentioned, such as guarantee schemes, cost sharing grant schemes,

¹⁸ Presentation was made on 6 May 2010 at the BSEC-KAS Workshop on “SMEs in global financial crises”

credit schemes for exporting companies etc. Such financial schemes, the Albanian government has proceeded, and implemented since 2007, enabling the mitigation of effects caused by the global crisis. On the other hand the implementation of horizontal measures that affect the improvement of business climate and investment such as; regulatory reform, fiscal reform, e- government, business registration, licensing, etc., or the development of entrepreneurship, education and development of skills, are considered tangible areas with which the Albanian government is committed and has made remarkable progress.

Albanian Economy in recent years (2005 - 2009) recognized a positive and sustainable growth (with an average growth of 5.6 per cent), which in 2008 reached a value higher GDP growth of 8 percent. During 2009, the Albanian economy faces a shrinkage of its pace, with growth of real GDP for this year which is estimated at 3 percent, as a result of the negative effects of the global economic crisis, which were intensified especially during the half of second year. However, it is worth mentioning that the performance is satisfactory when compared with the economic progress of countries in the region (Bosnia and Herzegovina resulted in -3%, -5.3% Montenegro, Serbia -3%), indicating that the Albanian economy is a vital and optimistic.

According to the Bank of Albania, FDI inflow for 2009 is estimated at around 698 million EUR, or 3 percent more than the previous year.

Private sector development, particularly of SMEs, is one of government priorities. Today in our country operate about 105 thousand small and medium size enterprises, which contribute over 80% of GDP. According to INSTAT, SMEs represent 99.9% of the total number of enterprises and cover approximately 82% of the total number of employees.

Credit to the economy recorded a slight increase during the year 2009, although this year was affected by global financial crisis.

According to World Bank report, Doing Business in 2010, Albania is ranked 15th in the world for ease in securing a loan.

Loan portfolio during the year 2009 has reached 39% of GDP, with an increase of two percentage points compared with the same period of last year.

To improve the climate of SME financing in recent years have taken several measures related mainly to the introduction of credit guarantee schemes for SMEs.

- Creation and implementation of the Credit Guarantee Fund for exports in value from about 2 Million U.S. Dollars will continue to be used for a period of six years in support of SME exporters;
- Creation a guarantee fund loans to a value of 2.5 million, in the framework of the Italian program in support of SMEs, as an instrument that will facilitate access of SMEs to the banking system and loan's disbursement of 25 Million Euro;
- Continuation of the government grant for three consecutive years 2010-2012, named the Competitiveness Fund, in the amount of 250 thousand EUR, every year, will help SMEs to increase their competitive abilities.

A measure that makes more effective an SME policy development is the increased efficiency of institutions, simplifying administrative practices, the establishment of a stable fiscal regime, etc, which contributes in reducing the cost of doing business. We are in process of implementation of Regulatory Reform, which orients the long-term objectives aiming to create a transparent predictable, friendly and quality of environment, for the regulatory framework of SMEs.

Doing Business in Albania according to World Bank

According to Doing Business in 2010, the facilities of doing business in Albania is ranked 82 (out of 181 countries analyzed) from that ranked 86th a year ago, and the 136th in 2007. A series of reforms to reduce administrative barriers to business gave their results, namely:

- Registration of business within a day at the NRC, which operates as a one stop shop, and a minimum cost of 100 ALL (EUR 0.81). This has led to the reduction of time that registration of a business in one day by 28 days had in 2007;

-Reduce the time for opening a new business. Now five steps required for opening a new business by 10 steps that were needed in 2007 and only five days from 36 days needed in 2007;

-Operation of the National Licensing Center/NLC as a one stop shop, offering one-stop service for licensing and granting of permits. NLC works under the principle “silence is consent” and time for issue of a valid license within 2-4 days. For Group III licenses, which followed from line ministries, the time of issuing the license is 10-30 days.

In this context of this regulatory reform, the government in collaboration with the World Bank is implementing two important objectives: Regulatory Impact Assessment/ RIA, and Inspection Reform.

Ladies and Gentleman,

Free Trade Agreements in the Western Balkans region (CEFTA) and the implementation of the SAA with the EU, has brought in evidence the need to be focused even more on those factors affecting the improvement of competitiveness of the Albanian economy.

Comparing with other countries in the region, the SME sector is still considered at critical level in terms of entrepreneurship and innovation development, which constitute the basis of EU standards and that are indicators for measuring their performance.

To address these shortcomings, METE, referring to the Lisbon Strategy and in particular against the Small Business Act, is working in search of better instruments which will enable SMEs in Albania to move and develop according to the rhythm of EU entrepreneurship and technological innovation developments. In the framework of the EU Charter of SMEs, business innovation in Albanian market is lag behind compared to the other countries in the region.

There is a need for further improvements on business environment and innovation, such as business financing, through more viable investment funds, technology transfers and offering a more productive capital and resources.

The overall state of R&D infrastructure in Albania is not satisfactory. The technology and technical research equipment has improved in recent years, but is still insufficient. Public and private R&D are underfunded.

Any consideration of innovation and technology in Albania should be from two perspectives; - that of innovation and technology activity in the SME sector and that within Albania's academic sector – together with the lack of an effective “hard and soft infrastructure” that encourages innovation take up and can deliver innovation services to Albanian SMEs.

Albania presently lacks the effective hard infrastructure to facilitate the development and the promotion of innovation and technology and their use to achieve competitiveness; there are not the business incubators, technology parks or industrial zones that allow the “natural” development of innovation – together with the lack of networking or collaboration on innovation, the “soft infrastructure”.

The Global Competitiveness Report 2008 – 2009 ranks Albania's capacity for innovation¹⁹ as 134th out of 134. The Report also rated the country's quality of scientific research institutions as 133rd; University – Industry research collaboration at 134th and company spending on R&D as 119th out of 134.

The Reports 9th Pillar, Technological Readiness, also found that in the availability of latest technologies, Albania ranked as 104th out of 134 countries; enterprise technology absorption as 110th, with broadband internet connections (117th) and personal computer usage at 92nd.

Research suggests that there are few opportunities for active university and SME collaboration on matters of innovation and technology. The European Union's 7th Framework Programme for Research and Development (FP7) and Competitiveness and Innovation Programme (CIP) initiatives are seen as vehicles to encourage Albanian university and SME collaboration; but it has been observed that Albania lacks the institutional capacity to take a full and active part, and it also lacks staff with the experience to develop applications for CIP and FP7 actions. Programmes such as FP7 are required for many reasons, to ensure university and SME commitment to R&D and innovation, to attract the country's brain gain, to provide an outlet for science.

Innovation is the practical application of novelty. In commercial terms it brings financial benefits to the innovator and in economic terms to the society. In a knowledge based society it is strongly linked to technology. This may be through the development of new or improved technology or through the application of existing technology in a novel manner.

¹⁹ Pillar Twelve, The Global Competitiveness Report 2008 to 2009, page 85

Innovations in the commercial sphere produce new situations, worthy of research, which can then lead to further innovations.

Innovation - new situations- research- development- technology.

The National Strategy of Science, Technology and Innovation of Albania 2009-15 underlines the importance of modernizing economic sectors such the agro-food industry, and tourism, as well as the strategic importance of energy, environmental and water resource management.

The strategic goals can be summarised / quantified as follows:

- Increase public spending on research to 0.6% of GDP by 2015. A number of observers considered this target to be too modest; however, it would represent a significant increase compared to the current situation. Equally, it would be a higher relative share of GDP than a number of the less developed EU countries, other countries in the Western Balkans, and many emerging economies.
- Increase the share of gross expenditure on R&D from foreign sources notably from the EU (FP, etc.) and international donors to cover 40% of all research spending in the years 2010-2015;
- Create 4-5 Albanian Centers of Excellence in Science (ACES) including dedicated laboratory equipment or workspaces that could be used for new technology based firms (pre-incubation, testing, certification, etc.);
- Double the number of researchers, through 'brain gain' incentives and training of new researchers (establishment of graduate schools; train 100 PhDs). This will involve the creation, in synergy with the Higher Education Strategy action plan, of up to three new 'graduate schools' (or doctoral programs) in Albanian universities; these graduate schools should be in the priority areas selected by the Government in consultation with the national STI council and/or be linked to the selected centers of excellence.
- Increase innovation activity in 100 companies through their participation in R&D through own labs, or via consortiums with the academic research institutes (RI) or in partnership with foreign partners.

Among the five main programs over the six year period from 2010-2015 there is one of particular interest to the private sector, i.e.:

The National Technology Program aimed at bringing together consortia of academic research institutes with the private sector or other public sector organizations.

The strategy recognizes that technology diffusion and transfer activities are crucial in a transition economy such as that of Albania. It also notes evidence that suggests that researchers in both the Research Institutes and the universities are involved in "applied research" or service provision related to specific economic or societal needs. The strategy also states: 'there remains a need to professionalize and structure this flow of services towards enterprises.'

A complementary set of actions is necessary to complete an integrated innovation strategy, which involve enterprises, not simply as recipients of knowledge and technology developed, but as transmitters of needs, in iterations of developments and eventually as joint actors in research. The strategy recognizes this need and states: 'the Ministry of Economy's proposal to develop a Centre of Innovation and Technology Transfer is complementary to the proposed programs of the STI strategy.'

The National Strategy of Science, Technology and Innovation, speaks about Albanian Research Technology and Innovation Agency (ARTI) established by the government is going to become functional with the beginning of 2010 year. The strategy also states, "There remains a need to professionalize and structure this flow of services towards enterprises." It asserts that, "Albanian enterprises are not in a position to bring co-investing into applied research and development."

In order to fill the above mentioned gaps of the strategy, in entrepreneurship and business innovation, under IPA 2007, Ministry of Economy, Trade and Energy is implementing the project "Supporting SMEs to become more competitive in EU Market".

Project implementation involves five activities or operational components. These are:

- Business Relay and Innovation Centre in Albania (BRIC);
- Business Innovation and Technology Strategy for Albania;
- Training Needs Analysis for SMEs;

- National Competitiveness Program for SMEs;
- Albanian SME Development Program.

The rationale of the “Supporting SMEs to become more competitive in the EU Market” project is that through strengthening the ability of METE and Albinvest to enhance the competitiveness of Albanian SMEs, these SMEs will be able to effectively compete in the regional and EU market. Enhancing the competitiveness of Albanian SMEs requires a raft of measures and priorities including improved access to, and encouragement to take up, innovation and technology “actions” together with the accompanying HRD and company management actions to ensure effective benefit.

It is envisaged that such improvement in the recognition and take up of innovation and technology will create opportunities and synergy for other areas of business support; such as finance, access to viable investment plans or joint ventures with FDI participation through offering a more productive capital and resources.

Business Relay and Innovation Center s/BRIC are seen, in Albania and the European Union, as an effective tool and mechanism to promote and to encourage innovation and technology take up amongst SMEs. Consequently, the project will support the establishment of a BRIC to promote, to encourage and to support take up of innovation and technology by Albania’s SMEs.

It is expected that the BRIC will become the national focal point under Albinvest for the delivery of innovation and technology services to Albanian SMEs, to act for EU funded competitiveness, innovation and technology programs – and undertake associated activities, i.e. transnational partner search and technology transfer services.

The Strategy is the vehicle that identifies and establishes the sets of policies and initiatives that will direct the Albanian BRIC and other Albanian organizations with an interest in innovation and technology (the Albanian Academy of Sciences, the Ministry of Education and Science, Albania’s universities etc).

During Albania’s transition period there have been various programs and initiatives that have sought to provide support and assistance to the country’s SME sector. There is now the opportunity for a review of progress made; such a review is to take the form of a bi-annual Training Needs Analysis of Albania’s SME sector (also a commitment of the EU Charter for SMEs). It is envisaged that the bi-annual TNA will ensure a regular overview, a guiding framework of SME and business actual training and development needs. Utilizing such a structure, Albinvest can better perform its own responsibilities and functions to upgrade and to co-ordinate SME training services – and to provide the subsequent monitoring framework and evaluation activities.

Any effective SME TNA requires a corresponding training and consultancy support structure to deliver the identified and appropriate responses. Establishment of a National Competitiveness Programme for SMEs seeks to establish the national SME training structure that ensures that Albania’s SMEs are able to recognise their growth and competitiveness and export potential. It is envisaged that the Programme will develop a national training structure to support SMEs to become “internationalised” and successfully compete in the CEFTA and European Union marketplaces.

Distinguished participants,

In my conclusion, I want to emphasize that government policy toward creation of appropriate and friendly environment, policies of openness and further trade liberalization, deregulation and successful privatization are considered real facts for investment opportunities that Government of Albania is offering to foreign investors. In the BSEC area, trade and investment opportunities are gaining a new dimension, chiefly in SME sector and there is a need for a further support.

I am convinced that this workshop will have a positive impact in all BSEC countries, toward programming of a comprehensive of initiatives, focusing on increasing the competitiveness of SMEs.

Intra-regional trade and investment cannot be promoted without direct participation of the business community. And the today’s meeting will have a positive impact to business community for investments in the SME sector.

Wishing a fruitful session with concrete promising results, Thank you.

Tefta Demeti, MBA
 Chief of SME Unit, Business Promotion Department
 Ministry of Economy, Trade and Energy
 Tirana, Albania
 E-mail: tdemeti@yahoo.com, tefta.demeti@mete.gov.al

SME DEVELOPMENT IN ALBANIA IN 2009 ²⁰

Small and medium enterprises are the engine of the economy of one nation. They are an essential source on the creation of new jobs, entrepreneur and innovation spirit and are crucial in growing competitiveness and employment.

During 2009 it is ensured a slight economic growth of 3.3% toward GDP, comparing with the growth of 2007 which was about 8%. Private sector contributed in more than 80% of GDP and about 82% in employment. GDP per capita reached 4,073 USD in 2008; Inflation declined from 3.4% in 2008 to 2.2% in 2009; Unemployment increased from 12,7% in 2008 to 13,75% in 2009; Remittances fell by 6.5% in 2009 compared to 2008.

Referring the INSTAT data, the number of active enterprises till the end of 2009 reached 106,477, which indicated a very slight increase of 1.65% comparing with 2008. The number of employees during 2009 was decreased with 7.6 percent compared to the previous year, while the number of employees during 2008 was increased with 3.7 percent.

Birth rate of new enterprises for 2009 is 12%, decreased with about 7 point percentage compared with 2008 where it was 18.7%.

Crediting of private sector (Bank of Albania) for 2009 reached 39% toward GDP, with a growth of 2 points percentage compared with the previous year, while with a significant growth comparing with 2005 where it was 14.9% toward GDP.

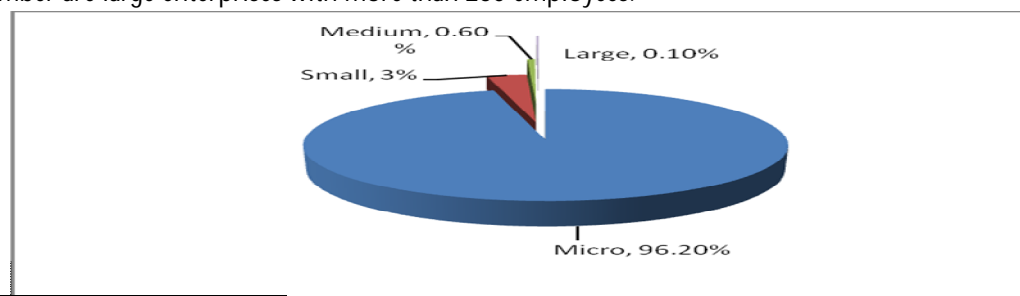
Foreign and joint venture enterprises in Albania make 2.2% of the total number of active enterprises in the country. Foreign investments for 2009 reached 698 million Euros with a growth of 6% compared to the previous year. FDI are increased three times compared to 2006.

The number of enterprises exporting is 1,647. Their export for 2009 reached the value of 783 million Euros with a decrease of 14.5% compared to the previous year. Exports for the first quarter 2010, is increased 30% comparing with first quarter 2009.

In the following table are shown active enterprises by their year of creation. From 2005 to 2009 enterprises in Albania are increased by about 65%.

Year	2005	2006	2007	2008	2009
No. of active enterprises	64,710	77,814	87,484	104,750	106,477

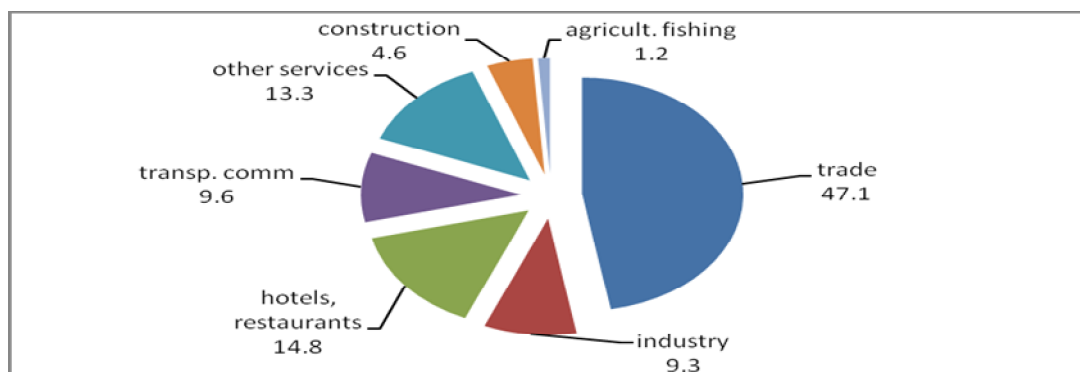
Referring to their structure, active enterprises (based on the definition of the new SMEs law) for 2009: microenterprises with 1 to 9 employees makes 96.2% of the total active enterprises, small enterprises with 10 to 49 employees covers 3.0%, medium enterprises with 50 to 249 employees 0.6% only 0.1% of their total number are large enterprises with more than 250 employees.



²⁰ Presentation was made on 6 May 2010 at the BSEC-KAS Workshop on "SMEs in global financial crises"

About 50% of active enterprises in Albania operate in Tirana and Durrës.

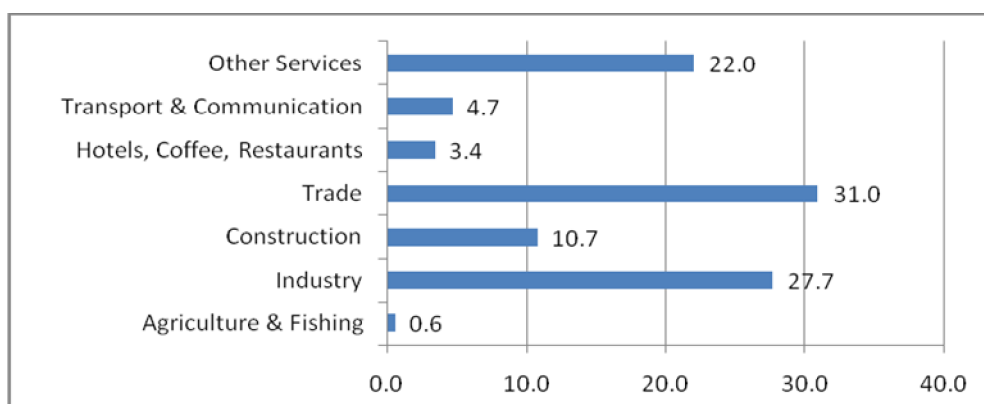
The spread of active enterprises by economic sector are: trade 47.1%, industry 9.3%, hotels, restaurants 14.8%, transport and communication 9.6%, other services 13.3%, construction 4.6%, agriculture and fishing 1.2%.



