

Small Business Act in Practice in the Baltic Sea States

Lauri Tenhunen and Seppo Niittymäki (ed.)

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PO BOX 230
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tel. (03) 6461
julkaisut@hamk.fi
www.hamk.fi/julkaisut

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SMALL BUSINESS ACT IN PRACTICE IN THE BALTIC SEA STATES

Lauri Tenhunen and Seppo Niittymäki (Editors)

Contents

1. PREFACE AND SUMMARY.....	3
2. THE INTERVIEWS CONDUCTED IN THE BALTIC STATES.....	8
3. SMALL BUSINESS ACT IN BELARUS.....	15
4. SMALL BUSINESS ACT COUNTRY REPORT – DENMARK.....	19
5. SMALL BUSINESS ACT IN FINLAND	22
6. SMALL BUSINESS ACT COUNTRY REPORT – GERMANY.....	26
7. SMALL BUSINESS ACT COUNTRY REPORT – POLAND.....	29
8. SMALL BUSINESS ACT RUSSIA COUNTRY REPORT.....	32
9. SMALL BUSINESS ACT COUNTRY REPORT – SWEDEN	36
10. SMALL BUSINESS ACT UKRAINE COUNTRY REPORT.....	39

1. PREFACE AND SUMMARY

Lauri Tenhunen, HAMK University of Applied Sciences

The role of Small and Medium Sized Enterprises (SMEs) in Europe has been repeatedly acknowledged at the highest political level. In the year 2008 the European Council expressed strong support for an initiative to strengthen SMEs' sustainable growth and competitiveness, by publishing a declaration called "Small Business Act" (SBA). The Single Market Review (European Commission, 2007) also set out the need for further initiatives in order to develop the Single Market to the needs of SMEs. The target is to accomplish better results and more benefits. The SBA political documents point out the need to fully unlock the potential of European SMEs (European Commission, 2013). The "Small Business Act" (SBA) initiative on the theoretical level and especially thinking about its demanding targets is very positive and promising. However, in practice there needs to be done much, before the principles in the SBA initiative will be realized.

The "Small Business Act" principle is based on the idea of "thinking small first". The idea includes the conviction that achieving the best results; the society should better recognize the important role of entrepreneurs. Entrepreneurship and the associated willingness to take risks should be encouraged by leaders, administrations and media. SME-friendly politics should become the mainstream policy. By the "Think Small First" principle, the policy makers want to promote SMEs' growth by helping them tackle the remaining problems which hamper their development (European Commission, 2008).

In the SBA document, the European Commission states a set of 10 principles to guide the conception and implementation of policies both at EU and Member State level (European Commission, 2008):

- I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
- II. Ensure that honest entrepreneurs, who have faced bankruptcy, quickly get a second chance
- III. Design rules according to the "Think Small First" principle
- IV. Make public administrations responsive to SMEs' needs
- V. Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs
- VI. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
- VII. Help SMEs to benefit more from the opportunities offered by the Single Market
- VIII. Promote the upgrading of skills in SMEs and all forms of innovation
- IX. Enable SMEs to turn environmental challenges into opportunities
- X. Encourage and support SMEs to benefit from the growth of markets

Based on the ideas of SBA, Michaela Saisana has done a methodological note on SMEs' performance indicators 2012 in Europe. This report reveals facts of the current state of SBA on the practical level (Saisana, 2012). In her paper, Saisana simplifies the above mentioned 10 principles as follows:

1. Entrepreneurship
2. Second chance
3. Think small first
4. Responsive administration
5. State aid and public procurement
6. Access to finance
7. Single market
8. Skills and innovation
9. Environment
10. Internationalization

A short explanation for these 10 principles include the following: By activating entrepreneurship, the commission wants to create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. By making a second change possible, honest entrepreneurs who have faced bankruptcy will be able to continue their profession. Rules of administration should be designed according to the "Think Small First" principle. Administration should act cooperatively and response to the needs of SMEs. The public policy tools should better be adapted to SME needs and SMEs' participation in public procurement should be ensured. The access of SMEs' to finance needs to be developed. SMEs should be helped to benefit the opportunities offered by the European Single Market. The skills and innovation abilities in SMEs should be promoted. SMES should be helped to turn the environmental challenges into opportunities. SMEs should be encouraged to benefit from the growth of markets.

Saisana creates many statistically measurable indicators to describe the 10 principles in more detail (Saisana, 2012).

The European Commission's Annual Report on European SMEs 2012/2013 states that in 2010-2012 only, the EU's Member States implemented a total of almost 2,400 policy measures to support SMEs, i.e. an average of 800 measures per year, and almost 90 measures per country. Thus much has been done to foster the SBA principles. However, the statistics in the same report state that SMEs are still bearing the brunt of the economic and financial crisis of recent years more than large enterprises (European Commission, 2012).

Some European level actions are accomplished to promote SBA in general. Established in 2008 by the European Commission, Enterprise Europe Network is a network providing expertise and internationalization services for SMEs. The network provides an extensive selection of services ranging from EU-specific advisory services to support for international technology transfer. The network operates in more than fifty countries, also including some outside the EU, such as Norway, Russia and the United States. The network's service providers include roughly 600 organizations and more than 3,000 experts. The network is part of the Commission's Competitiveness and Innovation Framework Programme (CIP).

The Enterprise Europe Network provides free-of-charge internationalization services to SMEs and has experts in over 50 countries all over the world. The network can provide the following services:

- General advice on internationalization and legal matters
- Seminars on topics related to internationalization
- Support towards finding the correct EU funding programme
- Services towards finding international cooperation partners

The aim of the examinations made in this publication is to reveal more detailed needs for making the life of SMEs better, country by country, in the Baltic Sea States. We have interviewed several entrepreneurs in all of the Baltic Sea States, including Belarus and Ukraine. Thus entrepreneurs in 11 countries were interviewed all together.

The targets for the interviews were to reveal the current situation, as experienced by the domestic entrepreneurs in the Baltic Sea States and to collect ideas, practical possibilities and suggestions to effectively improve the operating possibilities of SMEs in the Baltic Sea States.

Four Finnish Universities of Applied Sciences have been actively running the interviews during the years 2013 and 2014. These are Laurea University of Applied Sciences (Laurea), Kymenlaakso University of Applied Sciences (Kyamk), Turku University of Applied Sciences (Tuamk) and HAMK University of Applied Sciences (HAMK).

The responsibilities between the above mentioned universities of applied sciences, to prepare the interviews by country, were divided between the BOAT project partners. The BOAT project is partly financed by the European Social Fund ESF.

The interview reports made by the project partners are collected to this publication.

Based on the reports of this publication, it can be observed that the business environment and administrative culture in the Baltic Sea States strongly deviate from each other. The Nordic Countries represent relatively stable business environments for the SMEs, although bureaucracy and heavy administration seem to be disturbing small business in Finland, Sweden and Denmark.

On the other hand, heavy, deep and difficult problems concerning corruption and invincible financial disturbances seem to be dominating the less developed business cultures of the part eastern countries around the Baltic Sea.

In the Review of the "Small Business Act" for Europe (European Commission, 2011) states that e.g.:

- Only a few Member States have integrated an SME Test into their national administrative decision making approach (Belgium, Denmark, Finland, Germany, Poland, Slovenia, Sweden and the United Kingdom).
- As a response to the financial and economic crisis, most Member States have adopted measures to enhance SMEs' access to finance, especially bank lending, through advantageous subordinated loans, loan guarantee schemes or microcredit programmes.

- Several governments support the internationalisation of SMEs, e.g. by financial support for export promotion, market access strategies and participation in trade fairs (Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Ireland, Italy, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, the Slovak Republic, Spain, Sweden and the United Kingdom).
- Only a few countries have reported that they have started to promote the European Code of Best Practices in order to facilitate SMEs' access to public procurement (e.g. Austria, Cyprus, France, Germany, Hungary, Ireland, Lithuania, Poland, Portugal, Sweden and the United Kingdom).
- Only five Member States (Belgium, Finland, Ireland, Spain and the UK) comply with the recommendation to complete all legal procedures to wind up a business in the case of no fraudulent bankruptcy within a year.

The report (European Commission, 2011) also clearly point out the need for further action in improving the business possibilities of SMEs.

We compared the conclusions and results of the above mentioned report (European Commission, 2011) to the real situation in the interviewed SMEs in the Baltic Sea States; it is worthwhile to observe that no one of the SMEs mentioned or had understood that their governments (or the European Commission) would have done something important or special to help their businesses.

None of the interviewed enterprises knew the Small Business Act concept in advance. On the other hand, most of them were happy to hear the idea of the initiative for the first time.

It is easy to concur to the opinion that further actions should be done based on the Small Business Act initiative. New actions should concentrate especially on the practical level. According to our results, the entrepreneurs should be involved to the development process in practice so that further actions will satisfy the real existing needs of the SMEs in their business life.

