

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

Developing Entrepreneurship in the UNECE Region

*Country experience
in reducing barriers to
enterprise development*



UNITED NATIONS

United Nations Economic Commission for Europe

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FOREWORD

At advanced stages of transition to a market economy, entrepreneurship and enterprise development come to the forefront of the development agenda. With their new technologies and innovative solutions, new enterprises strengthen economic competitiveness and sustainability. They also enhance macroeconomic efficiency, as well as creating employment.

However, in countries with economies in transition (or “emerging market economies”), both new and operational companies often face formidable administrative and regulatory barriers to enterprise registration and operation. At the United Nations Economic Commission for Europe, we identify and examine good practices in reducing or eliminating such barriers and provide a platform for sharing the accumulated country experience. We also advise member Governments on policy actions.

The current publication takes stock of the numerous barriers to enterprise development and highlights the regulatory changes aimed at removing such obstacles in countries with economies in transition. It assesses government policy in this area and summarizes the recommendations emanating from the 2007 UNECE International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options.

I hope that the publication will be of interest and of practical use to policymakers and other stakeholders endeavouring to eliminate barriers to entrepreneurship and enterprise development in the emerging market economies of the region.



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ABBREVIATIONS

ACOA	Atlantic Canada Opportunities Agency
AMD	Dram [Armenian Currency]
APEC	Asian Pacific Economic Cooperation
BEEPS	Business Environment and Enterprise Performance Survey
CE	Council of Europe
CEB	Central and Eastern Europe and the Baltic States
CEN	European Committee for Standardization [EU]
CHASE	Chambers against Stereotypes in Employment
CIS	Commonwealth of Independent States
CPI	Corruption Perception Index
DOC	Department of Commerce [United States]
EBA	European Business Association
EBRD	European Bank for Reconstruction and Development
EECCA	Eastern Europe, Caucasus, and Central Asia
EFMD	European Foundation for Management Development
EU	European Union
EUR	Euro
FIAS	Foreign Investment Advisory Service
GDP	gross domestic product
GNI	gross national income
IFC	International Finance Corporation
IPM	Institute for Privatization and Management [NGO in Minsk, Belarus]
ISO	International Organization of Standardization
NABK	National Agency for the Prevention of Corruption [Kyrgyzstan]
NSBK	National Council to Combat the Corruption [Kyrgyzstan]
NGO	non-governmental organization
OECD	Organization for Economic Co-operation and Development
PHARE	Poland and Hungary: Assistance for Restructuring their Economies
R&D	research and development
RBC	Royal Bank of Canada
SEE	South-East Europe
SECO	Swiss Secretariat for Economic Affairs
SME	small and medium-sized enterprise
STP	single tax payment
UK	United Kingdom
UN	United Nations
UNECE	United Nations Economic Commission for Europe
UNI	Union Network International
US	United States
USD	United States dollar
WEF	World Economic Forum
WBI	Women in Business Initiative

OVERVIEW

In the emerging market economies¹ (“countries in transition”) of the region covered by the United Nations Economic Commission for Europe (UNECE), the small and medium-sized enterprise (SME) sector emerged as a result of privatization and the break-up of large State-owned enterprises, as well as market liberalization and the setting up of demand-driven private companies. The weight of SMEs in economic activities varies considerably within this group of countries. Whereas in the new EU member States it is generally close to the EU average, in many countries of South-East Europe and the former Soviet Union, it is much lower.

In both developed and emerging market economies, entrepreneurs perceive major obstacles to enterprise development in a similar way, referring primarily to the inefficiency of governance (government bureaucracy and corruption), taxation issues (tax administration and taxation rates) and inadequate access to finance. However, the impact of these obstacles on the new and operational enterprises is greater in emerging economies.

Inefficient governance means administrative barriers such as burdensome establishment rules, excessive reporting requirements and associated paperwork, inadequate information on changes in norms and regulations, and ruinous penalties for violations of regulations. For starting a new enterprise, the administrative steps, stipulated by law, usually include obtaining an operational permit, notarizing the company deeds, opening a bank account and registering and/or obtaining authorization from various government agencies.

For existing small companies, the administrative barriers include complex reporting requirements, government inspections, tax administration, import and export licensing and procedures, foreign exchange procedures, product certification and labour regulations. In emerging economies, the legal bases for enterprise inspections remain complex, spanning multiple jurisdictions and government bodies.

To deal with administrative barriers to entrepreneurship, countries of the region largely follow similar policies, drawing on good practices and on recommendations by international organizations. They focus on streamlining the legislative basis for enterprise registration and operation, simplifying the procedures to follow and reducing their number, decreasing the amount of time required to start operations, lowering the financial burden associated with enterprise establishment and alleviating the supervisory burden incurred by the already operational enterprises.

During the 2000s, the emerging market economies have made considerable progress in reducing such barriers. From 2003 to 2008, in the new EU Member States, countries of South-East Europe and those of Eastern Europe, the Caucasus, and Central Asia (EECCA), the

¹ The term refers to a group of countries of the region that used to have centrally planned economies and have implemented reforms to transform the latter into market economies. This group comprises 10 new EU Member States (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), countries of South-East Europe (Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, The former Yugoslav Republic of Macedonia), as well as the countries of Eastern Europe, the Caucasus, and Central Asia (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan).

number of days it takes to set up a company decreased by 40 per cent, and the cost of starting operations as a percentage of gross national income per capita fell by about 7 percentage points. Despite such improvements, an entrepreneur in emerging market economies still has to go through more procedures when registering a company, the procedures take more time and are relatively more costly than when a similar undertaking takes place in a developed market economy. In 2008, setting up a company in this group of countries took about 27 days, against an average of 14 days in developed market economies. The number of procedures required for setting up an enterprise exceeded, on average, that in developed economies by a third (9 against 6). While the cost of starting a business in catching-up economies has been decreasing recently, in 2008 it was still almost four times higher than that in the selected developed market economies (11 as opposed to 3 per cent of per capita GNI).

According to surveys, companies consider taxation as one of the most important components of the business environment. The taxation barriers comprise heavy tax rates, numerous taxes to be paid, burdensome tax administration and, consequently, the amount of time companies have to spend dealing with tax obligations. Governments of catching-up economies are increasingly realizing the importance of reducing the tax burden on enterprises and streamlining the tax administration. In the mid-2000s, the percentage of companies considering the tax administration as a burden fell in EECCA countries and those of South-East Europe. Along the same lines, between 2005 and 2008, both the taxation rates and the total number of tax payments in the emerging market economies of the region tended to decrease. As a group, these countries narrowed the gap with the Organisation for Economic Co-operation and Development (OECD) member countries in terms of the time required to comply with taxation requirements.

The efforts of governments to ease the tax burden on enterprises in emerging economies have not yet fundamentally changed firms' perception of taxation requirements as a major operational hurdle. The large number of national and local taxes, in particular, means burdensome filing requirements. In 2008, the number of tax payments incurred by companies in emerging economies was over three times higher than that in the OECD economies. The results of expert research in this area therefore attest to the need for further aligning the taxation policy in this group of countries to the requirements of enterprises, especially SMEs.

Access to finance is essential for conducting business operations. In many of the developed countries, compared with large firms, SMEs tend to rely more on commercial bank financing. In emerging market economies, on the contrary, commercial banks often reject SME project proposals because of inadequate collateral, poor financial status of enterprises and insufficiently clear business plans. Barriers to bank finance are particularly high for those start-ups whose competitive strength is based on research and development, and innovation.

In the mid-2000s, the conditions for SME bank financing in the region improved both in terms of less strict collateral requirements and the time needed to negotiate a loan. At the same time, governments, in cooperation with the private sector, developed some alternative sources of SME financial support, including public and public-private financing and guarantee funds. International financial institutions contributed to developing leasing facilities, which have become an important source of medium- and long-term enterprise finance in a number of emerging market economies. Along the same lines, micro-financing

has become an integral part of the financial system in many successor States of the Soviet Union.

The International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options, organized by UNECE in June 2007, recommended that governments, in consultation with banking institutions, should design measures facilitating the access of SMEs to bank finance, in particular to special credit schemes for long-term investment financing with prolonged grace periods, with loan guarantees provided through public-private SME-focused programmes, and more favourable collateral acceptance rules.

In today's global economy, foreign expansion of enterprises is a prerequisite for enhanced economic efficiency. SMEs, however, are hindered from exporting and investing abroad by a number of internal and external barriers. The internal barriers include shortage of working capital and inadequate access to financing, insufficient information on business opportunities and markets abroad, and lack of communication with potential customers. The external barriers include home and host country regulations unfavourable to exporting, importing and cross-border investment, and the lack of relevant incentives from governments.

Governments of developed and emerging market economies have been making efforts to reduce the barriers to foreign expansion of SMEs through improving the information services to companies, as well as through promoting their participation in global value chains and clustering. Programmes to this end have been initiated at regional, interregional and cross-border levels in such countries as Slovenia, Czech Republic, Hungary and Latvia. Further government assistance to foreign traders and investors could focus on providing them with additional information resources, facilitating intellectual property rights protection for SMEs and sharing the cost of applying international standards for exporting goods.

In early 2000, high corruption perceptions in countries with emerging economies were supported by company surveys, which signalled that the extortion of illegal payments was common during business registration. Recently, these countries have been endeavouring to improve governance overall and intensifying their fight against corruption in a number of areas. This work has focused on the reform of the judicial system and law enforcement, and tax and institutional reforms. Anti-corruption advisory bodies have been set up, and measures put in place to strengthen the accountability of civil servants. Actions taken by governments have aimed at fostering the independence of judges and court sentences, increasing the incentives for enterprises to pay taxes, reducing the number of tax audits, introducing online systems of interaction between government officials and companies, streamlining the activities of law-enforcement agencies, and enhancing operational transparency of the civil service, including promoting competitive recruitment and continuous professional training.

According to the data available, in the first few years of the new millennium, the level of corruption decreased – to varying extents – in all groups of emerging market economies, especially in the new EU member States. Supporting the anti-corruption measures by governments, the 2007 International Conference also recommended that business operators

should be encouraged to embrace and enact the 10 principles of the United Nations Global Compact.²

The barriers to women entrepreneurship form part of broader gender-related barriers related to social stereotypes and position of women in society (e.g. cultural stigmas associated with gender roles and property ownership, the perceived lower risk tolerance among women, insufficient business training and inadequate access to finance and market information). Addressing the barriers faced by women entrepreneurs is linked to reforming institutions, adjusting social policies and attitudes towards women's role in society.

International experience and good practices have shown that gender issues are becoming increasingly incorporated into government policies. Governments have been facilitating women entrepreneurship through organizing special programmes for raising awareness of its potential and benefits, designing financing schemes targeting women entrepreneurs, initiating business training courses and mentoring programmes for would-be entrepreneurs. Governments have been cooperating with NGOs to identify and overcome the cultural prejudices and societal stereotypes that constrain entrepreneurial motivation in women and prevent them from accessing entrepreneurial positions. The International Conference pointed out that enterprise development policies should be gender sensitive. Governments should therefore allocate resources to create coordinating "focal points" for women entrepreneurship development.

The regional diversity of enterprise development suggests that owing to cultural and psychological differences, individuals from different countries and social strata respond differently to entrepreneurial opportunities and barriers.

In both developed and emerging market economies, governments and other stakeholders are endeavouring to raise the status of entrepreneurs in society and are developing mechanisms for motivating individuals to become entrepreneurs. Public-private programmes targeting young people introduce them to the major issues of entrepreneurship and enterprise operation, and offer practical assistance in organizing mini-enterprises. At universities, governments also run programmes intended to improve the start-up climate and increase the number of innovative enterprises.

Reducing cultural and psychological barriers to entrepreneurship remains a long-term objective for many emerging market economies of the region. The results will gradually materialize in the changed perceptions of entrepreneurship in society and will benefit most the younger generations to come.

² <http://www.unglobalcompact.org/AbouttheGC/TheTENPrinciples/index.html> The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption. Its 10 principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from the following: (a) Universal Declaration of Human Rights; (b) [International Labour Organization] Declaration on Fundamental Principles and Rights at Work; (c) Rio Declaration on Environment and Development; and (d) United Nations Convention against Corruption.

INTRODUCTION

The purpose of this publication is to identify and examine the major impediments to enterprise development in the emerging market economies of the UNECE region and discuss the measures that are being taken by governments to reduce or eliminate them. The publication also draws on the major findings and recommendations to governments by the 2007 UNECE International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options.

Entrepreneurship and enterprise development are increasingly recognized as a pillar of sustained economic growth and innovation in both developed market and emerging market (transition) economies. In emerging market economies, in particular, the growth of the small and medium private sector is expected to be an effective means of promoting economic restructuring and raising competitiveness. New innovation-based enterprises are encouraged to develop new products and technological solutions and infuse them into the economy, thus enhancing the economic and technological efficiency.

Throughout the region, new and operational enterprises face difficulties related to the inefficiency of governance, heavy taxation and complicated tax administration, and difficult access to finance. These barriers are particularly high in the countries with emerging market economies, which find themselves at various stages of developing market institutions.

Chapter I highlights the role and factors influencing the development of entrepreneurship in the modern economy. Chapter II section A examines administrative barriers that inhibit the establishment and growth of small and medium-sized enterprises, and highlights government action to reduce them. Sections B and C discuss the recent progress in alleviating obstacles related to taxation of enterprises, and the role of governments and other stakeholders in facilitating the financing of start-ups and operational SMEs. Section D reviews policy initiatives aimed at reducing the obstacles to the expansion of SMEs abroad.

Section E focuses on government effort to fight corruption in the context of enterprise establishment and operation. Section F highlights the initiatives aimed at eliminating the gender-specific obstacles to entrepreneurship and assisting women entrepreneurs, while section G discusses the cultural and psychological barriers to enterprise development and public-private cooperation to lower those. Chapter III comprises the recommendations of the 2007 UNECE International Conference.

Explanatory notes to the tables have been consolidated in the annex.

For the purposes of this publication, the emerging market economies are divided into three major groups: (a) new EU members; (b) South-East Europe; and (c) Eastern Europe, the Caucasus and Central Asia (EECCA).

I. “ENTREPRENEURSHIP”: Definition, Economic Potential and Drivers

“Entrepreneurship” can be defined as profit-oriented economic activities (and related stream of decision-making) undertaken under conditions of risk and uncertainty. It also relates to innovation because entrepreneurs try to discover “new combinations” of the factors of production in order to make a profit. OECD defines entrepreneurs as “the risk-taking agents of change and growth in a market economy that can act to accelerate the generation, dissemination and application of innovative and profitable ideas”.³

The development of entrepreneurship increases national wealth and benefits consumers through bringing new and less costly products into the market. The use of new technologies and innovative solutions creates enhanced macroeconomic efficiency.⁴ New entrepreneurs also increase the number of job opportunities, and thus contribute to the achievement of broad development objectives.

Experts suggest a number of indicators to measure the scale or a particular aspect of entrepreneurial activity. One such indicator, for example, is the number of new start-up companies in the economy. It is instructive to further split this number into start-ups motivated by necessity and opportunity.⁵ From another angle, the development of entrepreneurship is associated with the number of patents registered by innovating companies in a country or region. This indicator emphasizes the link between entrepreneurship and innovation.

The scope of entrepreneurship development can be illustrated by the economic performance of SMEs.⁶ In 25 countries of the European Union, SMEs contribute 57 per cent of value added in manufacturing and over 50 per cent in several OECD countries. They also constitute over 95 per cent of the number of enterprises and account for between 60 and 70 per cent of employment in the OECD countries.⁷ Within the EU area, SMEs account for over two thirds of the workforce in the non-financial sector of the economy.