From the industry sector which covers 15.2% of the total number of enterprises in Albania dominates manufacturing with 61.5%, construction with 30.6%, while agriculture and fishing 7.9%.

From the service sector making 84.8% of the total number, trade covers 55.6% of the service sector, 17.4% hotels, restaurants, 15.7% other services and 11.3% transport and communication.

There are 2336 foreign and joint venture enterprises in Albania which makes 2.2% of the total number of active enterprises. From the following graph it is noticed that they dominate in trade with 31%, followed by about 28% in manufacturing.



Turnover for 2008 according to INSTAT (ASN 2008) is 17.5 percent higher compared to 2007. The average turnover per employed is by 9.2 percent compared to the previous year. 36.7% of the turnover comes from the industry sector and 63.3% from the service sector.

The value added (INSTAT) has a slight increase of about 8.5% compared with 2007, where the growth was 22%. 46.1% are from the industry sector, and 53.9% from the service sector.

Dr. Bajram MUÇA and Dr. Altin MUÇA
FONDIBESA
Tirana, Albania
E-mail: bmuca@besa.org.al

THE MICROFINANCE INDUSTRY (SECTOR) IN ALBANIA AS A GOOD EXAMPLE

21

1. A BRIEF HISTORY OF CREATION AND CONSOLIDATION OF BESA FUND:

- ✓ When and how was Besa Fund established; the transformation process (why and how Foundation BESA was transformed in fondiBESA joint stock company (jsc).

BESA Fund j.s.c is established in May 1999 as a legal entity, a non-government and non-political organization with SOROS Foundation as Founder. In fact its roots go back to 1994, when started as a department of the Albanian Development Fund. BESA Fund can be considered as the pioneer of the micro lending operator in Albania, as well as one of the newest micro-lending projects in South-East European countries. After successfully carrying out several microcredit projects, it laid strong basis for further developments which brought about the establishment of a microfinance institution.

In 26 December 2008, BESA Fund was licensed by the Bank of Albania as NBF1. As of 1 January 2009, the activity of BESA Fund was transferred to BESA Fund j.s.c. The new NFBI status came as the result of responding to the legal obligations of the BoA and at the same time aiming at making Besa Fund attractive, on the legal point of view, to the partners. This status will allow Besa Fund to provide new product and services to its clientele.

Actually, Besa Fund j.s.c. is one of the leading institutions in microfinance sector in Albania. It operates with 46 offices all over the country, providing financial services to the population in about 80% of Albanian territory. Besa Fund j.s.c products include small and micro business loans, consumption loans and youth loans.

It's clientele accounts for 25% of total clientele served by Albanian MFIs. In December 2009, Besa Fund accounts for 14,909 active clients with a total outstanding of 42.6 MLN US\$ (with 56,042 loans in total with a cumulative portfolio about 236 MLN US\$). Average active loan size is about 3,314 US\$, with 30-days PAR being less than 2%. We have paid attention to financing female borrowers that actually are 26% of total active clients. We are trying to combine to the best our financial and social objectives by strengthening the capacity of marginalized groups to engage in productive enterprises on one side and sustaining economic interventions for the poor over the long term. Since starting the activity the loans disbursed by fondiBESA have created about 15,000 new jobs. We are proud of our role in increasing the Albanian family's income and in this way reducing the poverty, improving living standards and development of small and micro enterprises in Albania, which are considered as the key engine for the country's economic growth.

Besa Fund j.s.c continuous success is strongly based on its strength on which it builds for the future activities. Its strengths consist in its rich 16 years experience in microfinance; its excellent knowledge of the Albanian context – quick understanding and responding to its market segment needs; its close relations with the clients, based upon honesty and mutual trust; its transparent procedures; the non-bureaucratic loan process, and its devoted and motivated staff. [At the end of year 2007, BESA Fund was recognized \(by Forbes\) as one of the fifties best Microfinance Institution in the World.](#)

- ✓ The supply and demand for microcredit in Albania (some data about the banking sector and how the crediting level has increased during years).

²¹ Presentation was made on 6 May 2010 at the BSEC-KAS Workshop on “SMEs in global financial crises”

The Albanian financial sector, supervised by BoA, consists of commercial banks and financial institutions. The Albanian banking sector dominates the formal financial sector and consists of 16 banks, with assets and loan portfolio as of December 2008 amounting to respectively 78% and 37% of GDP. The table below contains details of the composition of the banking sector in Albania.

Table 15: Banks in Albania as of end Q1 / 2009

	Bank	Market share in %	Cumulative market share %	Total assets mill EUR	Origin of equity
Banks with more than 10% market share (4)	1 Raiffeisen Bank	31.6	31.6	1,873.7	foreign
	2 Intesa Sanpaolo Bank	14.8	46.4	875.9	foreign
	3 National Commercial Bank	13.6	60.0	805.1	foreign
	4 Tirana Bank	10.2	70.2	605.1	
Banks with 1-10% market share (6)	5 Alpha Bank (branch of Alpha Bank Greece)	8.5	78.7	503.5	foreign
	6 Credins Bank	5.3	83.8	311.1	local
	7 Societe Generale - Banka Popullore	4.6	88.6	275.3	foreign
	8 ProCredit Bank	4.3	92.8	252.5	foreign
	9 Emporiki Bank	3.4	96.3	204	foreign
	10 Union Bank	1.7	98.0	101.5	local
Banks with less than 1% market share (6)	11 Italian Bank of Development	0.6	98.6	37.1	foreign
	12 United Bank of Albania	0.6	99.2	34.9	foreign
	13 First Investment Bank	0.6	99.8	34.1	local
	14 Credit Bank of Albania	0.2	100	14.3	foreign
	15 International Commercial Bank	n.a.	n.a	n.a	foreign
	16 National Bank of Greece	n.a	n.a	n.a	foreign
	TOTAL	100,0		5,928.1	

Source: Albanian Association of Banks and own calculations

As of the end of March 2009, the assets of the banking sector amounted to almost 6 billion EUR, whereas half of them are loans to the economy.

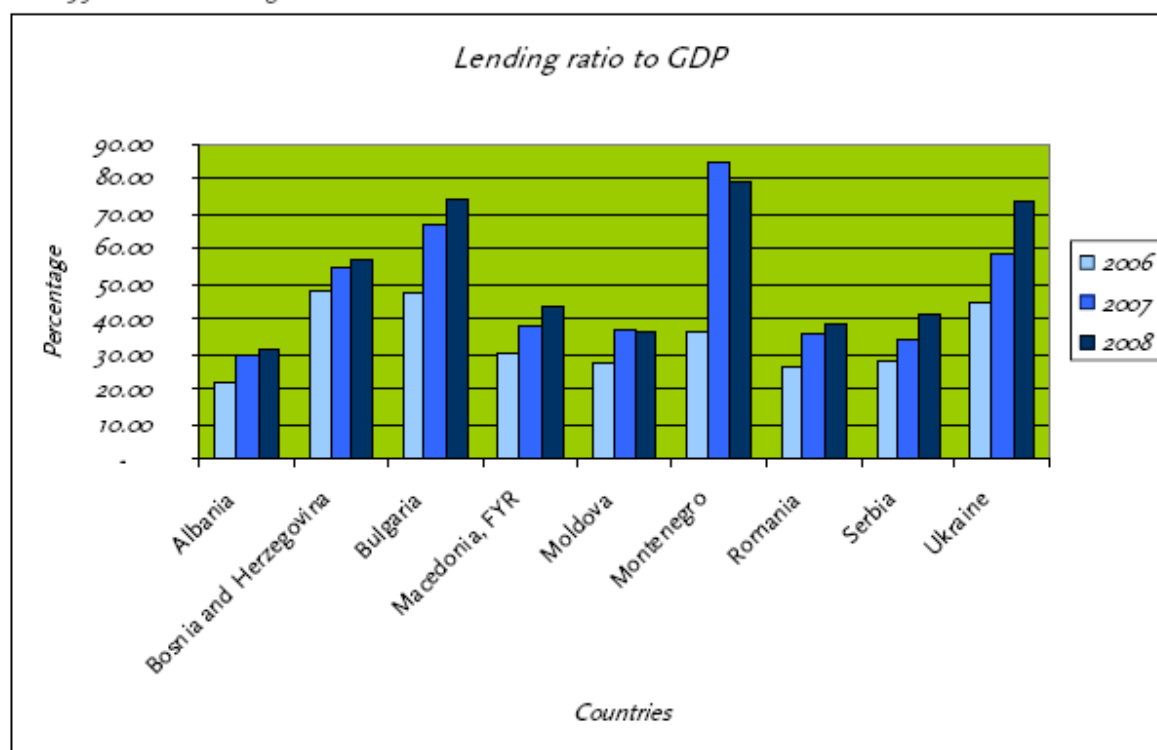
The majority of lending activities is oriented towards private enterprises, though lending to individuals has picked up considerably and accounts now for more than one third of lending activities.

The depth of financial intermediation remains relatively low in Albania, with domestic credit to the private sector of 31% of GDP at the end of 2008. In this regard, Albania still ranks last in Southeast Europe in spite of strong growth rates since 2005.

The credit growth has been supported by the increase of branch network. Half of the banks have more than 30 branches with Raiffeisen and National Commercial Bank having the largest number with 101 and 66 respectively.

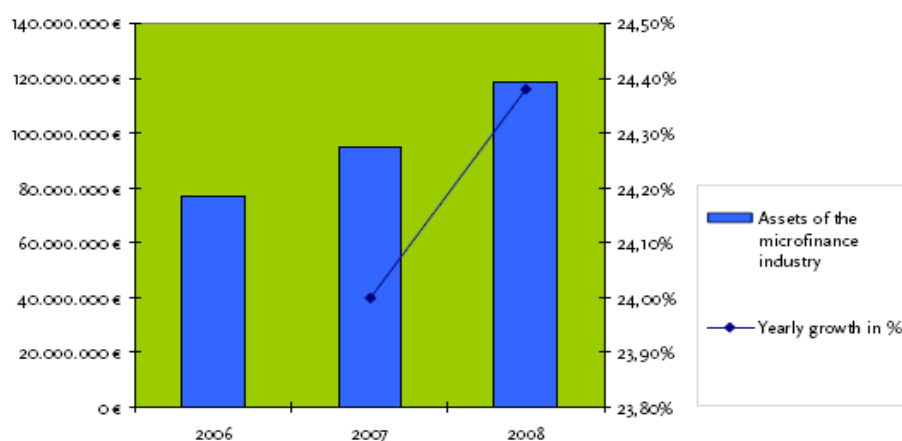
Despite the extended network, banks remain highly concentrated in urban areas. It is remarkable that for many banks, 20-30% of their branches can be found in the capital, whereas the remaining 70-80% are located in other towns.

Chart 39: Ratio of lending to GDP



Microfinance sector - The microfinance sector, similarly to the banking sector, has been growing steadily in years. Actually there are 5 microfinance institutions operating both in urban and rural area. They have gradually expanded their operations in terms of number of clients and number of branches. Besa Fund remains one of the most important players in the microfinance sector. Although the world-wide financial crisis showed its impact in Albania with a decrease of remittance flows, slowdown of economic development, Besa Fund resulted with a growth in credit portfolios in 2009.

The weight of these institutions to the system's total assets is still small—estimated at 2.19% at year-end 2008.

Chart 35: Assets of the microfinance industry in Albania¹³

Anyway the demand for loans has increasingly grown. The following table shows how Besa Fund clients and portfolio has evolved in years.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Exchange rate: USD = lek	141.2	134	131	102.8	89.2	103.58	94.14	82.89	87.91	95.87
Cumulative Loan Number	6,198	8,939	12,796	16,802	20,979	25,115	30,344	37,098	45,780	56,042
Cumulative Disbursed Amount (in million USD)	14.60	22.80	35.80	53.30	95.90	105.90	142.50	194.30	220.00	236.10
Active Clients	2,637	3,417	4,488	5,061	5,442	6,068	7,291	9,161	11,340	14,906
Outstanding Balance (in million USD)	4.97	6.93	10.41	15.14	19.19	22.98	29.43	36.96	40.73	42.64
Average Loan Amount	2,664	3,008	3,359	4,382	5,218	5,217	4,973	4,821	4,231	3,312

Microfinance Institutions in Albania

Name	Assets 2008 in mill EUR	in percentage	Loan Portfolio 2008 in mill EUR	In percentage
NON BANK FINANCIAL INSTITUTIONS				
Besa	30.8	26.1	28.9	28.1
Opportunity Albania	35.3	29.6	30.5	29.6
FAF-DC	12.6	10.7	11.7	11.4
UNIONS of SCAs				
ASCU	36.1	30.5	28.9	28.1
USLA Jehona	3.4	2.9	2.8	2.8

Source: Data from the Institution, own calculations

✓ Our mission

The mission of BESA Fund is to promote micro & small enterprises sector in Albanian through the creation of a private self-sustaining Albanian Micro-finance Fund that finances micro and small entrepreneurs on a sustainable basis. Clients of BESA Fund include people from all socio-economic strata, including unemployed and start-up businesses.

The Fund also provides technical assistance for entrepreneurs including training and studies.

✓ Current (including data since YR 2005 and forward) of financial and operational indicators

	Dec. 2005	Dec. 2006	Dec. 2007	Dec.2008
PAR	0.56%	0.51%	0.64%	0.58%
ROA	5.46%	10.94%	10.81%	7.82%
ROE	11.51%	22.23%	19.52%	14.98%
Operating self sufficiency	129.00%	175.10%	166.70%	147.5%
Financing self sufficiency	106.10%	135.00%	132.10%	122.9%
Yield on portfolio	24.36%	24.47%	24.35%	24.65%
Capital/Portfolio	44.12%	48.99%	53.68%	52.48%
Capital/Liabilities	85.55%	103.92%	115.90%	105.00%

Financial Indicators Finaciare	2009	2008
Operational Efficiency ratio	11.84%	12.75%
Productivity of Loan Officers (Value)	37,584,082	41,223,276
Productivity of Regional Offices (Value)	329,583,489	412,232,763
Average Loan Amount	317,511	371,980

✓ Besa Fund clear strategy for the future

The main future strategy of Besa Fund is to strengthen its basic operations in its crucial business – lending activity, remaining one of the most important actors in Albanian microfinance sector. In the context of new NFBI status, Besa Fund is exploring its possibilities to extend the range of its financial products and services, as well as to extend its outreach in new areas.

Along with this main strategy, Besa Fund is going to keep its focus in:

- Maintaining and further improving its performance.
- Improving the capacity of financial systems to enable the expansion of financial services.
- Increasing the capacity to adopt innovative technologies that can expand the outreach
- Improving governance, management information systems, risk management systems and performance measurement of the institutions
- Promoting the development of a range of demand-driven products and services

✓ Legal and regulatory environment

Besa Fund activity is based on:

- the Law for the Bank of Albania
- the Law for Commercial Companies
- Regulation of the Bank of Albania "For Licensing and exercising of the activity of NFBI-s"
- Regulation on the supervisory norms for the NFBI-s

2. LENDING METHODOLOGY

Target Market:

- ✓ Relations with the clients (mainly informal. Our loan officers are used to be in direct contact with potential clients)

One of the main focuses of Besa Fund is to maintain strong relations with the existing clients and establish good contacts with the potential ones. Besa Fund considers customer loyalty as an important dominant for long term financial performance.

Though the credit officers are trying continuously to expand the clientele base with new clients, the retention of the repeated borrowers is critical for enhancing efficiency and productivity because of lower costs, lower risk, less customers acquisition costs, etc. At the same time we consider the "loyal" clientele as the "core" for new products or services that might be offered by BESa Fund in the future.

In the framework of creating lifelong relationship with its clients, Besa Fund is committed to provide services and products that develop together with the customers' needs. This is the reason why an ongoing communication with the clients is very important to know their needs and future plans, which will help Besa Fund understand its market and respond to its needs.

This communication is done by:

- visiting the clients in their workplace time and again, caring about their activity health,
- checking to ensure that the customers are satisfied with our products and services
- seeking out the customers' complaints and try to resolve them, as well as using their suggestions for necessary improvements
- listening to them and be there when they are in need of our products.

Most of the visits to the clients business might be informal, but our credit officers do never forget to maintain the sense of professionalism

Besides "loyal" clients, a special attention goes to the new potential clients, finding the most effective ways to attract them "buy" our products and services.

✓ Responding to clients demand for Besa Fund products promptly

Besides the 5 microfinance institution, recently several commercial banks are becoming interested in microfinance sector, which means that microfinance is becoming increasingly competitive. In this context, Besa Fund is trying cope with such competition by being reliable, convenient and responsive to customers' needs in due time, which is a top priority in our activity.

In order to achieve this objective, Besa fund pays attention to the mechanisms used to serve the customers:

- delivery systems: that should operate efficiently and effectively and be responsive to both external and internal customers (employees)
- product range: that should be designed to respond properly to the needs, desires, preferences and expectations of the customers
- delivery environment: Besa Fund, with the aim to be closer to the clientele and its needs, has expanded the activity by creating a network of 46 offices all over the country.
- Technology: that allows the institution to increase the speed, efficiency and accuracy of the disbursement process.
- Knowledge: of the environment/market segment where it operates (activities, people mentality...)

Given the above mentioned, a client of Besa Fund may receive a loan within in a few days after the submission of the loan application.

Regarding the new entry clients, the whole process, from the application to the final disbursement lasts no more than 10 days. Regarding the repeated clients, the whole process may last from 3 – 5 days.

✓ Focusing in small business unit with less income.

Actually, the small and medium enterprises count for 95 % of all the enterprises operating in Albania. Focusing in this sector is of a significant importance if we consider that the Albanian economy is transformed almost in a private economy, where about 85 % of GDP, after the “big” privatizations comes from the private sector. Taking into consideration the fact that the SMEs are the engine of every economy and their development in the long perspective will effect the strengthening of the overall economy, Besa Fund has concentrated its microfinance efforts in supporting this sector, which is also very important regarding the employment possibilities.

Need to be said that unemployment rate in Albania, officially is 13.2%.

Besa Fund is aware that employment is significant to social development, both through poverty alleviation and social integration. We are trying to combine to the best our financial and social objectives by strengthening the capacity of marginalized groups to engage in productive enterprises on one side and sustaining economic interventions for the poor over the long term.