This report has been done to help the decision makers and administrators in European Countries to better serve smaller companies. We hope that the practical results collected into this publication will point out the most important things to arrange in the Baltic Sea States in the long run. Many of the problems pointed out here are deep in nature and the corrective actions in the future can be accomplished only during a longer period.

This publication has been done with the resources of BOAT project, which is partly financed by the European Social Fund (ESF).

I would like to thank all the interviewed persons in the Baltic Sea States as well as all the experts working in the BOAT project for their valuable work.

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Lauri Tenhunen

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2. THE INTERVIEWS CONDUCTED IN THE BALTIC STATES

Kari Stenman, Kymenlaakso University of Applied Sciences

Background

BOAT project

As part of the BOAT project, Kymenlaakso University of Applied Sciences (Kyamk) conducted Small Business Act initiative-related interviews in the Baltic States. The Small Business Act (SBA) is the EU policy framework aimed at strengthening SMEs so that they can grow and create employment. Between 2008 and 2010, the Commission and EU Member States implemented actions set out in the SBA to alleviate administrative burden, facilitate SMEs' access to finance and support their access to new markets. Although most initiatives foreseen by the SBA have been initiated, a review of implementation so far reveals that more must be done to help SMEs. The main purpose of the interviews was to survey the level of SMEs' capacity, understanding and willingness to use support services provided by the EU. In association with this, services provided by the local public sector were surveyed. The interviews were strictly confidential, which is why no names of people or companies are mentioned in this report. The strict confidentiality ensured that interviewees talked freely and broached subjects they would not have discussed without anonymity.

Support measures provided by the public sector

The European Union promotes the development of European companies by providing special support services. Through these services, companies receive practical local-level advice and information in the start-up stage and the later stages of development. This support can be very useful, particularly for new enterprises. The services help to better understand the Community's legislative framework, find good practices at the EU level and succeed in business.

The interviews in Estonia

1.1 Arranging the Interviews in Estonia

The first interviews were conducted with Estonian companies. Our contact person in Tallinn arranged five interviews with companies. Two of them were conducted on 14 January and the other three on 15 March. The companies represented the metal, construction, media, accounting and ICT industries.

At first, we discussed the Estonian economy in general and the level of entrepreneur-friendliness in the country. The global economic recession starting in 2008 badly affected Estonia. Estonia's annual economic growth of 10 per cent crashed to minus 15 per cent in 2009. In 2010, however, the economy started to recover. After a couple of excellent years of growth, Estonia's economic growth has been declining again. The main reasons for the contracting growth rate have been the weak development of the logistics sector and construction industry and decreasing exports. Nevertheless, Estonian entrepreneurs seemed

optimistic about the country's future. One of the reasons is the appealing tax rate that is attracting an increasing number of companies from Finland and other countries to Estonia. It is easy to establish a business in Estonia. The interviewed entrepreneurs appreciated the low corporate tax rate and the low level of red tape in the public sector. The income tax rate is 21% for everyone. The employer pays a 33% social tax, a 1% unemployment contribution and a 2% pension contribution. No tax is paid on income that has been reinvested in the company. Companies pay the 21% flat tax only when they take out profit as dividends.

The interviewees were asked about their use of support services provided by the public sector and about their knowledge of such services. In general, support services were rarely used, but some entrepreneurs knew at least something about them. Enterprise Estonia is the primary expert on EU funding in Estonia. The interviewees were asked about the Small Business Act, but none of them knew what it is. Some entrepreneurs found that co-operation projects between companies are problematic, because it is hard for competitors to work together. During the discussions, it came up that co-operation culture is nonexistent in Estonia and the level of management skills is low. Entrepreneurs found that participation in EU projects is difficult and complicated. Cleantech technology projects have had satisfactory access to EU funding in Estonia.

The entrepreneurs were content with the advanced electronic public services in Estonia. In these services, Estonia surpassed Finland a long time ago. Estonians are no longer using printed prescriptions, and remote voting is possible from the other side of the world on a laptop. An electronic ID card is mandatory for everyone. Using this card, Estonians can check what information the authorities have on them, and more than a hundred million documents have already been signed electronically. Estonia has become a model for others as a pioneer in electronic services. The United Kingdom and Estonia have signed a co-operation agreement on the development of electronic services. The British have not tried to conceal that they are learning from a small Baltic country.

1.2 Facts about Estonia

The 2008/2009 crisis has had a significant impact on the development of the Estonian business economy with all companies – big and small – experiencing slumps in terms of both employment and turnover or value added. SMEs seem to have been hit much harder than larger firms, their value added having plummeted by about a fifth. Benefitting from a friendly business environment and a strong and responsive administration, the SMEs have quickly started to recover, experiencing constantly positive growth rates after 2009. In fact, a full recovery to pre-crisis level is in foreseen in 2014. Estonia has a sophisticated business culture with good framework conditions for innovation and internationalization. The statistics on SMEs present an SBA profile which clearly exceeds the EU average in six out of ten areas. Estonia is lagging behind in entrepreneurship and offers less positive conditions for entrepreneurs having gone through bankruptcy. In addition, the generally recognized weaknesses of Estonian SMEs are the lack of qualified staff and engineers, as well as the limited access to venture capital and other less traditional sources of financing. However, Estonia tops a majority of EU countries in internationalization and in offering an administration responsive to the needs of small businesses.

Table B.1. SMEs in Estonia, Basic Figures - 2013

	Number of enterprises	Number of employees	Value added (Billion €)
Micro	45,696	107,852	2
Small	5,150	99,697	2
Medium sizes	1,024	94,293	2
Total SMEs	94,293	301,844	6

(ec.europa.eu. 2014)

The interviews in Latvia

1.3 Arranging Interviews in Latvia

The next set of interviews was conducted in Riga, Latvia on 3rd and 4th March 2014. Interviews were conducted with three companies, representing consultation, brand building/communication development and logistics.

The interviews started with a discussion on the general economic situation in Latvia and the country's future outlook. After becoming independent in 1991, Latvia's population has decreased by 600,000. This is due to massive emigration, which was further accelerated by the economic recession of 2008–2010. As a result, the proportion of pensioners has increased sharply and the proportion of children and adolescents has dropped dramatically. Underdeveloped civil society is considered as one of the main problems in Latvia. This problem is accentuated by the emigration of educated people in active working age.

The economic crisis hit Latvia very hard. In 2009, Latvia's GDP dropped by more than 15 per cent. Vigorous recovery measures and cuts led to an upswing of the economy in the first part of 2011. The positive development continued throughout 2012, and the Latvian economy grew by 5.6 per cent. It was the fastest growing economy in Europe in 2012. However, there is a flip side to this development. As a result of the sharp cuts in spending, Latvia now has the widest income gap in the EU.

Today, establishing a business in Latvia is easy and costs practically nothing. Recruitment of employees is uncomplicated and labour costs are relatively low. In 2013, the average monthly income was slightly over 700 euros. The interviewed entrepreneurs said that attitudes toward entrepreneurship are rather positive and the amount of red tape has decreased. Negative aspects included extensive and deeply rooted corruption in society. The 'old boy' network is a relic from the communist era. Belonging or not belonging to this network affects business operations in many ways. Tax dodging is very common. One interviewee said that it is like a national sport in Latvia.

Entrepreneurs prefer not to ask for advice from the public sector, because they cannot always be sure that the advice provided is in the entrepreneurs' best interest. Old-fashioned hierarchy may be one of the reasons for this. Positively, entrepreneurs mentioned the government's investment in business subsidies at the onset of the economic recession. Reorganisation programmes were also introduced at that time. Entrepreneurs said that online corporate reporting was a huge step forward compared with the bureaucracy related to printed

documents. The interviewees were asked about the Small Business Act, but none of them had heard of it.

Companies rarely apply for EU funding themselves; the process is handled by specific consulting companies. The interviews gave the impression that fraud is common in EU projects and resources do not necessarily end up where they should. Interviewees explained that over invoicing is common and there are even companies that specialise in selling fake sales receipts.

1.4 Facts about Latvia

SMEs are of notable importance for the business economy in Latvia, hiring about 79% of all private sector employees, and creating about 69% of the overall value added. Both SMEs and large enterprises were hard hit by the 2008/2009 economic crisis, with SMEs suffering more as their value added decreased more rapidly (~29%) between 2008 and 2012 than that by LEs (~17%). This difference was mainly driven by the poor performance of small enterprises as their value added shrank about 34%. The underlying reason for the underperformance of SMEs is of general nature, SMEs being more vulnerable toward the impacts of crisis. However, both small and large firms started to recover and showed positive growth between 2009 and 2012. The value added created by SMEs increased by about 10% between 2009 and 2012, while the growth of value added by LEs was only 4%. That illustrates an interesting fact: Although the drop during the crisis was larger for SMEs, they also recovered faster after the crisis. The Latvian SBA profile does not present a clear-cut picture. Latvia clearly beats the EU average in five areas (Access to finance, the Single market, State aid and public procurement, entrepreneurship and Responsive administration), lags behind in two (Skills and innovation, Environment), and performs in line with the average in the remaining ones. However, it improved in almost all areas in the past five years.