In the region’s emerging market economies, the appearance of the SME sector has been largely linked to privatization and the break-up of large State-owned enterprises, as well as market liberalization. It is argued that the emergence of new small and medium-sized firms is likely to have a crucial impact on the supply of new jobs, offer of new modern products and services, and healthy competitive pressure within the economy.⁸ At the same time, their weight in the economic activity of this group of countries varies considerably.

³ OECD, *Fostering Entrepreneurship*, 1998, p.11.

⁴ This aspect of entrepreneurial activity as well as its impact on the national competitiveness is examined by the UNECE Team of Specialists on Innovation and Competitiveness Policies (see ECE/CECI/ICP/2007/2).

⁵ Persons start a business out of necessity usually because they cannot find a job to ensure their basic needs and pursue this activity to survive. On the contrary, starting up a business by opportunity occurs if persons seek to exploit unique business opportunities for profit.

⁶ The European Commission defines SMEs as enterprises with fewer than 250 persons employed, annual turnover of up to EUR 50 mn, and a balance sheet not exceeding EUR 43 mn. (European Commission Recommendation of 3 April 1996 on the definition of small and medium-sized enterprises, (Text with EEA relevance) (96/280/EC), Official journal NO. L 107, 30/04/1996 P. 0004 – 0009.

http://europa.eu.int/ISPO/e-commerce/sme/smedef_EN.doc

⁷ OECD, *SME and Entrepreneurship Outlook*, 2005, p.21.

⁸ McMillan, J., Woodruff, C., *Journal of Economic Perspectives*, “The Central Role of Entrepreneurs in Transition Economies”, 2002, Vol. 16, No. 3, pp.153-170.

The limited data available attest that in the early 2000s, in the new EU member States the share of SMEs in employment ranged from 55 to 70 per cent. Their weight in gross domestic product (GDP) exceeded 55 per cent in several of the new EU members (Estonia, Latvia, Lithuania and Slovenia) and ranged from 30 to 40 per cent in two others (Czech Republic and Hungary). In 2005, in non-EU countries of South-East Europe, their weight in employment ranged from 32 per cent in Serbia to 65 per cent in Croatia. The share of SMEs in GDP fluctuated from 36 per cent in Bosnia and Herzegovina to around 47 per cent in Serbia, and 56 per cent in Croatia.

The countries of Eastern Europe, the Caucasus and Central Asia display similar heterogeneity. In 2005, the share of SME-generated employment in the total varied from 16 per cent in Belarus to 51 per cent in Uzbekistan. In Turkmenistan and Uzbekistan the weight of SMEs in GDP was higher than 60 per cent, in Azerbaijan and the Russian Federation it made up between 40 and 45 per cent, in Armenia, Georgia and the Republic of Moldova it varied between 25 and 30 per cent, and was as low as 6 to 12 per cent in Belarus, Kyrgyzstan and Ukraine.⁹

For the purposes of this publication, the secretariat tries to distinguish trends in the three major groups of emerging market economies: new EU members; South-East Europe; and Eastern Europe, Caucasus and Central Asia.

The indicated unevenness of SME development across countries suggests a variety of factors influencing the development of entrepreneurship and private enterprises in the formerly planned economies. In the view of the secretariat, for these countries the following drivers of entrepreneurship and enterprise development are of particular relevance:

- General settings for a market economy; the rule of law in general and the stability of property rights and low levels of corruption, in particular; business-friendly tax regime and labour-market regulations;
- Regulatory, institutional and cultural conditions, which include conditions for enterprise entry and exit from the market as well as conditions for their operation and competition;
- Levels of research and development, and technological potential of countries; capacity of innovating enterprises translate the results of R&D into commercial products;
- Development of financial markets and the level of sophistication of financial services; conditions at which entrepreneurs can access the finance required to start and operate an enterprise;
- Adequate education and training, including the opportunities for training of would-be and actual entrepreneurs;

⁹ UNECE Secretariat.

-
- Degree of exposure to external competition of the economy in general and of its individual sectors in particular, the unimpeded cross-border movement of goods, services and capital for more efficient use of resources; and
 - Cultural and psychological factors, which in particular influence the entrepreneurial capacity of women, young people and ethnic minorities.

The role of individual factors tends to change along with the progress of market reforms and varies in individual countries. Underdevelopment or imbalanced growth of the driving factors translates into barriers to enterprise development. For example, a taxation regime favouring SMEs, or the removal of bureaucratic barriers to enterprise establishment, will not bear fruit if other conditions are not in place, such as access to finance or well-trained managers.

II. MAJOR OBSTACLES TO ENTERPRISE DEVELOPMENT, AND GOVERNMENT ACTION TO REDUCE OR ELIMINATE THEM

Well-grounded policies aimed at reducing obstacles to enterprise development require good practical knowledge of regulatory and institutional barriers, including their scope and importance for the start-ups and already operational enterprises. Company surveys conducted by national associations of entrepreneurs and SMEs, as well as by international organizations and NGOs (OECD, World Bank, European Bank for Reconstruction and Development, Transparency International and World Economic Forum) enable a better insight into problems and possible solutions in this area.¹⁰

In its Executive Opinion Survey (2004), the World Economic Forum (WEF) interviewed senior business leaders from participating countries in an effort to identify the major impediments to “doing business”. Fourteen indicators were selected, according to which the entrepreneurs evaluated the business environment. As the most important obstacles to entrepreneurship the executives cited complicated tax regulations, excessive tax rates, restrictive labour regulations, inefficient bureaucracy and an inadequately educated work force.

The joint EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS), conducted in 2002 and 2005, interviewed managers and owners of more than 20,000 firms across 26 countries of Central and Eastern Europe, the former Soviet Union and Turkey. The survey focused on business perceptions of major impediments to doing business in the indicated countries and it enables one to compare, on a limited scale, the evolution of these perceptions from 2002 to 2005.¹¹

These two surveys indicate that entrepreneurs from both developed and emerging market economies perceive major obstacles to doing business in a similar way. According to the WEF survey report, in 2004 the main obstacles in all regions were: (a) inefficient bureaucracy, (b) too high taxes, (c) inadequate access to finance, (d) cumbersome tax regulations and (e) corruption (see table 1).

¹⁰ The following studies by international organizations were used in the preparation of this publication: OECD's SME and Entrepreneurship Outlook (2005), OECD - Asia-Pacific Economic Cooperation (APEC) Member Policy Makers Survey and the Survey of SME's Perceptions of Barriers to Access to International Markets (2006), IFC's Business Environment Annual Surveys, World Economic Forum's Global Competitiveness Reports 2006-2007 and 2007-2008, World Economic Forum Executive opinion Survey (2004), Doing Business project survey (<http://www.doingbusiness.org/>), EBRD's Micro, Small and Medium-sized Enterprises Strategy (2006), and Transparency International's Global Corruption Report (2006).

¹¹ The Business Environment and Enterprise Performance Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development and the World Bank. The BEEPS and the World Bank Group's Doing Business are complementary surveys to examine the environments in which firms do business. Doing Business survey is a compilation of indicators related to various government policies, rules, and procedures, while BEEPS is more focused on company perceptions of the ways government policies, rules, and procedures are implemented in practice. In the area of corruption perceptions, results of the BEEPS are complementary to Transparency International's Corruption Perceptions Index (TI-CPI) and the World Bank Institute's Governance Indicators (WBI-GI), which endeavour to merge the various expert opinions and results of surveys into aggregate indexes. (<http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/BAAGREV20060208ECA.pdf>)

Table 1
Major obstacles to entrepreneurship in selected countries, 2004

	Inefficient bureaucracy	Tax rates	Access to financing	Tax regulations	Corruption	Inadequate infrastructure	Inadequately educated work force	Policy instability	Poor work ethic	Restrictive labour regulations	Crime and theft	Government instability/coups	Inflation	Foreign currency regulations
OECD average (indicated countries), of which:	2.0	3.0	3.0	3.5	6.2	6.5	6.7	8.0	8.3	10.5	11.5	11.8	12.0	12.0
Finland	3	1	2	4	8	5	7	6	10	9	12	14	13	11
France	2	3	1	4	6	5	7	8	13	9	11	14	12	10
Germany	2	3	1	4	6	5	8	7	10	11	13	9	12	14
Japan	2	3	6	1	8	4	5	10	9	13	14	7	11	12
United Kingdom	2	4	5	6	3	9	8	7	1	13	10	14	12	11
United States	1	4	3	2	6	11	5	10	7	8	9	13	12	14
New EU members average, of which:	2.4	2.9	3.4	4.0	4.2	6.3	8.1	9.3	9.0	9.6	10.8	11.1	11.3	12.4
Bulgaria	1	2	3	4	5	7	9	13	6	8	12	10	11	14
Czech Republic	2	3	1	5	4	7	9	8	6	10	11	14	13	12
Estonia	2	6	3	7	8	4	1	11	5	9	10	12	14	13
Hungary	5	2	1	4	8	3	6	12	9	11	13	14	7	10
Latvia	2	3	5	4	1	8	7	6	12	14	10	9	13	11
Lithuania	2	1	5	3	4	12	9	7	11	6	10	8	14	13
Poland	4	2	5	1	3	6	13	7	9	8	11	10	14	12
Romania	2	1	3	5	4	6	7	11	12	13	10	9	8	14
Slovakia	2	6	5	3	1	4	12	9	11	7	10	14	8	13
South-East Europe average, of which:	3.3	4.7	4.0	4.3	5.7	5.0	7.0	6.0	8.3	9.3	9.3	11.3	13.3	13.3
Croatia	6	2	3	1	4	8	5	9	11	13	7	10	12	14
The former Yugoslav Republic of Macedonia	3	8	1	2	4	5	11	6	7	9	10	12	14	13
Serbia & Montenegro	1	4	8	10	9	2	5	3	7	6	11	12	14	13
Commonwealth of Independent States average, of which:	1.0	2.5	3.5	3.5	4.5	6.5	7.5	8.5	8.5	10.0	11.0	12.0	12.0	14.0
Russian Federation	1	2	3	5	4	7	8	9	6	10	13	11	12	14
Ukraine	1	3	4	2	5	6	7	8	11	10	9	13	12	14
All listed emerging market economies, average	2.4	3.2	3.6	4.0	4.6	6.1	7.8	8.5	8.8	9.6	10.5	11.3	11.9	12.9

Source: World Economic Forum (2004), Executive Opinion Survey.

Note: Averages for country groupings are arithmetic.

These obstacles were also perceived as the most significant in all groups of emerging market economies (that is the new EU members, South-East Europe and the Russian Federation and Ukraine (representing the EECCA). Other factors, such as political instability, inflation and foreign currency regulations seem to have been less important for business persons both in developed and in emerging market economies.

National enterprise surveys largely confirm the findings by international organizations. In Belarus, for example, a survey conducted in 2005 identified as three top-ranking obstacles to enterprise development high tax rates and cumbersome tax regulations, numerous laws governing enterprise operation and frequent changes therein, and numerous inspections of operational enterprises by government bodies (table 2).

Table 2
Major obstacles to business development in Belarus, 2005

		Average score (max = 5)
1	Tax administration (high tax rates, large number of taxes, frequent changes in the reporting requirements)	4.6
2	Too many laws and regulations governing the entrepreneurial activity and frequent changes therein	4.5
3	Too many inspections by government agencies	3.7
4	Difficulty of obtaining a licence	3.3
5	Registration and repeated registration of an enterprise	2.8
6	Corrupt officials	2.2
7	Crime in business operation	1.8
8	Inadequate protection of property rights	1.8

Source: Nikitenko, P., “Enterprises’ Performance in Belarus: Government Efforts to Improve Business Climate”. Paper presented at the UNECE International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options, Geneva, 18–19 June 2007.

Note: The survey covered large, medium and small-sized enterprises. The indicators’ values are ranked from 1 to 5, the latter indicating the highest attributed importance.

In summary, while the rankings in individual emerging market economies differ, in the mid-2000s in most of the countries surveyed, business executives referred to three clusters of factors inhibiting entrepreneurship and enterprise operation. These clusters are: (a) inefficiency of governance (government bureaucracy and corruption), (b) taxation issues (taxation regulations and taxation rates), and (c) inadequate access to finance.

Participants in the 2007 UNECE International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options also emphasized the importance of cultural and psychological barriers, particular with regard to women, ethnic minorities and young people.

The following sections will explore these factors in more detail and highlight the efforts made by Governments to alleviate them.

A. Reducing the Administrative Barriers

Administrative barriers to entrepreneurship consist of cumbersome establishment rules, excessive reporting requirements and associated paperwork, inadequate information on changes in norms and regulations, and ruinous penalties for violations of regulations. When starting a new enterprise these barriers include the number of steps, stipulated by law, to obtain an operational permit, notarize the company deeds, open a bank account and register and/or obtain authorization from various government agencies.

For existing enterprises, the barriers are formed by extensive reporting requirements and the associated paperwork, insufficient information on changes in norms and regulations, and heavy fines for violation of regulations.

The problem, however, is not unique to emerging market countries. In the EU-25, for example, the costs of complying with administrative requirements are estimated at some 3.5 per cent of GDP. Most of these costs are linked to substantive reporting requirements in the public interest. Nevertheless, there seems to be considerable potential for reducing this burden. By 2012, the EU and its member States are expected to reduce the cost associated with the administrative burden by 25 per cent. It is estimated that this reduction would over time increase the GDP of the European Union by up to 1.5 per cent (or EUR 150 billion per year).¹²

1. Establishment of enterprises

(a) Administrative procedures

The significance of the different barriers to entrepreneurship varies from one country to another. For example, research conducted in the Russian Federation by the World Bank's Foreign Investment Advisory Service has shown that major obstacles to enterprise development included difficult access of entrepreneurs to commercial land and real estate. A large proportion of land remains publicly owned and the administrative procedures related to purchasing land are time-consuming and cumbersome. In 2006, for example, to purchase a plot of land in an urban area, firms spent a minimum of 273 days, submitting at least 11 documents, which had been issued and approved by 11 different agencies at the federal, regional and municipal levels.¹³

In 2008, the number of procedures required for setting up an enterprise in emerging market countries on average exceeded that in developed economies by about 50%, e.g. 9 against 6 (see table 3 (a)). While in countries of South-East Europe this number was higher than the average for all emerging market economies (11), in EECCA it was somewhat lower (8).

¹² European Commission, Annual Progress Report on Growth and Jobs, Brussels, "A year of delivery", 2006, p.12.

¹³ FIAS, "The Investment Climate Advisory Service", 2006 Annual Report.

Registering an enterprise can be a complex bureaucratic process, as can be seen from box 1.

Box 1

Usual procedures and requirements for registering a business

- **Screening procedures**, which include obtaining an operational permit, filing with the Statistical Bureau, notarizing company deeds, opening a bank account with the required start-up capital, or registering with the Company Register.
- **Tax-related requirements**, for example registering for the various taxes as the corporate income tax or VAT.
- **Labour/social security-related requirements**, which include registering for accident and labour risk insurance as well as health and medical insurance, inspections by social security officials, notarizing the labour contract, registering with pension funds or filing with the Ministry of Labour.
- **Safety and health requirements**, which include obtaining authorization and certificates from the health and safety authorities, passing inspections related to work safety, building, fire, sanitation, and hygiene.
- **Environment preservation requirements**, which include inspections from environmental officials, or registering with the water management and water discharge authorities.

Source: Djankov, S., La Porta, R., de Silanes, F., Shleifer, A., The World Bank, “The Regulation of Entry”, Harvard Institute of Economic Research, Paper No. 1904, August 2001.
<http://rru.worldbank.org/Documents/PapersLinks/551.pdf>

Table 3 (a) shows that over the period from 2003 to 2008 in emerging market economies the number of administrative procedures for start-ups remained stable, at between 9 and 11. This was also the case for the group of new EU members, where this number made 8 throughout the whole period and the countries of South-East Europe, in which it vacillated, between 11 and 12.