Low income – high costs?????

✓ Our strategy to increase the market share, diversify the products and geographical extension of the activity (some data how fondiBESA has extended its presence year after year)

Besa Fund j.s.c has gradually increased the volume of its activity paying attention to the principle that “microfinance should pay for itself, and must do so if it is to reach ... large numbers of poor people”. This means that we can keep on moving towards reaching more people and offering them better financial products and services only by being self sustainable.

We consider financial sustainability a necessary condition to scale up to a level that allows our institution to provide microfinance to a large client base, independent of external subsidies over the long-term. In this framework, volume, quality, efficiency, productivity, are considered the most important aspect of our activity. That is why the management and staff focus is to improve the activity performance indicators.

To extend its activity, Besa Fund implements the dual strategy:

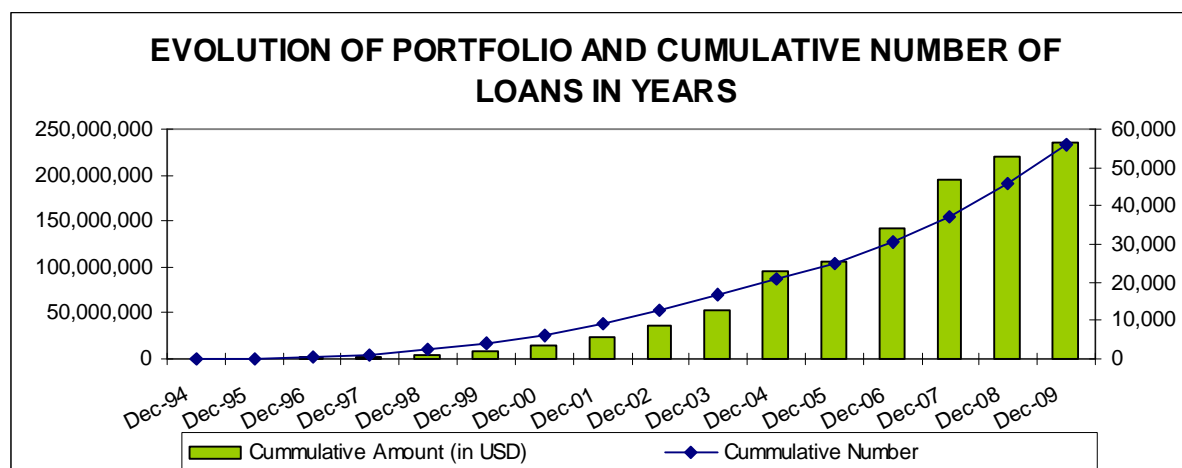
First: by growing the client base, mainly by attracting new clients in our system. Only during year 2009, about 6,207 new clients were attracted into the system (about 41.6% of the active clients)

This is a significant indicator because, in a way, it guarantees the long term growth and sustainability of the institution.

Second: by extending the lending activity in new geographical areas, opening new branches and offices as well as by reorganizing the Regional Offices with the main aim to be near our clients' needs and respond them in due time.

As we mentioned, Besa Fund j.s.c loan activity volume has increased gradually, which has positively affected the reduction of costs, without compromising the loan portfolio quality.

Compared to year 2000, the cumulative loan portfolio has grown from USD 14.5 million to USD 236 Million, with a cumulative number of clients from 6,198 to 56,042.



Graph 1 shows the development trend of Besa Fund j.s.c lending activity.

Along with the increase of lending activity volume, the staff pays attention to the quality of loan portfolio. The PAR over 30 days has been below 2% in years. The institution priority is to grow gradually and steadily maintaining a high quality of portfolio. We try to identify the potential risks in the lending activity, analyze them, keep them under control and undertake the level of risk which we are able to manage. Besides that, we try to diversify the loan portfolio by following the principle of not putting all the eggs in the same basket, i.e our loans go to different activities which are considered of not being very risky.

Given the up to now achievements and success, Besa Fund is planning to expand its activity in the coming years, increasing its outreach by achieving an outstanding of 8.2 billion ALL and 19,000 active clients within two years (at the end of YR 2012) and disbursing about 17 billion ALL in three forthcoming years.

✓ Provision of the right information, in right time and place.

Right information, in right time and place is very important for Besa Fund management. This is why we have tried to have an information system that links all our offices online and produces all the necessary information in due time.

The right information at the right time for the management contributes to (i) better decision making (ii) transparency of the operation because more reports can be generated more frequently and timely (iii) reduction in the number of errors, (iv) improved reliability of the information and reports (v) reduction in time of loan screening and disbursement process, which at the end, contribute to better customers' service. Besides that, the corporate document repository website is available for access to all staff, regardless of their seniority and management authority.

✓ Simple and easily procedures.

Simple, easy and transparent procedures are the basis of Besa Fund activity.

No institution can function without well-defined and transparent procedures, which evolved by the institutions over a period of time, along with expertise and experience of people who have been empowered to run the institution. We are aware that procedures evolve and constantly come under review due to change in knowledge, expertise, technology, and culture. What is important is that, since Besa Fund, as a microfinance institution caters to the needs of masses, it has tried to develop strategies, systems, processes and procedures in simple, transparent language as that would be easy to comprehend and implement by everyone involved.

a. Microcredit products

Microcredit products – easy to understand and easy to market.

- ✓ Besa fund policy: expenses to be covered by incomes. Profitability. (An historical data how these indicators has been improved)
- ✓ Basic products “business loan” - basic parameters do not change (example the interest rates).

BESA Fund j.s.c. products and services include (i) all kinds of lending, including consumer loans and youth loans; (ii) providing guaranties and taking commitments; (iii) providing advisory and brokerage services as well as other assistance services for all abovementioned activities. The following table presents the terms and conditions of the loan products offered by Besa Fund j.s.c. so far.

Besa Fund basic product, the “business loan”, aims to finance every kind of micro-businesses that generates income such as: Services & trade, productive or processing activities, handicraft, family tourism, customs tax payment, constructions, transport etc. These are all individual loans.

Type of Product	Terms and Conditions
Business Loans (in ALL)	<ul style="list-style-type: none"> - Loan amount (ALL): up to 3,000,000 ALL, or more than 3,000,000 ALL for the repeated clients, with a good credit history - Maximum maturity: 84 months. - Fee & guarantee fund: 1% yearly for loans in misfortune cases, but not more than 4 %.
Business Loans (in EURO)	<ul style="list-style-type: none"> - Loan amount(Euro): up to 10.000 Euro - Maximum maturity: 84 months.

Regarding the interest rates, Besa Fund applies interest rates which are comparable to the market, but once the loan agreement is signed, the interest rates do not change for the life of the contract.

- ✓ Diversifying the credit product (as youth loans; consumer loan) by responding the market changes and clients need.

On the course of its life, Besa Fund has evolved together with the clients needs. Based on the ongoing market research, aiming at product diversification and better responding to market segment needs, besides the “business loans” product, Besa Fund has introduced the “Youth Loans for Start-up Businesses”. It is a youth-specific loan product aiming at giving young people a chance for their integration in society through their possibility of employing themselves.

The target clientele of this project are all people of 18-30 years old, who are unemployed and intend to start-up their own business (mainly as a self-employment operation). We believe that if young people are to be given employment opportunities, it will be a critical element in poverty eradication and sustainable development, growth and welfare for all. Young people bring numerous assets to the labor market: relevant and recent education and training; hope, enthusiasm, new ideas; willingness to learn and be taught; openness to new skills and technology; realistic expectations on entry to the labor market; mobility and adaptability. Besa Fund j.s.c believes that investment in youth reaps benefits for individuals, community and society as a whole.

Another product is the consumer loan.

Type of Product	Terms and Conditions
Youth Loans (in ALL)	<ul style="list-style-type: none"> Loan amount: up to 1,000,000 ALL; Maximum maturity: 48 months; Grace period: up to three months. Application fee & guarantee fund: 1% / yearly of loan amount in misfortune cases

Consumer Loans (in ALL)	<ul style="list-style-type: none"> - Loan amount: up to 500,000 ALL - Maximum maturity: 36 Months - Application fee & guarantee fund: 1% / yearly of loan amounts in misfortune cases.
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- a. Loan officers - always in service of their clients
- ✓ Compliance between employees' values and overall objectives of Besa Fund.

Besa Fund considers its employees as the main factor achieving the institution's strategic objective and for the institution's overall success. Dedicated and motivated employees, equipped with the most up-to-date knowledge, and best personal values like Integrity, Respect, Communication, Enthusiasm, and Professionalism drive the institution's development.

We try to make use of such personal values in order to ensure close, flexible and result-oriented employees, who will be able to achieve personal goals and development, in line with achieving the institution's business objectives.

We try to build on such values to make the employees identify themselves with our MFI mission, to feel part of a successful team, to know and fully understand specifically what is expected of them and what is their role in fulfilling the institution mission and objectives.

- ✓ Productivity increase through team work, especially related to planning, decision making and implementation

One of Besa fund objectives is to be efficient and productive. This is highly related to the performance of each individual, who in a team oriented atmosphere, can contribute to the whole success of the Fund. Although an individual is responsible for a specific task to a particular department, he/she has to unify and closely cooperate with other team members from different departments to achieve overall targets.

In this context Besa fund works to create the team spirit matching the functions of teamwork with specific targets. We are concerned that every team member understands where the institution wants to go, what it wants to achieve and what is expected from him/her, understand how his/her role fits in the entire context of the company's vision, goals and values. That is why Besa Fund tries to create an environment where the whole staff be committed to accomplishing the mission and anticipated outcomes and perceive their efforts as valuable to the organization.

- ✓ Our strategy to attract and keep the qualified staff and maintain the accumulated experience in the institution (relatively low level of staff turn- over).

Besa Fund attributes its success to the people – both past and present. We consider the quality of the people that we need to attract in our institution critical to our future success. Hiring the right person for the right job will have proven to bring tremendous benefits to the institution as a whole, by demonstrating high levels of initiative and creativity, by being productive and remaining loyal to the institution.

Anyway, our continuous concern has been keeping the right balance between the already established experience and expertise within the institution and the new flow of staff. We are aware that new staff might bring numerous assets to the institution: relevant and recent education and training, enthusiasm, new ideas, openness to new skills and technology, adaptability, etc. That is why the recruiting of the new staff is considered as an important process, because, to one extent, its quality is determinant in fulfilling the institution objectives.

But, on the other hand, expertise is very important in maintaining the achieved results and Besa Fund considers it as a valuable asset.

- ✓ Significant investment in on-going training of the staff

Our two major resources to operate successfully in the Albanian microfinance market are capital and people. We consider people an asset and are committed to creating a continuous learning culture within the

institution which aims at building and increasing staff capacity. Besides the funds available, we believe that our success depend on a highly trained, adaptable and effective staff to meet challenges and fulfill the objectives.

For this reason, each year we draft staff training plans that define the various forms of development starting from a well-designed orientation that can help to ensure turning the new staff into a productive and happy employee to training for a specific skill, coaching or mentoring (on the job training) and experience exchanging.

Training and development is an ongoing process that aims at improving our staff performance in the current job: improving their effectiveness, productivity and strengthening the basis for the long-term achievement. On the other hand, along with the overall advantages to the institution, by receiving a proper training, the individual staff increases job satisfaction through a more thorough understanding of the task to be performed and by improving its self confidence which also increases their enthusiasm for the job and commitment to the institution (loyalty).

Besides specific trainings, every month all the staff is provided with a special material which treats topics related to microfinance

- ✓ Investment in further development of IT systems that will enhance the operational and financial management.

Besa Fund has gradually improved its IT system with the aim to enhance the operational and financial management. Being a microfinance institution means transaction volumes larger than those of commercial banks. In fact, when seen relative to the value of transactions, microfinance is considered a more transaction-intensive type of business than commercial banking. That is why, we consider the need for automation and computerization of our operations very important.

In this context, Besa Fund has invested into establishing an online system for all the regional offices and branches, automation of almost all the operations and transactions, etc. These efforts aim at gaining several benefits because of the easier and faster access to existing information.

Recently, Besa Fund intends to implement new services on accounting and reporting systems, which will improve their performance.

Besides the proper IT systems, Besa fund has also invested in training the staff to use and make use of the technology.

- ✓ Staff promotion and evaluation through the bonus system - as an effective approach, which links the staff with company interests and increase the productivity

Besa Fund seeks its success through supporting and appraising the contribution of each employee. For this reason, we have designed compensation systems to continuously motivate and promote our staff.

It is in our institutional culture to make employees happy and create a complex environment that will make them committed and open to give their best in fulfilling the institution objectives. Besides, employees should have a strong incentive to perform their job in a responsible and competent manner.

Besa fund has a written promotion and evaluation policy which describes the compensation strategy of the institution that includes financial and non-financial benefits for an employee's work, as well as the evaluation criteria. This policy is very transparent and is openly communicated to our employees.

All is based on staff performance (quality) and the level of objectives achievement. Performance management is a common process between the supervisor and the employee. Though the process is generally initiated by the supervisor, every step of the process requires cooperation from both parts. It is essential that the employee is aware of his/her role in this process and feel that its evaluation and promotion is fair. In this sense we try to make a good combination of salary, benefits and incentives, which treats all employees fairly and equally. We believe that our salary and bonus system is designed effectively, and positively affect staff attitudes, motivation and productivity

Besides monetary compensation (salary and bonus) Besa fund applies other benefits that we believe to create a rewarding, inspiring and comfortable work environment. I can mention here - Paid vacation time, Transportation allowance, telephone allowance, Employee loans and advances, Maternity leave etc. Through these ways of staff evaluation we try to achieve Quality, Growth and Efficiency

Prof. Dr Marija Zarezankova-Potevska
FON University
Skopje, The former Yugoslav Republic of Macedonia
E-mail: marijazarezankovapotevska@fon.edu.mk

NATIONAL SME POLICY IN THE REPUBLIC OF MACEDONIA ²²

INTRODUCTION

SMEs, with their economic functions, have important role in the economic development in each country. They are main pillar in economic life, factors of motivation and innovation. These characteristics, give them, priority place in official documents for economic development in the Republic of Macedonia. Still, the implementation of the main goals of the Government is not enough on the high level, as a result of lack of financial support, but certainly because of administrative barriers that are in fact bureaucratic ones.

The favorable business climate is not reached yet, in spite the fact that many new approaches are taken. One stop shop is in the function of very quick registration of the enterprises, but still the building permissions are blocked, the juridical system is not effective for business disputes, banking system is enough rigid for start up businesses, for small ones. Micro crediting is marginalized. There is lack of technological support for SMEs, which is serious barrier for competitive economy.

Generally, Macedonian society is not entrepreneurial one, in spite the proclamation and declaration of the officials; in spite the fact that the strategies and programs are accepted, the realization is not satisfactory.

For better implementation of the programs is very significant the participation of the relevant institutions on the national and local level as well as the business community through their associations and chambers. The future economic development of the country is related on the real intention and action of the all relevant stakeholders in business community.

1. OFFICIAL DOCUMENTS FOR SUPPORT SMES

The Macedonian Government, according to the Lisbon Strategy/Agenda of EC for Competitiveness and Innovation for 2007-2013, Acquis Communautaire and other relevant document, last decade, starts with acceptance of many significant documents for economic development.

In 2002 is adopted National Strategy for SMEs Development (2002-2012), revised and innovated in 2007.

Second time, in 2007, the Government adopted Program for Entrepreneurship Development, Competitiveness and Innovation of SMEs for 2007-2010, that is realized by annual ones.

The Program contains 4 components: institutional infrastructure, business environment, finance and taxation, innovation and competitiveness.

The Macedonian Government, from 2003, successfully has been prepared Chapter for Small Enterprise, which includes results in 10 important fields for SMEs development

The list of the relevant documents is:

- Annual Macroeconomic Policy includes the benchmarks for SMEs.
- Revised National Strategy for SME (2002-2013)
- Program for Entrepreneurship, Competitiveness and Innovativeness (2007-2010) –second one, (first was 2002-2006)
- Annual Programs for Development of Entrepreneurship, Competitiveness and Innovativeness of SMEs for 2007,2008,2009
- New industrial policy (2009-2020)

²² Presented at 4th ERENET Annual Meeting in the Session on The SME Sectors in the Time of Global Crises held on 25 September 2009 in Belgrade

- European Charter for Small Enterprise-National Report is prepared per year from 2003 until now. It is not obligatory but is one kind of "soft" directive in SMEs sector.
- Macedonian SME Observatory-Macedonian Government prepares Annual Reports in spite the fact that is not obligatory for EU.
- Declaration for Entrepreneurship learning Promotion is accepted and signed by the Ministry of Economy and Ministry of Education and Science in 3 June 2009 this year. It shows the intention of the Macedonian Government to promote the entrepreneurial culture and dissemination of entrepreneurial spirit in the society as an important precondition for SMEs development.
- Strengthening the Public-Private Dialog in the country through:
 - a) SMEs Forum – that is organized per year, for matchmaking the decision makers and business community.
 - b) National Council for Entrepreneurship and Competitiveness that consists by universities' professors, consultants and businessmen.

2. MACROECONOMIC ENVIRONMENT

The Republic of Macedonia has been positioned on the third place as a big reformer in the economy for 2009, by the World Bank. This advance is due to the progress that is made in shortening the time and expenses for starting a business and especially the tax reform which reduced and leveled the rates of personal income tax (from 15%, 18% and 24% to 10%) and withholding tax (from 15% to 10%). This contributed to transparent and efficient administrative procedures, simple and easy calculation of taxes and completion of tax forms, supported by disciplined fiscal policies and consistent monetary policy.

But, the implementation of the laws is not efficient as accepted legislation that means, reforms in the administration, including additional rules and regulation.