Table B.2. SMEs in Latvia, Basic Figures – 2013

	Number of enterprises	Number of employees	Value added (Billion €)
Micro	61,787	143,463	1
Small	6,899	140,962	2
Medium sizes	1,484	135,579	2
Total SMEs	70,172	420,005	5

(ec.europa.eu. 2014)

The interviews in Lithuania

1.5 Arranging the Interviews in Lithuania

The final set of interviews was conducted in Vilnius, Lithuania on 5th and 6th March 2014. Two of the three companies represented the textile industry, which has a long history in Lithuania, and one company provided recruitment, personnel assessment and outplacement services.

Development and problems in Lithuania have been very similar to its neighbour Latvia. As a result of the global economic crisis, Lithuania's GDP decreased by 15 per cent and export by nearly 27 per cent in 2009. Emigration has been considerable. After becoming independent, Lithuania's population has dropped from 3.7 million to 3 million. Due to the sharp cuts in spending, it is expected that economic growth in Lithuania may be among the strongest in the EU. As many as 15,000 new businesses were established in Lithuania in 2013.

Interviewees said that establishing a business in Lithuania is easy and uncomplicated. They explained that the country's entrepreneur-friendly taxation is a great advantage. However, the cliquishness of Lithuanians complicates business operations for foreign entrepreneurs. Locals stick to their own, and the best sites and industrial properties change hands through the 'old boy' network. Corruption is very common, but some positive development has been seen in recent years in this respect.

The interviewees had not used public sector support very much. They were not familiar with the Small Business Act initiative. Similar to Latvia, consulting companies handle the application process for EU funding. Two interviewees had heard their business acquaintances' experiences on EU funding. They criticised the rigidity of EU projects and the amount of red tape involved. Lithuania is so rife with corruption that chicanery is very common. The third entrepreneur had personal experience of applying for EU funding and carrying out a project. This interviewee said that the process was a positive experience and the result was very satisfying.

1.6 Facts about Lithuania

The small and medium sized enterprises are major players in the Lithuanian economy, owing to their significant contribution to the total added value (63.5%) and employment (75%) in the business economy. The 2008/2009 crisis has hit Lithuania's SMEs hard, resulting in significant slumps in employment, and even more so in value added. SMEs were affected more than large companies, having experienced a one-third contraction in the economic activity, while large companies only reduced their activity by a fifth. This can be explained by the fact that SMEs activate particularly in sectors which are not export-oriented and thereby excessively dependent on domestic demand, which fell heavily when the crisis hit and government spending was reduced due to lower tax income and rising debt. However, the Lithuanian economy has proved to be very resilient, and both SMEs and larger firms have since recovered every year, albeit the growth flattened shortly in 2012. Full recovery to pre-crisis level will be achieved only after 2014. Lithuania has a positive SBA profile. The country does well on a number of areas, led by state aid & public procurement, responsive administration, second chance, and even access to finance. In general, it offers a business-friendly environment, backed up by an efficient administration responsive to the needs of businesses. Notwithstanding these positive elements, further enhancing Lithuania's profile

will require significant improvements in research and innovation, as well as skills, where it still faces some challenges.

Table B.3. SMEs in Lithuania, Basic Figures – 2013

	Number of enterprises	Number of employees	Value added (Billion €)
Micro	95,037	185,648	1
Small	10,655	214,024	2
Medium sizes	2,151	205,876	3
Total SMEs	107,843	605,548	6

(ec.europa.eu. 2014)

2. Summary

In the light of these interviews, Estonia, Latvia and Lithuania have much in common. After gaining independence, the population has dropped dramatically in each country due to emigration (15% in Estonia, 24% in Latvia and 21% in Lithuania). The Baltic States were considered as European economic miracles in the 2000s. They faced serious economic problems in the latter half of 2008, when the global economic crisis hit them with exceptional force. To the surprise of many European countries, the Baltic States halted their economic tailspin through sharp cuts in spending and returned to a positive upward outlook.

In each of the three countries, interviewees mentioned the same positive aspects: entrepreneur-friendly taxation, reduced amount of red tape and the ease with which a business could be established. The salary level in these countries is relatively low, but the emigration of young, educated people has led to a labour shortage in many industries.

Unfortunately, corruption is deeply rooted in society in the Baltic States. The interviews indicated that the level of corruption is slightly lower in Estonia compared with Latvia and Lithuania. The ‘old boy’ network was mentioned in nearly every interview.

The interviewees did not know very much about public sector support services available to them. The lack of knowledge was evidently the main reason for not using these services. Some interviewees doubted the integrity of certain authorities. Company subsidies, reorganisation programmes and good availability of online services were mentioned as positives. Companies rarely apply for EU funding themselves; the process is handled by specific consulting companies. Some companies found that participation in EU projects is difficult and complicated. Interviewees told some incredible stories about fraud related to EU projects. For this reason, many entrepreneurs stressed that the EU should monitor projects much more strictly in order to prevent or at least reduce fraud. The opportunities available to SMEs are also restricted by the various classification systems enforced by the EU. All interviewees were asked about the Small Business Act, but none of them had heard of it. Interviewees called for more tangible measures to make the principles of the SBA initiative known to companies.

Finally, it should be stated that due to the limited number of interviewees, this report has no scientific basis. Nevertheless, it gives an overview of the situation. All interviewees had a

good track record of entrepreneurship and they were thoroughly familiar with the circumstances in their respective countries.

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3. SMALL BUSINESS ACT IN BELARUS

Lauri Tenhunen, HAMK University of Applied Sciences

1. Background

This summary has been prepared based on the interviews made in Minsk, Belarus, during 28.1.-30.1.2014. The summary is based on the opinions and problems of six (6) SMEs in Belarus.

In general, Belarus has a well-developed industrial sector, which accounts for around 31.7% of the country's GDP (2011). Some of its main industries are:¹

- Engineering
- Tractors and machinery including dump trucks and earth movers (Belarus tractors are well regarded throughout the region)
- Chemicals
- Motorbikes (e.g. Minsk Moto)
- Textiles
- Timber
- Radio electronics

In the beginning of 2014 the currency rate between the Belarusian ruble and Euro has been roughly 1 Euro = 13000 BYR. The value of BYR has decreased strongly in the past years as follows (Belarusian National Bank, 2013):

Table C.1. Belarusian Rubles (BYR) per currency unit (yearly average rate)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 (through August)	2014 (January)
Euro	2684	2681	2692	2937	3135	3885	3950	6432	10713	11448	≈13000
Russian Ruble	75.00	76.14	78.90	83.91	86.17	88.06	98.11	157.43	268.28	276.75	≈280
United States Dollar	2160	2154	2145	2146	2136	2793	2978	4623	8336	8709	≈9700

(National bank of the Republic of Belarus: Belarusian Ruble Official Average Exchange Rate against foreign currency)

¹ <http://belarusinfocus.info>

Belarus has been successful in having private foreign investments. The most active foreign investors, with their share in total volume of foreign investment accumulated exceeding 82% are as follows (2007)(Belarusinfocus.info, 2014):

- Russian Federation (19.3%)
- United Kingdom of Great Britain and Northern Ireland (14.3%)
- Germany (15.8%)
- Poland (8.4%)
- United States of America (6.7%)
- Austria (6.6%)
- Cyprus (5.7%)
- Latvia (3%)
- Czech Republic (2.4%).

2. The Interview Results

During the interviews we faced six groups of problems of managing smaller businesses in Belarus:

- High interest rates
- Domestic companies lack business support
- Isolated markets
- Unstable taxation
- Old-fashioned business culture

Broad money supply data in Belarus in September 2013 showed that the population has converted some of their ruble deposits into foreign currency. Citizen's ruble savings in the banking system have declined by BYR 538.1 billion (approximately USD 60 million), and citizens' foreign currency savings in the banking system have increased by USD 169.1 million. The non-official restriction on interest rates for ruble deposits (maximum 45% per annum) has been lifted and banks are attempting to adjust interest rates in order to stop the outflow of ruble savings from the banks. Some banks propose up to 50% per annum interest rate on short-term deposits. (<http://belarusinfocus.info/p/6072>).

The interest rate of the Belarusian Ruble BYR, is extremely high compared to international interest rates. This seems to be one of the greatest problems for Belarusian companies. Investing in business development is on a low level, because the number and amount of BYR loans are limited, interest rates are unacceptable and loans in foreign currency are not allowed. Subsidiaries of foreign companies may use the financing possibilities of their mother companies.

Domestic SMEs in Belarus have not reasonable possibilities in investing in their development and business growth in these financing circumstances. There exists a lack of domestic money.

The financing sector in Belarus also lacks of modern Internet based payment systems, such like eBay and Paypal. This makes international business difficult. However, using credit cards (for example Visa) is possible.