In contrast, in EECCA the number of procedures for starting an enterprise dropped from 11 in 2003 to 8 in 2008. In this region, the decrease was particularly steep in Armenia (from 10 in 2003 to 2 in 2008), Georgia (from 9 to 5) and Belarus (from 16 to 10), followed by the Russian Federation (from 12 to 8). Over the same period, in South-East Europe the reduction in the number of procedures is notable in Croatia (from 12 to 8) and the former Yugoslav Republic of Macedonia (from 13 to 9).

Table 3 (a)
Administrative procedures associated with starting an enterprise in selected countries,
number and duration, 2003-2008

Country	Number of procedures						Duration (days)					
	2003	2004	2005	2006	2007	2008	2003	2004	2005	2006	2007	2008
OECD average (indicated countries), of which:	7	7	7	7	6	6	29	36	27	27	15	14
Finland	3	3	3	3	3	3	31	31	14	14	14	14
France	9	8	5	5	5	5	42	41	7	7	7	7
Germany	9	6	6	5	9	9	45	49	49	48	24	18
Japan	11	11	11	11	8	8	31	75	75	75	23	23
United Kingdom	6	6	6	6	6	6	18	13	13	13	13	13
United States	5	6	6	6	6	6	5	6	6	6	6	6
New EU members average, of which:	8	8	8	8	8	8	43	43	41	31	30	24
Bulgaria	11	11	11	11	9	9	32	32	32	32	32	32
Czech Republic	10	10	10	10	10	10	40	40	40	40	24	17
Estonia	..	..	6	6	6	5	..	..	72	35	35	7
Hungary	6	6	6	6	6	6	52	52	52	38	38	16
Latvia	5	5	5	5	5	5	16	16	16	16	16	16
Lithuania	8	8	8	8	7	7	26	26	26	26	26	26
Poland	10	10	10	10	10	10	31	31	31	31	31	31
Romania	6	6	5	5	5	6	29	29	28	11	11	14
Slovakia	10	10	9	9	9	9	103	103	52	25	25	25
Slovenia	9	9	9	9	9	9	60	60	60	60	60	60
South-East Europe (SEE) average, of which:	12	12	12	12	12	11	50	51	51	43	34	32
Albania	11	11	11	11	11	11	41	41	41	41	39	36
Bosnia and Herzegovina	12	12	12	12	12	12	59	59	54	54	54	54
Croatia	12	12	12	12	10	8	49	49	49	49	45	40
The former Yugoslav Republic of Macedonia	13	13	13	13	10	9	48	48	48	48	18	15
Montenegro	..	..	..	..	15	15	..	..	..	..	24	24
Serbia	11	12	12	11	11	11	51	56	56	23	23	23
Commonwealth of Independent States (EECCA) average, of which:	11	12	11	10	10	8	43	43	42	41	35	25
Armenia	10	10	10	10	9	2	25	19	19	19	18	2
Azerbaijan	15	15	14	14	14	13	106	106	122	114	52	30
Belarus	16	16	16	16	16	10	79	79	79	79	69	48
Georgia	9	9	9	8	7	5	25	25	25	21	16	11
Kazakhstan	9	10	10	8	8	8	25	26	26	25	21	21
Kyrgyzstan	8	8	8	8	8	8	21	21	21	21	21	21
Rep. of Moldova	11	11	10	10	10	9	42	42	30	30	30	23
Russian Federation	12	13	10	9	8	8	42	43	37	34	29	29
Tajikistan	..	..	..	..	14	13	..	..	..	..	67	49
Ukraine	15	15	15	15	10	10	40	40	34	34	33	27
Uzbekistan	8	8	8	8	8	7	29	29	29	29	29	15
Average of all listed emerging market economies	10	11	10	10	10	9	45	46	45	38	33	27

Source: World Bank, <http://www.doingbusiness.org/>

Notes: Averages for country groupings are arithmetic. Data for Turkmenistan are not available.

Equally illustrative is the comparison of the number of days required to establish an enterprise. Recently this number has been falling in all emerging market countries. During the period from 2003 to 2008, on average the number of days dedicated by an entrepreneur to start a company decreased by 40 per cent. The reduction was greatest in the new EU members (about 44 per cent), while in the countries of EECCA and South-East Europe it was 42 and 36 per cent respectively. Among the new EU member states, the most significant reduction was in Slovakia (76 per cent) followed by Hungary (69 per cent) and Czech Republic (58 per cent).

Within the group of South-East European countries, Serbia and the former Yugoslav Republic of Macedonia, with 55 per cent and 69 per cent respectively, had the most significant decrease in the number of days required to register a company. Among EECCA countries, Azerbaijan, Armenia and Uzbekistan experienced the highest reduction, ranging from 48 per cent to 92 per cent.

The European Commission applies the rule of thumb that the time required to establish a company should not exceed one week. In France and the United States, a company can be set up in 7 and 6 days, respectively. However, in 2008, setting up a company in an emerging market country took an average of 27 days, which is almost twice the amount of days of selected developed market economies. In EECCA countries, the average number of days was 25 and in countries of South-East Europe 32. In some countries of both groups it took even longer; for example, up to 48 days in Belarus, 49 days in Tajikistan and 54 days in Bosnia and Herzegovina. Thus emerging market countries still seem to have a long way to go to reduce the time required to establish an enterprise to comply with international good practice.

(b) Cost of establishment

According to the World Bank, the cost of setting up an enterprise comprises all fees due to government bodies, and fees for legal or professional services if such services are required by law, including fees for purchasing and legalizing company books. Company law, the commercial code and specific regulations, and fee schedules are used as sources for calculating costs. In the absence of fee schedules, a government officer's estimate or estimates of corporate lawyers are used. If several corporate lawyers provide different estimates, the median reported value is applied.¹⁴

¹⁴ World Bank Group, Doing Business, "Starting a Business"
www.doingbusiness.org/MethodologySurveys/StartingBusiness.aspx

Table 3(b) shows the overall cost of establishing an enterprise in a country as a percentage of Gross National Income (GNI) per capita.¹⁵ During the period from 2003 to 2008, in emerging market economies overall the average cost of establishing an enterprise in a country as a percentage of GNI per capita decreased by approximately 7 percentage points. The drop was particularly steep in the South-East European countries, where this indicator went down from 30 to 14 per cent of GNI (or by 16 percentage points). In the new EU member States and the EECCA countries, the decrease was less pronounced, making up 6 and 5 percentage points respectively. Among the South-East European countries, Albania had an impressive reduction rate of 36 percentage points (from 57 per cent of per capita GNI to 21). Within the group of EECCA countries, the Republic of Moldova,

¹⁵ The Gross National Income (GNI) measures the total domestic and foreign income claimed by the residents of the economy. GNI per capita is the Gross National Income divided by the mid-year population. (World Bank website, <http://www.worldbank.org/data/countrydata/aag.htm>)

Table 3(b)
Administrative procedures associated with starting an enterprise in selected countries, cost and minimum capital required, 2003–2008

Country	Cost (Percentage of income per capita)						Minimum capital (Percentage of income per capita)					
	2003	2004	2005	2006	2007	2008	2003	2004	2005	2006	2007	2008
OECD average (indicated countries), of which:	3	4	4	4	3	3	31	23	18	14	12	9
Finland	1	1	1	1	1	1	30	30	29	28	27	8
France	1	1	1	1	1	1	29	29	0	0	0	0
Germany	6	9	9	9	5	6	49	45	45	24	46	43
Japan	11	11	11	11	8	8	75	31	31	31	0	0
United Kingdom	1	1	1	1	1	1	0	0	0	0	0	0
United States	1	1	1	1	1	1	0	0	0	0	0	0
New EU members average of which,	15	15	11	10	9	8	78	74	67	60	58	54
Bulgaria	10	10	10	10	8	8	124	87	82	73	64	56
Czech Republic	10	10	11	9	9	11	47	47	45	39	37	35
Estonia	..	..	8	6	5	2	..	..	50	41	34	28
Hungary	40	40	23	22	21	18	96	96	86	80	74	65
Latvia	10	10	9	4	4	3	45	45	41	32	26	22
Lithuania	4	4	4	3	3	3	68	68	63	57	49	46
Poland	21	21	21	22	21	21	247	247	238	220	204	197
Romania	11	11	7	5	4	5	0	3	2	2	2	2
Slovakia	9	9	6	5	5	2	50	50	46	41	39	34
Slovenia	15	15	14	12	9	9	20	20	19	17	54	50
South-East Europe (SEE) average, of which:	30	30	24	21	16	14	120	120	61	55	38	17
Albania	57	57	32	31	22	21	45	45	41	40	37	34
Bosnia and Herzegovina	46	47	45	40	36	30	339	339	65	57	52	43
Croatia	17	17	14	13	12	12	26	26	24	23	21	18
The former Yugoslav Republic of Macedonia	12	12	12	11	7	7	78	78	75	145	111	0
Montenegro	..	..	..	..	7	6	..	..	..	..	0	0
Serbia	16	16	15	12	10	9	113	113	101	8	8	8
Commonwealth of Independent States (EECCA) average, of which:	16	16	15	13	17	11	35	35	31	35	63	56
Armenia	8	8	7	6	5	2	5	5	5	4	3	0
Azerbaijan	17	17	14	12	9	7	0	0	0	0	0	0
Belarus	19	19	25	32	26	9	63	63	44	43	36	30
Georgia	23	23	14	14	11	10	63	63	55	47	4	0
Kazakhstan	11	11	11	9	7	8	36	36	33	28	23	23
Kyrgyzstan	11	11	12	10	10	9	1	1	1	1	1	1
Rep. of Moldova	25	25	19	15	13	12	32	32	25	22	19	15
Russian Federation	9	12	10	7	4	4	7	7	6	4	3	3
Tajikistan	..	..	..	..	75	40	..	..	..	..	379	311
Ukraine	26	26	18	11	9	8	122	122	114	183	199	203
Uzbekistan	17	17	15	14	14	14	23	23	22	20	25	25
Average of all listed emerging market economies	18	20	17	15	14	11	69	76	53	50	53	42

Source: World Bank, <http://www.doingbusiness.org/>

Notes: Averages for country groupings are arithmetic. Data for Turkmenistan not available.

Georgia and Ukraine experienced the highest reduction, ranging from 13 percentage points to 18 percentage points. Within the group of new EU Member States, Hungary had the most significant decrease of 22 percentage points.

While the cost of starting a business in emerging market economies has been decreasing recently, in 2008 it still remained almost four times higher than that in selected developed market economies (11 as opposed to 3 per cent of per capita GNI). The differences among countries are, however, considerable. In 2008, companies in South-East European countries incurred the highest cost, where on average an equivalent of 14 per cent of per capita GNI had to be spent. This figure was lower in new EU members – about 8 per cent and close to the average for all emerging market economies for EECCA countries (11 per cent).

Table 3 (b) also shows the minimum amount of money that has to be deposited in a bank account before the registration process can start in accordance with commercial or company law. Here again the comparison is unfavourable for entrepreneurs in emerging market countries. Starting up a company in the developed countries is considerably cheaper. In 2003, the minimum amount required in the selected market economies was on average more than twice as low as that in emerging market economies. In the period from 2003 to 2008, in both groups of countries, this amount tended to drop. In the selected OECD economies, however, the decrease was much steeper than in emerging market countries. In the first group, the minimal capital required to be deposited in the bank account dropped more than threefold, from 31 to 9 per cent of GNI per capita, while in the second group it decreased by 40 per cent (from 69 to 42 per cent). As a result, the gap between the selected OECD economies and emerging market countries widened even more; in the latter group, entrepreneurs had to deposit the amount of money four to five times higher than in the former.

The overall drop in minimal capital requirements in emerging market economies disguises important divergences among country groups. While countries of South-East Europe witnessed a steep drop from 120 per cent of GNI per capita in 2003 to 17 per cent in 2008, the new EU members experienced a 30 per cent decrease (from 78 per cent to 54 per cent of per capita GNI). In contrast, in EECCA countries this indicator tended to grow and in 2008 reached 56 per cent of GNI per capita as opposed to 35 per cent in 2003.

We can also see important differences among countries. While in Armenia, Azerbaijan, the former Yugoslav Republic of Macedonia, Georgia, Montenegro, Kyrgyzstan and Romania the capital requirements were either equal to or close to zero, in Poland, Tajikistan and Ukraine they ranged from 197 to 311 per cent of GNI per capita. At the same time, according to the World Bank, over the last five years in some countries, e.g. Ukraine, Romania, Slovenia and Uzbekistan, the minimum capital requirements increased, while in others – Bosnia and Herzegovina, Bulgaria, Georgia and the former Yugoslav Republic of Macedonia – they fell significantly.

In summary, one cannot deny that in emerging market countries, an entrepreneur generally has to go through more procedures when registering a company, and the procedures take more time and are relatively more costly than when a similar undertaking takes place in a developed market economy.

In Ukraine, for example, according to the International Finance Corporation, the time required for registering a company dropped from an average of 8 weeks in 2003 to 4.5 weeks in 2004 after the enactment of the Law of Ukraine on the State Registration of Businesses—Legal Entities and Individual Entrepreneurs.¹⁶ In 2006, an entrepreneur wanting to register a company had to cope with 10 different procedures. This took at least 33 days and cost a total of USD 140, which equalled almost 9.2 per cent of the Ukrainian GNI per capita. Moreover, the entrepreneur had to deposit as much as USD 3,022 (an equivalent of 199 per cent of the GNI per capita). In the United States, by contrast, in the same year there were only five procedures to go through, which could be handled within one week and which cost an entrepreneur USD 306, that is, less than 0.7 per cent of the GNI per capita, while no minimum capital deposit was required.¹⁷

(c) Permits and licences

One of the administrative instruments used by the State to regulate the market entry of business operators is the issue of various permits and licenses. In most countries, the permits required to start a business include the so-called environmental permits,¹⁸ as well as permits issued by the Fire Inspection, Sanitary and Epidemiological Service and the Labour Detection Department. Depending on the country, these permits may or may not be free of charge.¹⁹

To compare the impact of permits and licensing on enterprises across countries, the World Bank has introduced an indicator to measure the time spent on each procedure required to build a warehouse. The procedures include obtaining the necessary licenses and permits, completing the required notifications and inspections, and obtaining utility connections.

According to the World Bank survey, in 2006 the average number of days required to build a warehouse in an emerging market country was about 245. As compared with 2005, this indicator dropped in many countries: the number of days required to make the warehouse functioning declined in Latvia from 160 to 152, in Georgia from 282 to 137, in Armenia from 176 to 112, in the Ukraine from 265 to 242, in Bulgaria from 242 to 226, in Romania from 291 to 242, and in Bosnia and Herzegovina from 482 to 467 days. In the rest of emerging market countries surveyed this indicator did not change, with the exception of the Republic of Moldova, where the number of days required to build a warehouse increased by 30 per cent.²⁰

2. Operational enterprises

The main administrative barriers facing already existing or operational small companies are the reporting requirements, government inspections, tax administration, import and export licensing and procedures, foreign exchange procedures, product certification and

¹⁶ IFC, Business Environment in Ukraine, “Annual survey of the business environment in Ukraine”, 2005.

¹⁷ World Bank, Doing Business: <http://rtr.worldbank.org/doingbusiness/>.

¹⁸ Through environmental permits the regulatory authorities impose legally-binding requirements on enterprises in order to protect human health and the environment. The permits establish limits for pollutant emissions into air and water, and stipulate other environmental requirements, e.g. those related to the generation and management of waste (OECD, “Integrated Environment Permitting Guidelines for EECCA Countries”, 2005, p.23).
www.oecd.org/dataoecd/54/31/35056678.pdf

¹⁹ Ibid.

