

Transfer of Know-How for Small and Mid-Size Businesses in Georgia, Moldova and Ukraine

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Vysoká škola manažmentu/School of Management (SK)

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- *CU/VSM team part of USAID/IVF project
- *Aim: to assist Georgia, Moldova, and Ukraine in developing analytical and policy advocacy capabilities by opening new channels of communication with SMEs and NGOs in V4
- *Focus of Slovak team: **Ukraine**

Introduction

- *Objective: to facilitate the transfer of knowledge and establishment of a permanent platform for a sustainable co-operation leading to bringing the SMEs in the beneficiary countries closer to EU standards, markets, and business opportunities
- *Methods: data analysis, case studies, interviews

Goals and Methodology

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Definition of SMEs

- * Doing Business 2013 (IBRD, 2014)
 - * Business regulation vs. business doing ease
 - * Georgia 10th, Poland 45th, Slovakia 49th, Hungary 54th, Czech Republic 75th, Moldova 78th, UKRAINE 112TH
 - * Few reforms made in Ukraine with improvements mainly in:
 - * starting a business (elimination of capital requirements for company incorporation)
 - * property registration (shorter registration periods)
 - * payment of taxes (online system introduced).
 - * The remaining criteria remain problematic (the worst rank in construction regulation)

Basic Data

- * Global Competitiveness Index 2013-2014 (World Economic Forum)
 - * 12 pillars of competitiveness (institutions, macroeconomic environment, education, labor market efficiency, business sophistication, innovations etc.) - three stages of economic development:
 - * Factor-driven
 - * Efficiency-driven
 - * Innovation-driven
 - * Beneficiaries in stage 2 (Moldova between 1-2)
 - * V4 in stage 2-3 (Czech Republic in 3)
 - * Biggest problems of Ukraine:
 - * Institutions
 - * Technological readiness

Basic Data

*GDP (World Bank)

- * Per capita, purchasing power parity (2012)

- * Slovakia: USD 26.000

- * Ukraine: USD 7.500

Basic Data

- * Definition of the factors, areas, and stakeholders to be researched
- * Based on:
 - * Doing Business
 - * Competitiveness Index
 - * Strategic documents by the governments
 - * Previous research

The Framework

Level/Factors	Key Topics/Stakeholders
Macro (International/State/General External)	
Macroeconomic, Market, and Demographic Indicators	GDP (per capita), growth rate, unemployment rate, inflation rate, market size, demography
Political Climate	Democracy, ruling parties/coalitions, influential people/groups, corruption, international commitments/memberships
Legislation/Justice	Laws, policies, tax system, bureaucracy, law enforcement
Institutions/Infrastructure	Government institutions and organizations, financial sector, non-government sector, transportation, telecommunications
Culture	Language, history, traditions, customs, consumer preferences, dynamics, entrepreneurial spirit

The Framework

Level/Factors	Key Topics/Stakeholders
Sector (Business/Industry)	
Education	General level, secondary and higher education system, lifelong/vocational education
Competition	Rivalry, traditional sectors, sources of competitive advantage, cooperation of businesses (associations, clusters, projects etc.)
Resources	Raw materials, people, capital, other important inputs
Norms	State/international norms/standards (technical, ecological etc.)
Technology	Technological level/readiness, investments, advancement

The Framework

Level/Factors	Key Topics/Stakeholders
Micro (Management/Organization)	
Leadership	General business management abilities (business functions), visions, strategies, technical, systematical, and interpersonal skills, ethics
Organizational Culture	Values and behaviors supporting organizational success in various business environments
Human and Social Capital	Skills, training, talent management, information and knowledge management, communication, relationships, motivation
Innovations	Technology, processes, products, patents, licenses

The Framework

* GDP:

- * Per capita, purchasing power parity
- * From approximately the same starting position in early 1990s till 2012
 - * Ukraine: USD 7.500
 - * Slovakia: USD 26.000
- * Studies say many areas researched by this project inhibiting SMEs development are responsible (corruption, nepotism, oligarchy interest dominance)
- * Findings support the above