Each region of Belarus has a free economic zone (FEZ). Originally, the six FEZs in Belarus (Minsk, Gomel, Vitebsk, Grodno, Brest and Mogilev) are planned to improve the enterprise climate. These zones were set up to create strong private sector enterprise and investment in Belarus and offer an enviable array of incentives to members, whether they are local entrepreneurs or foreign investors. To have the benefits of the free economic zones, the company has to make an investment of at least 1 M\$. After that the investing company receives the following kinds of benefits (Information Export Support Website (2014):

- Zero-rate tax on exports for the first 5 years, then a 50% discount
- Tax free profits on all goods and services for five years,
- No taxes on real estate owned or leased in the FEZ
- No tax on purchasing vehicles
- 50% discount on VAT on import substitution goods manufactured within an FEZ
- Exemptions on road tax and property tax
- Entitlement to open foreign and Belarusian currency bank accounts
- Priority at border crossings
- Full exemption from import duty on raw materials
- A guarantee that legislation governing firms will not change for seven years

Belarus is currently working on a special economic zone, the future **China-Belarus industrial park**. It will feature industrial and logistics zones, residential and office buildings, financial and R&D centers. In accordance with the presidential decree, the industrial park will enjoy **tax and customs privileges**, other preferences and favorable conditions for **doing business**.

The IT sector is the only industry where domestic companies in practice are having government support. High-Technology Park HTP Belarus provides special business environment for IT business with incentives unprecedented for European countries. Due to the legislative initiative of the Belarus government, IT companies are exempt from all corporate taxes, including VAT, profit, real estate and land taxes. Individual income tax has a fixed rate of 9% for the employees of HTP companies. That has resulted in a fast boost of IT industry in Belarus.

The Belarusian tax policy changes in unexpected ways annually. This is pointed out also by The Belarusian Union of Entrepreneurs.

The markets of Belarus are isolated. Belarus is a small open economy for which success in external markets is a necessary dimension of its innovation performance. However, internationalization is a significant challenge for domestic companies. Internationalization should be supported by policy initiatives facilitating international trade in science-intensive goods and technologies. In particular, special attention needs to be given to export-oriented SMEs, for which the barriers to trade seem to be rather significant. (Innovation Performance Review of Belarus, United Nations, 2011).

The standards within the Russian customs area and the EU customs area differ a lot from each other. Exports to EU countries, seems to be a too heavy task for many Belarusian SMEs. This is due to the custom areas as well as different standards and registration requirements. As travelling of Belarusian business people to other countries is difficult, especially outside the Russian customs area, internationalization is a challenge for SMEs. Also the

underdeveloped financial markets in the country disturb the potential growth of promising local businesses.

Tax planning in general is not possible, because the taxation rules change annually. Only starting companies and companies within FEZes have knowledge of taxation for a longer period.

The fashioned business culture in Belarus reflects the higher educational culture of national universities. The higher educational culture has historical features. The educational culture suggests that no mistakes are accepted (in the Belarusian working life). Thus there is no motivation available for entrepreneurship, creating personal activities or personal innovative behavior. Many of the best students aim to move abroad for working in other countries. Entrepreneurship would require abilities in standing reasonable risks as well as acceptance of occasional failures.

The aspects generated by the current educational culture, are lack of marketing orientation, lack of international thinking and lack of entrepreneurial attitude. This leads to the fact that there is not good enough management education in Belarus. Developing companies lack managers in their activities. The higher educational culture in universities in Belarus support education of engineers and workers, but not entrepreneurs nor managers.

The Belarusian Union of Entrepreneurs – the oldest Union in Belarus, active since 1991, has also listed some of the current problems in the Belarusian business life (<http://management.bel.biz>):

- Underdeveloped financial markets and high interest rates
- Unstable legislation
- Un-equality of private and public enterprises
- High government costs in Belarus
- Corruption
- Bad paying moral
- Lack of professionally educated employees

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4. SMALL BUSINESS ACT COUNTRY REPORT – DENMARK

Jukka Laitinen, Laurea University of Applied Sciences

Tarja Meristö, Laurea University of Applied Sciences

Background of the study

The Small Business Act (SBA) is the EU's policy initiative, which aims to support small and medium-sized enterprises (SMEs). It is designed to measure and improve ten principles, which have an influence on SMEs. The principles range from entrepreneurship, to responsive administration and to internationalisation.

In this report we go through how Danish SMEs felt about current state of the areas covered by the SBA. The majority of the contents of this report are based on the SBA Fact Sheet Denmark published by the European Commission (2013). Discussions with Danish research colleagues in May 2014 have been used as additional information, too.

Danish SME's

In 2012 there were slightly over 203 000 SMEs in Denmark. SMEs' contribution to the Danish business economy is slightly greater than the EU average in terms of value added (61.3% versus 57.6%), but almost equal for employment: 66.4% of the private sector workforce is employed in SMEs, compared to 66.5% in the EU. This is because micro firms are more productive, i.e. they generate more value added with fewer employees. Danish SMEs contribute significantly to all sectors of the economy, but they are particularly dominant in wholesale and retail trade, followed by construction and professional services. But it is noticeable that there are fewer SMEs active in manufacturing compared to the European average in terms of added value. Nevertheless, Danish SMEs are specialised in high added-value activities, high-tech, and in particular medium-high tech areas such as machinery and equipment manufacturing, motor vehicles, transport and electrical equipment, and chemical products (European Commission 2013).

The 2008-09 crisis has hit Denmark's SME sector hard. It has led to a significant fall in employment, value added and numbers of firms. Since 2009, Danish firms have experienced a modest recovery, but that lost momentum in 2012. However, the economy is expected to gain momentum again, on the back of the reforms implemented by Denmark to boost investment and internal demand and improve export competitiveness. However, a full recovery to pre-crisis levels is not yet within sight, especially regarding employment. Denmark offers a favourable business environment for small firms, which are widely considered to be the main generators of future wealth and employment (European Commission 2013).

Results

Generally, the respect for entrepreneurs is high in Denmark. On the other hand, young people shy away from becoming entrepreneurs as it is seen as a risky undertaking with unclear benefits. Also, job satisfaction is relatively high in Denmark, which also influences the preference for self-employment. It was also seen as a problem that most of the young people and the teachers have never met an entrepreneur in a real life, so nobody know how to be an

entrepreneur. On the other hand, knowledge intensive web-based solutions for new entrepreneurs will give more freedom and opportunities to fulfil also other dreams than those related to work-life. Concerning entrepreneurship, it was also mentioned that the business schools teach people to get investors and burn money in the beginning but the most people don't know how to sell in real business life. Successful entrepreneurs have a large customer network, competence network, executive network and make money from day one and don't focus only on attracting investors.

- The administrative burden on businesses resulting from interaction with the government is low. New type of partnership models are in search. It requires totally new mindset on both sides before public-private partnerships.
- Public administration is quite responsive to the needs of small and medium sized companies. On the other hand, the taxation of the SMEs was seen as a problem. In Denmark companies are supposed to pay 38% of the profit in tax. SMEs have to pay this tax but big companies don't pay tax in Denmark but in some global country where tax is low. And on top of that is VAT (25%). There also exists a problem related to a social security. If you are employed the government heavily subsidizes your unemployment insurance and you can get the benefit from day one. But if you have your own company or are shareholder in the company you have to sell/close the company before you can get anything. Closing the company takes maybe a year and this way you do not have a safety net. When being an entrepreneur, it is also much harder to get money when you are ill, hospitalized etc.
- Due to the centralisation of public procurement contracts, it has gradually become more and more difficult for SMEs to take part in public tenders.
- Denmark still offers comparatively better conditions of access to various types of finance for SMEs. However, one of the interviewed persons told that the banks will not lend entrepreneurs money easily and they might demand crowd funding from the customers. The situation is healthy for the banks' economy but bad for the startups.
- According to the SBA Fact Sheet (European Commission 2013) Denmark is ahead of the EU average as regards the SME's business operations in the EU, i.e. Danish SMEs are taking advantage of the European single market. On the other hand, one of our interviewed persons thought that the main problem with SMEs is that they sell on a local market and that the local market is weak after financial crises.
- Skills/training and innovation issues are also above average compared to the EU. For example, healthcare sector is a pioneer in citizen-centric innovation activities.
- In environmental issues Denmark is on par with the EU average.
- SME's are strongly supported and encouraged in internationalisation and also the innovation research activities will support SMEs for it.
- The attitude towards giving another chance to entrepreneurs who have been bankrupt once is rather negative in Denmark.

Conclusion

Compared to other EU countries, Denmark clearly exceeds the EU average in half of the SBA areas. Denmark's performance is close – albeit slightly below - par in environment and state aid and public procurement, and entrepreneurship. However, Denmark is the lead performer in fields such as skills and innovation, framework conditions for internationalisation, responsive administration and second chance. Denmark's profile has improved only slightly in the past five years, but this is because it was already a high performer in many areas. The Danish government has not adopted a national strategy to implement the SBA. Despite this, many policy proposals have focused explicitly on SMEs in recent years, and new SME initiatives feature prominently in the new National Innovation Strategy.