²⁰ World Bank, “Doing Business 2008”.

labour regulations.²¹ Such “red tape” slows down business responsiveness, diverts resources away from productive investment, reduces transparency and accountability, impedes entry to markets, reduces innovation and job creation, and discourages business efficiency.²² A 2004 report by the Government of the Netherlands estimated that the yearly losses caused by obstacles to enterprise operation in Europe were equivalent to more than 3 per cent of Europe’s GDP. SMEs spend about 9 per cent of their earnings on conforming with legal reporting requirements, while large companies spend 1 per cent.²³

Administrative barriers to enterprise operation exist in both developed and emerging market countries. The OECD report produced in 2003, stated that in many cases Governments continued to lack “a detailed understanding of the extent of the burdens imposed on businesses and citizens. This means that policy is made in an information vacuum, and that the size of the actual burdens (as well as progresses and setbacks in reducing them) may remain unappreciated”.²⁴ There is a shared view also that the losses incurred by administrative barriers in emerging market economies are higher than in developed.²⁵

The legal bases for enterprise inspections remain complex, spanning multiple jurisdictions and government bodies. In many of emerging market economies, the inspections of enterprises by government agencies historically have been regulated by separate legislative acts and have been conducted by various ministries or similar bodies. For example, the laws on fire safety, on labour protection, on sanitary and epidemiological safety, environmental protection and similar stipulate the existence of specific regulatory agencies having the right to conduct inspections of enterprises, often without defining the exact limits or scope of such inspections. The contradictory legal basis results in overlapping regulatory functions and non-transparent procedures, so that a business operator can be inspected any number of times by different agencies, for reasons that are not necessarily communicated to the company.

An enterprise survey conducted in Belarus in 2006 by the Institute of Privatization and Management (IPM) Research Centre, an NGO located in Minsk, showed that on average one control organization checked an enterprise more than once a year, and each enterprise was checked by more than one organization. The same survey concluded that one of the main problems of business environment was heavy fines for violations of rules and regulations.²⁶ A similar survey conducted in 2005-2007 showed that the average number of inspections hosted by a company decreased from 10 in 2004 to 4 in 2006, while the duration of inspections went down from 24 days to 6. This was achieved mainly through reducing the number of unscheduled inspections. However, according to the International Finance Corporation (IFC), despite the downward trend, the number of inspections remained high and they were not always justified.²⁷

²¹ Jacobs, S., Coolidge, J., FIAS, “Reducing Administrative Barriers to Investment; Lessons Learned”, 2006.

²² From Red Tape to Smart Tape Synthesis Report: Administrative Simplification in OECD Countries, 2003, OECD, “Science & Information Technology”, September 2004, Volume 2003, No.5, pp.13-74.

²³ “Fostering Growth by Reducing Administrative Burdens”, Informal Ecofin during Dutch EU Presidency, 10-11 September 2004.

²⁴ From Red Tape to Smart Tape Synthesis Report

²⁵ Jacobs, S., Coolidge, J., FIAS, “Reducing Administrative Barriers

²⁶ IPM Research Centre, “Small and Medium Business in Belarus; Quarterly Review”, 2006, 1Q.

²⁷ IPM Research Centre, “Small and Medium Business in Belarus; Quarterly Review”, 2008, 1Q.

Certification criteria often vary across jurisdictions and this forces companies (in particular those involved in foreign trade) to go through a number of repetitive certification steps. According to a report by the European Business Association (EBA), the majority of companies importing raw materials, products or equipment to Ukraine, have to recertify them in the State Centre for Standardization, Metrology and Certification, despite the fact that these products have already been certified abroad under the International Organization for Standardization (ISO), Council of Europe (CE), European Committee for Standardization (CEN) or Union Network International (UNI). The Ukrainian State Committee for the issues of technical regulation and consumption policies requires a full list of documents, studies and tests to be completed.²⁸

3. Recommendations by International Organizations and Government Action

To deal with administrative barriers to entrepreneurship, emerging market economies follow largely similar policies drawing on existing good practices as well as on recommendations of international organizations. They focus on streamlining the legislative basis for enterprise registration and operation, simplifying the procedures to follow and decreasing their number, reducing the amount of time required for entrepreneurs to start operations, lowering the financial burden associated with enterprise establishment and alleviating the supervisory burden incurred by the already operational enterprises.

Highlighting the major directions of work in this area, the World Bank and the European Commission have drawn up some recommendations for reform (see boxes 2 and 3). Many emerging market economies are currently following those recommendations in practice.

Several Governments have focused on streamlining and harmonizing the regulations which determine the registration, operation and liquidation of enterprises (Albania, Belarus, Croatia, Kazakhstan, Moldova, the Russian Federation, Tajikistan, Ukraine, Uzbekistan), simplifying the procedures to follow and reducing their number (Belarus, Kazakhstan, the former Serbia and Montenegro, Uzbekistan) and introducing the single window approach for start-ups (Lithuania, Romania, Russian Federation, the former Yugoslav Republic of Macedonia, Ukraine and Uzbekistan).

In the Republic of Moldova the Government, in cooperation with the private sector, has reviewed as many as 1000 relevant laws and regulations, and has repealed 100 and revised 200 of them to render them more conducive to entrepreneurship.²⁹

²⁸ European Business Association, "Barriers to Investment in Ukraine", 2006.

²⁹ ECE/CECI/2007/5, p.3.

Box 2**World Bank: six business registration reform points**

- **Create single access points for business.** An entrepreneur should be able to abide by all the registration requirements and contact representatives from various government bodies in a single agency. This is already the case in Romania, for example, where only five steps are necessary for registration, less than in an average OECD high-income country.
- **Standardize paperwork.** Standard forms make the processing for entrepreneurs as well as the registry easier, and legal or notary services usually become redundant.
- **Get out of the courts.** Business registration generally should not involve notaries or judges. Simple procedures, as the verification of signatures could be done by public administrators.
- **Make registration electronic.** Information on the registration process should be available on-line via comprehensive websites. These should provide exhaustive information on the required registration steps, documents and costs involved. The same Internet sites should be used to file registrations.
- **Introduce temporary business licences.** Temporary licenses could facilitate the prompt operations' start for entrepreneurs in 'standard' circumstances before the final license is approved.
- **Impose a "silence is consent" rule in business registration.** Deadlines for government agencies' processing of business registration requests should be shortened and once the deadline is over, the enterprise should automatically be considered as registered. In 2006, in Armenia and Georgia, which use this rule, business registration took fewer days than in other emerging market countries – 24 and 16, as compared with 32 days on average.

Source: World Bank, "Doing Business 2005: Removing Obstacles to Growth", Oxford University Press (Washington D.C.), 2005, pp. 21-23.

In 2005, Slovenia initiated one-stop shops aimed at simplifying the process of drafting statutory documents. In particular, these shops cover a part of advisory costs associated with the establishment of an enterprise.³⁰ Several countries (e.g. Bosnia and Herzegovina and Romania) have eliminated the mandatory use of services of both notaries and judges in the process of registration.

Croatia, the Republic of Moldova and Serbia have introduced electronic systems of company registration that have significantly reduced delays. Croatia has also adopted and implemented legislation on the use of electronic signature. Montenegro and Serbia currently apply the "silence is consent" rule to the company registration process.

³⁰ OECD, "Promoting Entrepreneurship in South Eastern Europe: Policies and Tools", Paris, 2007, Vol.6, Iss.12. www.oecd.org/document/55/0,3343,en_2649_201185_40373175_1_1_1_1,00.html

Box 3**European Commission: recommendations and guidelines**

The European Council has invited the Member States to ensure that:

- Start-up fees are low, reflecting only administrative costs.
- One-stop shops for start-ups enable companies to fulfil regulatory obligations (including VAT registration) in a single location and/or electronically.
- Administration relating to the recruitment of the first employee can be done through a single contact point.
- Entrepreneurship education is included in school curricula.

Source: European Commission, Annual Progress Report on Growth and Jobs, Brussels, “A year of deliver”, 2006, p.13.

The system of enterprise permits and licensing in emerging market countries is also becoming more simplified. For example, a new Ukrainian law on business permits, which came into force in January 2006, harmonized all regulations pertaining to operational permits and is expected to facilitate the new business start-ups. Serbia and the former Yugoslav Republic of Macedonia have eliminated the requirement of a general business permit for most business activities that carry no significant environmental, health or security risks.

Along the same lines, Uzbekistan has reduced the list of publicly issued permits, extended to five years the minimum term for licence validity, and approved the list of activities licensed for an indefinite term. At the same time, the new system of business registration shortened the delay in obtaining a permit from an average of 1.5 weeks to just 2 days. An enterprise survey conducted in Uzbekistan by IFC in early 2006 showed that as much as 19 per cent of the SMEs surveyed benefited from the abolition of 12 permits. According to the IFC estimate, as a result of these measures enterprises could gain an extra income of at least USD 5.2 million per year.³¹

In 2008, a Presidential Decree asked the Government of the Russian Federation to draft laws that would (a) reduce the number of documents to be submitted when registering an enterprise, (b) simplify registration and (c) replace the licensing of certain types of activities by a mandatory insurance of enterprise responsibility or financial guarantees.³²

According to the 2008 Doing Business report, in 2005 getting a construction permit for a commercial warehouse in Tbilisi required 29 different procedures. Since then, the Government of Georgia has cancelled many of the approvals required to obtain a construction permit. It has introduced a one-stop shop for licensing, a “silence is consent” rule and statutory time limits for the consideration of a demand. As a result, in 2006 the number of

³¹ IFC, Business Environment in Uzbekistan, “Annual Survey of the business environment in Uzbekistan”, 2004. This survey was conducted in January–February 2006 by the IFC’s Uzbekistan SME Policy Project. It covered about 2,500 small business legal entities, and 400 individual entrepreneurs from all sectors of the economy in all regions of the country.

[http://www.ifc.org/ifcext/uzbeksmen.nsf/AttachmentsByTitle/SME_chapters_2005_eng/\\$FILE/SME_chapters_2005_eng.pdf](http://www.ifc.org/ifcext/uzbeksmen.nsf/AttachmentsByTitle/SME_chapters_2005_eng/$FILE/SME_chapters_2005_eng.pdf)

³² Official Website of the Yaroslavl Region, www.adm.yar.ru/a_center/admref/doky/ukaz_797.htm

procedures needed to build a warehouse dropped to 12 and the time required fell by nearly 3 months. The approval process for building a warehouse in Georgia is now reported to be more efficient than in all EU countries except Denmark. Over the same period, the number of activities requiring licensing dropped from 909 to 159.³³

In Belarus, an enterprise survey conducted by IFC in 2005 revealed that a shortened processing was the most important result of a regulatory reform in the sphere of licensing. The duration of processing dropped from an average of 45 working days in 2004 to 27 working days in 2005.³⁴ In Tajikistan, a new law on licensing adopted in 2004 replaced over 800 normative acts regulating licensing procedures.

The removal of regulatory barriers to enterprise operation has been under way in the developed countries over decades and this process continues. In the United Kingdom, for example, in order to ease the controlling burden of the State, the threshold for company account audit has been raised from £1 million to £5.6 million.³⁵ The Governments of a number of emerging market economies have also recently focused their efforts on alleviating the administrative burden on operational enterprises.

Several Central Asian countries, including Tajikistan and Uzbekistan, have streamlined the system of enterprise inspections and improved coordination between tax institutions.³⁶ The average number of days inspectors spend surveying the companies has decreased in these countries and fewer SMEs are being examined annually. In Uzbekistan, during the period from 2001 to 2005, the average number of inspections that business operators faced each year fell from 6.2 to 0.9, whereas the share of inspected SMEs decreased from 89 per cent to 22 per cent. IFC experts estimate the potential annual positive effect from implementing these legislative measures at approximately USD 21 million in terms of accrued cost efficiency in the SME sector.

In 2005, the Government of Belarus modified the procedures of SME inspections, whereby the overall number of inspections was reduced by about 30 per cent. Reportedly, owing to better coordination of inspecting agencies, the average number of inspections per firm fell from 10 in 2004 to 7 in 2005, and the time SMEs spent on dealing with inspectors dropped from 24 to 10 days per year. In 2003, in Georgia, SMEs on average went through 2.5 inspections, and at that time this was one of the lowest indicators in the region.

The above-mentioned 2008 Presidential Decree in the Russian Federation required the Government to draft laws that would (a) reduce the number of government inspections of operational enterprises to one every three years, (b) strengthen the legal guarantees for enterprises facing the controlling government bodies and (c) facilitate the leasing and buy-outs of premises used by SMEs for entrepreneurial purposes.³⁷

³³ World Bank, "Doing Business 2008".

³⁴ IFC, Business Environment in Belarus, "Annual survey of the business environment in Belarus", 2005.
[http://www.ifc.org/ifcext/belarus.nsf/AttachmentsByTitle/bulletinSMBeng23/\\$FILE/bulletinSMBeng23.pdf](http://www.ifc.org/ifcext/belarus.nsf/AttachmentsByTitle/bulletinSMBeng23/$FILE/bulletinSMBeng23.pdf)

³⁵ Turner, Mark, 2007, "Barriers to Enterprise Development". Paper presented at the UNECE International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options, Geneva, 18–19 June 2007.

³⁶ IFC, Business Environment in Uzbekistan, "Annual Survey of the business environment in Uzbekistan", 2004.
[http://www.ifc.org/ifcext/uzbekme.nsf/AttachmentsByTitle/SME_chapters_2005_eng/\\$FILE/SME_chapters_2005_eng.pdf](http://www.ifc.org/ifcext/uzbekme.nsf/AttachmentsByTitle/SME_chapters_2005_eng/$FILE/SME_chapters_2005_eng.pdf)

Tajikistan: Draft Law on Inspections, adopted by Lower House on May 31st 2006.

³⁷ Official Website of the Yaroslavl Region. www.adm.yar.ru/a_center/admref/doky/ukaz_797.htm

The Foreign Investment Advisory Service (FIAS) and International Bank for Reconstruction and Development (IBRD) review conducted in 2006 reported that countries benefiting from FIAS services had made certain progress in removing administrative barriers through various initiatives and reforms.³⁸ FIAS assistance to these countries is described in box 4.

Box 4
Foreign Investment Advisory Service of the World Bank: reducing barriers to entrepreneurship and foreign investment

The Foreign Investment Advisory Service of the World Bank (FIAS) assists Governments in developing the business-enabling environment by removing administrative barriers to investment, performing diagnostic studies, designing solutions, and helping with monitoring and evaluation of programme implementation. To this end, FIAS cooperates with other relevant units in the World Bank Group, including the International Finance Corporation's Private Enterprise Partnerships and Facilities. In addition, FIAS cooperates with the World Bank Small and Medium Enterprise department to prepare manuals and toolkits aimed at reducing administrative barriers, which entrepreneurs face during the business registration, when obtaining licences and hosting government inspections. FIAS systematically assesses the effectiveness of projects and fosters the build up of public-private partnerships for better their monitoring and evaluation.

In Latvia and Romania, for example, FIAS has helped to streamline the business licensing procedures and to improve the relevant regulations. Advice from that organization has enabled Croatia, Georgia and the former Yugoslav Republic of Macedonia to improve the business entry regulations. As a result, the number of procedures that the entrepreneur had to go through and the time spent on registering the business were reduced.

In Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, and Serbia, FIAS is currently contributing to enhancing the capacity of Governments to comprehensively improve the system of governance and regulations. In the former Yugoslav Republic of Macedonia, it has conducted a technical review of the business registration process, provided inputs for the corrective Government action (comments on the Company Law and inputs for the Business Registration Law) and facilitated the collaboration of the main stakeholders. As a result, during 2004–2006 the number of procedures for business registration were significantly reduced, while the period for business registration decreased from 48 to 18 days. During the first nine months of 2006, the number of business registrations processed was 33 per cent higher than during the previous year.