Table 1. Basic Macroeconomic Indicators

	2001	2002	2003	2004	2005	2006	2007
(%)							
<i>Real Sector</i>							
Real growth of GDP	-4,5	0,9	2,8	4,1	4,1	4,0	5,1
Industrial production	-3,1	-5,3	4,5	-2,1	7,0	2,6	3,7
Inflation (cost of living, average)	5,5	1,8	1,2	-0,4	0,5	3,2	2,3
Employment growth	9,0	-6,3	-2,9	-4,1	4,3	4,6	4,0
Unemployment rate (ILO definition)	30,5	31,9	36,7	37,2	37,3	36,0	34,5
Trade balance (% of GDP)	-15,3	-21,3	-18,4	-21,2	-18,3	-20,3	-21,4
Public debt (GFS methodology)	55,5	48,6	44,9	42,6	46,9	40,4	35,2
<i>External Sector - Current prices in USD</i>							
Gross Domestic Product (mil) nominal	3 437	3 769	4 631	5 368	5 815	6 345	7 587
Gross Domestic Product per capita	1 689	1 866	2 285	2 642	2 855	3 106	3 706
Export (million)	1 155	1 113	1 363	1 675	2 041	2 396	3 349
Import (million)	1 682	1 917	2 214	2 814	3 104	3 681	4 976
Trade Balance (million)	-526	-804	-851	-1 139	-1 063	-1 285	-1 627
Foreign Direct Investment (million)	446	105	117	322	94	424	321
<i>Work Force</i>							
Number of unemployed	360 340	374 144	390 361	391 072	359 989	321 274	316 905
Number of employed	599 308	561 341	545 108	522 994	555 938	570 404	590 234

Source: Ministry of Finance

The main tasks in the Macroeconomic Policy are:

- n Macroeconomic stability
- n Low Inflation rate
- n Stable Domestic Currency
- n Favorable Business Climate
- n Higher rate of Foreign Investment
- n Stable Banking System
- n Low Trade Deficit
- n Export oriented economy
- n Reducing unemployment

The Situation with the SMEs is following:

Table 2. Active enterprises

	Number				Participation (%)		
	2005	2006	2007		2005	2006	2007
Small	43877	47740	50541		98,77	98,91	98,98
Medium	463	440	424		1,04	0,91	0,83
Total-SMEs	44340	48180	50965		99,81	99,82	99,81
Large	85	88	95		0,19	0,18	0,19
Total	44425	48268	51060		100,00	100,00	100,00

Source: Central Register

Table3. Number of Employees

	Number				Participation (%)		
	2005	2006	2007		2005	2006	2007
Small	145461	158596	165854		54,43	58,83	61,16
Medium	56947	51029	48617		21,31	18,93	17,93
Total-SMEs	202408	209625	214471		75,74	77,76	79,08
Large	64843	59946	56727		24,26	22,24	20,92
Total	267251	269571	271198		100,00	100,00	100,00

Source: Central Register

Ownership restructuring is done, economic restructuring is in going on.

3. THE MAIN TOPICS OF REVISED NATIONAL STRATEGY FOR SME (2002-2013) ARE:

- n Improvement in Policy Creation
- n Simplification of the legal and Economic Environment
- n Improvement the Access to the Finance
- n Simplification in tax procedures
- n Promotion of Information& Communication Technology
- n Science, Technology & Innovation for SMEs Development
- n Promotion of the Entrepreneurship in Education and training
- n Encouragement of SMEs for Internationalization
- n Improvement of Services for Business Development
- n Strengthening the Dialog between Public & Private Sector

4. MAIN PILLARS OF THE PROGRAM (2007-2010) ARE:

- n 1. Institutional infrastructure
- n 2. Business Environment
- n 3. Finance and taxation
- n 4. Innovation

Related to the new technology and innovation, Program for Development of Entrepreneurship Competitiveness and Innovativeness of SMEs (2007-2010) emphasizes main topics:

- n SME e-Readiness
- n ICT Awareness Raising
- n R&D Investment
- n Technological Industrial Development Zones
- n Promotion of R&D
- n Innovation Scoreboard
- n Science-Innovation Interface
- n Technology Transfer Centres
- n Innovation Relay Centre

The long term Program for Development of Entrepreneurship Competitiveness and Innovativeness of SMEs (2007-2010) is realized by

Annual Programs for Entrepreneurship Development, Competitiveness & and Innovativeness of SMEs for each year. For 2009 total budget of million den.(Euro 500,000) for:

- n A) 10 mill. den. for programs and activities that will be realized through the Ministry of Economy:
 1. Business Incubators,
 2. Business Centers,
 3. European Network of Enterprises,
 4. SMEs Observatory,
 5. SMEs Forum ,
 6. Publishing brochures,

And for:

- n Activities of Agency for Entrepreneurship Development-20 mill. den:
 1. Human Resource Development Fund,
 2. Info point – cooperation with regional centers,
 3. Voucher system for counseling,
 4. Entrepreneurship Awards & Education , EY Day of Entrepreneur,
 5. Improvement the awareness for ICT,
 6. Campaign for implementation of quality standards,
 7. International science cooperation,
 8. Improvement the awareness for rights of intellectual property,
 9. Long life learning
 10. Publishing and promotion Activities,
 11. Co financing of some donors' projects and other activities and analyses,

5. DECLARATION FOR ENTREPRENEURSHIP LEARNING PROMOTION AS OF 3 JUNE 2009

- The declaration is accepted and signed by the Ministry of Economy and Ministry of Education and Science in June, 3 this year. It shows the intention of the Macedonian Government to promote the entrepreneurial culture and dissemination of entrepreneurial spirit in the society as an important precondition for SMEs development.
- The declaration contains the following benchmarks:

- n Innovation & Entrepreneurship-basis for competitiveness
- n Entrepreneurs-Locomotive of market economy,
- n Entrepreneurship-key component in life long learning,
- n Universities are key factors for development,
- n The main role in society-education,
- n Needs for:
 - a) Promotion of entrepreneurial learning including self-employment,
 - b) Implementation of national high education policy, in the function for entrepreneurial learning (EL)
 - c) Support of the high education institutions
- n Stimulation of high education institutions for development of entrepreneurship capacities through:
 - n Ne topics, programs, methods related to the entrepreneurship,
 - n Providing the access to the resources (training, materials) for the students,
 - n Training of professors for entrepreneurship,
- n Establishment of new entrepreneurial centers, relations with enterprises and common projects, 'best practice' implementation,
- n European Training Foundation and EC of EU concerning EL recommendations acceptance
- n Declaration for EL realization through Ministry of Economy & Ministry of education and science

6. INDUSTRIAL POLICY MEASURES FOR (2009-2020) ARE:

- n Applicable research and development and innovation,
- n 2. Sustainable development,
- n 3. Competitiveness enhancement by collaboration
- n 4.SME development and entrepreneurship,
- n 5. Internationalization for business and knowledge creation.

7. MACEDONIAN INSTITUTIONAL INFRASTRUCTURE FOR SMES SUPPORT IS FOLLOWING:

- n Agency for entrepreneurship development
- n 11 regional centers, 8 new settled in rural regions, 3 centers for transfer of technology at the universities,
- n Center for New Businesses-University Sent Cirilys and Methodius-Skopje- Faculty of Mechanical Engineers
- n 9 business incubators, two business incubators for young people with IT companies,
- n Center for permanent education and transfer of technology,
- n Center for carrier at FON University- Skopje
- n Human Resource Development Fund,
- n Enterprise Europe Network,
- n 15 business association, 17 centers for local development, 120 business consultants.

8. FINANCIAL SUPPORT

The financial support for entrepreneurs in Macedonia has many difficulties that came from the applicable approach that only banking system is suitable for SMEs financing, excluding different sources like: micro crediting, risk capital fund, seed capital fund, programs for start up businesses, programs for different social groups, credit guarantee funds etc.

In 1998 is established Macedonian bank for development as a promotion bank, but now is in the process of transformation to specialized business bank for small businesses.

In Macedonia exists some "good practice" in micro crediting in saving houses 'FULM' , "Horizons" and "Moznosti. Procreditbank was established as a micro credit state own bank but lately is transformed in private one for small business, but not for start up.

SME Commercial fund as a project is specialized for working capital fund for export oriented SMEs.

Open society institute Makedonija from Skopje provides some credits line for start up businesses through the commercial banks.

Commercial banks provide credits under strong commercial conditions.

In Macedonia has lack of credit-guarantee funds, exist only 2 private ones.

9. BARRIERS

In Macedonian society and economy, in spite the fact that the business climate is improved; still have some barriers, in administration, juridical system, not flexible banking system, corruption. The main issues are;

- Juridical system without effects,
- Lack of micro financing for start up business
- Lack of incentives for start up businesses
- Lack of confidence in the institutions
- Lack of effective and different institutions for support small business
- Lack of knowledge for using EU funds

10. PROPOSALS

Macedonian economy should realize the tasks and reach up the goals in the relevant official documents, for economic growth and prosperity. For that reason, the tasks in the near future should be design as:

- n To built favorable business environment
- n Consistent implementation of National SMEs Policy
- n Strong support of start up businesses
- n Microfinance programs support
- n Establishment of credit guarantee funds
- n To elimination of the barriers in the all relevant systems and institutions
- n Common action of stakeholders of the national and local level,
- n To build efficient institution and raise the confidence in them
- n Improvement of the universities as focal points for new technology development, EL and development of entrepreneurial culture and spirit.
- n To emphasize and develop the role of confidence in the institution and entrepreneurs.

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Dejan Eri•
Director of the Institute of Economic Sciences, Full Professor at the Belgrade Banking Academy
Gordana Vukoti•-Coti•
Research Associate, Institute of Economic Sciences and Belgrade Banking Academy
Isidora Beraha
Junior Research Assistant, Institute of Economic Sciences
Belgrade, Republic of Serbia
E-mail: dejan.eric@ien.bg.ac.rs

ECONOMIC SITUATION IN SOUTH-EASTERN EUROPE WITH FOCUS ON THE IMPACT OF THE CRISIS ON SMALL AND MEDIUM-SIZED ENTERPRISES *

Abstract

The main idea of this chapter is to explore the impact of global economic crisis on business activities of small and medium-sized enterprises of the South-East European region (SEE). In this paper we have tried to identify impact of crisis on basic macroeconomic parameters of the countries concerned. It is evident that overall economic situation has worsened in 2009 and in many countries negative trend continued in the first half of 2010. Unfavourable economic situation left a deep trace in the sector of small and medium-sized enterprises (SMEs). Taking into consideration huge importance which this sector may have on overall economic growth and development of many countries, the problems which appear in SMEs sector have broader economic and social significance. Negative effects of the crisis in this sector are discussed in this chapter.

Key words: Global Economic Crisis, South-Eastern Europe Region, Small and Medium-sized Enterprises, Financial Crisis

INTRODUCTION

Global economic crisis has been striking the whole world for three years now. It has stricken majorities of the countries of the developed world, but it has also left a deep trace in economies of less developed countries. In some cases, less developed countries were even more struck by a destroying wave of negative impacts of the crisis. Variety of forms and causes resulted in a variety of measures which governments of some countries have undertaken to fight against crisis. Also, it is evident that the crisis has changed its form, as a virus which mutates. It started as a crisis on mortgage market and was connected with processes of securitisation and sub-prime credit, and afterwards it was transformed into economic crisis which caused recession which has hardly been seen before. As soon as the first positive effects of huge efforts to resist the crisis started to be evident and the measures taken in order to recover economies in the most developed countries, the crises has come back in the form of crisis in public finances of some countries such as Greece, Spain, Portugal... For the researchers in the field of economy dynamic activities in terms of global economic crisis are challenges for further research and analyses. Huge number of papers has been written so far in which issues such as evolution of the crises (R. Barrell & P.E. Davis, 2008), relations between financial and political crisis (Chang R., 2007), estimation of systematic risk in international financial system (Bartram S.M. & Brown G.W, 2007), etc have been discussed.

In this paper we try to analyse impact of global economic crisis on SMEs sector in the countries of South-East European region. It is a very dynamic sector which bears great importance in the economy of many countries in the region, in terms of its contribution to GDP, exports, creation of value, as well as

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employment. Lack of systematic empirical research has caused difficulties in this research. The crisis has still been going on. The real effects are still difficult to anticipate and conclusions are almost impossible to draw. There are some partial attempts to understand visible forms of impacts of the crisis. Some aspects of the crisis in this sector in some countries have been presented in this region (Eri• D, Stoši• I and Vukoti•-Cotic G. (2010), Eri• D, Zdravkovi• A and Nikoli• D. (2009) Vukoti•-Cotic G, Redžepagi• S and Eri• D. (2010).

In order to make the broadest possible analysis of the effects of the crisis in the SEE region this chapter consists of two basic parts. In the first part the most important macroeconomic parameters will be analysed whose fluctuation undoubtedly show that the SEE region is exposed to highly destructive impacts of global economic crisis. In the second part impacts of negative macroeconomic parameters are discussed and their influence on SMEs sector, as well as attempts of some countries to resist negative impacts of the crisis.

MACROECONOMIC BACKDROP

The origins of the global economic crisis are well-known so far. They can be traced back primarily to an unsustainable real-estate-connected credit expansion in the United States (US) or with credit crunch in UK. The problems in the US financial market became evident in the second half of 2007, and shortly afterwards spread to other advanced economies. The performance of the leading industrialised economies, known as the Group Seven (G7), deteriorated rapidly in 2008, as it can be seen in chart 1. Canada (CA), first of all, and then the United Kingdom (UK), France (FR), the US and Germany (DE) saw a substantial decrease in real gross domestic product (GDP) – whereas Italy (IT) and Japan (JP) were already in recession. In the next year the recession went into full swing throughout the G7. It is, however, the assessment of the International Monetary Fund (IMF) – set forth in the most recent issue of the World Economic Outlook (WEO) – that the G7, on the ground of ongoing policy measures, will revert to growth in 2010, and even intensify it in several cases in 2011.

Unlike the G7 economies, the economies of South-Eastern Europe (SEE), with few exceptions, continued to grow at high rates in 2008, mostly on account of foreign direct investment still pouring into the region. The exceptions refer, as presented in chart 2, to Turkey (TR), Greece (EL), Croatia (HR) and, perhaps, Slovenia (SI). The growth decelerated in Montenegro (ME), Serbia (RS), Bosnia-Herzegovina (BA), the Former Yugoslav Republic of Macedonia (MK) and Bulgaria (BG), but did not fall below 4.5 per cent, and even accelerated in Moldova (MD), Albania (AL), the territory of Kosovo under United Nations Security Council Resolution 1244 (KM) and Romania (RO)²³. In 2009 the situation, however, changed for the worse, following the sharp decline in demand from the main export markets and more difficult or expensive access to external finance²⁴. Only Albania and Kosovo, as the least open economies in the region, did not enter recession. Conversely, only Greece, owing to its debt crisis, is expected to remain in recession in both 2010 and 2011. As a rule, the growth at pre-crisis rates has not been foreseen.

The contraction in economic activity in SEE has had a significant impact on other macroeconomic variables, such as inflation and the current account deficit.

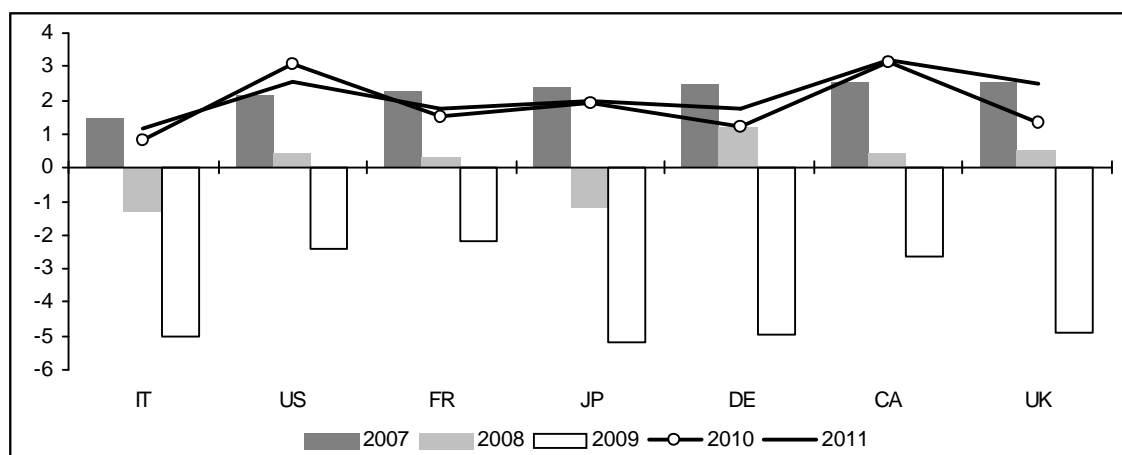
Chart 3. shows that inflation in the SEE region was high in 2007. Moldova, Bulgaria, Serbia and Kosovo recorded even double-digit rates of inflation at that time²⁵. But the subsequent persistent fall in domestic demand contributed in some economies to the lowest inflation they have experienced in recent memory. The figures for 2009 even point to deflation in Macedonia and Bosnia-Herzegovina. Moldova, Bulgaria and Kosovo moved from having the highest inflation rates in the region in 2007 to having ones of the lowest in 2009. In economies that have had difficulties in keeping inflation under control, such as Serbia and Romania, lower inflation has enabled central banks to relax their policies in an effort to encourage lending to firms and individuals, and thus give rise to economic growth. In most cases, however, the economic growth predicted for 2010 and 2011 will proceed in parallel with higher inflation.

²³ To save words, we shall henceforth refer to “the Former Yugoslav Republic of Macedonia” and “the territory of Kosovo under United Nations Security Council Resolution 1244” as “Macedonia” and “Kosovo”.

²⁴ The turning point, after which banks became more rigid in lending, was September 2008, when major financial institutions in the US – Lehman Brothers, American International Group, Fannie May and Freddie Mac – collapsed or underwent nationalisation.

²⁵ Data on inflation in Montenegro are average-year data; they are not end-year data. This is the reason why Montenegro has not been taken into consideration.

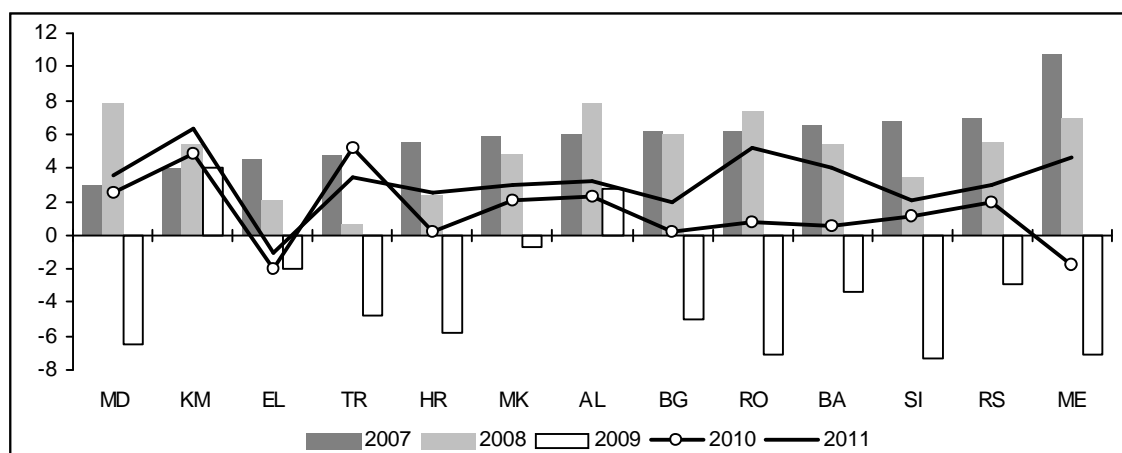
Chart 1. - Real GDP growth (in per cent): G7, 2007-2011



Source: IMF (2010), WEO Database, April.