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5. SMALL BUSINESS ACT IN FINLAND

Marja Ranta-Eskola, HAMK University of Applied Sciences

Lauri Tenhunen, HAMK University of Applied Sciences

This summary has been prepared based on the more than 30 SME's interviews made in Finland during 1.9.2013-31.1.2014.

During the interviews we faced six groups of current problems of managing smaller businesses in Finland:

- 1) Increasing R&D&I needs of smaller companies
- 2) Lack of encouraging taxation and existing bureaucracy
- 3) Entrepreneurs are getting older
- 4) Local communal industrial policy is poor
- 5) The youth guarantee does not work in practice
- 6) There exist defects in the ability of higher education units (HEIs) to university-business cooperation (UBC)

Many of the interviewed SME's have recognized the meaning of active product development. The main reasons for not having product development enough in the company are lacking physical and fiscal resources as well as the difficulties in keeping up the persistent activities needed for good development results. SME's also lack the know-how of the successful manners of product development.

There exists support arrangements for product development in SME's. However, applying public financial support from the Finnish governmental sources would imply such special know-how, which is not easily enough available for smaller companies. Looking for such solutions demands constrained amounts of the working time of the entrepreneur. This seems to be the limiting factor in Finnish SME's in general.

The time period needed for an organized product development project appears to be too long for smaller companies. Especially, customer oriented new solutions have to be done in a shorter time. The bureaucracy pertained in partly publicly financed development projects banish some of the entrepreneurs from committing to joint scheduled development projects. Some entrepreneurs suggested a cooperative development company to be founded for driving through chosen products development projects. The cooperative could be managed by a public organization (HEIs, communal development companies, consulting companies etc.). Without fixed time scheduled administrative development projects this alternative entrepreneurs would be more interested to development work and also mutual cooperation.

The SME's see that the industrial legislation in Finland is strongly based for administrating bigger companies. Smaller companies suffer from too many time scheduled reporting obligations. At the moment there exists no organized planning, preparation or consideration to break off auxiliary bureaucracy in smaller companies. A governmental emergency program for SME's was suggested in the interviews. The target for the program would be to decrease the bureaucracy needed in business practice.

Finnish SME`s suggest the principles of Estonian enterprise taxation to be adopted to Finland. In Estonia the companies have a company tax of 21% only on the dividends they pay out from the company. The profits left in the company are not taxed at all. This is internationally exceptional; another European country using recently this form of taxation is Macedonia. The positive effects of the Estonian type business taxation on business investments would be more clearly and more straight validated, than the effects of the realized lowering of Finnish company taxation (from 24% to 20%) to business investments in general. The belief in the Finnish kind of "Voodoo Economic Policy" ("Voodoo Economy Took Power", presented by the Finnish Broadcasting company YLE on Wednesday 5.3.2014) has been strong in Finland for a couple of decades already. Regardless of the colour of the government, the taxation of the companies and the citizens in Finland has been decreased, wishing this would lead to higher level of business investments and employment in the economy.

Smaller companies have employed more than 50.000 people in the last few years, while bigger companies in Finland have diminished workforce. Smaller companies suggest support activities to be directed in new possibilities, such as:

To encourage entrepreneurs to employ more workers, for example, by lowering the level of related additional social costs of the companies.

SME`s suggest new kinds of business funds to be founded. One of the suggested funds would cover "seed funding" and the other would help in "growth funding". Especially financing for SME acquisitions is difficult to arrange, although there exist huge needs in finding new entrepreneurs to smaller companies owned by older entrepreneurs (ages 55-74). Manufacturing companies are concerned of the high taxation level of energy in Finland. High energy taxes in Finland are harmful in international competition. More activities should be directed to activate industrial investments and increasing the volume of jobs in smaller companies.

In Finland, the amount of older entrepreneurs (ages 55-74) has increased strongly. The amount of older entrepreneurs was some 60 000 in the year 2000 and some 100000 in the year 2010 (Noora Järnefelt, Hyvinvointikatsaus 4/2011, Statistical Centre of Finland, December 2011). This forms quite a challenge to the Finnish economy and employment in the near future, because these companies employ some 250000 people altogether.

Based on the interviews, many of older entrepreneurs are concerned about the continuity of their businesses. There are also many smaller entrepreneurs who have problems with their pensions. In February, there were only some 25000 members in the unemployment fund of the Finnish entrepreneurs (26.3.2014 on pages www.yrittajat.fi).

The taxation should be reformulated to support changes in the ownership of SMEs. For example, the capital transfer tax in case of selling a company to a new entrepreneurs or group of former employees could be removed. The situation of the seller would be considered as well. The taxation of selling the company should be made reasonable. Communities would be able to develop their roles more effectively in identifying new entrepreneurs and arranging business continuity on regional level. Active training of entrepreneurship in educational institutes of all levels is one of good ways to guarantee continuity.

The business environment in different communities in Finland varies a lot. The activities of regional industrial policy and the level of interest to entrepreneurship in general are not similar in every Finnish community. Based on the interviews it can be seen that in smaller communities entrepreneurs have better possibilities in flexible cooperation with the community. In ideal cases communities discuss with local entrepreneurs in their decision making processes. The impression created by the interviews is that smaller businesses in so called “cooperative communities” have made relatively more business investments and developed their businesses more actively than companies elsewhere. Especially, quick feedback and reactions based on company needs are highly valued.

SMEs suggest that the facilities of local educational institutes could be utilised by young entrepreneurs when they are starting new businesses. Also educational equipment could be used on bases of variable costs.

Employing young people should be made easier. For example, norms in employing young persons to smaller companies would be lighter and the available existing support possibilities could be further developed. Bureaucracy in risks in arranging apprenticeship opportunities in smaller companies should be subtracted.

The youth guarantee arrangements (26.3.2014 on pages <http://ec.europa.eu/social/main.jsp?catId=1079>) in Finland in general seem to be quite incomplete, effective cooperation manners between public bodies and smaller companies are lacking altogether.

SME`s would like to cooperate with higher educational institutes (HEIs), in case they would be more aware of the practical needs of the companies. The training and development needs of the regional companies should be better understood by HEIs in order to guide the regional development and university-business cooperation effectively.

HEIs do not bother informing companies of their possibilities or will in cooperation. More HEI representatives should visit local smaller companies to understand the regional development possibilities in general. HEIs can promote their activities at the same time and discuss new alternatives of mutual projecting or training. The density of discussion between teachers and entrepreneurs should be tightened.

Networking between HEIs and businesses (UBC) should be activated both regionally and internationally. This helps also in finding new financing alternatives.

The amount of different public development organizations is recently too high. For smaller entrepreneurs it is impossible to easily find good cooperating development partners among them.

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6. SMALL BUSINESS ACT COUNTRY REPORT – GERMANY

Antti Ahola, Laurea University of Applied Sciences
Jukka Laitinen, Laurea University of Applied Sciences
Tarja Meristö, Laurea University of Applied Sciences

1. Background of the study

The Small Business Act (SBA) is the EU's policy initiative, which aims to support small and medium-sized enterprises (SMEs). It is designed to measure and improve ten principles, which have an influence on SMEs. The principles range from entrepreneurship, to responsive administration and to internationalisation.

In this report we go through how German SMEs felt about current state of the areas covered by the SBA. The interviews were conducted on the 7th of February 2014 at the trade fair in Hannover where five company representatives were interviewed. Four of the interviewed companies were from metal & machinery industry and one of the companies focused on environmental protection systems. All the interviewed companies were SMEs except one which had 700 employees. The answers were analyzed and compared to the European Commission's SBA fact sheet on Germany (European Commission 2013). The interview results from Hannover have been supplemented by the viewpoints of four German SMEs from an environment field. These companies were interviewed in the networking trip to Germany arranged by the German Finnish chamber of commerce in November 2013.

2. German SMEs

Germany offers a good business environment for the SMEs. Since the 2009 German SMEs have been able to create 1 100 000 jobs despite the economic crises, while SMEs in other EU countries are struggling. SMEs in Germany are seen as innovative and internationally-oriented. The situation in Germany seems good at the moment, but some difficulties are to be expected in the near future. The population in Germany is aging, which will create a shortage of skilled professionals. There is also fear that the number of young entrepreneurs will decrease in the upcoming years.

3. Study results

The first questions were concerning companies' views of the EU in general and their possible experiences of the EU projects. Feelings towards the EU were partly negative but many of the companies did not have an opinion on EU and only one had actual experience from an EU project. After the questions concerning the EU and EU projects in general the interviews continued with the questions covering the SBA initiative.

Respondents felt that the culture in Germany is slightly more pro entrepreneurship, than not. According to the SBA fact sheet Germany is not doing particularly well with entrepreneurship. The number of entrepreneurs is lower and attitudes towards entrepreneurship are worse than in the EU by average. This can be explained partly with the fact that Germany's overall economy is doing well and large companies are employing people. So the need to employ yourself is not on a high level. However, Germans think that school education has helped them to develop a positive mindset towards entrepreneurship.