Source: FIAS, "The Investment Climate Advisory Service", 2006 Annual Report.

³⁸ IFC, "Annual survey of the business environment in Belarus", 2005.

B. Lowering Tax Rates and simplifying the Tax Administration

Both in developed and emerging market economies the issue of taxation is seen as one of the most important components of the business environment. Governments address both the problem of tax rates and that of the associated administrative burden, which relate to the number of taxes paid and the amount of time companies have to spend dealing with tax obligations. In the European Union countries, reducing the rates of corporate income tax and the number of taxes paid by companies remains the main direction for reforms in this area. Simplifying the process of tax payments through electronic filing and reducing their frequency is another major path for government action.³⁹

SMEs have traditionally named taxation as one of the most problematic aspects of their activity. The important effect exercised by taxation on the business environment is confirmed by the results of both the World Economic Forum Executive Opinion Surveys conducted in 2005-2006 and 2006-2007⁴⁰ and the World Bank Doing Business Survey (2005-2008).⁴¹ The following two tables illustrate the scores given by the interviewed managers to taxation in the indicated periods, the lower the score the more serious the associated problem was considered by the participants. In both surveys, the rankings attributed to taxation were typically lower than those obtained by the other components of the business environment, e.g. access to financing or the size of the informal economy. Moreover, this perception of executives did not vary significantly across country groups.

³⁹ “Fostering Growth by Reducing Administrative Burdens”, Informal Ecofin during Dutch EU Presidency, 10-11 September 2004.

⁴⁰ The 2005-2006 WEF Survey is based on the responses of 11,232 business executives from 125 countries. World Economic Forum, “Global Competitiveness Report”, 2006-2007, pp.125-127. The 2006-2007 WEF Survey is based on the responses of 11,127 senior business executives from 127 countries. “Global Competitiveness Report.”, 2007-2008, p.439, 470, 471.

⁴¹ World Bank, <http://www.doingbusiness.org/>

Table 4(a)
Major factors influencing enterprise operation
in selected countries, 2005-2006

	Impact of taxation on enterprise operation	Access to bank loans	Availability of venture capital	Impact of quality and other standards on enterprise operation	Scale of informal sector
OECD average (indicated countries), of which:	3.4	4.7	5.0	6.2	5.2
Finland	2.5	5.3	5.4	6.1	5.7
France	2.9	3.8	4.2	6.0	5.3
Germany	3.1	4.5	4.8	6.6	5.0
Japan	3.5	4.0	4.5	6.2	5.2
United Kingdom	4.2	5.5	5.2	6.3	5.0
United States	3.9	5.1	5.6	5.8	4.9
New EU members average, of which:	3.4	3.7	3.5	4.8	4.4
Bulgaria	2.6	3.2	3.3	3.6	3.2
Czech Republic	2.8	3.1	3.2	5.7	4.9
Estonia	5.0	4.4	4.1	5.2	5.1
Hungary	3.0	3.8	3.8	5.5	3.7
Latvia	3.7	3.6	3.6	4.7	4.2
Lithuania	3.2	3.8	3.5	4.8	5.1
Poland	3.2	3.4	3.8	4.1	3.9
Romania	2.4	3.4	3.0	3.9	4.3
Slovakia	5.5	4.4	3.7	5.5	4.7
Slovenia	2.5	4.2	3.4	5.2	5.1
South-East Europe average, of which:	2.7	3.0	3.0	3.3	3.5
Albania	2.8	2.8	2.7	2.6	4.4
Bosnia and Herzegovina	2.3	3.2	2.8	3.2	2.8
Croatia	2.9	3.6	3.1	4.1	3.4
The former Yugoslav Republic of Macedonia	2.8	2.6	3.6	3.6	3.3
Serbia	2.6	3.0	2.8	3.2	3.5
Commonwealth of Independent States (EECCA) average, of which:	2.9	2.7	3.0	3.5	3.1
Armenia	3.2	2.1	2.5	3.4	3.2
Azerbaijan	3.6	2.8	3.2	3.7	3.0
Georgia	3.5	2.6	2.5	2.9	3.2
Kazakhstan	3.0	3.4	3.7	4.1	2.8
Kyrgyzstan	2.1	2.1	2.7	3.3	2.0
Rep. of Moldova	2.5	2.5	2.6	3.6	5.0
Russian Federation	2.7	2.7	3.2	3.8	2.5
Tajikistan	3.0	2.8	3.2	3.3	3.5
Ukraine	2.5	3.0	3.2	3.8	2.8
Average of all listed emerging market economies	3.1	3.2	3.2	4.0	3.7

Source: Global Competitiveness Report 2006-2007, World Economic Forum's Executives Opinion Survey.

Notes: Averages for country groupings are arithmetic. EECCA average excludes Belarus, Uzbekistan, and Turkmenistan.

Table 4(b)
Major factors influencing enterprise operation in selected countries,
2006–2007

	Impact of taxation on enterprise operation	Access to bank loans	Availability of venture capital
OECD average (indicated countries), of which:	3.2	4.6	4.7
France	2.9	3.8	4.1
Germany	3.1	4.4	4.4
Japan	3.4	3.7	3.9
United Kingdom	3.8	5.3	5.3
United States	3.7	5.1	5.1
New EU members average, of which:	3.4	3.8	3.5
Bulgaria	3.0	3.6	3.2
Czech Republic	3.0	3.4	3.0
Estonia	5.1	4.6	4.2
Hungary	2.5	3.7	3.4
Latvia	3.6	3.7	3.5
Lithuania	3.3	3.8	3.5
Poland	2.8	3.4	3.6
Romania	2.6	3.3	3.0
Slovakia	5.4	4.4	3.8
Slovenia	2.7	4.2	3.5
South-East Europe (SEE) average, of which:	3.1	3.1	2.8
Albania	3.1	3.0	2.7
Bosnia and Herzegovina	2.3	2.9	2.7
Croatia	3.0	3.6	3.0
The former Yugoslav Republic of Macedonia	3.3	n.a.	3.1
Serbia	3.8	2.9	2.7
Commonwealth of Independent States (EECCA) average, of which:	3.1	2.8	2.8
Armenia	3.3	2.0	2.1
Azerbaijan	3.6	2.8	3.1
Georgia	4.2	n.a.	2.7
Kazakhstan	3.1	3.6	3.4
Kyrgyzstan	2.5	2.7	2.6
Rep. of Moldova	2.7	2.6	2.3
Russian Federation	2.9	2.8	3.1
Tajikistan	2.9	2.6	2.6
Ukraine	2.4	3.2	3.2
Uzbekistan	n.a.	2.7	2.7
Average of all listed emerging market economies	3.2	3.2	3.0

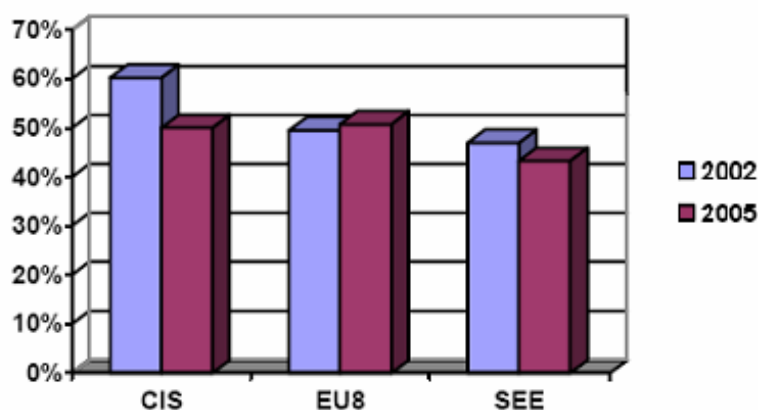
Source: Global Competitiveness Report 2007-2008, World Economic Forum's Executives Opinion Survey.

Notes: Averages for country groupings are arithmetic. EECCA average excludes Belarus and Turkmenistan.

Data on the tax burden for business operators in different countries of the region are based on the World Bank Doing Business and EBRD-World Bank Enterprise surveys (see figures 1 and 2 and table 5 (a)). Table 5 (a) shows the taxes that a medium-sized company must pay or withhold in a given year, as well as the measures of the administrative burden related to paying taxes. The amount of taxes paid, in particular, consists of profit tax, labour tax and contributions, and other taxes paid by the enterprise presented as a percentage of profits.⁴²

According to the EBRD-World Bank Enterprise Survey, between 2002 and 2005 (see figures 1 and 2) the percentage of firms which considered the tax administration as a burden for conducting business decreased in EECCA (CIS) countries (from 60 to less than 50 per cent) and those of South-East Europe (from about 45 to 42 per cent), although in the eight new EU Member States this percentage grew slightly, reaching about 50 per cent in 2005.

Figure 1
Percentage of companies that consider tax administration a problem for doing business



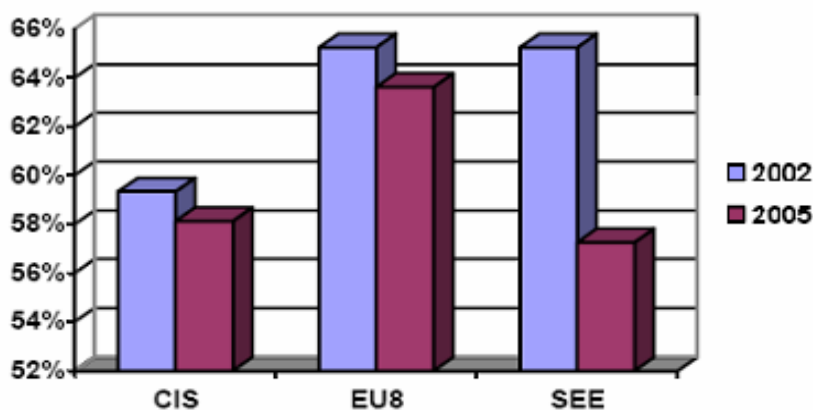
Source: “EBRD-World Bank Business Environment and Enterprise Performance Survey”.

1. Tax rates

According to the same survey (see figure 2), between 2002 and 2005 the percentage of companies perceiving tax rates as a problem dropped in all groups of emerging market economies (including Turkey). This decrease was the largest for the countries of South-East Europe (from 65 to about 57 per cent), and more modest in the EECCA (CIS) countries, and the eight new EU members where this percentage reached 58 and 63 per cent, respectively.

⁴² The tax burden on enterprises depends not only on statutory tax rates incurred by the latter but is also influenced by the national definitions of taxable income (national tax bases), which differ among countries. In many cases, the actual amount of taxes paid to the State is significantly lower than that implied by the statutory rate due to the use of legally acceptable forms of alleviating taxation. Therefore, the assessments of inter-country differences in the tax burden should be considered as a first approximation.

Figure 2
Percentage of companies that consider tax rates a problem for doing business



Source: “EBRD-World Bank Business Environment and Enterprise Performance Survey” (BEEPS).

These findings are complemented by the results of the World Bank Doing Business Survey, which show that over the period of 2005-2008, in emerging market economies the taxation rate of medium-sized enterprises (total taxes as a percentage of gross profits) decreased by 14 percentage points to reach 49 per cent in 2008. This value is close to that in selected OECD countries where this indicator dropped from 52 to 50 per cent over the same period. The decrease in the total tax rate was the steepest in the EECCA countries, where on average it declined by 23 percentage points, while both in new EU members and in the South-East European countries the drop made up 5 percentage points (see table 5 (a)).

Table 5(a)
Tax burden of a medium-sized enterprise in its second year of operation, selected countries, 2005-2008

Country	Total tax rate (percentage of profit)				of which:					
					Profit tax		Labour tax & Contributions		Other taxes	
	2005	2006	2007	2008	2006	2008	2006	2008	2006	2008
OECD average (indicated countries), of which	52	50	50	50	22	21	24	23	6	5
Finland	50	48	49	48	17.1	17	29.6	29.7	1.2	1.0
France	68	66	66	66	8.6	8.3	55	52.1	4.7	5.8
Germany	58	51	51	51	24.7	21.6	22.3	21.7	10.1	7.5
Japan	54	51.8	51.8	52	33.4	33.2	14.4	14.5	5.0	4.4
United Kingdom	36	36	36	36	20.5	21.3	10.5	11.3	4.4	3.2
United States	45	45	45	46	26.6	27.1	10	9.6	9.4	9.5
New EU members average, of which:	49	46	46	44	8	9	34	33	4	3
Bulgaria	44	43	43	37	7	6.6	31.4	26.6	1.9	3.5
Czech Republic	52	49.1	49.1	48.6	0	5.9	40.6	39.5	8.4	3.2
Estonia	51	49.9	49.9	49.2	9.6	9.3	39.7	38.3	0.9	1.6
Hungary	61	55.5	55.5	55.1	7.8	7.9	42.9	39.4	8.6	7.9
Latvia	43	32.6	32.6	32.6	9.1	2.2	28	27.2	5.5	3.3
Lithuania	52	50.2	50.2	48.2	5.9	8.3	36.2	35.2	6.3	4.9
Poland	38	38.1	38.1	38.4	11.5	12.7	25	23.6	1.8	2.1
Romania	58	49.5	49.5	46.9	9	10.9	38.6	33.9	1.1	2.1
Slovakia	51	50.5	50.5	50.5	7.7	9	40.8	39.7	0.4	1.8
Slovenia	39	40	40	39.2	15.6	14.3	19.3	22	4.5	2.9
South-East Europe average, of which	45	42	42	40	17	14	25	22	4	4
Albania	57	57	57	46.8	16.1	17.7	35.6	24.5	4.0	4.6
Bosnia and Herzegovina	50	44.1	44.1	44.1	26.2	21.5	17.7	17.2	6.5	5.4
Croatia	37	32.5	32.5	32.5	15.4	11.4	20.3	19.4	1.3	1.7
The former Yugoslav Republic of Macedonia	44	50.4	50.4	49.8	11.5	13.1	30	33.2	2.0	3.5
Montenegro	n.a.	n.a.	31.6	31.6	7.1	9.3	19.8	20	7.0	2.3
Serbia	39	35.8	35.8	35.8	14.2	11.7	20.8	20.2	3.9	3.9
Commonwealth of Independent States (EECCA) average, of which:	85	66	67	62	12	12	32	29	28	22
Armenia	43	34	34	36.6	18.7	12.1	22.6	23.4	1.2	1.1
Azerbaijan	49	42.1	42.1	30.9	16.9	13.8	25.5	24.8	2.4	2.3
Belarus	186	161	161	144.4	4.2	12.4	45.3	44.1	136.5	87.9
Georgia	60	38.6	38.6	38.6	12.4	14.1	23.2	22.6	2.2	2.0
Kazakhstan	156	39.5	39.5	36.7	21.2	16.1	21.2	17.8	2.7	2.9
Kyrgyzstan	69	67.2	67.2	61.4	3.6	3	27.2	23.7	36.5	34.7
Rep. of Moldova	51	47.7	47.7	44	12.3	10.5	33.8	31.6	2.8	1.9
Russian Federation	69	51.4	51.4	51.4	12.7	14	35.9	31.8	5.5	5.7
Tajikistan	n.a.	n.a.	82.1	82.2	18.2	17.7	29	28.2	39.9	36.3
Ukraine	61	57.7	57.7	57.3	13.5	12.2	45.4	43.4	1.4	1.8
Uzbekistan	106	119	119	96.3	1.3	1.2	35.9	28.2	85	66.9
Average of all listed emerging market economies	63	52	52	49	11	12	31	28	13	10

Source: World Bank, <http://www.doingbusiness.org/>

Despite some reduction in the taxation rate in emerging market countries (measured as a percentage of company gross profit), the disparity between different groups of emerging market economies and developed countries persisted.