Note: Economies are ranked in ascending order by the real GDP growth in 2007

Chart 2. - Real GDP growth (in per cent): SEE, 2007-2011

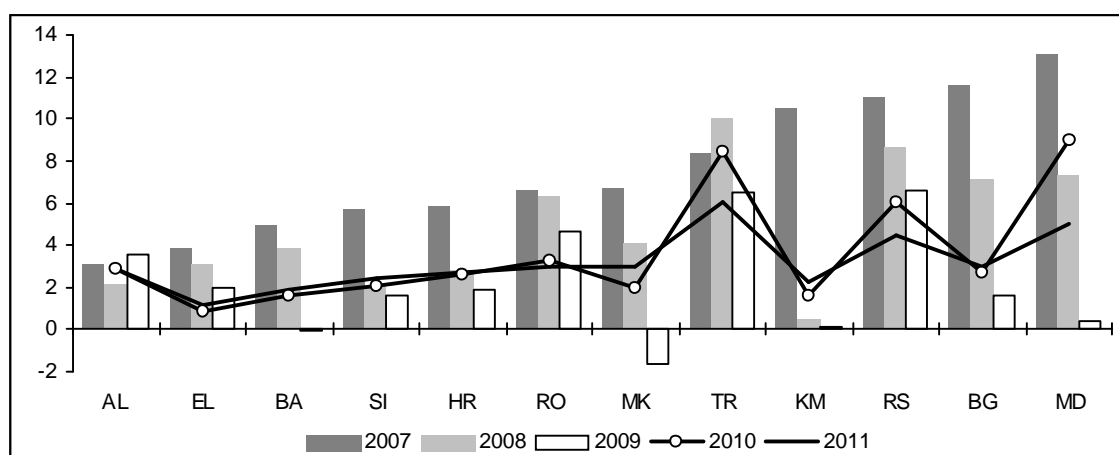


Source: IMF (2010), WEO Database, April.

Note: Economies are ranked in ascending order by the real GDP growth in 2007

The current account deficit, as a percentage of GDP, was high in many SEE economies in 2007 (see chart 4). It, for instance, accounted for more than 15 per cent in Moldova, Serbia, Bulgaria and, above all, Montenegro. The deficit, with few exceptions (referring to Turkey, Romania and Bulgaria), became even higher in 2008. A completely different picture, however, emerged in 2009. As a result of a steep drop in imports that had more than counterbalanced the fall in exports, the current account deficit came down in all the SEE economies, except Kosovo. Having in mind that a deficit in the current account has to be financed from a surplus in the capital account of the balance of payments if a loss in foreign reserves is to be avoided, the SEE region (excluding Kosovo) has predicted a reduction in the current account deficit for both 2010 and 2011 compared with 2008, when capital inflows were large.

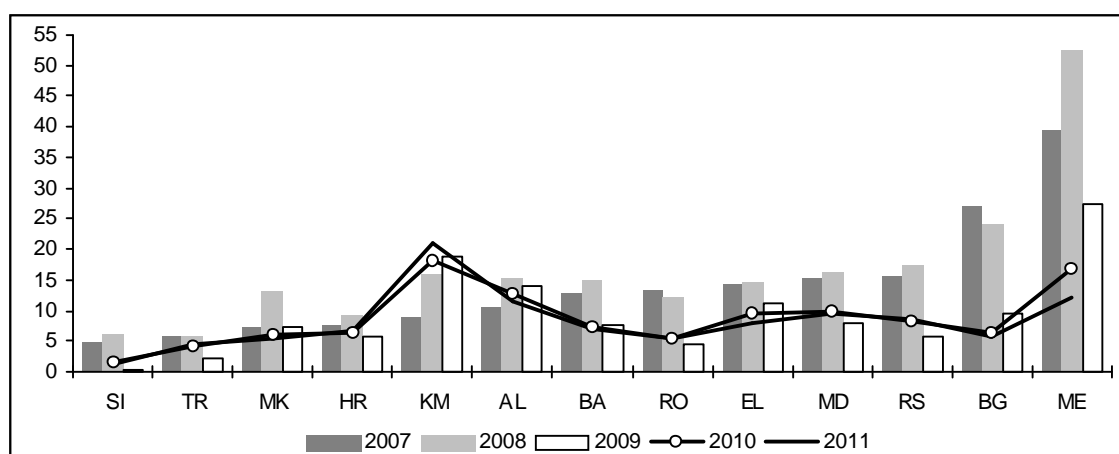
Chart 3 - Inflation rate (in per cent): SEE, 2007-2011



Source: IMF (2010), WEO Database, April.

Note: Economies are ranked in ascending order by the inflation rate in 2007.

Chart 4. - Current account deficit (in per cent of GDP): SEE, 2007-2011



Source: IMF (2010), WEO Database, April.

Note: Economies are ranked in ascending order by the current account deficit in 2007.

Those are some of the macroeconomic conditions in the SEE region created predominantly by the global forces, i.e. global economic crisis, the likes of which the world has not seen since the Great Depression of the last century. In the next section we shall look at how small and medium-sized enterprises in the region have coped with the hard times.

IMPACT OF CRISIS ON SMES SECTOR IN DIFFERENT SEE COUNTRIES

In terms of analysis of the effects of global crisis on economic situation in South-Eastern European countries, observed mainly through fluctuation of basic macroeconomic indicators, special attention has been paid to SMEs sector. Developed market economies have understood the importance and the role of SMEs in creation of welfare countries, and similar to them transition countries and developing countries base their economic growth and development on the above mentioned sector. Growth within SMEs sector is one of the pre-conditions for sustainable economic development and the main source of employment generation. Competitive SMEs sector is a precondition and a platform necessary for improvement of innovativeness.

However, despite its importance, SMEs face difficulties in terms of availability of the sources of financing, which became has been more emphasised in conditions of the world economic crisis. SMEs have limited access to adequate financial resources at both money and capital market, particularly in transition countries, in terms of conditions and prices. Due to their role in overall economies, SMEs are by definition less productive, and because of their tendency towards innovative enterprises and risk, these companies contribute to economic growth but also pay high price in terms of their frequent termination and lower rates of profitability.

SMEs sector in South-Eastern European region manage to adjust to the needs and requirements imposed by dynamic and global conditions in business easier than big systems, which mostly results from their flexibility, vitality, inclination towards innovative enterprises and risk. On the other hand, these enterprises encounter difficulties in terms of economy of scope and often they are not able to use market opportunities which require significant production quantities, homogenous standards and regular supplies. While in comparison with big systems, SMEs have bigger growth potential, they are at the same time more sensitive and hard to survive in crisis.

Demonstrated intention by the EU countries to create ambience of the world class for growth and development of the SMEs sector was embodied in the document titled European Charter for Small Enterprises²⁶, which represents the core policies for development and promotion of small and medium-sized enterprises and entrepreneurship, in accordance with the Lisbon Declaration. The document consists of ten basic dimensions, which are at the same time the key areas of development of SMEs sector. Advancement follow-up made in accordance with defined dimensions provides for comparative analysis of the situation in the SMEs sector in the EU countries, as well as its comparison with other countries which adopted this document.

European Charter for Small Enterprises gives basic direction for development of SMEs sector. Their determination to move from the directions towards targeted activities has been presented in the document called Small Business Act²⁷ for Europe, which was adopted in 2008. The main dimensions, being the main areas of interest for development of small and medium-sized enterprises, refer to the following: education and training for entrepreneurship; cheaper and faster start-up; better legislation and regulatory framework; availability of expertise; improvement of on-line approach to the resources; more benefits from the mutual market; taxation and financial issues; strengthening technological capacities of small enterprises; successful models of e-business and supreme support to enterprises as well as development of more efficient advocacy of interests of small enterprises.

South-Eastern European governments formally adopted both documents and in that way obliged themselves to focus their economic policies on SMEs sector and creation of environment which would stimulate further development of that sector. Consistency in application of the European Charter for Small Enterprises in South-Eastern European countries has been followed up annually and presented in the report called 'SME Policy Index' for a particular year. In estimation of the impacts of the crisis we used these reports, as well as information collected from relevant sources, as well as through ERENET network of researchers in the field of entrepreneurship.

According to the results of the above mentioned report for the period 2008-2009, Albania achieved progress according to all criteria defined by the Charter, and above all in the field of company registration, regulatory reforms, access to sources of financing and promotion of exports. Ministry of Energetics, Economy and Trade, with financial and technical support by the USA funded corporation – Millennium Challenge Corporation, conducted radical reform of the process of company registration in the observed period. Reform was estimated as extremely successful, with the emphasis on the speed of implementation and achieved results. Registration time has been significantly reduced, as well as registration costs. Registration procedure has been decentralized, which resulted in establishment of 13 420 new businesses in 2009. Adoption of the Law on National Business Registration Centre (NRC) in May 2007 which transferred responsibilities of company registration from the Court in Tirana to newly founded public agency, has been considered to be the beginning of the process of reforms in this field. Improvement of capacities and enlargement of capacities increased the number of registered enterprises, and the progress was made due to

²⁶ *The European Charter for Small Enterprises*, dostupno na: <http://ec.europa.eu/enterprise/policies/sme/best-practices/charter/>

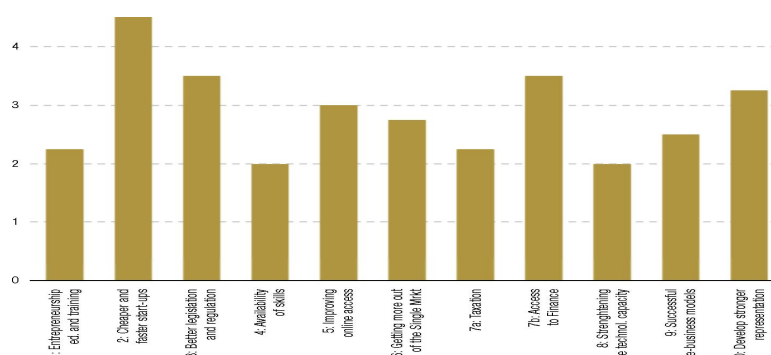
²⁷ „Small Business Act“ for Europe, dostupno na: <http://ec.europa.eu/enterprise/policies/sme/small-business-act/>

the activities by the Centre on updating record keeping regarding the existing companies, including the records in electronic register. Further efforts should be directed towards development of human capital, competitiveness and technological capacities of SMEs.

It has been estimated that the effects of the world financial crisis have not yet directly influenced the financial sector and economy in Albania. As one of the explanations it can be pointed out that Albanian economy has not been sufficiently integrated in global trends. However, macroeconomic indicators show that in 2009 economic growth slowed down from 8% in 2008 to 3% in 2009. It has been estimated that the impacts of the crisis would become more evident in the following period, mainly as a consequence of decrease in the scope of exports to the EU countries. To prove the predictions, exports from Albania decreased by 30% in the first quarter in 2010 in comparison with 2009. Local producers of clothes as the major export industry in the country have already encountered numerous financial difficulties due to which they are forced to reduce prices, downsize or even terminate their business.

The role of SMEs is significant in the Albanian economy. It has been thought that even 99.9% of all economic organisations represent SMEs and that more than 80% of people work there. Chart 5. shows estimation by SME Policy Index scores for Albania per Charter dimension. Fall in demand on foreign market, smaller export orders, weakening and loss of trust in financial institutions, first of all commercial banks, can be considered as the major consequence of the effects of global financial crisis on economic trends in Albanian economy.

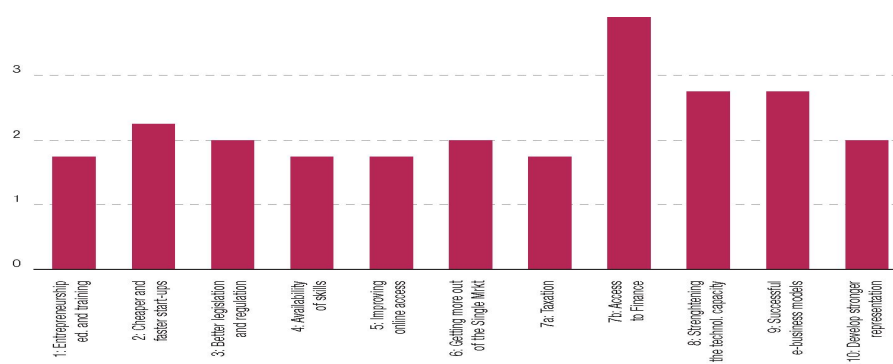
Chart 5. - SME Policy Index scores for Albania per Charter dimension (2009)²⁸



Results of the SME Policy Index for 2009 indicate certain stagnation of Bosnia and Herzegovina, which has been still in the stage of satisfying institutional, legal and regulatory requirements, as pre-conditions for wider implementation of the policy of development of SMEs. In the lack of lien, it is real to expect certain progress in terms of defining collateral and micro loans. USAID has supported financially foundation of the movable property registry, due to which everyone can access data on movable property taken into pledge for more than three years now. Despite the fact that in Bosnia and Herzegovina loan office has been functioning well, the law still does not guarantee individual approach to data on debts based on loans.

According to the data provided so far, through increase of external long-term interest rates, global economic crisis directly struck financial sector of Bosnia and Herzegovina. Changes in global financial system reflected on the borrowing policy and fluctuation of interest rates of banks and other financial institutions in the country, which resulted in the increase of interest rates for new borrowings and lack of financial means intended for the SMEs sector and corporate customers. Fall in demand on international and domestic market and illiquidity is visible forms of the impact of global financial crisis on the SMEs sector in Bosnia and Herzegovina.

²⁸ SME Policy Index 2009, Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans, OECD, 2009, pg. 199.

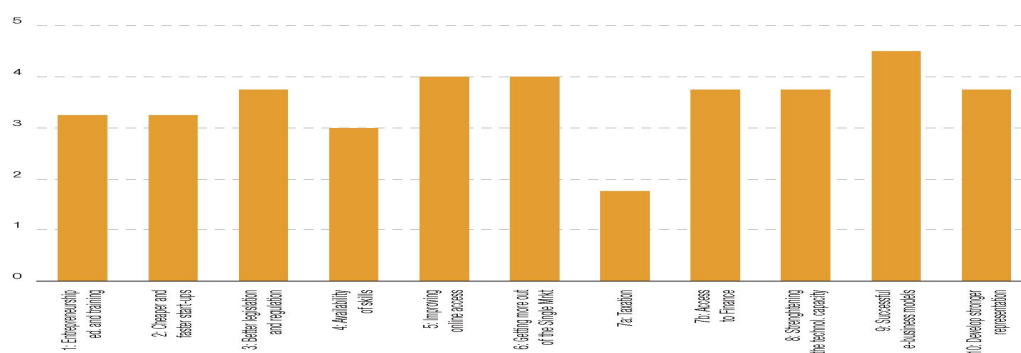
Chart 6. - SME Policy Index scores for Bosnia and Herzegovina per Charter dimension (2009)²⁹

Among the countries of the Western Balkans, Croatia has made the biggest progress in creation and implementation of the policy of SMEs development, with special emphasis on improvement of their competitiveness and innovativeness. It is the first country in which the creators of the economic policy have understood the importance of the competitiveness of SMEs and focused on it. Results of the SME Policy Index, as well as the data according to which a number of specialised institutions have been established in the last two years and realisation of different projects started; indicate that Croatia was determined to start implementation of the defined policies. BICRO – The Business Innovation Centre of Croatia, through its numerous projects in different areas, from the support to IR activities to financing of capital, plays a key role in providing support to innovative SMEs. Realisation of Koncرو programme co-financing of consultant services has been made in order to improve technical and managerial skills of innovative SMEs. By measures of institutional support, the National Curriculum Council and the Croatian Ministry of Science, Education and Sports have provided necessary platform for further promotion and integration of entrepreneurship in the system of formal education. The report by the World Bank identifies two dimensions in which Croatia made significant progress – issuing of building licences and trade abroad, while improvements are still necessary in the field of human capital and legislation and regulations.

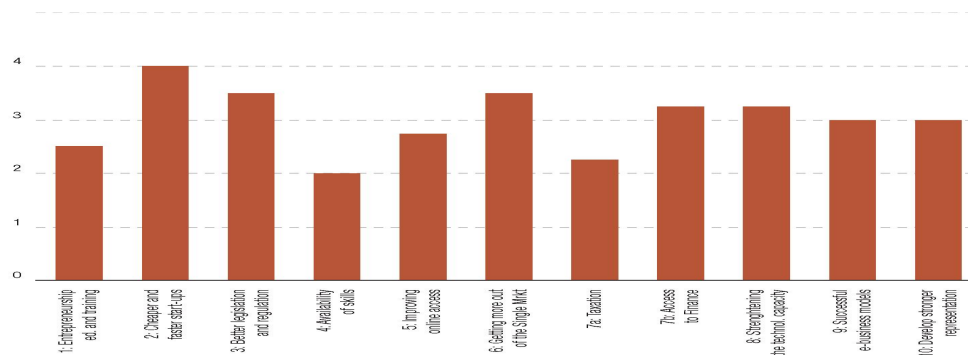
Similar to the neighbouring countries, negative effects of the world economic crisis are evident in Croatia. Over-indebted citizens, in order to keep the existing level of the living standard, tried to find solutions in additional borrowings. The most severe consequences struck SMEs, especially those which are export-oriented as well as those in the field of civil engineering and tourist trade. There was a fall in demand by 10% and investments decreased by 12% in 2009 which influenced growth of total unemployment for about 20 000 people.

Strengthening and further development of the SMEs in the Former Yugoslav Republic of Macedonia, according to the SME Policy Index would depend on the success of activities of human capital improvement in terms of wider engagement of institutions of public education so as to provide necessary synergy, cooperation and coordination in the process of creation of the system of life-long learning in the field of entrepreneurship and involvement of entrepreneurship in the system of formal education. Also, further efforts should be directed towards improvement of on-line approach to information and services and access to sources of finances for SMEs. Difficulties in providing necessary financial means are partly the result of still conservative business policies by banks and rigid collateral requirements. In the last few years, Macedonia has improved efficiency of the system of registration of companies and significantly reduced costs of registration which has mainly been the result of the introduction of One-stop-shop system in 2006 and further keeping of trade registry and registry of other economic entities. Central registry is now capable to process a requirement for registration of an enterprise for less than 24 hours for the fee of approximately 57 Euros. As is usual for one-stop-shop systems, the Central registry in just a few hours issues unique registration number to the new enterprise and receives tax identification number on its behalf. In order to additionally reduce costs of starting up business, Macedonia has recently given up the requirement for ensuring minimum starting capital for foundation of limited partnership.

²⁹ Ibidem, pg. 207.