Discussion

- * Although the macro (both EU and state level - market, legislation, institutions, infrastructure etc.) and sector factors (education, traditions, technological readiness etc.) play important role in SMEs development, the responsibility of businesses themselves must be stressed:
 - * Leadership
 - * Culture
 - * Human and social capital
 - * Innovations
- * The role of cooperation and NGOs in the know-how transfer
 - * Slovak Business Alliance
 - * Internet projects

Discussion

Selected statements of foreign entrepreneurs in Ukraine

"Economy of Ukraine is divided among about 15 families that promote their own interests."

"Medium-sized companies almost do not exist there. There is a problem with so called "rajdierstvo" - which means that many successful and growing companies are taken over by larger companies with the assistance of state administration and unfavorable conditions for the founders of these companies."

"...local oligarchs do not want foreign competition, they are not interested in sharing their business - there is little of real support for FDI..."

"Ukraine's national interest is superior to the interest of foreign investors."

"Communication per email does not work; excessive use of the mobile phone is another phenomenon in Ukraine..."

"Over 80 per cent of young people (18-25 years old) and 95 per cent of older (more than 25) do not speak any English."

"I discovered that for our employees are 'please and thank you' completely unknown concepts, I had to start on a much more fundamental customer communications level..."

"One of the standard answers (especially in banks) to get rid of the customer and the problem is: "system does not work. "

"The whole business in Ukraine is built on personal recommendations, as this is the only reliable way how to avoid fraudsters."

By how much do these factors impede the SMEs in your country (starting a company and/or running business operations)?

1 = Not at all

2 = Somewhat

3 = Significantly

4 = Very significantly

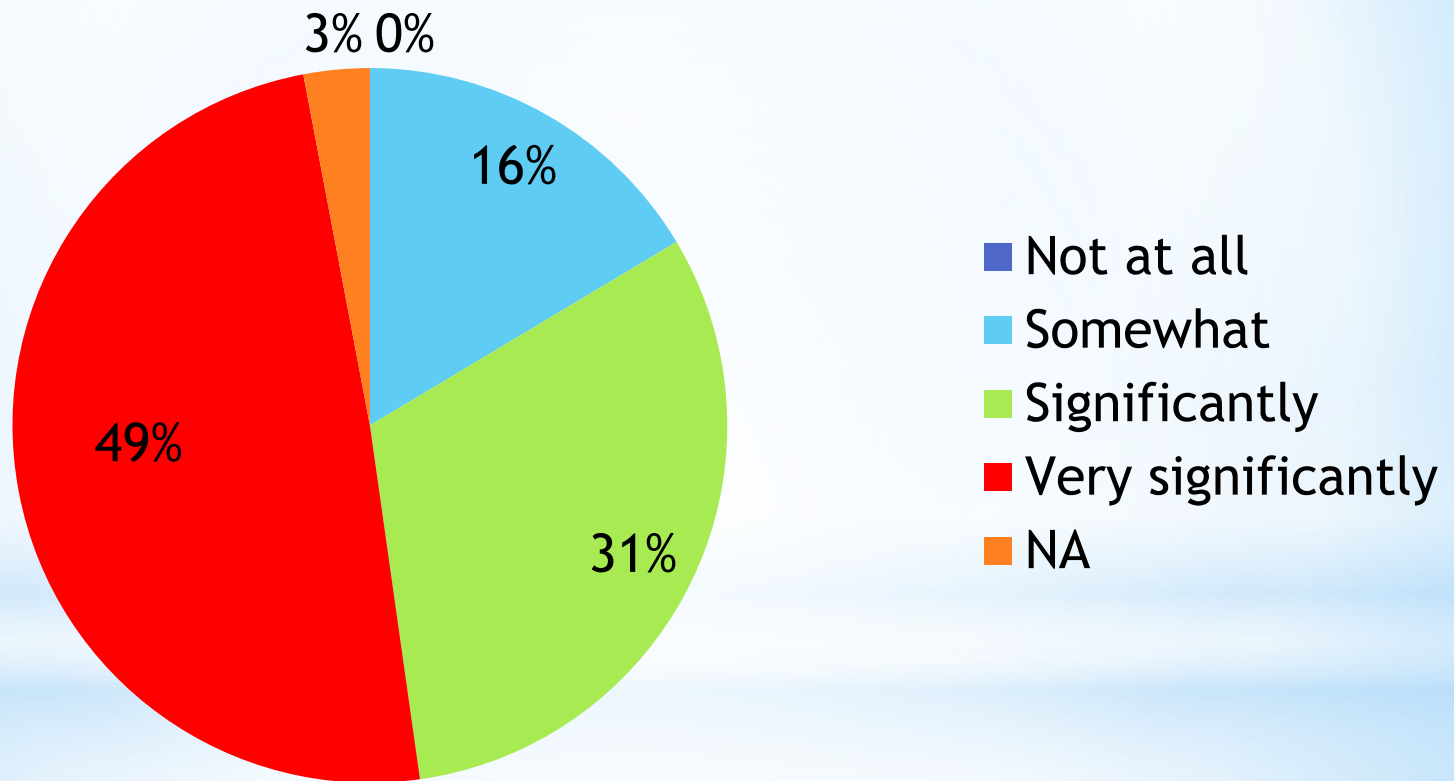
NA = No answer / Not applicable / Don't know