In 2008, in the new EU members as well as in South-East Europe the ratio of taxes to the gross profits was on average slightly lower than in the six selected OECD economies: about 44 and 40 per cent, respectively, against 50 per cent. In contrast and despite a considerable drop, the total tax rate of medium-sized enterprises in EECCA countries (62 per cent) remained importantly higher than in the OECD countries. Within this group, at the end of the period, in Armenia, Azerbaijan, Georgia, Kazakhstan and the Republic of Moldova, the ratio of taxes to the gross profit ranged between 31 and 44 per cent. In contrast, in several other EECCA countries – Belarus, Kyrgyzstan, the Russian Federation, Tajikistan, Ukraine and Uzbekistan – this ratio was higher, exceeding 50 per cent of gross profit.

Since 2006, the data compiled by the World Bank enable a more detailed analysis of the composition of the tax burden. The latter is broken down into the profit tax, labour tax and contributions, and other taxes. The data show that in 2008, on average, the profit tax in emerging market countries was almost twice as low as in the selected developed countries – 12 per cent of gross profit as compared with 21 per cent. In Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Kyrgyzstan, Montenegro, Slovakia and Uzbekistan, profit tax was less than 10 per cent. These lower rates seem to be linked to government policies aimed at fostering entrepreneurship on the one hand and at attracting foreign direct investment on the other.

By contrast, in 2008, on average, labour taxes and contributions in selected developed countries were lower than in emerging market countries. With the exception of France (with labour taxes and contributions reaching 52 per cent of the gross profit), these payments in the majority of emerging market countries ranged between 30 to 40 per cent of profit to be contrasted with the 23 per cent OECD average. Belarus and Ukraine, followed by the Czech Republic, Hungary and Slovakia, single out as countries where the labour taxes and contributions were particularly high.

Governments of emerging market economies increasingly realize the importance of reducing the tax burden on enterprises and streamlining the tax administration. With this aim, in 2005 the Government of Uzbekistan introduced a single tax payment (STP) for small enterprises that engaged in specific industry and service sectors. A survey conducted by the International Finance Corporation (IFC) in early 2006⁴³ showed that more than half of entrepreneurs believed that the introduction of the STP reduced the effective tax burden – two of every five respondents noted simpler tax calculation and payment procedures. However, this innovation was less beneficial for enterprises engaged in several lines of business activities subject to different taxation rules simultaneously.

Several EECCA countries, for example Belarus and Tajikistan, have adopted new tax codes that have reduced tax rates as well as the number of taxes to be paid by enterprises. The Republic of Moldova, after a round of reductions, has brought the corporate income tax to

⁴³ IFC, Business Environment in Uzbekistan, “Annual Survey of the business environment in Uzbekistan”, 2004.

zero. Reportedly, over the transition period, Ukraine has gradually lowered tax rates and introduced a simplified taxation system for the private sector. In Belarus a number of recently adopted regulations are expected to have a positive impact on the enforcement of tax legislation.⁴⁴

2. Number of tax payments

In the period from 2005 to 2008, the total number of tax payments in emerging market countries on average tended to decrease, from 52 to 48 (see table 5(b)). On these terms, the new EU members seem to have been closing the gap with the “older” members: in this group of countries the number of tax payments per year dropped from 33 to 28. In the EECCA States, this number fell from 72 in 2005 to 61 in 2008. In contrast, the number of taxes increased in several countries of South-East Europe and it grew from 50 to 55 for the group as a whole.

Within the new EU members, over the same period Latvia reduced the number of tax payments almost sixfold, and in 2008 this indicator was lower than that of the United Kingdom and the United States. The Russian Federation and Kazakhstan saw the most significant reduction among the EECCA countries: from 74 to 22 and from 34 to 9 payments per year, respectively. In several other emerging market economies the number of tax payments tended to grow (e.g. Lithuania, Republic of Moldova, Romania and Serbia).

As a result of these diverging trends, by the end of the reporting period the number of tax payments incurred by enterprises in emerging market countries (48 on average) was over three times higher than that in the OECD economies (15). In the new EU members, the number of tax payments (28) was almost twice as high as that in the selected OECD economies, in countries of South-East Europe and EECCA this figure exceeded its OECD counterpart 3.5-fold and fourfold, respectively.

⁴⁴ The Presidential Decree No.151 dated 15 March 2006, which amends the Presidential Decree No. 673 “On Certain Measures to Improve the Coordination of Control Activities by Control Agencies and Modify the Procedure for Imposing Economic Penalties”, dated 15 November 1999; The Presidential Decree No. 419, dated 30 June 2006, “On Additional Measures to Regulate Taxation”.

Table 5 (b)
Tax burden of a medium-sized enterprise in its second year of operation, selected countries, 2005-2008

Country	Payments (number)				Time (hours)			
	2005	2006	2007	2008	2005	2006	2007	2008
OECD average (indicated countries), of which:	19	15	15	15	207	230	230	230
Finland	19	20	20	20	264	269	269	269
France	33	23	23	23	128	132	132	132
Germany	32	16	16	16	105	196	196	196
Japan	15	13	13	13	315	350	350	350
United Kingdom	7	8	8	8	105	105	105	105
United States	10	10	10	10	325	325	325	325
New EU members average, of which:	33	30	30	28	342	367	367	368
Bulgaria	27	31	31	17	616	616	616	616
Czech Republic	14	12	12	12	930	930	930	930
Estonia	11	10	10	10	104	81	81	81
Hungary	24	24	24	24	304	340	340	340
Latvia	41	7	7	7	320	320	320	319
Lithuania	13	25	25	24	162	166	166	166
Poland	43	41	41	41	175	418	418	418
Romania	89	96	96	96	188	193	193	202
Slovakia	31	31	31	31	344	344	344	344
Slovenia	34	22	22	22	272	260	260	260
South-East Europe (SEE) average, of which:	50	51	57	55	167	236	259	259
Albania	42	44	44	44	240	240	240	240
Bosnia and Herzegovina	73	51	51	51	100	368	368	368
Croatia	39	39	39	28	232	196	196	196
The former Yugoslav Republic of Macedonia	54	55	55	52	96	96	96	96
Montenegro	n.a.	n.a.	88	88	n.a.	n.a.	372	372
Serbia	41	66	66	66	168	279	279	279
Commonwealth of Independent States (EECCA) average, of which:	72	63	62	61	672	712	667	663
Armenia	50	50	50	50	1'120	1'120	1'120	1'120
Azerbaijan	36	38	38	38	756	1'000	1'000	952
Belarus	125	125	125	125	1'118	1'188	1'188	1'188
Georgia	48	32	32	29	448	387	387	387
Kazakhstan	34	9	9	9	156	271	271	271
Kyrgyzstan	89	75	75	75	204	202	202	202
Rep. of Moldova	44	49	49	49	250	218	218	218
Russian Federation	74	22	22	22	256	448	448	448
Tajikistan	n.a.	n.a.	54	54	n.a.	n.a.	224	224
Ukraine	98	99	99	99	2'185	2'085	2'085	2'085
Uzbekistan	118	130	130	118	152	196	196	196
Average of all listed emerging market economies	52	48	50	48	394	438	431	430

Source: World Bank, <http://www.doingbusiness.org/>

Notes: Averages for country groupings are arithmetic. Data for Turkmenistan not available. EECCA average excludes Tajikistan. South-East Europe average excludes Montenegro.

3. Time needed to comply with taxation requirements

In emerging market countries, in 2006 the average number of hours per year that companies had to spend to comply with taxation requirements was as high as 438, compared with 230 in selected OECD countries. The average “compliance time” was the lowest in countries of South-East Europe (236 hours) and in the new EU members (367 hours). In EECCA, the average was 712 hours.

Over the period from 2005 to 2008, the average number of hours per year that companies in emerging market economies had to spend to comply with taxation requirements increased from 394 to 430 (by 9 per cent). This growth was the highest in the group of South-East European countries (from 167 to 259 hours or by 55 per cent), and the number of hours spent per year also increased in the new EU member States (by 8 per cent, from 342 to 368). In contrast, in the EECCA economies, this number fell by one per cent (from 672 to 663 hours per year).

Among the EECCA countries, Georgia saw the most significant reduction, with a drop of 14 per cent, while Croatia had the highest decrease, of 16 per cent, among the South-East European countries. Over the same period, the Russian Federation experienced the largest increase in hours per year spent on preparing, filing and paying taxes of 75 per cent, while in the group of South-East European economies Bosnia and Herzegovina witnessed a 3.7-fold growth of this indicator.

Over the same period, in the selected OECD countries the average number of hours spent increased by 11 per cent. As a result, in 2008 the average “compliance time” in emerging market economies was 87 per cent higher than in selected OECD countries, while in 2005 it had been 90 per cent higher. At the end of the period, in countries of South-East Europe the average (259) exceeded that of developed economies by 13 per cent while in the new EU member States (368) by 60 per cent higher.

The gap was the most significant for the group of EECCA countries (663) in which the average “compliance time” was higher than its counterpart in the selected OECD economies almost threefold. In 2008, the number of hours spent was particularly high in the Ukraine (2,085 hours per year), Belarus (1,188), Azerbaijan (952) and the Czech Republic (930).

In summary, over the period from 2005 – 2008 the emerging market economies as a group slightly narrowed the gap with the OECD countries in terms of the time required to comply with taxation requirements. However, this happened against the backdrop of the growing “compliance time” in several emerging market economies. At the end of the reporting period, the gap with respect to the reference group of OECD countries remained particularly large for countries of EECCA.

Despite certain progress in reducing taxation rates for enterprises, the efforts of Governments to ease the tax burden on enterprises in emerging market economies have not yet fundamentally changed companies’ perception of taxes as a major burden for doing business. The large number of national and local taxes, in particular, still represents a major

hurdle in terms of cumbersome filing requirements. At the same time, the frequently modified taxation systems do not contribute to the stability and predictability of the business environment. The results of expert research in this area, therefore, attest to the need for further aligning the taxation policy in emerging market countries to the requirements of enterprises, especially SMEs.

C. Securing Financing of Start-Ups and SMEs

Enterprises consider access to finance to be one of the three most important factors influencing business operations. According to OECD, developed economies do not experience any “generalized SME financing gap”, and most SMEs are able to obtain sufficient credit from banks and other credit institutions.⁴⁵ In emerging market economies, however, adequate financing for SMEs is known to be constrained by the perceived high credit risk by banking institutions. Commercial banks often reject project proposals because SMEs do not have adequate collateral or sufficiently clear business plans.

Barriers to bank finance are particularly high for those start-ups whose competitive strength is based on research and development and innovation, because those companies often lack physical assets which can be used as collateral. In the same way, in some countries of the region, women entrepreneurs face difficulties in fundraising because they do not have property of their own to be used as collateral.

Banks in emerging market economies are increasingly providing finance to start-ups and SMEs. Financial support is also becoming available from other sources, which include relatives and family savings, networks of business angels, and venture capitalists and equity markets. The financing of innovation and innovative enterprises is examined in more detail by the UNECE network of experts on financing for innovative development.⁴⁶

Given the weakness of the banking system, Governments, in cooperation with the private sector, have developed alternative sources of financing for SMEs. Special programmes have been initiated, for example, in Armenia (Small and Medium Entrepreneurship Development National Centre), Bulgaria (National Innovation Fund), Kazakhstan (Small Business Development Fund), Kyrgyzstan (State Fund for SME Support) and Uzbekistan (Republican Coordination Council for Promotion of SME Development). The Government of Armenia has set up a programme of loan guarantees focusing on SMEs operating in the remote regions of the country. In the period from 2004 to 2006, SMEs obtained as many as 126 loan guarantees worth AMD 443.7 million, which ensured a credit portfolio worth AMD 846.9 million.⁴⁷

⁴⁵ OECD, “The SME Financing Gap: Theory and Evidence”, 2006, p.10, 24.

⁴⁶ See ECE/CECI/FID/2007/2 and the materials of the Applied Policy Seminar on “Early Stage Financing and “Investment Readiness of Innovative Enterprises” held in Moscow, Russian Federation in May 2008 (<http://www.unece.org/ceci/eed.html>).

⁴⁷ UNECE, “Fostering Entrepreneurship in Catching-Up Economies: Major Issues and Challenges”, Discussion Paper presented at the UNECE International Conference on “Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options”, Geneva, 18-19 June 2007. www.unece.org/ceci/documents/2007/eed/discpaper.pdf

Loan facilities for SMEs, especially those with domestic and foreign participation, are also being made available by international financial institutions and private funds. For example, in Kazakhstan major credit lines for SMEs include those provided by the European Bank for Reconstruction and Development (EBRD) in cooperation with the Kazakh Small Business Development Fund, as well as credit lines provided by the World Bank (loans to farmers), the Central Asian – American Enterprise Fund and Asian Development Bank.

1. Banks

In many developed countries, SMEs, unlike large firms, tend to rely more on commercial bank financing. According to the Bank for International Settlements, in the second half of the 1990s in developed countries the role of banks in the external financing of companies was generally higher for SMEs than for large enterprises (table 6). In such countries as Germany and Italy, for example, the share of banks in the external financing of SMEs was around 64 per cent, as compared with around 30 per cent for large enterprises.

Table 6
Share of bank loans in the total value of external funding of small and large companies,
selected developed market economies, mid- to late 1990s
(Percentage)

Country	Year	Bank loans/Total loans	
		Small companies	Large companies
Belgium	1998	42.2	50.1
Canada	1996	53.1	n.a.
France	1998	44.3	21.2
Germany	1998	64.1	29.9
Italy	1998	64.6	27.3
Japan	1995	28.2	33.2
Netherlands	1998	54.9 ^a	35.9
United States	1995	40.9	7.9 ^b

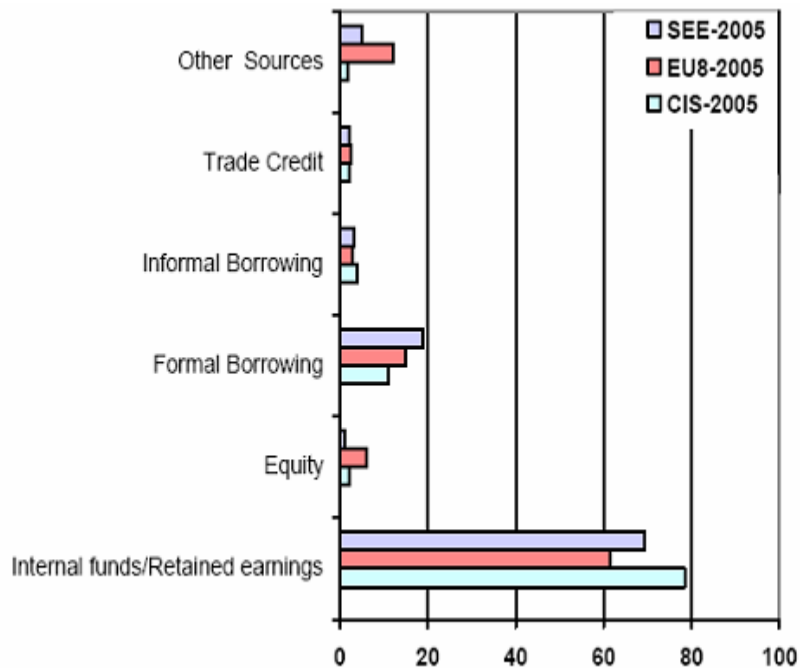
^a Includes medium-sized companies.

^b Medium-sized companies.

Source: Bank of Company Accounts Harmonised (BACH). For Canada: “What’s New in Debt Financing for Small and Medium-sized Enterprises”, The Conference Board of Canada, 1997.

In emerging market countries, it is more difficult for SMEs to access commercial bank resources than in developed market economies. Barriers to bank finance are especially high for so-called “innovative start-ups”, which try to commercialize the results of their research and development. According to the EBRD - World Bank Survey, in 2005 internal funds and retained earnings made up between 60 and 80 per cent of the overall enterprise investment in emerging market countries, while the so-called formal borrowing (which proxies the bank loans) amounted to less than 20 per cent (see figure 3).