Chart 7. - SME Policy Index scores for Croatia per Charter dimension (2009)³⁰

Impacts of the world financial crisis on Macedonian economy have caused further decrease of already insufficient level of economic activity, especially when key export markets are concerned, borrowing conditions have changed for the worse on global capital market, limited access to sources of financing for Macedonian SMEs, decrease in inflow of foreign investments and drop in the level of citizens' spending. Banking sector has not been stricken by the crisis so far, although there was a decrease in the growth of deposits and interest rates of bank lending have increased

Chart 8. - SME Policy Index scores for FYR Macedonia per Charter dimension (2009)³¹

Analysis of circumstances in key areas defined by the European Charter for Small Enterprises has identified that Montenegro made certain progress in the field of education and training for entrepreneurs. By wider development of the Strategy of life-long entrepreneurial learning and design of Action Plan which entails key directions of the Charter in terms of education and training of entrepreneurs, significant efforts have been made in terms of development of entrepreneurial education and realisation of pilot training in the Municipality of Berane, located in the least developed region in the north of the country. Montenegrin Government has faced challenges of further improvement of activities on implementation of the mentioned strategy and development of the so-called "Berane Process".

It has been claimed that global economic crisis caused decrease in inflow of foreign investments and fall of activities in the tourist trade sector, which negatively reflected on economic growth of the country. Apart from that, there was a significant fall in the civil engineering sector in which SMEs played an important role. Negative economic trends from 2009 are expected to continue in 2010 as well.

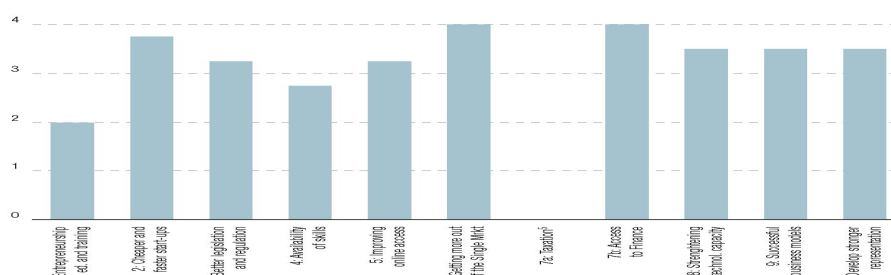
According to the results of SME Policy Index for 2008 it was generally estimated that Serbia made a significant progress in the process of implementation of the European Charter for Small Enterprises. Progress

³⁰ Ibidem, pr. 215.

³¹ Ibidem, pg. 232.

in terms of transition from definition to implementation of the development policies has been particularly pointed out, mostly in the field of support to innovative enterprises, start-up companies, business services rendering and information spreading through on-line services, improvement of the dialogue on policy of SMEs between public and private sector, etc. Progress in terms of key areas defined by the Charter has been evident in the following: gaining more benefits from the common market and availability of sources of financing. In the last period Serbia significantly improved system for promotion and support to exports and currently it has been thought to be the best developed and best structured in the Western Balkans. Important step forward was made in the part which concerns improvement of competitiveness and technological capacities of SMEs. In January 2008, National Competitiveness Council was established with the aim to analyse basic indicators of competitiveness, prepare suggested measures, supervise development of policy and encourage programmes of cooperation. Certain progress in comparison with the previous SME Policy Index was made in the following: system of guarantees, risky capital and private investment funds, and the best results were identified in the two sub-dimensions: system of registration for movable property and information services on loans.

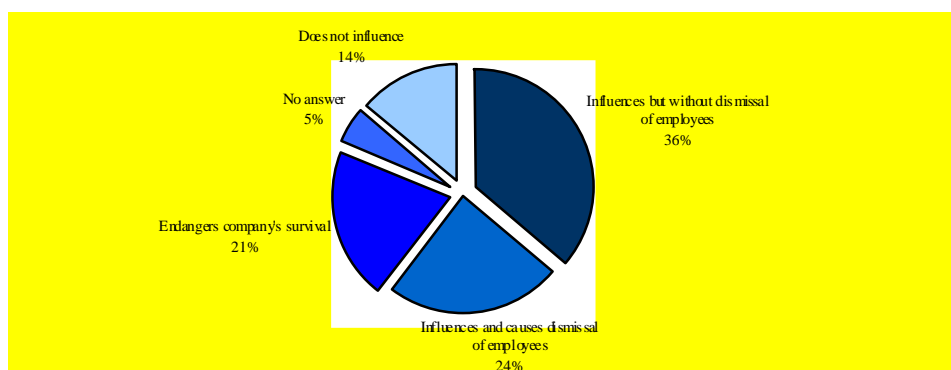
Chart. 9. - SME Policy Index scores for Serbia per Charter dimension (2009)³²



In the mid 2009 on the sample of 3000 enterprises and in accordance with the highest standards of research and scientific work, Republic Agency for Development of Small and Medium-Sized and Entrepreneurs (RADSMEE) conducted an elaborate research of conditions, issues and prospects of SMEs in Serbia. Results of the part of research dedicated to analysis of the impacts of the world financial crisis on business activities of SMEs sector showed that 80% of the participants experienced effects of the crisis, while only 14% stated that crisis had no impact on their business. According to the results of the research, effects of crisis caused decrease in demand for products and services on domestic (48.56%) and foreign market (5.78%), problems with over indebtedness (31.4%), loan-repayment (7.12%) and foreign currency fluctuation (6.09%).

Negative effects of global crisis struck SMEs in other countries in the SEE region. Apart from Serbia, Romania as well asked for financial support by the IMF for consolidation of public finances. Worsening of public finances has had implication on financial system, so that there was an increase in interest rates which influenced SMEs sector to a great deal. In Romania, even 58% of the enterprises reduced scope of economic activities in 2009, 23% remained at the same level, 15% encountered problems of liquidity and only 4% increased activities. In Romania in 2009 more than 100 000 economic entities were terminated, mainly in the SMEs sector. It cannot be said that it is the consequence of crises but more the result of implementation of new tax regulations which prevented the old practice of tax non-payment by founding more companies. According to a survey, 58% of entrepreneurs pointed out that the crisis reached its peak in 2009, while 34% believe that it would be in 2010. Apart from termination of companies, there is a growing number of bankruptcies which directly resulted from the crisis. Thus, participation of SMEs sector in GDP reduced from 72% to 70.8% in 2009.

³² Ibidem, str. 251.

Chart 10. – Impact of the crises on SMEs in Serbia - research³³

Crisis greatly struck Bulgaria as well. Fall of GDP in 2009 had effects on the fall of domestic demand and the decrease of production and exports. It is believed that unemployment rate increased by 10% and that some 72,000 jobs have been lost due to crisis. Apart from that, even 40% of SMEs have to continue downsizing in 2010. Similar to other countries, conditions of financing have worsened as well as possibilities for innovations and investments in SMEs.

INSTEAD OF CONCLUSION

Global economic crisis left deep trace in SEE region. All countries have suffered negative effects of the crisis. Apart from the fall in GDP, there was a decrease in exports, foreign currency inflow and demand on international and domestic market. Situation in public finances have changed for the worse, which have had considerable implications on functioning of financial systems. Banks, as the most important institutions responded by the increase of interest rates due to the growth of the level of risk which made loans more expensive. Worsening of conditions of borrowing mainly struck the SMEs sector which became dependent on this source of financing in the whole region. Together with the decrease in demand, it negatively influenced employment trend. There is no country in the region in which unemployment rate have increased.

Governments of the majority of countries made huge efforts so as to stabilize macro-economic parameters. In this paper we have not made detailed analysis of the measures taken by the governments, but it can be concluded that they tried to intervene mainly in the three ways: by supporting domestic trade – in order to keep satisfactory level of spending; granting loans for liquidity – in order to prevent growing wave of illiquidity and stabilization of financial systems. However, not much attention has been paid to SMEs sector which has been left behind and had to fight for the survival. Under the circumstances of economic crisis one of the key issues for SMEs is how to survive and resist crisis.

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³³ RADSMEE, pp 37.

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Prof. Imre Hronszky - Katalin Kovács – József Veress
Central Hungarian Innovation Center (CHIC)
Budapest, Hungary
E-mail: kovacs@chic.hu

LIVING LABS, A NEW METHOD OF COLLABORATION IN INNOVATION SHORT DESCRIPTION AND THEORETICAL CONSIDERATIONS WITH A HINT ON SMEs

INTRODUCTION

From the end of 2008, Central Hungarian Innovation Center (CHIC) has been conducting a two year research in the frame of a project on "Promoting open innovation, Living Lab and social dialogue in Hungary"³⁴ Assessment of the state-of-the art of some methods of socializing innovation, setting an innovation portal and analyzing its early working, assessing working Living Labs (LLs) in Hungary, and seeking possibilities of a sustainable discursive relation among science, technology and society belong to its topics. This article is based on this research and aims at clarifying the definition of Living Labs and somewhat detailing the core features of this kind of co-creative collaboration. In the second part of the article we make some remarks on the essential possibilities of SME-s in LL environments.

REMARKS ON HISTORY

Radical and disruptive innovations have been moving into the centre of competitiveness by now. A comprehensive dynamic, innovation of innovation, is also unfolding with this. This means wide experimentation with new innovation environments, methods, and platforms. One issue of them is setting and exploring LL environments and its methodology. For short, Living Labs can be seen as a trial to reverse the manufacturer dominated production of technologies to user dominated. To make this understood we first turn to history.

Radically new supply potentials emerged in the 20th century periodically. They were transformed into working innovations by researchers, designers, manufacturers within the enterprise, while the demand side was involved with a rather moderated feedback, only. Manufacturer dominated efforts determined the 'innovation chain' that mainly served mass production goals with their typical consumers in the first half of the 20th century. Mass production efforts realised a special way of technological progress. Products were worked out for masses, for "typical users". Broken by some technological revolutions, consecutive longstanding technological paradigms provided for progress by their thorough exploitation, by series of incremental innovations.

Emerging and accumulating difficulties that originated from the widely growing individualization of the demands in the last 50 years moved the firms to capitalize on this challenge by product individualization. Market research made a spectacular carrier in the last half century and became interactive in this process. As result, customers in their diversity got more integrated into the production systems - through their representation by marketing experts. Based on conclusions from market research, industry developed customization efforts and tried to keep the challenge from consumer side by raising diversity of supplies.

The innovation potential has been immensely growing by now and it can be estimated that it will continue developing on accelerated manner. We are moving from the ICT revolution to the recently, partly only expected, NBIC revolution, to the convergence of nanotech-based (N) biotech (B), informatics (I) and cognitive science (C) revolution. Result is an immense multiplication, a very high variability of the opportunities to make new technologies, products and services. This dynamic turns to multiplying technological breakthroughs based on radical innovations. Instead of exploiting the identified new paradigms as far as possible, a turn emerges in the force-field of new potentials and the revolutionary growth of demands including individualization of them. With this, a steady search for multiplication of radically new possibilities without exhausting them is emerging as central type of exploiting innovative activity. If you want to avoid

³⁴ Research is granted by the NKTH (National Office for Research and Technology) (Contract number: INNOTARS_08)

wishful thinking on the supply side, as far as possible, as counterpart, simultaneously raising radically new needs and demands and their knowledge by the manufacturing firms (!) are needed.

This immensely growing possibility of diversifying the possible results of the innovation processes, the possible abundance of products and services meets a change on the user/consumer side and gets in interaction with it. By now, a very strong comprehensive selection process on the demand side starts to attack the received type of regulation of variation production on the supply side. This is in contrast to the historical period of mass production and is radically different even from the recently forcefully developing customization. Demanding users with individualized needs emerge in masses, and pioneer consumers are eager to develop radically new demands.

There is an emerging radical change both on the supply and the demand sides. But a paradox is still quickly emerging and menaces with its accelerated growth. This is that a historical chance has been emerging that a quickly growing and diversifying abundance of supply will be perhaps more and more unable to meet the quickly growing and individualizing needs and demands, either in terms of efficacy (i.e. meeting those demands) or efficiency. This is because they partially do not meet at all or meet with too much accident. Just the opposite tendency to scarcity economy starts to realize with this. Economy of abundance tries to produce offers lavishly, when trying to meet expected and prospected needs while in spite of the abundance of expert ideas from inside the firm (visions of needed products and services in heads on the producer side, including marketing experts) all the new ideas may meet only a diminishing part of all those needs the users/consumers evolve.

A transformation of the basic dynamic is urgently needed. Improving marketing remains essential in this transformation but it can have a limited role, only. This is because of its essential weaknesses. This limitation exists first of all because of the unavoidable "sticky" nature of knowledge of most types of users' needs and demands. This "stickiness", mostly from the tacit nature of the knowledge of them, the difficulties to translate needs in codified texts makes the situation of producers rather difficult and calls for sustained active presence of the consumers in the whole innovation-production process. But marketing remains especially weak in predicting emerging new demands. This is so, because really new demands can only emerge in a co-evolutionary process with the emerging new radical or breakthrough innovations. They coproduce each other in a perhaps long and repeated iteration process, in rather permanently turbulent environments. Results of this co-production can be forecasted only in a very limited way.

What is at stake and can be set as a strategic vision is the integration of active users as producers in the whole lifecycle of the innovation and production process. That may first of all realize much more efficacy (by finding the appropriate products to the targeted consumers). There are two levels here. Because of the immense diversity users show up with their demands, their feed-backs are essential as early as possible, as most authors emphasize. But collaboration on emerging new needs adds to this a second level challenge.

A different type of relation between the producer and user side (with the user as 'full right producer') is triggered in the emerging system of production and consumption. It promises not only diminishing the uncertainty by a modification of the received innovation dynamic that reproduces its manufacturer dominated essence. As a visionary target it aims at an essentially new dynamic. Change of the user into co-producer, transformation of users from observed subjects into value co-creator, in principle, in the whole "innovation chain" is the promising new way. In some case it extends to the process of usage itself, by the transformation of the usage stage into some prolonged production process. Users and producers get their definition through integrative differentiation in the emerging new dynamic. The vision is that uncertainty in the production process will be reduced by demolishing what is artificial demarcation in the differentiation between producer and consumer.

Actually we know only quite a few recently, not only about any detail but also concerning the main characteristics of this emerging new dynamic. Experimenting with and the need for systematically reflecting on the trials of providing for an LL environment and methodology, the cooperation with users in their real working environment and starting from there, is the state-of-the-art in this changing dynamic. With this dynamic it is to explore how the user systematically can get an active, co-producer role in the 'innovation-production-usage chain' from idea creation through validation and customization even to changing the flexible product by the user as result of learning in its usage.

There are two ways to go into this direction and integrate them. First, on supply side, products of innovation (whether things or services) should be prepared in a flexible form so that users can finish them as they need them. ('Passing over' many sorts of products in 'permanent beta stage' to the consumers as active

users may be soon typical for a lot of products.) Second, on demand side you should try to concentrate on immediately solving some individual task in real environment, without mediating the task and reducing it to solving individual problems by the help of instruments developed for previously identified 'typical' consumers in some standardized environment, inevitably giving up some user friendliness this way.

To realize this you need the active participation of the users as co-creators possibly at all stages of the "innovation chain". This way innovation dynamic promises the integration of two, practically endless innovation "resources", producers and the consumers. Collaborating flexible working environments will be offered for active users to solve their problems as they emerge in real environments. This may be the vision, prospective definition of Living Labs.

Living Labs can help in meeting the real needs by providing for systematic experimentation in an integrated environment of experts and users (who may be some sorts of experts themselves) in modulated, but still open environment of collaborations and technologies needed for realizing the individualized innovation. Further, series of realized individual innovations in LL environments systematically provide for some sort of - rule-based - generalization, from an individual case to the other. Thematic networks of LLs, where this rule-based generalization can accumulate, provide for the medium of these efforts. That is why thematic networks of LLs where innovations can systematically be compared, are of equal importance with LLs themselves.

It is typical to emphasize and include into the definition of LLs that LLs are instruments for meetings human end-users' real needs. Human end-users real needs are decisively important for different reasons. They provide, first, for better realization of market possibilities. More than that, diversified satisfaction of human end users by the mediation of the end-users themselves inevitably adds some socio-political layer to the purely economic considerations. That means that an LL environment helps to democratize technological development, as von Hippel claims (von Hippel (2005)). Working in LL environments is inevitably human centered too.

Much is told about 'users' as human persons or groups of them. And the unique emphasis is recently on them with the LL experiments. This is most important. But most innovations in LL environments can realize for example with other firms as users in the complex, many layered dynamic of B2B (business to business) interactions. In these cases firms or professional groups, etc. are the 'players' (more widely all those institutions, for example organizations who order something) realizing, in a user role, an interactive relation to the innovation providers. With this democratization occurs in a more general sense too, when dependence of any sort of user from producers diminishes.

'Prosumers' (those consumers who interact with the innovation and production process) progressively get stronger; perhaps get the dominant position with time. The whole production system is starting to change from a manufacturer dominated to a system dominated by the co-creative user, where "users" include both enterprises and human end users. Taken into account in numbers of interactions these types of B2B interactions will be more numerous by magnitudes of order than LL activities in which human end users are involved.

LIVING LABS AND OPEN INNOVATION

First Living Labs emerged around 2000. From some perspective they emerged as a new sort of 'open innovation'. It is typical to say that they emerged to experiment with 'user-driven open innovation', a sub-species of 'open innovation'. What is an 'open innovation'? It's opposite, 'closed innovation', systematically realised within the (control of the) enterprise as vertically integrated, emerged actually from the end of the First World War. This means that control efforts by the firms on the productive capacities, the vertical control was extended to an emerging precondition of coming comparative advantage, and R&D labs were regularly established within the big firms. Competition as rivalry was extended to the innovation chain starting with the R&D efforts as it especially occurred with knowledge intensive branches, the pharmaceutical or the electronic industry. Capability to realize a better 'closed innovation' system, rivalry in realizing a better 'innovation chain' especially by the better R&D lab inside the enterprise became one of the decisive factors that provided the comparative advantage on the market.

This has been quickly changing by now and especially big enterprises are eager to tap into outer sources by networking, without bringing these sources under vertical control. They are eager to realize 'open innovation' and find this way comparative advantage in the global competition. 'Open innovation' is first of all

some special sort of outsourcing of earlier vertically integrated tasks.³⁵ Developing a different relation to users by integrating them into the innovation process belongs to this opening. LL may be seen as a sub-class of 'open innovations', in this respect.

Why is the looking for 'open innovation' accelerating? First, with the raising rivalry, a disproportionally growing cost of the "closed innovation" approach emerged around 20 years ago. This happened together with the possible diminishing transaction costs concerning buying innovation from outside. Second, for several reasons specialized research capability and knowledge outside any enterprise grew very quickly and by enabling ICT technologies, among other things, has been becoming easily connectable globally. Outsourcing at least part of the R&D tasks became competitive with 'closed innovation' already and some sort of global outsourcing of R&D can already be envisioned. Third, all the users in a changing interaction type of producers and users (not only human end users) got more and more demanding and it became evident that they are (not only human end users) most valuable resource with their active participation in the innovation chain, even that they may have decisive advantages in comparison to "lonely" producers of mass production type in different respects.

Henry Chesbrough, who introduced the term "open innovation", says: "open innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively. The open innovation paradigm treats research and development as an open system." (Chesbrough, 2006: p.1) We can see that this definition of 'open innovation' includes 'outflows' too and is not specific for 'inflows'. It is more than outsourcing innovation activities.