Respondents: 67 experts in the area of SMEs from UA, e.g. Zhytomyr Regional Union of Entrepreneurs, Center for development of Small and Medium entrepreneurship the Donetsk CCI, Institute for Economic Research and Policy Consulting, etc.

54 factors discussed.

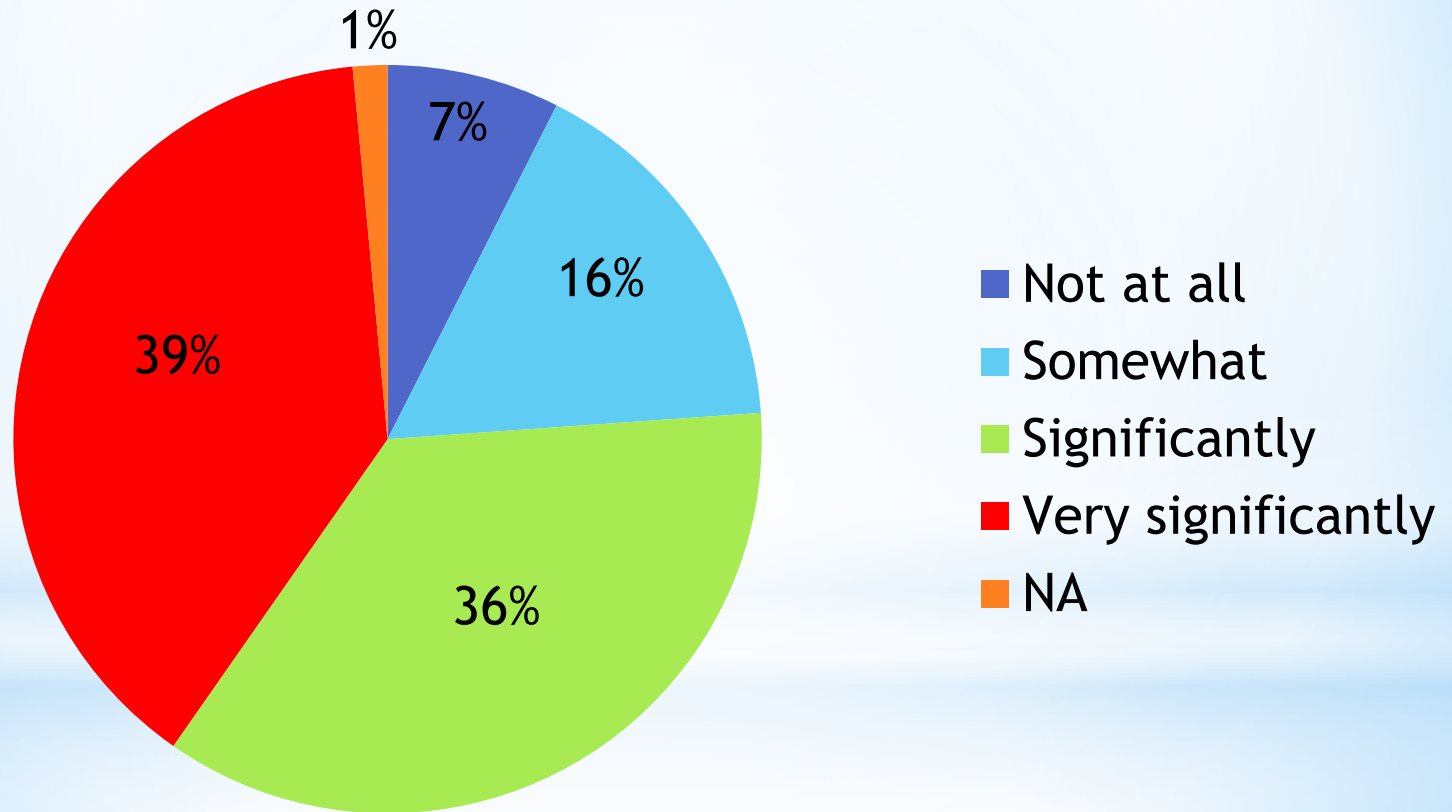
Questionary (UA)