Companies also felt that the bureaucracy in Germany works on the large companies' conditions. One of the respondents commented that large companies are able to influence the business environment more by lobbying. As a country Germany can be regarded as average when it comes to providing business environment for SMEs. This assessment is based on the SBA fact sheet. The interviewed companies did not have strong opinions on whether the public administration is responsive to the needs of SMEs. This is very much in line with the SBA fact sheet, which states that Germany is close to the EU's average when it comes to the responsiveness of the administration.

The SBA fact sheet also states that the state aid and procurement in Germany is close to the EU average. However, the interviewed companies felt more positively about the amount of products and services that the state buys from the SMEs. So, they are giving a more positive picture on the matter than the SBA fact sheet gives. This is a good sign for the SMEs. Interviewees thought that it is fairly easy to get finance in Germany. This is also true according to the SBA fact sheet, in which Germany scores very high on almost every scale that measure the access to finance. Despite this, making access to finance easier could improve the business environment for SMEs even further according to one of the respondent. SBA fact sheet states that German SMEs are very international and the country's support for this is strong and provides good results. Our respondents also thought that German SMEs are very international but they did not feel very strongly about the state's support for the internationalisation. There was also a notion among the companies that the toughest competition is in the German market and the European market is just an extension to their own national market. Basically this means that German companies are bound to do well outside their own country if they are doing well in Germany, even without extra effort to internationalisation.

The interviewed companies felt that there is a strong support to upgrade their skills and innovate new solutions as well as to turn environmental challenges into opportunities. Once again these results are very much in line with the SBA fact sheet, which states that Germany leads the skills and innovation area by a wide margin compared to other EU states. The interviews were concluded with a question about the meaning of a bankruptcy for an entrepreneur. Companies felt that it is very difficult to bounce back from bankruptcy. There is a clear contradiction between our interviews and the SBA fact sheet, which states that bankruptcies are well handled in Germany and it is possible to start again as an entrepreneur after a business failure.

4. Conclusions

Germany's SBA profile states that it is doing very well compared to the EU average. To be more specific it has 6 out of 10 areas doing better than the EU average. One area in which Germany lacks behind is overall entrepreneurship, but this is mostly because large companies are doing well and are able to offer jobs. However, it is unclear whether the SBA initiative is able to help with problems such as the aging population, which will reduce the number of skilled workers. This was something that our interviewees also pointed out. Based on our study we can easily agree with the statements in the SBA fact sheet, even though our respondents gave pretty neutral answers and avoided extreme statements. SBA fact sheet does not shy away from giving a very positive image about some of the areas in which Germany is doing well.

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http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/germany_en.pdf

7. SMALL BUSINESS ACT COUNTRY REPORT – POLAND

Riitta Windahl, Turku University of Applied Sciences

Liliana Cwik, Turku University of Applied Sciences

1. Background of the study

The Small Business Act (SBA) is the EU's policy initiative aiming at supporting small and medium-sized enterprises (SMEs). It is designed to measure and improve ten principles mostly influencing on the business and working conditions of European SMEs. The principles range from entrepreneurship to responsive administration and to internationalisation issues. In this report the SMEs in Poland are shortly discussed and their feelings related to the SBA in EU are viewed. The report is based on the interviews made in Poland on May 2014. Seven companies were contacted and five of them were interviewed – three of them face-to-face and two by phone. All of these five companies were Polish SMEs operating on the various fields of business. Their answers were analyzed and compared to the European Commission's publication, SBA fact sheet on Poland (European Commission 2013).

2. Facts about Polish SME's according to the SBA fact sheet

Poland presents a mixed picture in terms of framework conditions for the creation and growth of SMEs. While the Polish economy is still reeling from the consequences of the 2008-09 crisis, Polish SMEs should be able to recover to pre-crisis levels in the foreseeable future. The business demography outlook for 2013 is positive and dynamic with high numbers of exits but also of new companies entering the market. This is partly due to substantial progress achieved in SBA policy areas such as entrepreneurship and responsive administration, leading to the removal of many administrative burdens for start-ups, and a sharp decrease in registration costs for businesses. In spite of these targeted efforts, recognized in the World Bank report 'Doing Business 2013' — which ranked Poland as the top improver for 2012 — Polish SMEs continue to chronically underperform in some crucial areas, such as skills and innovation and exploiting potential foreign markets (single market and third countries). Moreover, SMEs are suffering also from a lack of recent policy initiatives to address the weaknesses of the Polish SME sector, which is still struggling to take up loan and credit financing. (European commission, 2013.)

The overall number of SMEs equals the EU average, but a number of micro companies are slightly higher and small companies slightly fewer in Poland than in EU average. Although the share of employees in Polish SMEs is somewhat higher than the EU average, the value added that is generated is significantly below. This indicates apparently lower productivity, but also maybe a concentration of Polish micro enterprises in low value-added sectors. Compared to other EU countries, Polish SBA performance is slightly below the EU average, with a mixed record of outstanding progress in certain areas (entrepreneurship, responsive administration, access to finance) and prolonged stagnation in others (skills and innovation, single market, think small first).

3. Study results

SBA Principles 1-3: Entrepreneurship, Second Chance, Think small first.

The interviews started with some general open questions on how the companies view the European Union and whether the companies have any experience of EU projects. All of the companies viewed the EU mostly in a positive manner and had more positive than negative experience of it. According to the respondents, business climate and culture is entrepreneurship-friendly in Poland today. It is quite easy to start a company and also restart, if necessary. There are some supporting services available for re-starters after an obligatory withdrawal period in Poland. Though, the interviewees here had no experience of restarting a company after a bankrupt. Legislation in general gets some critics because of lots of red tape procedures included in it in the area of business operations. The same procedures are valid for both big and small companies.

SBA principles 4-6: Responsive administration, State aid & public procurement, Access to finance.

According to the interviewees, the public support system and public business administrators are easily accessible and responsive in case it is needed and approached. Enough information about the services available is given, but a company or entrepreneur must be active to get this information. EU pages in internet were said to be a bit hard to use as a primary information source. Preferably the information is searched from the local business administrators who know the business environment and local needs on the field of business in question. Access to finance services was seen easy, but the bureaucracy related to it was criticized. Also, more varied forms of financial support would be valued, for instance, in connection to product development or international marketing.

SBA principles 7-10: Single market, Skills and innovation, Environment, Internationalisation.

Interviewees told that Polish SMEs are not so well prepared to operate in the EU markets and that is why some more support for marketing and operating within EU area would be needed. Also, some training related to internationalisation in general would be valued. The same kind of message is also given in the SBA fact sheet on Poland. Publicity and attention to the environmental issues are increasing in Poland, and the public support is available for the SMEs in this field.

4. Conclusions

Based on this very limited interview any generalisations about the situation of Polish SME business cannot be made. Nevertheless, some notes can be made, the SBA fact sheet on Poland taken account. This study supports the fact that entrepreneurial climate is very positive and supporting in Poland. Also, the public support system is easily accessible and responsive in case it is needed and approached. Though the bureaucracy related to the elements within the public support system is slightly criticized and its appropriateness questioned by the SME companies. More varied support for international networking and innovative skills development were mostly needed among the companies interviewed. Also, more extensive forms and flexible procedures of financial support would be highly valued by the SMEs, as well as some support in international marketing efforts at the SMEs.

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8. SMALL BUSINESS ACT RUSSIA COUNTRY REPORT

Aimo Lyykorpi, HAMK University of Applied Sciences

Lauri Tenhunen, HAMK University of Applied Sciences

1. Background

Based on the ten interviews made in December 2013 in St.Petersburg, Finnish SMEs in Russia face many types of challenges. The challenges can be related to cultural-cognitive, normative or regular environment. The challenges found in the interviews are described in the enclosed Table.

The challenges that companies face are related to many factors. Examples of the external factors we can mention culture in Russia, regulations and normative behavior. However it is important to notice that internal factors of the companies have also effect. For example, international experience of the company manager might determine if the company will face issues related to the cultural pillar of institutional theory. Level of internationalisation in the other hand will effect to the types of regulations that company needs to cope with.

Support services should help Finnish SMEs in Russia, but there are also problems related to applying them. In the interviewed companies the managers believe that applying any support is too difficult for them, it takes too much time and requires a lot of work. SMEs have limited number of employees, therefore all unnecessary work is harmful for them. Expectations of applying of support activities might be hindrance for companies.

The level of company internationalisation does not seem to have high effect on used support activities. Companies with same level of internationalisation and/or internationalisation pattern had been using support activities in varying scope. However, companies with traditional pattern seem to be most willing to use all of the types of support and companies with internationalisation level between medium and high were also willing to use more of the support activities compared to others.