We can open up the vertical integration of value production not only by outsourcing some parts of the 'innovation chain' and integrate the outsourced into our value producing activity, but also by transferring a part of the producer role, that to realize finished products. This has originated in software industry with the 'open source' approach. Concerning its origin it is to remember that it spares setting costly test-beds for products readymade by experts on the production side. 'Open sources' are transformed by active users into utilizable final products. (There are already efforts to utilize this approach at different sorts of tangible products, "hardware", too) Utilizing "open sources" we have the "permanent beta status", enabling status of products received from suppliers to be constantly improved by active users for their own individual needs.

LL AND THE DIFFERENT TYPES OF USERS

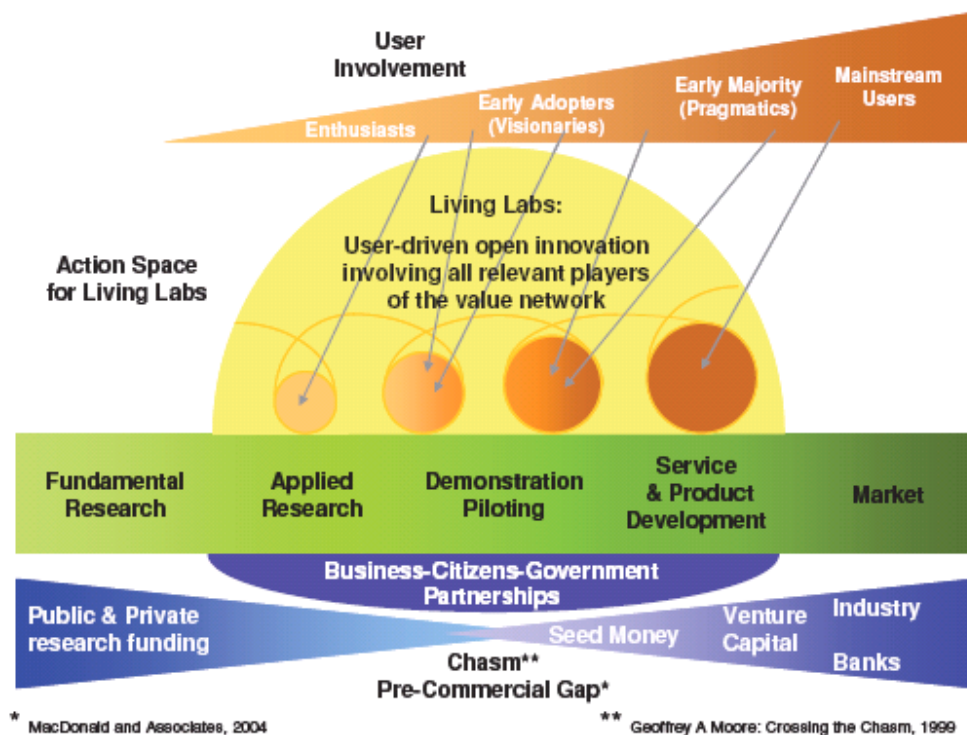
The competitiveness of companies recently depends on their capability to realise sustainable engagement in networked environments which are base for cooperation with users as motivated co-creators in focusing on the real user's needs. Any real innovation dynamic is always somehow circular with some unavoidable feedbacks but it progresses in a process (in a dynamic that turns into an iterative process) that in abstract can be demonstrated as starting from idea creation to production of ready made products, extended even to usage of these products. The 'linear' figure below illustrates that every stage is place for user involvement and enumerates different types of users with their different intervention capabilities at different stages of innovation.

EC INFSO (January 2009): Living Labs for user-driven open innovation, An overview of the Living Labs methodology, activities, achievements, p. 8.

ON THE DEFINITION OF LIVING LABS

There are different definitions what an LL is. We have no place here to go into any assessment of strengths or weaknesses of them. We think that the following definition is the best: "Living Labs are open innovation environments in real-life settings, in which user-driven innovation is fully integrated within the co-creation process of new services, products and societal infrastructures." (EC INFSO (January 2009)

³⁵ Multinationals open their innovation activities inside their extended "walls" too when establish R&D in different countries to meet the 'local' differences. It is some sort of opening but may not be realised as 'open innovation'.



Action space for Living Labs along the technology adoption cycle

This definition is prospective when it speaks about “full integration”. It is true that there is an emerging transition from the manufacturer driven to the user-driven innovation processes, recently. But the actual situation is that most LLs, co-creative activities in practice are realized on the stage of testbed of new products. There is a quickly growing LL movement too. This is recently organized into a European organization and is supported by a top-down support from the EC in the framework of the European Network of Living Labs (ENoLL). From the end of 2006, its starting date, ENOLL grew to 129 members in the 3rd wave of recruitment in 2008. The 4th wave was closed in January 2010. It got 118 applications. This is a very impressive progress. The aim of the European network is to develop the collaboration among the members regarding their context, theory and practice of user involvement, infrastructure, methodology and services. The EC gives top-down support with this to the many bottom-up trials, urges and help stabilizing them. The recent final goal of this support is to help realize the vision of a Collaborative Web as new type of utilization of the Internet by utilizing the possible help of ENoLL.

What can an LL offer? They can offer quite different services. It can help on project setting level, on research level, on testing level, in business modeling, and with policy recommendations, among many other things. Thematic networks of LLs and ENoLL can further provide for services by utilizing the networking possibilities.

SOME REMARKS ON LIVING LABS AND SMSs

Living Labs have benefits for SMEs, both in producer and user role of SMEs in the innovation process. The relation is mutual. SMEs also have characteristics which make them essential to be able to realize numerous LL efforts. In this short article we can only indicate some weaknesses and hindering factors why SMEs may recently be less involved in the LL movement than they should be, according to the advantages an LL environment offers.

As H. Schaeffers and R. Santoro (H. Shaffers, R. Santoro, January, 2010) quite recently states,

- There is insufficient ability of vertical integration of complementary competencies at SME level.
- SMEs lack mechanisms for the use validation.
- SMEs typically have scarce availability and/or difficult access to knowledge resources.
- Further, the SME sector can be characterized globally by its low ability to be involved in international cross-border collaborations and
- SMEs have trouble to significantly increase the company's market often because of the low level of expertise and resource.
- There are further different domains where networking of SMEs is rather missing, for example in e-health.

SME's have a low level of vertical and horizontal collaboration ability, and lack of (external) knowledge resources and finance, in order to tackle with different structural characteristics, regulations in the respective regions and countries they would like to conquer. Schaffers and Santoro claim that while SMEs have these shortages it is quite typical that there is some insufficient readiness to collaborate on SME side. Beside lack of financial instruments and the constraints to look for short-term profit the enumerated factors strongly limit capabilities of SMEs to be innovative, also in the way of joining LLs.

But Living Labs are a bridge and balance among market pull and technology push innovation forces, very much worthwhile to enter. Living Labs may enhance the access to the needed different additional expertise and competences for SME's, necessary at product/service development of the innovation process. Collaboration may provide new resources, ideas, technologies which enable to conduct a new direction of innovation outside the core business of the company. Highly innovative SMSs may especially need the environment of a thematic international LL network. "In a fragmented domain /like e-Health as well as e-Inclusion/ networked Living Labs can assist to get user contributions to grow into lead markets" EC INFISO (2009), p. 9.

It is especially difficult for SMEs to reach different sorts of end-users. The efficiency of product/service development may decrease the necessary time to develop the product and introduce it to the market. By the involvement and feedback of end-users even at early stage of the innovation process helps to find the right direction by the key decision milestones at the development process, therefore decrease the necessity of corrections, and resources and the time utilized by the development process as well. The involvement of end-users and collaboration with relevant partners may open new segments of the market by accessing new channels and by getting deeper insight into the demand of the users, therefore all the urgent problems can be met by Living Labs, mainly as Living Labs assist SMEs to get their user ideas and feedback in the development process to achieve a higher market share or get into new markets.

Different sort of Living Labs as well as thematic networks of Living Labs and ENoLL may be of great help in this situation. As the EC INFISO states: (EC INFISO January 2009 p. 9.): „This 'networked Living Labs' approach is of particular interest for SMEs and micro-entrepreneurs, which do not have the expertise and resources to expand their activities to other regions or across Europe due to different structural characteristics, regulations, or societal economic structures in the respective regions and countries." Living Labs provide for facilities in terms of infrastructure, access to users in the most different phases of innovation.

We mentioned the EC puts great emphasis on involving SMEs both as producers as well as users into Living Labs. Especially the project CO-LLABS deserves special attention in this respect. As a thematic network it addresses the formation of cross-border SME-centric Living Labs and their collaboration and experiments in different domains. The CO-LLABS Thematic Network aims to realize the adoption of services and best practices of ICT solutions targeting the enhancement of the SMEs innovation capabilities. The network helps exchange practices, and support interaction of Living Labs.

In summary we can say that infrastructure to make work smart and meeting the real environment, different sorts of professional advices, easy access to users, discovery of new markets belong to the most appealing features why SMEs should join LLs.

The instruments or policies to stimulate innovation in and "innovation of innovation" of the SME's sector are very significant, as this sector has decisive effects on the competitiveness of the economy. Significant part of SMEs is innovative; therefore their role in employment is also significant. Because of the importance of SMEs regarding the economy EU and the national/regional policies have to be aligned and

focused on the development of the sector's innovation capabilities. The current policies on innovation have to be enriched (instead of replaced) by policies targeting the development of Living Labs.

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PHOTOS FROM TIRANA



Statue of Mother Teresa (Nënë Terezës)

Photo by
Dr. Antal Szabó ©



University of Tirana



The House of Parliament (left) with modern buildings in Tirana

CONFERENCE PAPERS



WORKSHOP ON “SMEs IN THE TIME OF GLOBAL CRISES”

organized by:

ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION (BSEC)

and

KONRAD-ADENAUER-STIFTUNG (KAS)

in cooperation with the

MINISTRY OF ECONOMY, TRADE AND ENERGY

REPUBLIC OF ALBANIA

5-7 April 2010

Rogner Hotel, Europapark, Tirana, Albania

The Workshop on “SMEs in the Time of Global Crises” was held in Tirana, the Republic of Albania, on 5-7 April 2010. It was jointly organized by the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS) and the Representation of the Konrad Adenauer Stiftung (Foundation) (KAS) for Turkey, in cooperation with the Ministry of Economy, Trade and Energy of the Republic of Albania. ERENET provided assistance in selecting keynote speakers, moderating the workshop and compiling conclusions and recommendations.

Mr. Jan SENKYR, Resident Representative of the Konrad-Adenauer-Stiftung (KAS) for Turkey, opened the Workshop and welcomed the participants of the Workshop on behalf of the KAS. Welcoming statements were delivered by Ambassador Traian CHEBELEU, Deputy Secretary General of BSEC PERMIS; Dr. Willibold FREHNER, Resident Representative of KAS for Albania; H.E. Mr. Enno BOZDO, Vice Minister of Economy, Trade and Energy of the Republic of Albania; and Mr. Luigi BRUSA, Head of Operations, the Delegation of the European Union.

The Workshop was co-chaired by Mr. SENKYR; Ambassador CHEBELEU; and Dr. Antal SZABO, UNECE ret. Regional Adviser on Entrepreneurship and SMEs, Scientific Director of ERENET.

The Workshop was attended by the representatives of the following BSEC Member States: Albania, Armenia, Bulgaria, Moldova, Romania, Russian Federation, Serbia and Turkey.



FINAL DISCUSSIONS AND CONCLUSIONS

The following points were made in **CONCLUSIONS**:

1. SMEs and entrepreneurs play a significant role both in transition economies as well as in advanced ones, and they are key generators of income and employment and drivers of growth and innovation.

2. Even under normal economic conditions Governments have recognized that for survival and growth, SMEs need special policies and programmes. However, at present time, SMEs have been specially hit hard by economic crises. This led to sharp output decline, devaluation of national currencies and extreme increase of unemployment and inflation, as well as decrease in foreign exchange reserves, in capital inflow from abroad.
3. It is important to highlight, that SMEs are more vulnerable in time of crises for many reasons including:
 - they are already small, this is why it is difficult for them to downsize;
 - they are less diversified in their economic activities;
 - they have weaker financial background;
 - they have lower or no credit rating;
 - in global supply chains, SMEs are even more vulnerable since large companies' abuse of power.
4. The crisis demonstrated that the more open is an economy the more dependent it is on the external effects of the world market. The strong economic ties and financial dependence made many transition economies highly vulnerable to the crises in the U.S.A. and the Western countries.
5. The global economic crises are primary the result of the irresponsible profit-oriented banking sector offering uncounted credit even at the dawn of outbreak of the crises. This was strengthened by underdeveloped financial systems, insufficient rescue policies and weak social security net in the transition as well as in the new EU countries. In spite of recapitalization of the banks many of them do not provide credit for SMEs.
6. In the financial crisis the world economy is still experiencing, the international financial organizations are trying to restore the confidence at the cost of painful restrictive measures.
7. The global recession has plunged the BSEC transition economies into social and economies crises, but so far the dynamism of reforms and economic integration did not stop.
8. The economic crisis pointed out that the market-driven economic model relying on strong inflow of foreign investment is not a right approach. The right response should include restoring the confidence by strengthening the national resources, particularly when it comes to citizens, consumers and SMEs.
9. The financial crisis did not finish yet and a worsening for SMEs is not excluded. For SMEs there are four related factors:
 - lack of demand;
 - increase payment delay on receivables, which results in decrease in liquidity;
 - increase of default, insolvencies and bankruptcies; and
 - lack of financial sources or difficult access to financing.
10. There is a risk that qualified workforce might migrate as a consequence of the crisis.
11. Some countries have recently put in place anti-crisis packages by combining:
 - measures supporting sales, like creating fund for car scrapping incentives;
 - measures to enhance SME's access to finance, mainly to credit through bank recapitalization and expansion of existing loan and credit guarantee schemes;
 - measures aimed at helping SMEs to maintain their investment capabilities.
12. Neither EU nor BSEC Member States can address the global economic and financial crises by acting in isolation.

RECOMMENDATIONS

The following recommendations were made:

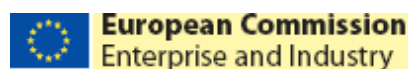
1. The crises indicated the importance of market-supporting policies and the role of policy-institutions in this regard. The Governments should improve the regulation and strengthen the incentives to safeguard the jobs.
2. Governments should play a much more active role in managing the economy, as it is the case in many advanced Western economies.
3. One of the first lines of action for Governments should be to ensure a simple and straightforward access to finance by SMEs by providing enough liquidity and simplifying the criteria for their access to financial resources. The BSEC countries' Governments are urged to review their policy measures in order to make structural improvements and institutional changes in the SMEs financial environment in order to revitalize their growth.
4. Governments have to implement measures to accelerate the cash flows and to shorten payment delays for public procurements. The European Commission has suggested that public authorities should pay their bills within 30 days. Such measure should be taken by Governments of the BSEC Member States as well.
5. The crises highlighted that SMEs should re-examine their activities and adjust their competitive performance and adapt innovation strategies. SMEs should reorient their activities and diversify their business in order to reduce losses, to be able to survive and increase profitability.
6. Governments should manage an active policy with multinational companies especially with international supermarkets in order to provide protection for indigenous suppliers and to encourage multinationals to participate in domestic reconciliation action instead of repatriating their profit.
7. Specific financial means and procedures are requested for microfinance facilities in order to decrease the unemployment rate and alleviate poverty in the BSEC region.
8. Governments and international organizations should develop innovative business models for SMEs to access technology.
9. Entrepreneurial education should be fostered at all levels of schools, universities and life-long learning with a view to developing skills and abilities to adapt to the new challenges and requirements.
10. The Governments should encourage NGOs to take active initiative to ease the negative impact of the crises on SMEs



ERENET Team Hans Jürgen-Weissbach, Qemal Balliu, Antal Szabó and Eric Dejan with Jan Senkyr in the middle



Eric Dejan highlights the impact of the economic crises in South-Eastern Europe

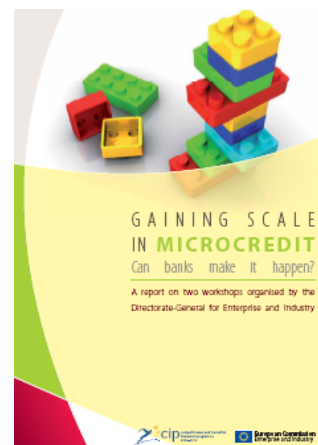


GAINING SCALE IN MICROCREDIT – CAN BANKS MAKE IT HAPPEN?

A report on two workshops organised by the European Commission's Directorate-General for Enterprise and Industry in November 2008 and March 2009.

For the European Commission, developing the supply of microcredit is important because it encourages new businesses, stimulates economic growth and can help counteract the effects of the financial and economic crisis.

Entrepreneurs often find it difficult to borrow small amounts because many banks see microcredit, in particular microloans to start-ups, as a high-risk, low-return activity where overhead costs are high in relation to the amount lent.



In order to further develop its policies, the European Commission sought the views of market participants and other experts on “**The role of the banks for microcredit in Europe**”. The following specific topics were initially identified:

- **The business case:** Would microcredit clients get a loan and how would the loan product look? Is there enough on offer and what could banks do to improve this?
- **The level playing field:** What is the role of the non-banking sector in relation to the banking sector?
- **The trends:** How will the situation change due to the economic and financial crisis? How will the future of microcredit provided by banks look: a business to develop, or one to avoid?

Banking and non-banking experts discussed these questions in two workshops in November 2008 and March 2009. This report outlines the conclusions from those discussions.

Published: 8 June 2010

Increasing the supply of microcredit (loans of up to €25 000) is important for encouraging new businesses, stimulating economic growth (in line with the EU growth-and-jobs strategy) and opening doors to people who would not otherwise have such opportunities.
(EU policy on social inclusion).

Entrepreneurs often find it difficult to borrow small amounts, because many banks see microcredit as a high-risk, low-return activity, and their handling costs are high in relation to the lent amount. Many EU Member States have specialised microfinance institutions to overcome these problems.

File: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=4355

INSTITUTIONAL PROFILE

EPMF - European Progress Microfinance Facility

In the current context of reduced credit supply the new microfinance facility aims to give micro companies easier access to credit.

The European Union has set up a new European Progress Microfinance Facility providing microcredit to small businesses and to people who have lost their jobs and want to start their own small businesses.

An initial budget of €100 million is expected to leverage €500 million of credit in cooperation with international financial institutions such as the European Investment Bank (EIB) Group. This could result in around 45,000 loans over a period of up to eight years.

The Facility will increase the supply and accessibility of microloans for vulnerable groups and unemployed wanting to set up or further develop their own business.

How can I apply?

The Facility will be operational from June 2010. People interested in applying for support from the microfinance facility should contact the providers of microloans in their home countries. These providers can be banks, not-for-profit micro lenders or institutions providing guarantees and other providers of microfinance products to microenterprises. Under the Facility, the European Investment Fund will make funding available for these providers to reach out to the audience targeted by the European Progress Microfinance Facility.