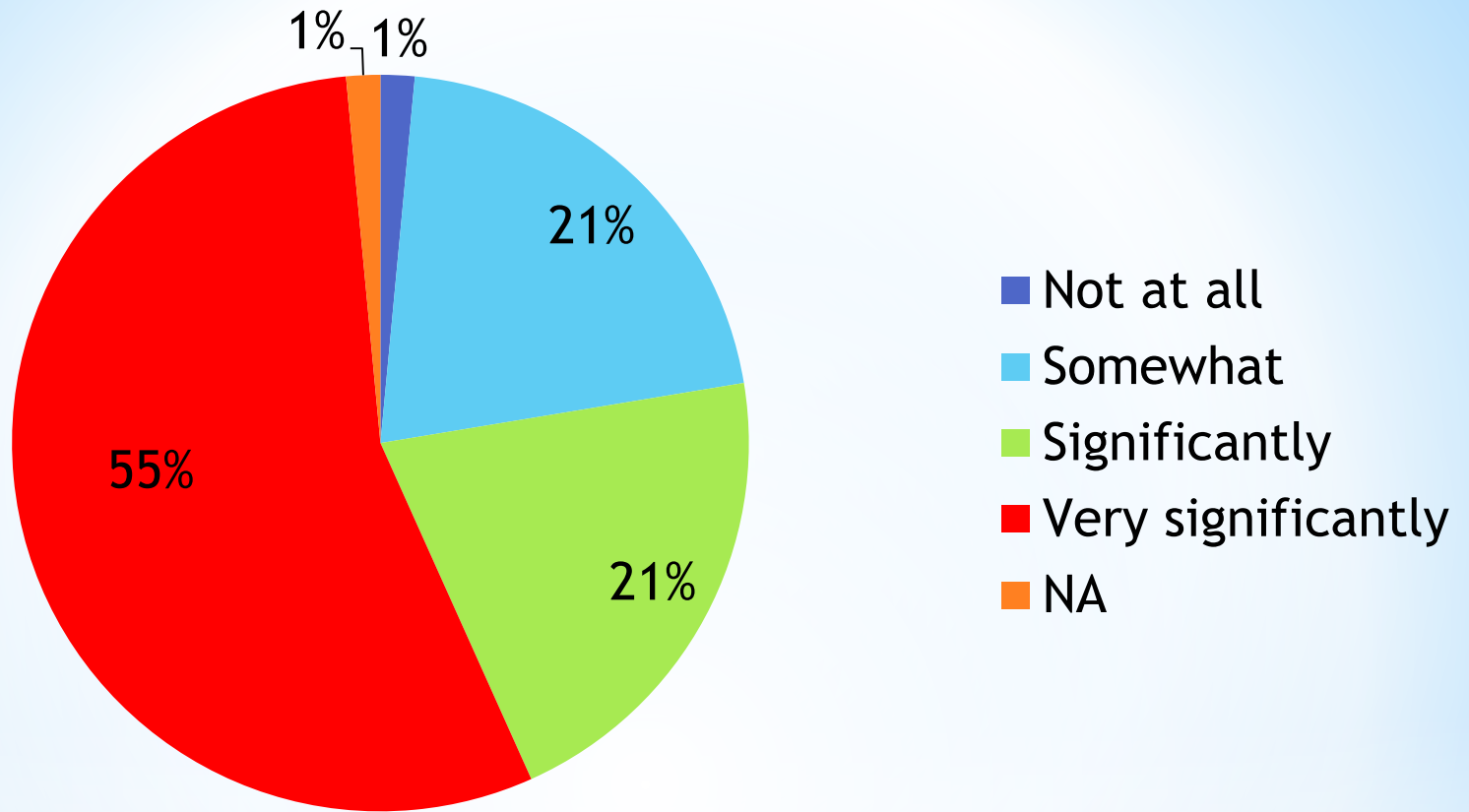
Overall regulatory framework / Excessive burden of regulations