Table F.1. Characterizations of the interviewed enterprises in Russia (Lyykorpi, 2014)

Case company and International experience of owner/manager	Regulative environment	Normative environment	Cognitive-Cultural environment
A: High	Difficult to have time for solving problems related to complicated practices and unnecessary bureaucracy.	Lack of trust and commitment between possible partners.	Issues finding partner and the customer base is not as big as they hope. Cultural differences are problem for CEO.
B: Average	Changes in legislation and rules happen usually rather fast, which makes it difficult to predict them. The customs duties are also included here.	Pirate copies are only minor problem.	Cultural issues have only minor role.
C: High		Corruption and bribery: it makes doing business more inefficient	No problems, because of adapting to current situation
D: Average	CEO was mostly worried about customs clearance, which is complicated.	Lack of trust between two companies	Problem solving in partnerships and creating long-term relationships with different stakeholders is difficult
E: Low	Lots of different regulations and legislation might sometimes be confusing in Russia.		Not really a challenge, because problems can be identified, e.g. sending fake documents
F: High	Customs regulations and taxation has been problem especially in the past. Collecting fees in customs is unfair.	Protocols of Russian banks and the difficulties related to arrangement of payments	The unpredictability in Russian business environment
G: High		Corruption and bribery	Long-term planning is difficult and self-interests of Russians may damage relationships with stakeholders
H: Low	Expectation: in juridical sense starting subsidiary is extremely difficult	Expectation: problems like corruption possible	The owner doesn't know the language or culture, which makes him mistrustful about Russians
I: High	Bureaucracy is very heavy and companies need juridical services and their own accountants to handle all the necessary paperwork		No problem, because owner knows language and culture very well
J: Average	"Heavy" customs regulations		Unpredictable environment

There is clearly some correlation with international experiences and knowledge about available support activities. It seems that less experienced managers are aware of fewer possible support activities than more experienced managers. In addition it is possible that managers with average level of international experience are more willing to use support activities, compared to managers with low or very high level of international experience. This means that managers with low level of experience are not willing to use support services, because their knowledge of them is rather low and they believe that applying is too difficult. On the contrary, managers with high level of experience have quite skeptic attitude towards support services, especially consultation and networking services. After achieving certain level of knowledge about the market and the industry in Russia, managers start realizing that

they know more than consultants and they have already created needed networks. Exception is the financial services; managers are always willing to have this type of support if possible.

2. Main interview results

The most challenging thing in the Russian business environment seems to be the regulative pillar. Almost all of the companies stated that sometimes it is difficult to cope with too heavy bureaucracy. It can be related to customs regulations as well as to normal juridical procedures in everyday business transactions and unnecessary paperwork. From the normative pillar the biggest challenge was corruption and bribery. Especially this is difficult for Finnish companies that want to keep their business as transparent as possible, since the competitors who are willing to pay bribes gain advantage. From the cognitive-cultural pillar the biggest challenges were related to building long-term relationships and problem solving in partnerships.

Cultural differences can be high between the Finnish and Russian managers and this might lead to disagreements. As mentioned before, experience of manager and level of internationalization of company affect to challenges. The more experienced a manager is, the less problems he/she should have. Experience helps to find solutions to regulative challenges faster. For example solving requirements of customs can become a routine, although it can still take time and regulations can change quite often according to some case companies.

Experienced manager knows how to act in sense of normative behavior and cognitive-cultural pillar. This will help in creating short-term plans and respond to changes in the business environment. Knowledge of culture and “way of country” will help in creating relations with stakeholders. Level of internationalization determines what the degree of challenges is. With common sense it is possible to state rather self-explanatory idea; the higher the level of internationalisation is, the more company is in interaction with the Russian business environment, therefore the degree of challenges is higher. Internationalisation patterns don't seem to have as strong effect, but scale and scope of international operations have similar influence as level of internationalisation.

According to some of the case companies, applying support activities is easy, whereas some stated that it's difficult and too time taking. It was also possible that manager had not applied for any support activities, because he believed that it is too difficult process. This idea was not necessarily based on personal experience, but on preconception that manager already had. Because of this, it is recommended that manager / owner of enterprise always would first evaluate the support activities and if they can be helpful for their enterprise or not.

After this it is more reasonable to decide whether to apply for help or not. It is rather easy to find information about support activities from internet and to contact representatives of organizations that have been mentioned before in chapter four. However it is very important to remember that usefulness of support activities is depended on many factors, e.g. industry. There is no generalized concept what is useful and for whom, but all the companies are individual cases that need to be evaluated one by one. In this study it was quite clear that financial support was named as the most important one, but use of other support activities was rather random. Level of internationalization or internationalization patterns did not result in using some certain support activities.

In the success of a company in Russia, the knowledge of Russian language and culture seems to be highly important.

Russian markets are an opportunity, but also a challenge for Finnish SMEs. The possibilities are great, but Russian business environment may hinder the will to enter to markets or even prevent the whole process. This is why support services, offered by Finnish officials, could be useful in helping SMEs to overcome the difficulties. The purpose of this study is based on the need of finding what kind of problems Finnish SMEs face in Russian market and how Government could support them. Used support activities in certain levels of internationalization and internationalization patterns are evaluated, international experience of entrepreneur is compared to used support activities and the most challenging pillars in Russia from the Institutional Theory are defined.

The accomplished interviews indicated that usefulness of support activities have to be evaluated case by case. All the companies are individual organizations and usefulness of support activities have to be evaluated according to the actual situation of the company.

The most challenging environment seems to be the regulative pillar. Almost all of the companies stated that sometimes it is difficult to cope with too heavy bureaucracy. From the normative pillar the biggest challenge was corruption and bribery. From the cognitive-cultural pillar the biggest challenges were related to building long-term relationships and problem solving in partnerships. Consultation services may help to overcome challenges related to cognitive-cultural pillar, especially if manager is inexperienced of Russian business environment.

Summing up the observations we can state that the most important difficulties in the interviewed Finnish SME companies were:

1. Lack of knowledge of the Finnish internationalization support systems
2. Regulatory Business Environment and Heavy Bureaucracy in Russia
3. Corruption and bribery in Russia
4. Building long-term relationships in Russia and problem solving in partnerships
5. The unpredictability in Russian business environment. Examples of this are e.g. changing levels of customs duties and Russia's heavy economic dependency on oil.

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9. SMALL BUSINESS ACT COUNTRY REPORT – SWEDEN

Antti Ahola, Laurea University of Applied Sciences
Jukka Laitinen, Laurea University of Applied Sciences
Tarja Meristö, Laurea University of Applied Sciences

1. Background of the study

The Small Business Act (SBA) is the EU's policy initiative, which aims to support small and medium-sized enterprises (SMEs). It is designed to measure and improve ten principles, which have an influence on SMEs. The principles range from entrepreneurship, to responsive administration and to internationalisation.

In this report we go through how Swedish SMEs felt about current state of the areas covered by the SBA. The interviews for this report were conducted on the 5th of February 2014 at the furniture and light fair in Stockholm. Seven persons were interviewed who represented their respective companies. All of the seven companies were Swedish SMEs and six of them were micro companies with the amount of staff under ten persons. The business field of all the companies were in some way related to furniture or lightning. Their answers were analyzed and compared to the European Commission's SBA fact sheet on Sweden (European Commission 2013).

2. Swedish SME's

SMEs are very important to the Swedish economy, 65% of the private sector jobs are in the SMEs and they also account 57% of the added value. Also, 9 out of 10 new jobs during the last 20 years were created in SMEs. The performance of the SMEs was more affected by the economic crisis than the performance of the large enterprises (LEs). During the 2008-2012 LEs have been slightly outperforming the SMEs. While the good performance of the LEs is a good thing, it is still very important to make sure that the SMEs are able to improve their performance due to their importance to the overall economy.

3. Study results

The interviews started with open questions on how the companies view the European Union and whether the companies have experience of EU projects. All of the companies viewed the EU in a positive manner. However, only one of the companies had actual experience from EU projects. After the questions concerning the EU and EU projects in general the interviews continued with questions covering the SBA initiative.

The respondents felt that business culture is entrepreneurship-friendly in Sweden. One of the entrepreneurs also mentioned that people are encouraged to become entrepreneurs, but some of the negative aspects are left unsaid. Such as the risks involved in entrepreneurship. However, the consensus among the respondents was that Sweden is more entrepreneurship-friendly than not. According to the SBA fact sheet attitudes towards entrepreneurship in Sweden are more positive than in the EU by average, but the amount of people who employ themselves or plan to do so is smaller than the EU average. Swedes are opportunistic entrepreneurs.

Even though the culture in Sweden was seen as entrepreneurship-friendly the respondents felt that the bureaucracy was working on large companies' conditions. They were also on the fence whether the public administration was responsive to the needs of SMEs. According to the SBA fact sheet Swedish government is more responsive to the needs of the SMEs than the governments in the EU by average. The answers were still in line with the SBA fact sheet, even though they did not match the SBA fact sheet completely. A clear difference between the SBA fact sheet and our respondents was found regarding who the bureaucracy favours. As mentioned, our respondents felt that the bureaucracy works on large companies conditions. SBA fact sheet clearly states that the Swedish bureaucracy can be viewed as a SME friendly. The interviewed companies also felt that the state prefers to buy products and services from the large companies, which is not the case according to the SBA fact sheet. The interviewed companies thought that it is somewhat hard to get finance in Sweden as a SME. This result is in a conflict with the assessments in the SBA fact sheet, which states that access to finance is very good for Swedish SMEs. However, interest rates for the Swedish SMEs are worse than the EU average. Perhaps this has played a part why our respondents felt that finance is not easy to get.