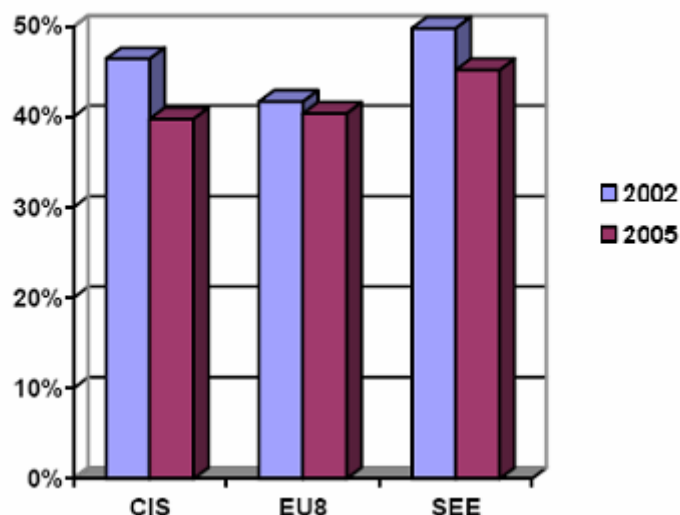
Figure 3
Surveyed company investment by source
(Percentage)



Source: “EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).
<http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/BAAGREV20060208ECA.pdf>

The same source shows a decrease between 2002 and 2005 in the percentage of interviewed companies which considered access to financing a problem (lack of collateral or financing not available) in all groups of emerging market countries (most importantly in EECCA). In 2005, the indicated percentage made up about 40 in both the eight new EU members and in EECCA countries, while in the States of South-East Europe, it was about 44 per cent (see figure 4).

Figure 4
Percentage of companies that consider access to financing a problem for doing business



Source: “EBRD-World Bank Business Environment and Enterprise Performance Survey” (BEEPS).

During the same period, the time required for companies to negotiate a loan with a bank decreased considerably in countries of South-East Europe (from 34 to 26 days) and the new eight EU member States (from 28 to 24). In contrast, in the EECCA countries this number increased from about 17 to 20. The percentage of companies considering the cost of financing a problem for doing business dropped mostly in the new EU members, while in the other groups of emerging market economies the reduction was smaller. In 2005, the indicated percentage made up about 46 in the eight new EU member States, about 50 in the countries of EECCA and about 55 per cent in countries of South-East Europe.⁴⁸

According to the WEF Survey, in 2006 business persons in South-East Europe and EECCA found it more difficult to obtain a bank loan without collateral as compared with their counterparts from developed market economies. Of the total score of 7 (loan easily obtainable with a good business plan), entrepreneurs from the new EU countries reported a score of 3.7, while those from South-East Europe and the EECCA reported 3.0 and 2.7 respectively. In contrast, company managers in all of the selected OECD countries scored this opportunity at 4.7 points. In 2004, half of the SMEs in Bulgaria never applied for a loan, and as few as 13 per cent of submitted projects were accepted by commercial banks.⁴⁹

2. Leasing

Both in developed and emerging market economies, leasing has become an important source of medium and long-term enterprise finance. In Bulgaria, for example, in 2004 as

⁴⁸ World Bank, “Europe and Central Asia BEEPS-at-a-Glance”, 2006.

<http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/BAAGREV20060208ECA.pdf>

⁴⁹ UNECE, “Fostering Entrepreneurship in Catching-Up Economies: Major Issues and Challenges” ..., p. 18.

many as 28 per cent of SMEs used a bank credit line and 20 per cent leases, the latter becoming in certain respects a competitor to bank lending.

Over the past three years, countries of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) introduced a number of laws and taxation rules making the leasing operation more attractive for domestic and foreign investors. In 2004, Kazakh companies concluded leasing agreements worth USD 172.2 million, which represents a twofold growth over 2003. By 2006-2007, the volume of leasing was expected to increase to over USD 600 million. In 2004, in Uzbekistan the value of leasing agreements by SMEs grew to more than USD 40 million and in Azerbaijan in the same year it was as high as USD 7.2 million.⁵⁰

Recently, leasing operations have also been developing in Kyrgyzstan and Tajikistan, where the number of banks engaged in leasing and leasing companies have grown. Further development of this market will depend on creating a more favourable tax environment for leasing.

The international financial institutions contribute to capacity-building for leasing. In particular, the Central Asia Leasing Facility, established by IFC for 2005-2008 and funded by the Swiss Secretariat for Economic Affairs (SECO), aims at facilitating the leasing operation for SMEs in Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The Facility is expected to strengthen the capacity of local financial institutions in leasing operations by assisting them with organizational restructuring, credit analysis and risk management training, and upgrading of their management information and internal audit systems.⁵¹

3. Microfinancing

Microfinance is a financial service provided to SMEs and individuals having limited access to conventional banking services. This method of debt financing is increasingly common in emerging market economies, in particular in the Russian Federation, where surveys attest to a growth of this market segment. Microfinancing has gradually become part of the country's financial system, complementing conventional banking and providing access to loans for those companies and consumers who do not meet commercial bank requirements. In 2003-2004, the volume of micro-credit loans to SMEs grew by 50 per cent and the number of borrowers by one third. According to a sample survey conducted in early 2005, as many as 60 per cent of micro loans were intended for business purposes and 80 per cent of those were short-term.⁵²

In 2004, Tajikistan adopted a new microfinance legislation, which aimed at creating an enabling legal and regulatory framework for this sector. In particular, the law permitted the microfinance companies to attract additional financing from donor organizations and private investors, thus enhancing their lending capacity.

⁵⁰ IFC, "IFC Launches Central Asia Leasing Facility's Swiss funded Technical Assistance", January 2006.

<http://www.ifc.org/ifcext/pressroom/ifcpressroom.nsf/PressRelease?openform&6408159D7997267D852570EC005540A1>

⁵¹ Ibid.

⁵² The list of respondents surveyed in the second round included more than 400 institutions, associations, unions and networks in 54 regions of the Russian Federation. (The Microfinance Gateway "Non-bank Microfinance Development Trends in Russia in 2003-2004" Analytical paper was produced by the Russian SME Resource Centre jointly with the Russian Microfinance Centre.)

Along the same lines, Georgia has undertaken to establish a legislative and regulatory framework for the activities of non-bank depository institutions (credit unions), which are a potential source of micro-financing for SMEs. In 2005, as many as 43 credit unions were licensed in Georgia and reportedly 40 per cent of SMEs were aware of the availability of micro-financing facilities.⁵³

The UNECE International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development recommended that Governments, in consultation with banking institutions, should design measures to facilitate the access of SMEs to bank finance, in particular special credit schemes for long-term investment financing with prolonged grace periods, loan guarantees provided via public-private SME-focused programmes, and more favourable collateral acceptance rules (see chapter 3).

Governments were also advised, drawing on assistance from international financial institutions, to develop alternative forms of funding for start-ups and SMEs, in particular financing from specialized public-private funds, leasing, micro-financing, etc., as well as to support the “investment readiness” of enterprises through training and other awareness-raising initiatives that enhance their ability to attract finance.

D. Reducing Obstacles to SME Expansion Abroad

Foreign expansion of enterprises in general and SMEs in particular is one of the prerequisites for enhanced economic efficiency in today’s global economy. At the same time, surveys by international organizations, OECD in particular, show that SMEs are underrepresented in the internationalized sector of the economy, and, more specifically, in international trade. Equally, as a result of liberalization of trade and investment, they face growing competition in their local markets.

Numerous barriers hinder SMEs from exporting and investing abroad. These relate both to internal weaknesses of enterprises and to the external conditions of their operation. The former include inadequate access to financing and shortage of working capital, insufficient information on business opportunities and markets abroad, and lack of communication with potential customers, while the latter include home and host country regulations unfavourable to exporting, importing and cross-border investment, and the lack of relevant incentives from Governments.

The OECD – Asia-Pacific Economic Cooperation (APEC) Member Policy Makers Survey and the Survey of SME’s Perceptions of Barriers to Access to International Markets conducted in 2006 showed that generally firms that had experience of operating abroad ranked barriers specific to the external business and competitive environment higher than firms with no international experience. In contrast, SMEs new to international operations attributed high value to information on markets, opportunities and challenges. Results of the Survey also attested to the importance of promoting SME participation in global value chains and clustering as a means of overcoming trade barriers.⁵⁴

⁵³ IFC, Business Environment in Georgia, “Annual survey of the business environment in Georgia”, 2004.

⁵⁴ Replies to the first survey were provided by policymakers from 38 countries including from 5 emerging market economies (Czech Republic, Hungary, Poland, Romania, and Slovakia). The second survey covered as many as 978 SMEs from 47

Throughout the UNECE region, government regulations that companies have to apply when operating outside their home markets are complex and tend to change frequently. To address this issue, in the United Kingdom, for example, all changes in regulations enter into force only twice a year. This significantly reduces the amount of time required to find out which of them apply at any given moment. The Government has also created an online trade “single window”, which integrates information provided by the relevant departments (Revenue and Customs, Trade and Industry, and Environment). Along the same lines, in Sweden a one-stop information centre has been set up to provide access to information on Swedish trade rules and regulations to potential exporters from developing countries.

Several emerging market economies have also promoted enterprise cluster development at regional, interregional and cross-border levels, as well as SME participation in global value chains. In 2000, in the context of its industrial policy Slovenia established the Cluster Programme encouraging SMEs to participate in transborder supply chains and clusters (see box 5). Similarly, the Czech Republic offers financial grants to create an infrastructure enabling the establishment of regional and cross-border clusters, including those with foreign partners. This programme launched in 2004-2006 is 75 per cent financially supported by the EU structural funds.⁵⁵

In Latvia, since 2000 industrial policy has increasingly focused on clustering as a tool for improving industrial competitiveness. Through enhanced public-private cooperation, the Government seeks to directly support clusters in the regions that have been found promising in terms of their competitive advantages and technological potential. Similarly, under the EU PHARE programme, Latvia has started a national cluster programme “Support to Industrial Cluster Restructuring”, which is financed by the EU and the Government. The programme supports clustering in the sectors of forestry, information technology, engineering and high-technology (biotechnology, nanotechnology, robotics). The Government facilitates the creation of adequate business infrastructure, international patenting by SMEs, marketing of national products and exports, and promotes strengthened collaboration between enterprises and science and education centres.

In Hungary, the Ministry of Economy and Transport, in collaboration with regional Governments, has developed the “Széchenyi Plan” - a clustering programme, in which the Government provides support both financial and in kind to newly formed clusters, specifically targeting housing and road construction, development of tourism, research and development, and infrastructure development. One of the objectives of the programme has been to strengthen the innovative capacity of subcontractors of multinationals. It has provided enterprises with financial subsidies and information services, and rented out office space and production sites.

economies, including 71 firms from Albania, Czech Republic, Hungary, Poland, Romania, the Russian Federation, Slovak Republic, and the Ukraine. (www.unece.org/ceci/ppt_presentations/2007/eed/fliess.pdf)

⁵⁵ Innovating Regions in Europe. “Regional clustering and networking as innovation drivers.” Learning Module 3. 2005. p. 13-15

Box 5**Slovenia: clustering as an instrument of SME expansion abroad**

Slow growth of Slovenian SME operation abroad has been a major impediment to the expansion of the private sector in that country. To remedy this situation, in the context of its industrial policy the Ministry of Economic Affairs in Slovenia has established a Cluster Programme. The main objective of this programme is to raise awareness of SMEs of potential benefits of participating in transnational supply chains and transborder clustering, and encourage that participation through financial support.

In 2000, the Ministry of Economy initiated a pilot programme of cluster development, and in 2002 as many as 15 cluster projects were launched in the automotive industry, engineering, manufacture of plastics, transport and logistics, while 8 of those received some financial support from the Government. Lessons learned from the operation of the pilot projects provided important feedback for the Government support to expanding clustering across the border.

Based on the experiences gained in the pilot programme, the Ministry of Economic Affairs has designed an outline of the cluster development process (Slovenian model), which includes three stages - initiation, early growth and dynamic growth. In the initiation stage, the stakeholders develop the concept of the cluster. The early growth period is mainly focused on building and strengthening the information technology and organisational platforms needed for the dynamic growth phase. In this final phase activities focus on building an innovative environment and developing the cluster's competitive strength on the world market.

In 2003, out of 30 applicants nine were selected for the initiation phase and five for the early growth phase. With the assistance from the Government, Slovenian SMEs develop cooperation links with clusters in Italy, Austria and Germany. This process is facilitated by the participation of international stakeholders in the sixth European Framework Programme.

Source: Innovating Regions in Europe, "Regional clustering and networking as innovation drivers", Learning Module 3, 2005, pp.4-6.

In 2001-2002, under the "Széchenyi Plan" the Central Government allocated to clustering support EUR 1.4 million. One of the favourable spillover results of the programme was the enhanced capacity of SMEs to cooperate in networks. In 2002, the Széchenyi Plan came to an end. The support for clusters was then continued in the framework of the "Technology Development and Innovation Plan".⁵⁶

It was argued at the UNECE International Conference that further assistance to foreign traders and investors by Governments could focus on providing them with additional information resources, including measures facilitating the intellectual property rights protection for SMEs, foreign traders' innovation and technological capacity, as well as costs of applying the international standards for exporters.

In the context of facilitating the SME expansion abroad, and in line with the OECD recommendations, Governments were advised to create mechanisms that facilitate the participation of SMEs in the trade policy process, assist exporting enterprises in diagnosing

⁵⁶ Ibid.

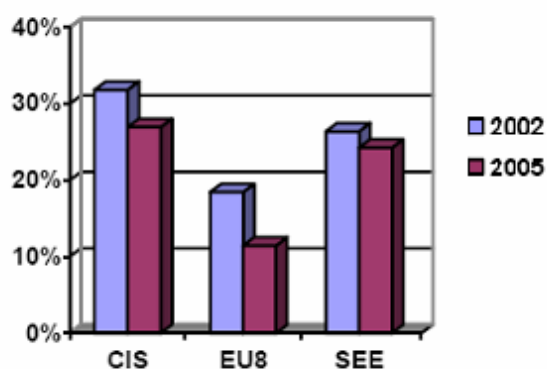
and understanding the business environment they face in host countries, and design programmes that help firms to overcome trade barriers.

E. Fighting Corruption

When calculating the cost of starting a business, would-be entrepreneurs have to take into account not only official payments but also unofficial payments that they often have to make for registering and operating an enterprise. Although the size of such payments differs from one country to another, they nevertheless add to the difficulties of setting up a business. As a result, would-be entrepreneurs are often deterred from starting a legal business and may choose to engage in a non-registered activity in the shadow economy. Such a situation reduces the taxation base for Governments, undermines the conditions of employees at non-registered enterprises and also nourishes the fabrication of low-quality products that can be detrimental to the health of consumers and to the environment.⁵⁷

In early 2000, high corruption perceptions in emerging market countries were supported by company surveys, which signalled that the extortion of illegal payments was common during business registration.⁵⁸ The EBRD-World Business Environment and Enterprise Performance Survey (BEEPS) indicates that between 2002 and 2005 the percentage of firms which considered that the unofficial payments to government officials were frequent dropped in all groups of emerging market countries (see figure 5). This decrease was the most important in the eight new EU member States (from 18 to about 10 per cent), and in the EECCA (CIS) countries and countries of South-East Europe it made up about 2–5 percentage points. In 2005, about a quarter of EECCA and South-East European companies interviewed considered unofficial payments frequent.

Figure 5
Percentage of companies that consider unofficial payments to be frequent



Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).