Non-transparent / inconsistent regulations: 3.22 (out of 4)

Difficulties to expand business activities / bureaucratic obstacles

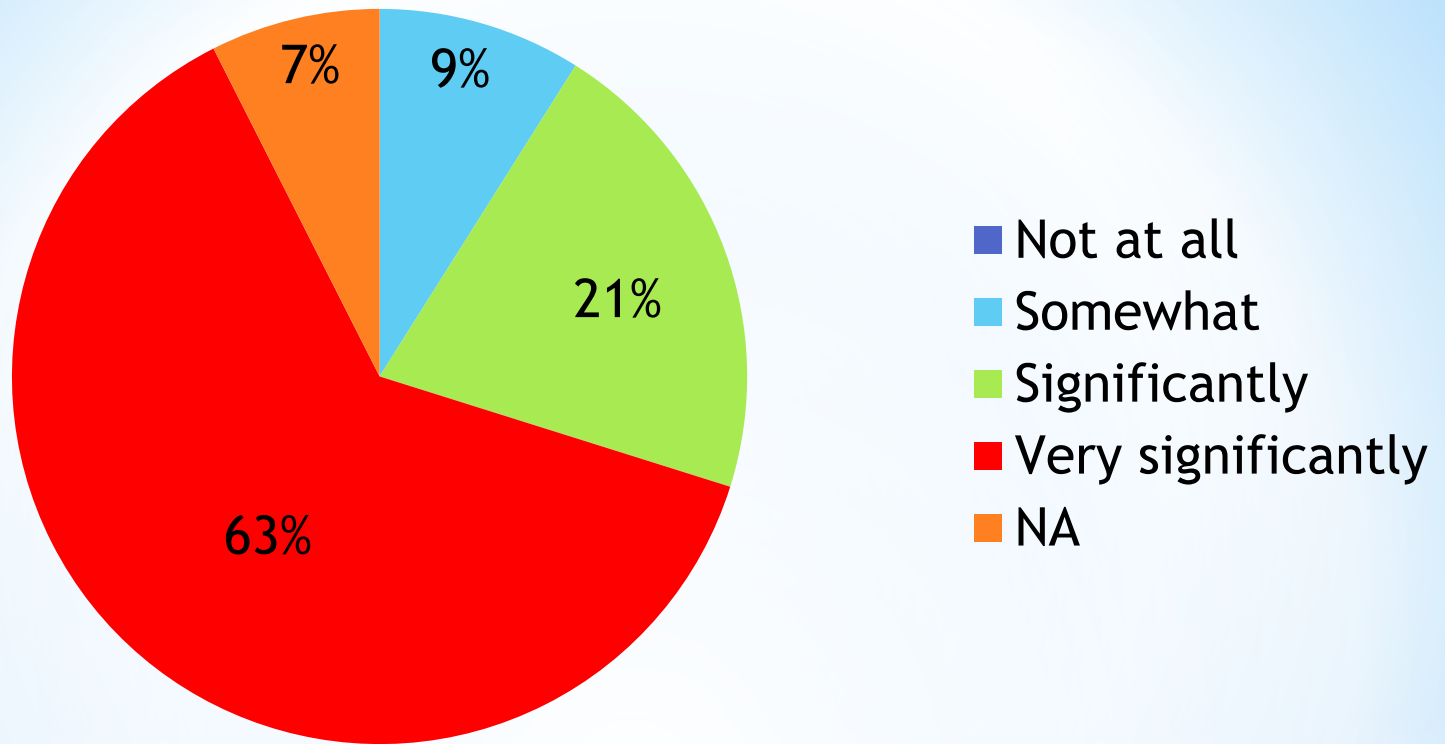