According to the interviewed companies SMEs in Sweden are getting support from the public organizations for business operations in the EU. This is also the way it is represented in the SBA fact sheet. Support from the public organisations for the single European market is on a good level in Sweden. Unfortunately the Swedish SMEs are not very active outside their own national market. The companies were also asked if the Swedish government encourages them to upgrade their skills and innovate new solutions. Respondents felt that governmental encouragement takes place in Sweden. This is also very much in line with the SBA fact sheet. One of only few contradictions between our interviews and the SBA fact sheet was about environmental challenges. The SBA fact sheet states that the environmental factors are not taken into considerations by the Swedish SMEs as well as in the EU by average. The interviewed companies felt that they have been supported to turn environmental challenges into opportunities. But, perhaps it takes time to take advantage of these opportunities. Finally, the companies were asked what bankruptcy means for an entrepreneur in Sweden. Our respondents felt that it is not the end of the world and it can be viewed as a useful experience and a basis for new opportunities. Getting a second chance as an entrepreneur in Sweden is also easy according to the SBA fact sheet.

4. Conclusions

Compared to other EU countries Sweden is above the average performer when it comes to the SBA areas. It has seven of the ten principles above the EU averages. Based on our study we can agree for the most part with the assessment presented in the SBA fact sheet. Answers we got from our interviews also hint that you can expect improvement in the areas where Swedish SMEs are currently performing below the EU average. Public support for entrepreneurship might increase the number of actual entrepreneurs in the future. Also, the environmental factors might be taken into consideration by the SMEs even more if the public support manages to have an effect on that.

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10. SMALL BUSINESS ACT UKRAINE COUNTRY REPORT

Lauri Tenhunen, HAMK University of Applied Sciences

1. Background

This summary has been prepared based on the interviews made in Kiev, Ukraine, during 20.11.-21.11.2013. The summary is based on the opinions and problems of six (6) SMEs operating in technology industry of Ukraine. Representatives from the Kiev National University of Construction and Architecture (KNUCA) were present in the interview meetings.

2. Study results

During the interviews we faced six groups of problems of managing smaller businesses in Ukraine:

- High interest rates
- Pure law of public procurements
- Corruption
- Taxation problems
- Lacking supporting policy
- Old-fashioned business culture

The interest rate of the Ukrainian currency, Hryvnia (UAH) is very high compared to international interest rates. Currently, the local currency is about 8 UAH per US dollar. In August 2013, Ukraine's central bank decided to lower its policy interest rate (the discount rate), marking the second cut in 2013, to put the flagging economy back on the growth path. The Board of the National Bank of Ukraine reduced its discount rate by 50 basis points to 6.5 percent from 7 percent. The last time the bank made changes to the rate was in June, when it was reduced by half-a-percent. For private foreign players, it is virtually impossible to buy any UAH before getting to Ukraine (Reuters, 2013).

However, SMEs report that the market interest rates for Ukrainian SME companies supplied from commercial banks are, in autumn 2013, at a level of 20-25%. Private person have to pay even more. As there is a low level of liquidity in the Ukrainian economy, the risk margins of the banks seem to be high. In many cases, high interest rates make it impossible to do domestic investments in industrial companies in Ukraine. The lack of access to finance continues to constrain the development of the MSME (micro, small and medium size enterprises) sector in Ukraine.

Ukraine's export-oriented economy, dominated by steel production, dipped into recession in the second half of 2012 due to declining global demand for metals and it continued to contract in the first half of this year. The World Bank has cut its 2013 growth forecast for Ukraine's economy to zero and warned of economic risks in coming years if the government does not quickly implement structural reforms (Reuters, 2013).

The law of public procurements in Ukraine is inadequate. The SMEs report that the rules for accomplishing the public competition are unclear and thus the law gives too much space for

different interpretations. The law also differs too much of the corresponding EU laws. As the directions are unclear, it allows corruption to take place in public purchases. For example, the “conflict of interest” is defined poorly in the law. One of the main shortages in the law of public procurements is that only one criterion (which is price) is currently accepted. The “overall economic criterion” is lacking.

There are useless instructions in the law of public procurements; for example, some of the appendices cannot be used twice although they would include the relevant pieces of information. Only “sub construction” is mentioned in the law, so called “consortiums” are not allowed, but new entities should be founded for that kind of purposes in Ukraine. Consortiums are common in bigger construction projects internationally. Corruption and black money is widely in use in Ukrainian business life. As in many countries, some short term employees are recruited without paying taxes and social costs, even by the companies. This gives some short term benefits in the costs structure of the company. Also arguments of corruption in the courts were presented in the interviews.

There are currently many draft laws registered in the parliament of the Ukraine that concern the development of the Ukrainian competition law in substance and the activities of the Antimonopoly Committee of the Ukraine (AMC) in general. AMC has always been one of the most transparent and market oriented state agencies, and the market expects that this good tradition will be kept going forward. The competition law of Ukraine changes rapidly, as do changes to its enforcement by the AMC. It is vital to raise awareness of the companies operating in the Ukraine and their employees with competition law rules of the Ukraine. (<http://www.bakermckenzie.com>).

The apparent taxation problems presented in the SME interviews were: (1) Profit taxation of smaller companies. These have to pay 5% profit tax out of turnover, even if their operations were not profitable. This kills some starting companies. Generally the profit tax is 19% calculated from the profit. Also the taxman demands the profit tax to be paid in advance. The other taxation problem concerns (2) refunding of the value added tax (VAT). For minor companies, it is more profitable to pay the VAT themselves than to start bureaucratic processes of demanding the refunding of VAT of smaller amounts. It seems to be all too complicated for smaller companies to deal with several public offices to have the VAT refunding. The VAT responsibility starts from 300.000 UAH in annual turnover.

The customs fees in imports seem not to be convenient. For example, a Ukrainian company has to pay 5% customs fee when importing chemicals for producing such goods that the foreign importer can import with a 0% customs fee when fitted to a readymade product. This may cause competition problems for the domestic companies. Some of the interviewed SMEs also criticized the customs office for using averages (based on their own databases) instead of real import prices when setting the fees to the imported goods. This punishes those companies who are importing lower prices goods to the Ukrainian markets in those product groups that have a customs fee in use.

Since 1996 Business Advisory Services (BAS) and the Enterprise Growth Programme (EGP) have been improving the competitiveness and level of sophistication of the MSME sector in Ukraine. The BAS program in Ukraine was established in 2009 with funds provided from the European Bank of Reconstruction and Development (EBRD). The aim of BAS operations in Ukraine is to increase the competitiveness of Ukrainian enterprises through business advisory projects at enterprise level and to develop sustainable infrastructure of business advisory

services through capacity building initiatives.

In the first year of BAS operations, special attention has been paid to assisting companies situated outside Kiev. In the future, the BAS Program in Ukraine is planning a number of Market Development Activities, including training events promoting the development of the local consultancy market. The development and growth of local MSMEs is central to EBRD operations. Many companies require non-financial support in addition to, or in preparation for, potential future investments.

However, none of the interviewed companies (around Kiev) had even heard of the existing supporting possibilities. Based on the interviews, the former (during years 2005-2011) public support for investments and networked business has been stopped. One of the company representatives stated “as there is no support money available, there is no additional bureaucracy either”.

The European Business Association (EBA) in Ukraine has supported, and enthusiastically endorsed, the goal of entering into a deep and comprehensive trade and association agreement with the European Union. The EBA (www.eba.com.ua) believes that such an agreement would have greatly assisted in achieving its mission, particularly in respect to improving the rule of law, the protection of property rights and an enhancement in the overall investment climate. The Ukrainian government's decision to change their tactical approach towards this long expected agreement with EU has therefore deeply disappointed the Ukrainian business community.

In addition to the trade arrangements, the planned agreement between EU and Ukraine includes three main points: (a) Changes in the law of public procurements, (b) changes in the election system and (3) the law of allowing people in prison to have medical treatment abroad. The last one is the so called Timoshenko law. It also includes rules, for example, for a free trade zone and more comfortable recruitment rules.

SMEs in Ukraine wait for international projecting possibilities, for example, for finding new business cooperation possibilities. Companies would be very interested in joint projects and some of them suggest the use of TACIS or similar instruments, as well as new possibilities whenever the agreement between EU and Ukraine has been undersigned.

Ukrainian SMEs also point out the current unbalanced visa procedures. Ukrainian people need to have visa when going to EU, but it is not needed when people from EU visit Ukraine.

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