



**DECLARATION
ON
SMALL AND MEDIUM-SIZED ENTERPRISES
AT THE DAWN OF THE 21st CENTURY**

**CEI WORKING GROUP ON SME
AND
UNITED NATIONS ECONOMIC COMMISSION
FOR EUROPE**

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Preface

From the very outset of their co-operation the Member States of the Central European Initiative (CEI) have paid particular attention to the development of small and medium-sized enterprises (SME) and entrepreneurship.

Since 1989, the CEI region has been undergoing a process of transformation of its political, economic and social systems. It was the time of significant change in the whole region. Austria became a member of the EU and seven CEI member countries have committed themselves to join this strong economic area. After ten years, some economies boast good results, while in many of them much remains to be done.

The core element of the political and economic transformation of any country in transition is the creation of a sound private sector and further development of SME & entrepreneurship. These are considered one of the principal driving forces in economic development. SME promote private ownership, stimulate innovations and develop entrepreneurial skills. Their flexibility enables them to match quick changes in market demands. They generate the majority of jobs, promote diversification of economic activities, support sustainable development and make a significant contribution to exports and trade.

Seven million of SME in 16 CEI Member Countries employ over 25 out of 80 million employees in total, while the number of unemployed amounts to 9.2 million. With a purpose to facilitate the transition process, increase the competitiveness of the economies and reduce unemployment, a more supportive environment should be created for SME.

Recently, a comprehensive programme was set for the stabilisation and development of the South-eastern European region. Aiming at fostering democracy, economic development and security it will, on an individual basis, also facilitate the integration into European structures. This should give a stimulus to the remaining CEI countries to follow and catch up their eminent neighbours.

At the meeting in Skopje in 1995, the Ministers of the CEI Member States responsible for international economic relations and foreign trade expressed their appreciation on a pragmatic approach of the CEI Working Group on SME in order to strengthen its activity in promotion of trade and joint ventures in the region. The Ministers agreed that comprehensive investments, especially in the field of SME, would facilitate the transition process in Central Europe.

At the informal meeting held on 15 April 1996 in Vienna, Ministers responsible for foreign trade and external economic relations of the CEI Member States pointed out that the transition of the centrally planned economies to market economies significantly depends on the development of entrepreneurship. In spite of promising results in certain countries, a lot remains to be done to move towards a democratic society based on a viable SME sector and flourishing entrepreneurship.

In the final document of the Prague Summit held on 5 – 6 November 1999, the Heads of Governments of the CEI Member States emphasised the importance of the Conference on "Women's Entrepreneurship – East-West Co-operation", held on the island of Brijuni,

Croatia, 21-22 October 1999. According to their opinion, the Conference set in train the co-operation within the CEI region and seriously addressed the issue of advancement of women in the context of economic and social development.

The joint UN/ECE-CEI Informal Meeting held in Geneva on 3-6 March 2000 suggested that a Declaration on “Small and Medium-sized Enterprises at the Dawn of the 21st Century” should be elaborated and then adopted on the occasion of the 3rd Economic Forum to be held on 22-25 November 2000 in Budapest.

The International Conference on “Legal Aspects of SME Development and Best Practice in Simplification of SME Legal Environment” held in Maribor, Slovenia, on 6-7 April 2000, suggested that the Conference recommendations should represent a significant basis for above-mentioned Declaration.

The conclusions of the International Ministerial Conference on “Enhancing the Competitiveness of SMEs in Global Economy” organised by OECD and the Italian Ministry of Industry on 13-15 June 2000 in Bologna, Italy and summarised in the “Bologna Charter”, have emphasised a significant contribution of a dynamic SME sector and entrepreneurship to restructuring of economies and alleviation of poverty. The Ministers agreed that globalisation, enhancement of technological changes and innovation create new challenges for SMEs although they may also contribute to increased costs of transition. Globalisation should be considered as an important process impacting the development of individual economies thus contributing to a higher standard of living for all actors involved. To this end, globalisation, opportunities and benefits should be accessible to everyone. The Ministers have also recognised the role of international institutions in fostering the development of SME and have, therefore, recommended further multilateral exchange of experience and good practice in order to strengthen partnerships and co-operation between countries.