Micro-credit in the EU means loans under €25,000. It is tailored to micro-enterprises, employing fewer than 10 people (91% of all European businesses), and unemployed or inactive people who want to go into self-employment but do not have access to traditional banking services. 99% of start-ups in Europe are micro or small enterprises and one third of these are launched by people who are unemployed.

Accompanying measures

Because providing the financial means alone is not enough and guidance/coaching of the (potential) micro-entrepreneurs and capacity-building of the micro-finance providers is required, the Facility will be expressly designed to fit with existing instruments, in particular the European Social Fund (ESF).

Creating an interface between the ESF and the European Progress Microfinance Facility will be one of the key factors for the success of the Facility. This will be important for:

- information and communication – through the currently established channels, ESF will play an important role in informing potential micro borrowers of the new Facility;
- all Member States have prioritised entrepreneurship as part of their ESF Operational Programmes. Within this they offer support for training on setting up a business, guidance and mentoring in running a business, and can support the micro borrowers in applying for a loan and managing a micro-enterprise;
- with its traditional activities for entrepreneurship promotion, coaching, training and consultancy for job seekers, the ESF will sustain the final beneficiaries;
- the ESF is the only structural fund which can grant interest rate rebates for the individual. This possibility has a great potential to improve the access to funds for micro entrepreneurs.



FOUNDATION FOR REGIONAL ENTERPRISE PROMOTION
for the Town of Székesfehérvár
the developer of the Hungarian Enterprise Portal.

Mission

The mission of the foundation is to support enterprises in various ways, including the provision of assistance to start up and establish enterprises, to solve special problems of already existing enterprises (i.e. growth related problems, accessing sources, mediating business opportunities and supplier contacts, etc.), and the development of the necessary legal conditions.

The Foundation for Regional Enterprise Promotion for the Town of Székesfehérvár (www.fea.info.hu) (short international name in use: **Fejér Enterprise Agency**® or **FEA**) was established as a non-profit organization in 1991 in Székesfehérvár with the support of the European Commission mainly to handle the Hungarian enterprise development projects of Phare in Fejér county. Székesfehérvár lies about 60 km to the west of Budapest and it is the centre of Fejér county and the Central Transdanubian Region. The founders of the foundation include the local government of Székesfehérvár, the Chamber of Commerce and Industry of Fejér County, the Chamber of Agriculture, several big banks, companies and private people.



Since the end of the Phare programme, the activities of the Foundation have changed several times. Owing to the significant investment promotion activities of FEA the 'Trade Centre' office block has been built in Székesfehérvár (the registered office of the Foundation can also be found here), the Alba Industrial Park has been established (www.aiz.hu), and an airport project has been started. For a long time the preparation of studies relating to economy and regional development as well as adult education played a major part of our activities.

Currently our most important activity is microfinancing, but in addition to this the foundation deals with training, and provides economic and financial advice. On the basis of the authorization provided by Act CXII of 1996 on Credit Institutions and Financial Enterprises FEA is a microfinance institution (MFI) entitled to carry out microcrediting activities independently of banks.

Microfinancing

Fejér Enterprise Agency® started its microfinancing activities in 1992 under the national co-ordination of the Hungarian Foundation for Enterprise Promotion as a pilot project of the Phare enterprise development programme by starting up the National Microcredit Programme in Fejér county.

In the past 18 years FEA has carried out significant developments in order to improve the quality of the microfinance activity and the related enterprise promoting services provided by FEA. It has started several pilot microcredit programmes (of social and enterprise promotion purpose) as well.



Tibor Szekfő • Managing Director © photo by Antal Szabó

Microcredit funds currently managed by FEA:

- the funds remaining from the microcredit programme financed by Phare and the Hungarian government since 1992;
- microcredit fund donated by IBM;
- microcredit fund donated by the local government of Székesfehérvár;
- sources coming from the JEREMIE microcredit programme.

Microcredit products currently offered by FEA:

- the microcredit construction of the National Microcredit Programme;
- microcredit construction for entrepreneurs to be used freely in order to bridge the crisis;
- 'Fehérvár' microcredit (from the credit fund of the local government);
- rolling over microcredit construction;
- JEREMIE microcredit programme constructions.

FEA's target groups consist of start-up and already existing but inexperienced micro-enterprises. The programmes – in conformity with the Central Eastern European practice – are mainly of enterprise promotion purpose, but in case of the individual programmes – depending on the expectations of the donors – social aspects may also be considered.

The microcrediting practice of **Fejér Enterprise Agency®** FEA relying on an Internet based service providing and assessment management system was included among the five best practices by the scientific committee in the **MICROFINANCE GOOD PRACTICES "EUROPE AWARD" 2009 – 'Innovation and Sustainability'** 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'



In order to handle microcredit programmes, FEA has developed an innovative, Internet based system to provide electronic services and support decision-making in co-operation with its information technology service provider partner, Monitor Kft, the individual modules of which are used by more than 10 Microfinance Institutions (e.g. the members of **the Hungarian Microfinance Network ®** - www.hungarian-microfinance.hu in all the regions of Hungary.

The system provides electronic services for both the MFIs and their clients. The electronic interface, which ensures the fulfilment of the daily electronic data supply obligation of the MFIs for the IT system operating at the national coordinator of the JEREMIE microcredit programme from the credit records held by them, is a part of this system.

The Foundation maintains a national Web-portal <http://www.vallalkozastan.hu>, which is a practical guide for entrepreneurial education both at the secondary as well as high-school levels.

file: <http://www.mvfportal.hu/?lang=ENG®io=10>

CALLS – EVENTS – NEWS



29 September – 1 October 2010
Brussels, Belgium

» The high-level “European Cluster Conference 2010” will address the role of world-class clusters in renewing European industry in light of the Europe 2020 strategy. It will gather key policy-makers from the European Commission, Member States, regional authorities and high-level speakers from academia and industry to discuss how better policies can be formulated to make full use of the economic potential of excellent clusters. The event is organised under the chairmanship of the Belgian EU Presidency by the European Commission DG Enterprise and Industry.

The future competitiveness of the European Union will depend on its ability to renew its industry base and to strengthen the thriving services sector towards a more competitive and greener economy based on knowledge and innovation. To achieve this, Europe needs more world-class clusters, which are hotbeds for turning innovative ideas into new products and services and for providing a particular fertile environment for new business formation that creates innovation, growth and jobs. A more strategic approach is needed that builds upon existing efforts and explores new cluster concepts for establishing the right framework conditions for new and innovative industries.

During the conference, the high-level [European Cluster Policy Group](#) will present their final policy recommendations of how this can be achieved. Roundtables will give national and regional authorities the opportunity to discuss specific actions of cluster policies and cases of specific sectors. The day of cluster managers will bring practitioners together interested in the further professionalisation of their cluster support activities and finding international partners during the first open meeting of the European Club of Cluster Managers. Moreover, participants will have the opportunity to test among the first the new Knowledge and Collaboration Platform of the European Cluster Observatory.

The conference will, in particular, address the following questions:

- § What new cluster policies (instruments and tools) are needed to foster modern industries in line with the new nature of innovation?
- § What are the enabling framework conditions for the development of strong clusters in new innovative industries?
- § What actions are needed to raise the excellence of cluster policies in order to facilitate more world-class clusters in Europe?

For more information please contact: ecc2010-contact@proinno-europe.eu



**ENTREPRENEURSHIP RESEARCH AND
EDUCATION NETWORK OF CENTRAL
EUROPEAN UNIVERSITIES**

WORKSHOP ON THE ROLE OF BELIEF IN DOING BUSINESS IN MAJOR WORLD RELIGION

CALL FOR PAPERS

27-29 October 2010

**Bildungszentrum Schloss Eichholz
Wesseling, Germany**

The Workshop on the Role of Belief in Doing Business in Major World Religion aims to investigate and discuss the characteristics of doing business in the major world religions (Christian, Islam, Hindu, Buddhism and Jewish) by identifying common similarities and differences.

There are also no fundamental differences in writing of a business plan and in developing business between entrepreneurs holding different belief systems, however, outcomes are always determined by an individual's personal thinking and value system. As far as the Project is concerned, it creates a dialogue between academicians from different faiths and beliefs. There is a need to have a more profound appreciation of the interrelationship between business and culture. We bring together experts and academicians to hold a comprehensive dialogue cross-cultural, cross-religious and cross-entrepreneurial dialogue in this field.

Topics within the scope of the Workshop will include:

- Analysis of the entrepreneurial behaviour and motivation of businessmen/women with different cultural and spiritual background.
- The role of belief/faith and ethics in doing business.
- Critics of the global profit-driven world economy and financial crises in the light of the encyclical Caritas is Veritate (Charity in Truth).
- What is the role of Buddhism, Confucianism, Hinduism, Shintoism and other Far-East religion in achievement of high-economic performance and competitiveness in the work economy?

Organizing Committee

Dr. Johann Christian Koecke, Policy Representative of the Konrad-Adenauer-Stiftung

Dr. Antal Szabó, Scientific Director, ERENET,

Dipl. Kfm. Dieter Ibielski, Presidential Counsellor of UMU

Prof. Dr. Sybille Heilbrunn, Ruppiner Academic Center, Israel

Mr. Ankrit Srivastava, Hony. Director General, International Council for Inter Religious Cooperation,

Prof. László Zsolnai, Director, Business Ethic Centre, Hungary

Assistant Professor Dr. Peter Odrakiewicz, Poznan University College of Business and Foreign Languages

Prof. Teotonio R. de Souza, Universidade Lusófona de Humanidades e Tecnologias
Faculdade de Ciências Sociais e Humanas, Portugese

Associate Prof. Paul-Leo Dana, Department of Management University of Canterbury

(Australia)

PLACE OF THE WORKSHOP

The Workshop will be organized at the Education Center of the Konrad Adenauer Foundation in the country house in Eichholz – in German Bildungszentrum Schloss Eichholz. It is located at the following address:

Urfelder Straße 221

D-50389 Wesseling, Germany

Tel. +49 2236 707-0 and Fax +49 2236 707-4355

<http://www.kas.de/proj/home/home/88/1/index.html>



The participants from abroad should flight to Köln/Bonn airport, from where the Organizer will provide direct transfer to Eichholz and after ending the workshop back to the airport. Information about the airport see at [http:// www.koeln-bonn-airport.de](http://www.koeln-bonn-airport.de).

PARTICIPATION FEE

The participation in the event is free of charge. For speakers whose paper will be accepted will shall stay in the guest house and will be provided by board and lodging also for free of charge.

For speakers whose paper will be accepted will receive a financial support for their travel expenses in amount of maximum EURO 300. The rest of their travel expenses should be covered by themselves.

Participants not making any presentation should cover their travel and accommodation expenses.

SUBMISSION OF PAPERS AND REGISTRATION

Authors are asked to fill out the attached registration form and send the abstract of their paper no more than 1 page electronically to Dr. Antal Szabó, Scientific Director of ERENET by E-mail to erenet.hu@gmail.com.

After notification please send your camera ready paper in accordance with the guidance send you with notification.

REGISTRATION

Prospective participants without submitting paper are kindly asked to fill in and send back the registration form.

AUTHOR'S SCHEDULE

Deadline of registration and paper submission:

31 July 2010

Deadline of notification:

20 August 2010

Deadline of final paper submission

31 September 2010

INFORMATION

For further information about the event please contact

Dr. Johann Christian Koecke, Politische Bildung

Konrad-Adenauer-Stiftung

Bildungszentrum Schloß Eichholz

Urfelder Straße 221, D-50389 Wesseling

Tel.: +49-(0)2236-707-4400 Telmobil: +49-(0)1511-402 67 35 E-mail: christian.koecke@kas.de



**ENTREPRENEURSHIP RESEARCH AND
EDUCATION NETWORK OF CENTRAL
EUROPEAN UNIVERSITIES**

**WORKSHOP
ON
THE ROLE OF BELIEF IN DOING BUSINESS
IN MAJOR WORLD RELIGION**

REGISTRATION FORM

The Registration Form should be filled out and send to Dr. Antal Szabó, Scientific Director of ERENET by E-mail to erenet.hu@gmail.com as soon as possible but no later than 20 August 2010. About the registration we shall send a notification.

Undersigned.....(Name)
employee of the
institution/organization, assignment as
register myself to the Workshop on the Role of Belief in Doing Business in Major World Religion to be held the Education Center of the Konrad Adenauer Foundation in the country house in Eichholz (Address: Bildungszentrum Schloß Eichholz, Urfelder Straße 221, D-50389 Wesseling, Germany).

At the Workshop I shall make a presentation on the following title:

.....

Attached please find the Abstract of my presentation.

I kindly ask you to make accommodation reservation at the Konrad Adenauer Foundation Guest House as following:

Expected date of arrival: October 2010

Departure: October 2010

My address:

.....

E-mail:

Phone:

Date:(Day).....(Month) 2010

Signature:

THE CONDITIONS OF CREATION AND DEVELOPMENT OF ENTERPRISE: GENDER ANALYSIS

Chişinău, 24 December 2009 – The share of women entrepreneurs (hired managers and business co-owners) is 27.5% of the total number of entrepreneurs in Moldova. Respectively, the number of men entrepreneurs is 2.6 times higher than the number of women entrepreneurs. Women entrepreneurs more often manage/own micro enterprises and their share in this group of enterprises is of 79, 4%, while the proportion of men is 67.8%. Also, the bigger is the size of the business, the higher is the proportion of men entrepreneurs. Both, at the stage of enterprises establishment, and at the stage of business development, women experience more obstacles in terms of access to sources of financing.

These are just a few findings resulted from the statistical survey carried out for the first time by the National Bureau of Statistics (NBS) on the basis of the Annual Structural Survey in Enterprises, in the framework of the project "Strengthening the National Statistical System" joint initiative of UNDP, UNIFEM, UNFPA, UNICEF and the NBS, with financial support of the Swedish International Development Cooperation Agency (Sida).

"The purpose of the study "The Conditions of Creation and Development of Enterprise: Gender Analysis" was to reflect the features of the Moldovan entrepreneurs (their distribution by sex, age, education level, area and development regions) and to analyse the enterprises profile and conditions of their development. Also, the conditions of enterprise establishment, the status of enterprises and issues faced by them in 2008, as well as entrepreneurs' expectations for 2009, have been described. Most data were analyzed through gender perspective", says **Nina Cesnecova**, head of Demographic Statistics Section, gender focal point within the NBS.

According to **Elena Aculai**, Doctor of Economics, author of the study, the research results can be used for the development of policies to support the entrepreneurship, in particular small and medium business, thus contributing to economic growth, self-realization of citizens, insurance of economic stability in the country; development of gender policy within the social (employment, wages, etc.) and demographic policies; justification of protection and lobbying of women's interests within the functioning of social organizations, particularly women organizations.

"We supported the development of this study with the hope that the analytical interpretation of statistical data would facilitate their accessibility and understanding by data users, both representatives of government institutions, as well as actors of civil society and entrepreneurship in Moldova. By this action the Project, in accordance with its objectives, supports its national partner, the National Bureau of Statistics, in terms of production of new disaggregated (including by gender dimension) data, responding to data users requests (as it is the Ministry of Economy in the given case), but also promotion of statistical products and strengthening the capacities of users to properly apply official statistical data. We hope that practical application of the recommendations of such studies will indeed improve the conditions to ensure equal opportunities for men and women to participate in entrepreneurial activity in Moldova", says Aurelia Spataru, manager of the Joint Project.

The study "The Conditions of Creation and Development of Enterprise: Gender Analysis" was presented at the round table organized by the Moldovan National Bureau of Statistics, UNDP and UNIFEM.

The study "The Conditions of Creation and Development of Enterprise: Gender Analysis" is available in English, Romanian, Russian, For contact: Aurelia Spataru, Project Manager "Strengthening the National Statistical System", tel. (+373 22) 40.31.42, E-mail: aurelia.spataru@undp.org



File: http://undp.md/presscentre/2009/Statistics_24Dec/index.shtml

PUBLICATIONS

TECHNOLOGY MANAGEMENT

Activities and Tools

Dilek Cetindamar, Rob Phaal and David Probert

Palgrave Macmillan, 4/27/2010

ISBN: 978-0-230-23334-8, ISBN10: 0-230-23334-1,

6 1/8 x 9 1/4 inches, 350 pages,

This book is a practical Technology Management textbook, with a strong management focus, that defines the role of TM within an organization. It contains well developed pedagogical features and numerous case studies.



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file: <http://us.macmillan.com/technologymanagement>

UNDERTAKING WISELY

by

Edit Ferik

Budapest, 2009

ISBN 978-963-06-8333-3

Publisher: ProFerre Kft., Budapest

Language: Hungarian

„If a man empties his purse into his had no one can take it away from him. An investment in knowledge always pays the best interest”

Benjamin Franklin

„An economy breathes through its tax loopholes”

Barry Bracewell-Milnes



These are the two quotes which are the main guidelines of the new exiting book by Edit Ferik, Managing Director of the ProFerre Consulting Ltd established in 2008 aiming at providing professional business consultancy for the players of the everyday business life. Concerning taxation, especially in Central-Europe I would like to give a third quote by *Nina Kaufman* as following:

„Most entrepreneurs would rather have root canal surgery without anesthesia than go through the nightmare that is tax return preparation.”

Entrepreneur.com 2-16-2010

One of the major problems facing entrepreneurs in Hungary is the taxation. According to the World Bank „Doing Business 2010” report Hungary stands at the 122nd place out of the 183 investigated countries. The Hungarian Tax Authority APEH lists 56 tax titles for entrepreneurs. Filling out the personal income tax form is so difficult that 60 percent of the citizens are not able to make it alone.

This book is useful for

- ✓ People, who intent to start a business, but do not know how to do it...
- ✓ Entrepreneurs, who run a business, but not always understand what lies behind the figures...
- ✓ Persons, who recognize that one of the pillars of the business success is the knowledge.

This book is a compass to the maze of the economic life and business jungle. It is a guide for developing a certain way of thinking which could help to gain Economic benefit while taking business decisions.

HOWEVER, PLEASE DO NOT FORGET, IT IS JUST THE BEGINNING....



The address of the ERENET Secretary see below:

Dr. Antal Szabó, Scientific Director
Ágnes Kiss, Secretary
Budapest Corvinus University
Small Business Development Centre
Room No. 331.
ERENET
H-1093 Budapest, Fővám tér 8.
Hungary

Phone: (+361) 482-5116, Fax: (+361) 482-5408
E-mail: info@erenet.org and antal.szabo@gmail.com
<http://www.erenet.org>

ERENET Secretary for South-Eastern Europe is the following:

Institute of Economic Sciences
Ms. Vesna Pejovic, SEE Secretary
11000 Belgrade, Zmaj Jovina 12, Republic of Serbia
E-mail: office@ien.bg.ac.rs
http://www.ien.bg.ac.yu/index_en.html

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