High effective SME presumptive tax rates: 3.06 (out of 4)

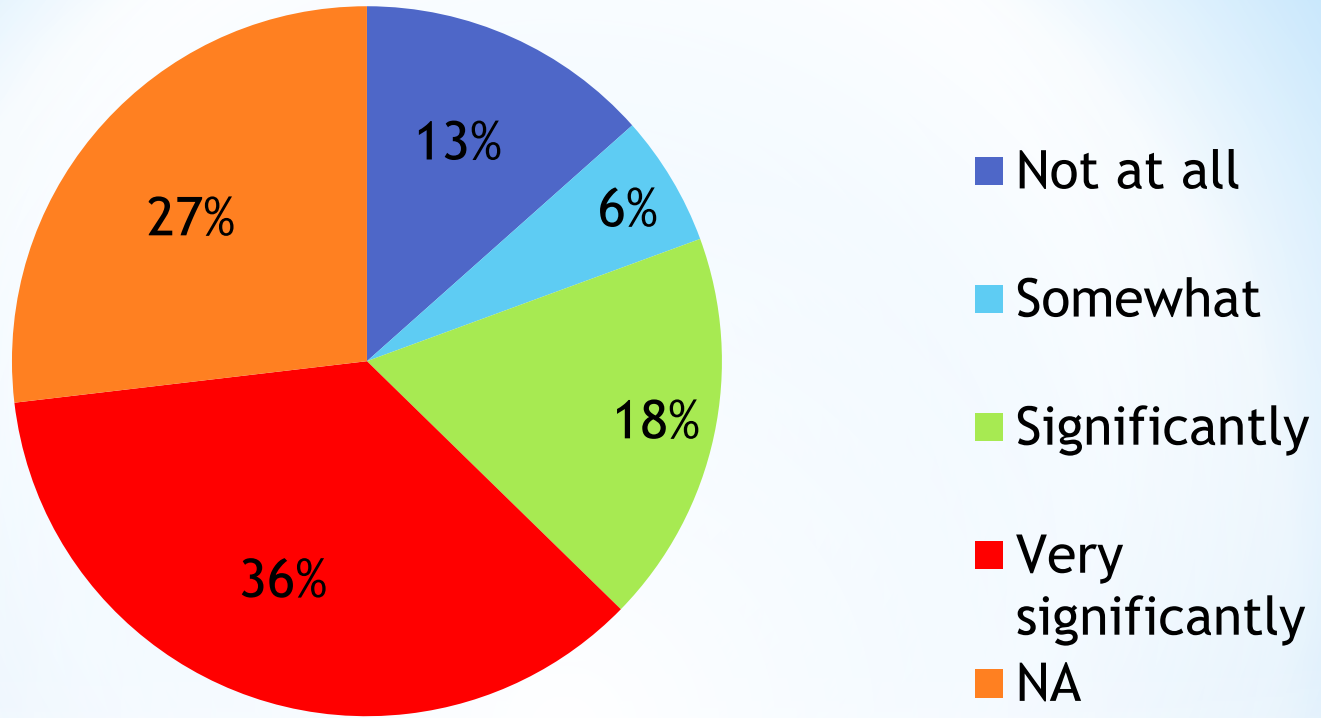
High effective value added tax / trade tax rates : 3.15 (out of 4)