Recommendations for the Development of the SME Sector and Entrepreneurship in CEI Countries in Transition

The Ministers in charge of SME policies in the Member States of the Central European Initiative, having regard to:

- The recommendations of the CEI meeting of Ministers responsible for foreign trade and external economic relations, held in 1995 in Skopje,
- The conclusions of the meeting of Ministers responsible for foreign trade and external economic relations of the CEI Member States held in 1996 in Vienna,
- The recommendations of the Bologna Charter on SME Policies adopted in June 2000 in Bologna,

- The European Charter for Small Enterprises adopted by the General Affairs Council in June 2000,
- The exchange of views of Heads of Government of the CEI Member States and recognition of the issues of further development of SMEs,
- The efforts of the CEI Working Group on SMEs in strengthening networks between SME support institutions in CEI Member Countries with the purpose of enhancing the development of SME and entrepreneurship in the region,
- To the recent joint CEI and UN/ECE Secretariats' activities in promoting SME development in the CEI region,

and bearing in mind that:

- A. The SME sector forms the backbone of a market economy and provides a very significant share of the overall employment,
- B. A vibrant and competitive SME sector is a precondition for sustainable development and higher standard of living for all involved in the process of globalisation, accelerated technological change and innovation,
- C. Support and promotion of SMEs is one of the key elements for achieving criteria for the integration into the EU,
- D. SMEs contribute significantly to the regional and local development,
- E. By taking an important part in the cross-border co-operation, SMEs facilitate the development of remote and border areas and ease understanding of cultural differences in the region,
- F. In the CEI Member Countries, SMEs comprise 83% of total number of enterprises and provide 31.5 % of the total employment. In transition countries, SMEs have already replaced numerous jobs lost during the restructuring and downsizing of former large state-owned enterprises,
- G. SMEs contribute to a democratisation and decentralization of the society in transition countries, increase flexibility in the provision of goods and services, help to increase the competitiveness of national economies and contribute to spreading of business risks,
- H. Through the creation of new jobs, SMEs can successfully contribute to alleviation of poverty and social exclusion of the unemployed population (also by self-employment), especially in economically disadvantaged or rural districts and crisis affected areas,
- I. The European Union has already for several times presented its supportive policy on SMEs and plays a distinctive role in strengthening SME and the craft sector. In the European Charter for Small Enterprises, the following points were especially highlighted: better legislation and regulation, entrepreneurship friendly education

system, lower costs for enterprises creation, favourable taxation for SMEs, strengthening the technological capacities and encouragement of e-business,

- J. National SME policies require internal co-ordination with provincial and local authorities as well as adequate supervision, while co-operation between CEI Member Countries can positively contribute to the European integration process,

agreed on the following principles for the development of the SME sector and entrepreneurship in the CEI countries in transition:

1. The development of a *favourable political and economic environment* – policies and measures – aiming at the creation of a strong SME sector in the countries in transition and emerging economies should be considered one of the major tasks of the Governments in these countries. Joint efforts in acceleration of the (private) SME sector and strengthening of the co-operation among SME and between them and large enterprises will significantly contribute to the welfare of the society and stability of the CEI Member States;
2. *Specific characteristics and needs* of the SME sector have to be taken into account in the elaboration of the development policies; specific support measures and instruments aiming at the promotion of the SME sector should be adopted;
3. The *role of the CEI Working Group on SMEs* in the improvement of efficiency of the SME support policies and instruments of the CEI Member Countries in transition as well as the assistance to the less developed transition and post-conflict economies should be emphasised;
4. The *definition on SME* in CEI Member Countries in transition should be harmonised with the EU standards. The unified definition should contribute to the consistency, transparency and efficiency of national support measures relating to SME sector promotion;
5. The Governments of the CEI Member Countries are encouraged to introduce relevant measures to *improve legislation and simplify the procedures* related to the formation of enterprises, development of SMEs and creation of jobs;
6. The Governments of advanced countries are invited to *assist* the Governments of the CEI Countries in transition at their efforts to reduce the red tape and develop a more friendly and supportive business environment for SMEs by promotion of “good practice” and exchange of relevant information and experience;
7. The CEI Working Group on SMEs is invited to explore the possibility of establishing the special task force - *CEI Business Environment Simplification Task Force* - similar to the European Commission’s BEST initiative. The main goal of such task force should be to assist the CEI Countries in transition at their struggle for reducing and eliminating red tape and other legal and administrative obstacles to business creation and growth. It should also assist in simplifying the legislation relating to

enterprise registration, licensing, taxation and accountancy. The task force should also pay greater attention to bankruptcy laws and assure a thorough assessment of impact of new legislation on SMEs by monitoring all stages of the legislative process and adoption of laws;