Tax rules and/or their application considered unstable and non-transparent



Weak property rights / weak contract enforcement : 3.06
Weak judiciary system: 3.59

Corruption



67 respondents

Lack of knowledge of EU regulations

Unfair competition: **3.09**

Discriminatory practices

of authorities: **3.11**

Macroeconomic instability: **3.28**

Political instability: **3.52**

High cost of credit: **3.52**

High syndicalization / Excessive power
of labor unions: **1.25**

Difficult access to internet / Lack or
low quality of business websites: **1.55**

Employer-employee conflicts: **1.85**

Demographics - low number of young
labor market entrants: **1.86**

Difficulties in registering company: **1.98**

Unfair privileges for foreign investors:
2.18

Lack of business experience: 2.18

Lack of open communication channels
with EU: 2.44

***Other results**

- * Eliminate bureaucracy and corruption, build supply chains for products in Europe;
- * Inform entrepreneurs on norms and standards in Europe for its products as well as a list of required documents and processes for their preparation;
- * Provide simplified licensing procedures (permissions to begin the production, should take no longer than 5 working days in general);
- * Allow to produce any product that is not prohibited by law.

Comments of Respondents (UA)

Source: Quick Enterprise Survey. Institute for Economic Research and Policy Consulting, 2014

	small	mid-size	large
Great loss	7%	7%	2%
May loss	12%	17%	9%
No influence	49%	36%	21%
May win	28%	33%	59%
Great win	4%	6%	9%
No benefits from association with EU	42%	39%	30%
Start export products to EU	23%	29%	41%
Growing export to EU	5%	18%	30%
Start import	11%	13%	19%
Cooperation with EU enterprises	25%	14%	13%
Other	4%	0%	1%

What do you expect from the association with the EU and the DCFTA?

Source: Quick Enterprise Survey. Institute for Economic Research and Policy Consulting, 2014

	small	mid-size	large
No potential risks	53%	43%	24%
Increasing a competition from the foreign investors at production market	6%	10%	6%
Increasing a competition in import	19%	20%	22%
Increasing a competition from the foreign investors at labor market	2%	6%	0%
Sanctions from RF	11%	21%	48%
Necessity in reorganization production according to the new safety standards	17%	22%	35%
Other risks	2%	0%	4%

Which kinds of risks are you afraid regarding the association with the EU and DCFTA?

- * Role of SMEs in the economy
- * Balanced focus of research activities on both internal and external factors
- * Responsibility of all „players” in the area of SMEs development
- * Political and economic development

Discussion (1)

- *Standardization, change of norms
- *Entrepreneurial and business culture
- *Pre-entry European funds
- *Success stories
- *Experience of V4 countries

Discussion (2)

- * Roundtables
- * Contact List
- * Workshop 1: Information pathways to EU markets, legislation and standards - in food industry and other sectors
- * Workshop 2: Resources and communication channels for dissemination of knowledge about the EU markets and rules
- * Follow-Up Project

Road map

- * Making SME Agenda a Priority and Systematic Approach to and Support of this Sector
- * Enterprise Europe Network
- * Train the Trainers Course
- * Business Exchange Programs

**Actions beyond the
Scope of the Project**

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Thank You!