8. The national governments of the CEI Member Countries are invited to continuously **monitor and evaluate actions** related to the improvement of legal and business environment with regard to the impact on the growth of the SME sector in the region;
9. Services provided for SME and entrepreneurs by **business support institutions** should be **continuously improved**, especially at the local level. In order to facilitate SME access to relevant information and business advice, stronger co-operation among support institutions and relevant authorities should be promoted. It is also necessary to address and incorporate the **different needs** of pre-starters, start-ups, growing businesses, micro, small and medium-sized enterprises into the support programmes when appropriate. The national and local authorities of the CEI Member States are also invited to introduce **innovative approaches** in SME support institutions, to exchange experience and co-operate on international basis in order to develop, adjust and implement relevant solutions;
10. Innovative and higher value-added businesses and the development of new products and services in the SME sector should be **promoted by all relevant means of support**, including improvement of intellectual property protection, assistance in adoption of the EU technical and quality standards, support for introduction of sustainable development, increased investment in human resources, R & D, technology and information technology, measures on reduction of business risks, etc. The CEI countries are advised to adopt national programmes on the promotion of competitiveness that would facilitate and increase the participation of SME in R&D and T&IT programmes;
11. Joint ventures, clusters, supply chains, sub-contracting and other forms of formal and informal networking among SMEs and entrepreneurs should be promoted and Governments are invited to **develop measures and instruments** to support them.
12. The importance of **human resources development** should be recognised. In order to improve entrepreneurial and managerial skills, the authorities are invited to take care of further improvement and adoption of the relevant curricula for educational and training programmes for students, entrepreneurs and employees. The SME dimension should be appropriately incorporated into all training and educational programmes;
13. Governments, chambers of commerce, industry and crafts, employers and professional associations are invited to improve access of SMEs to **quality advice and consulting services that would match the needs and capacities**, in particular during the most risky start-up phase;
14. Based on a crucial role of NGOs in sustainable development, they should be invited to take a **more active role in the creation and development of SMEs**, in particular by their participation in campaigns for raising general awareness on the role of SMEs in national economies, local development initiatives and social economy.

15. In order to pursue an effective SME policy, specific SME *representative organisations*, such as chambers of commerce and industry, chambers of crafts, employers', trade unions and other associations should be *involved in all phases of a social dialogue*;
16. A *diversification of financial support schemes* for different stages of the SME life cycle should be assured. It will contribute significantly to a faster creation and growth of the SME sector and entrepreneurship. It is also necessary to address the different needs of micro, small and medium-sized enterprises in financial support programmes when appropriate;
17. The *dialogue with financial institutions* should be fostered in order to improve their awareness of the role of SMEs in national economies. They should be encouraged to educate their personnel on all issues relating to SMEs in particular on their needs and capacities. Financial institutions are invited to simplify and raise transparency of procedures and reduce costs for obtaining finance;
18. Financial institutions should be invited to provide *customised forms of finance* for SMEs, (special credit facilities, micro-credit schemes, seed capital, guarantee schemes, leasing, venture capital, concepts on business angels), and other suitable forms. They should also be encouraged to develop *innovative financial solutions* that would match the needs and capacities of SMEs;
19. Authorities should be invited to seek possibilities of further development of *public financial schemes* at local, regional and national levels. Such programmes should aim at fostering innovation, competitiveness, a faster growth of R & D and IT & T activities and sustainability in the SME sector;
20. European Bank for Reconstruction and Development, through its expertise in financial instruments tailored to reach SMEs and micro enterprises, can help reduce the financial constraints to the sector. Through its ongoing dialogue with governments it can also help improve the business environment for the sector.
21. Governments are invited to consider possibilities of *improving access of SMEs to public procurements* by adopting the appropriate measures for fair competition among SME applicants, as well as by supporting clustering for joint applications;
22. Governments are suggested to draw attention to the importance of providing adequate *information on the national SME sectors*. Governmental institutions, especially the national statistic offices of the CEI Member Countries, should be invited to take care of internationally comparable data by using EUROSTAT;
23. The CEI Working Group on SMEs is encouraged to decide in due time on the implementation of the project *CEI Observatory for SMEs*. In order to facilitate the preparation of the first report, a close co-operation with International Network for SME research – proposed among the future actions in the Bologna Charter on SME policies – is recommended. The CEI Working Group on SMEs should be assisted by the CEI Executive Secretariat and UN/ECE;

24. Conferences/seminars/workshops should be organised by CEI Member States to *identify and disseminate* “good practices” in promoting entrepreneurship.

Conclusion

The Ministers in charge of SME policies in the CEI Member States

25. Invite the CEI structures to take the “Declaration on Small and Medium-sized Enterprises at the Dawn of the 21st Century” into account in formulating their programme of work.
26. Invite the CEI Working Group on SME to review regularly the implementation of this Declaration and the development of entrepreneurship and the (private) SME sector in CEI member states in co-operation with UN/ECE based on reports to be submitted beginning in 2002.
27. Forward this Declaration to the Governments of the CEI Member States.

Budapest, 24 November 2000