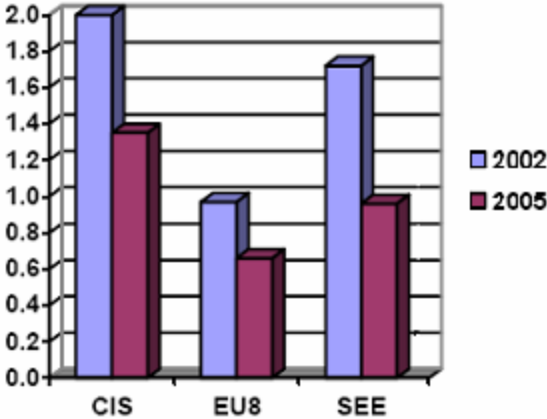
⁵⁷ World Bank, "Doing Business 2007: How to Reform".

www.doingbusiness.org/documents/EconomyProfile-COMESA.pdf.

⁵⁸ Johnson, K., McMillan, W., "Why do firms hide? Bribes and unofficial activity after communism", 2000, Elsevier, Vol.76(3), p.503.

Over the same period, bribes as a percentage of the annual sales of companies dropped significantly in all groups of emerging market countries (see figure 6). In 2005, this percentage was the lowest in the eight new EU members (about 0.6), and 0.9 and 1.3 in countries of South-East Europe and EECCA respectively.

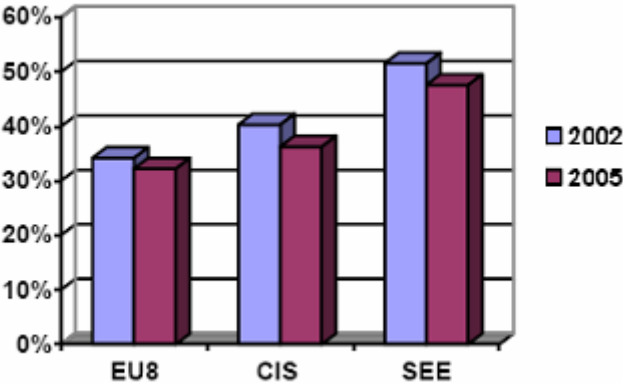
Figure 6
Unofficial payments as percentage of company annual sales



Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).

The Survey also indicates that between 2002 and 2005 the percentage of companies believing that corruption was a problem for doing business decreased in all groups of emerging market economies by 3–5 percentage points (see figure 7). In 2005, the proportion of companies which were of that opinion, was highest in countries of South-East Europe (about 47 per cent), while in countries of EECCA and the eight new EU member States the proportion was lower (about 35 and 32 per cent, respectively).

Figure 7
Percentage of companies that consider corruption a problem for doing business



Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS).

The multiple unofficial payments and costs thus incurred by entrepreneurs are also reflected in the Corruption Perception Index (CPI), which is based on data from a number of sources and is compiled by the Transparency International (see table 7). This index is based on seven international surveys of business people, political analysts and the general public in 52 countries, and reflects their perceptions of corruption. The index varies from 0 to 10, and the higher the index value the lower the perceived corruption.

Table 7
Corruption Perception Index in selected emerging market economies, 2003-2007

	2003	2004	2005	2006	2007
OECD average (indicated countries), of which:	7.9	8.0	8.1	8.1	7.9
Finland	9.7	9.7	9.6	9.6	9.4
France	6.9	7.1	7.5	7.4	7.3
Germany	7.7	8.2	8.2	8.0	7.8
Japan	7.0	6.9	7.3	7.6	7.5
United Kingdom	8.7	8.6	8.6	8.6	8.4
United States	7.5	7.5	7.6	7.3	7.2
New EU members average, of which:	4.3	4.4	4.6	4.8	5.0
Bulgaria	3.9	4.1	4.0	4.0	4.1
Czech Republic	3.9	4.2	4.3	4.8	5.2
Estonia	5.5	6.0	6.4	6.7	6.5
Hungary	4.8	4.8	5.0	5.2	5.3
Latvia	3.8	4.0	4.2	4.7	4.8
Lithuania	4.7	4.6	4.8	4.8	4.8
Poland	3.6	3.5	3.4	3.7	4.2
Romania	2.8	2.9	3.0	3.1	3.7
Slovakia	3.7	4.0	4.3	4.7	4.9
Slovenia	5.9	6.0	6.1	6.4	6.6
South-East Europe (SEE) average, of which:	2.8	2.9	2.8	2.9	3.4
Albania	2.5	2.5	2.4	2.6	2.9
Bosnia and Herzegovina	3.3	3.1	2.9	2.9	3.3
Croatia	3.7	3.5	3.4	3.4	4.1
The former Yugoslav Republic of Macedonia	2.3	2.7	2.7	2.7	3.3
Serbia	2.3	2.7	2.8	3.0	3.4
Commonwealth of Independent States (EECCA) average, of which:	2.4	2.4	2.5	2.5	2.6
Armenia	3.0	3.1	2.9	2.9	3.0
Azerbaijan	1.8	1.9	2.2	2.4	2.1
Belarus	4.2	3.3	2.6	2.1	2.1
Georgia	1.8	2.0	2.3	2.8	3.4
Kazakhstan	2.4	2.2	2.6	2.6	2.1
Kyrgyzstan	2.1	2.2	2.3	2.2	2.1
Rep. of Moldova	2.4	2.3	2.9	3.2	2.8
Russian Federation	2.7	2.8	2.4	2.5	2.3
Tajikistan	1.8	2.0	2.1	2.2	2.1
Turkmenistan	n.a	2.0	1.8	2.2	2.0
Ukraine	2.3	2.2	2.6	2.8	2.7
Uzbekistan	2.4	2.3	2.2	2.1	1.7
Average of all listed emerging market economies	3.2	3.3	3.3	3.5	3.7

Source: Transparency International, <http://www.transparency.org/>

Notes: Averages for country groupings are arithmetic. Country with an index value of 10 is considered “clean” from corruption, and with the index value of 0 is considered “highly corrupt”. Averages for country groupings are arithmetic. EECCA average excludes Turkmenistan.

Over the period from 2003 to 2007, the evolution of the Index attests to a certain improvement in corruption perceptions in emerging market economies. The CPI value increased for this group as a whole from 3.2 to 3.7. The steepest growth of this indicator was observed in the economies of South-East Europe and the new EU members, where it increased respectively from 2.8 to 3.4 (by 21 per cent) and from 4.3 to 5.0 (by 16 per cent). In the EECCA countries, the index grew from 2.4 to 2.6, that is by 8 per cent. In individual countries, the largest increase of approximately 88 per cent was recorded in Georgia, followed by Serbia with a growth of 48 per cent. At the same time, in some countries, e.g. Belarus, Kazakhstan, the Russian Federation and Uzbekistan, the index dynamics suggest increased corruption perceptions.

The data show that by the end of the period, in the emerging market economies, the index value had been lowest in the EECCA countries and highest in the new EU member States, with countries of South-East Europe occupying an intermediate position. Looking at the index values for the developed market economies, one sees that in the same year only Italy (5.2) and Greece (4.6) of the “old” European Union countries showed values of the corruption index similar to those of new EU member States taken as a group. In the other developed market economies, the experts surveyed perceived much lower levels of corruption. In the same years, the CPI value stood on average at 7.2 in the United States, 7.3 in France, 7.5 in Japan, 7.8 in Germany, 8.4 in the United Kingdom and 9.4 in Finland.

Recently, the emerging market countries have endeavoured to improve the public governance overall and intensified their fight against corruption in a number of areas. The focus of this work has been on law enforcement and institutional reforms aimed at enhancing the efficiency of law-enforcing agencies and discouraging corruption. To this end, in Belarus, Ukraine and Kazakhstan comprehensive State programmes have been put in place.

In particular, endeavours by emerging market economy Governments have concerned: (a) the reform of the judicial system; (b) tax reform; (c) institutional reform, including the establishment of new anti-corruption advisory bodies; and (d) enhanced accountability of civil servants.

In restructuring the judicial system, efforts have been made to foster the independence of courts and prosecute corrupt judges. Reforms in Georgia, Kyrgyzstan, Ukraine and Kazakhstan have been introduced both to increase the independence of courts and to ensure adequate remuneration for judges in order to reduce the incentives for bribe taking.⁵⁹ Georgia, for example, in 2004–2005 passed two laws as part of a package intended to increase the independence of magistrates and strengthen the Government’s ability to prosecute judges infringing the law.⁶⁰ One of the new Government’s most important measures for fighting corruption among civil servants was to raise the salaries of judges.

To make the enforcement of judgements more efficient and reduce the corruption in the judiciary, in 2006-2007 Bulgaria introduced an institution of private bailiffs, shortening

⁵⁹ Nikitenko, P., “Enterprises’ Performance in Belarus: Government Efforts to Improve Business Climate”. Paper presented at the UNECE International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options, Geneva, 18–19 June 2007.

⁶⁰ Transparency International, Global Corruption Report 2006, Part 2, Country Reports.

the time to enforce a judgement from 150 to 125 days. It also introduced a system of random allocation of court cases to judges, doubled judges' salaries and made the selection and appointment of judges more transparent.⁶¹

Tax reform has also contributed to reducing the incentives of tax authorities to accept bribes. Albania, Bosnia and Herzegovina, Georgia, Poland and Slovakia have introduced new tax systems that intend to contribute to reducing corruption by ensuring greater transparency, increasing the capacity and incentives for enterprises to pay taxes and limiting tax officials' ability to abuse their prerogatives and collect bribes. In Georgia, for example, the Tax Code, revised in December 2004, was intended to reduce corruption by strengthening the incentives for enterprises to pay taxes. Along the same lines, in Poland an act on freedom of economic activity, passed in 2004, limited tax officials' ability to abuse their prerogatives and collect bribes. Business start-ups now require fewer permits to commence trading, and the law prevents tax offices from conducting more than one audit at a time, unless an official investigation is in progress. The latter measure helps to limit the opportunity for the tax inspectors to extort bribes.

A number of countries, notably Belarus, Kazakhstan, Kyrgyzstan and Ukraine, are considering simplifying taxation procedures and introducing online systems of interaction between Government officials and companies in order to reduce possibilities for tax evasion and bribes.

The reform of institutions has contributed to fighting corruption through establishing specialized anti-corruption advisory bodies. Croatia has set up a special office for fighting corruption and organized crime. Georgia has established an anti-corruption working group composed of Government officials and NGOs with the goal of developing an anti-corruption strategy. In other countries (e.g. Armenia, Bosnia and Herzegovina, and Serbia) the anti-corruption activities are coordinated among several ministries, agencies and prosecutors' offices. In Kazakhstan, the Government has streamlined the functions of enforcement agencies to avoid duplication in investigating corruption cases. The Agency for Fighting Economic Crime and Corruption, established in 2005, is responsible for reducing bribe-taking, acceptance of other illegal benefits, abuse of authority and smuggling related to business operations. Montenegro's Ministry of Finance has signed a memorandum of understanding with business associations to ensure their participation in drafting the relevant legislation. Along the same lines, two anticorruption institutions have been established in Kyrgyzstan: National Agency for the Prevention of Corruption (NAPK) and the National Council to Combat Corruption (NSBK). The latter is functioning as a monitoring agency on a permanent basis. The results of their work are yet to be assessed.

In Kyrgyzstan, an effort has been made to increase the transparency of operation and the accountability of civil servants. In 2004, the Parliament adopted a law, according to which civil servants could be temporarily suspended from duties in case of a conflict of interests resulting in an improper benefit for a third party. Policies aimed at raising the effectiveness of civil service include recruitment through competitive exams and continuous professional training of civil servants. At the same time, the legal requirements to declare incomes by

⁶¹ World Bank, "Doing Business 2008".

public officials also have been strengthened in a number of countries. Both in Poland and Romania, public employees disclosing breaches of the law inside the institutions in which they worked were provided legal protection.

At the international level, all countries of the UNECE region have become parties to at least one of the major conventions related to fighting corruption. Table 8 gives an overview of the status of ratification of major conventions related to fighting corruption. Those include two conventions under the Council of Europe, one of the OECD, and two of the United Nations. The United Nations Convention against Corruption was adopted by the General Assembly of the United Nations on 31 October 2003 and is the most recent of the five conventions. It has already been ratified by 19 out of 28 emerging market countries listed in the table. The United Nations Convention against Transnational Organized Crime has received the largest number of ratifications by the emerging market countries included in the table.

All the new EU Member States have ratified the Council of Europe Civil Law Convention on Corruption and the Council of Europe Criminal Law Convention on Corruption. These two conventions were also ratified by about half of the EECCA countries. Finally, the OECD Anti-bribery Convention was ratified by 7 of the emerging market countries, including the Czech Republic, Hungary, Slovakia and Poland, which are OECD members, and also by Bulgaria, Estonia and Slovenia.

Table 8
Status of ratification of major international conventions related to fighting corruption

	Council of Europe Civil Law Convention on Corruption		Council of Europe Criminal Law Convention on Corruption		OECD Anti-Bribery Convention	United Nations Convention against Corruption		United Nations Convention against Transnational Organized Crime	
	<i>Signed</i>	<i>Ratified</i>	<i>Signed</i>	<i>Ratified</i>	<i>Ratified</i>	<i>Signed</i>	<i>Ratified</i>	<i>Signed</i>	<i>Ratified</i>
Central and Eastern Europe and the Baltic States, of which:									
Czech Republic	7/11/2000	24/9/2003	15/10/1999	8/9/2000	21/1/2000	22/04/2005	not ratified	12/12/2000	not ratified
Estonia	24/1/2000	8/12/2000	8/6/2000	6/12/2001	23/11/2004	not signatory	not signatory	14/12/2000	10/02/2003
Hungary	15/1/2003	4/12/2003	26/4/1999	22/11/2000	12/04/1998	10/12/2003	19/04/2005	14/12/2000	22/12/2006
Latvia	4/2/2004	12/4/2005	27/1/1999	9/2/2001	not signatory	19/05/2005	4/01/2006	13/12/2000	7/12/2001
Lithuania	18/4/2002	17/1/2003	27/1/1999	8/3/2002	not signatory	10/12/2003	21/12/2006	13/12/2000	9/05/2002
Poland	3/4/2001	11/9/2002	27/1/1999	11/12/2002	9/08/2000	10/12/2003	15/09/2006	12/12/2000	12/11/2001
Slovakia	8/6/2000	21/5/2003	27/1/1999	9/6/2000	24/9/1999	9/12/2003	1/06/2006	14/12/2000	3/12/2003
Slovenia	29/11/2001	17/3/2003	7/5/1999	12/5/2000	09/06/2001	not signatory	not signatory	12/12/2000	21/05/2004
South-East Europe, of which:									
Albania	4/4/2000	21/9/2000	27/1/1999	19/7/2001	not signatory	18/12/2003	25/05/2006	12/12/2000	21/08/2002
Bosnia and Herzegovina	1/3/2000	30/1/2002	1/3/2000	30/1/2002	not signatory	16/09/2005	26/10/2006	12/12/2000	24/04/2002
Bulgaria	4/11/1999	8/6/2000	27/1/1999	7/11/2001	22/12/1998	10/12/2003	20/09/2006	13/12/2000	5/12/2001
Croatia	2/10/2001	5/6/2003	15/9/1999	8/11/2000	not signatory	10/12/2003	24/04/2005	12/12/2000	24/01/2003
The former Yugoslav Republic of Macedonia	8/6/2000	29/11/2002	28/7/1999	28/7/1999	not signatory	18/08/2005	not ratified	12/12/2000	12/01/2005
Montenegro	7/4/2005	not ratified	Accession	18/12/2002 a	not signatory	succession	23/10/2006 b	succession	23/10/2006 b
Romania	4/11/1999	23/4/2002	27/1/1999	11/7/2002	not signatory	9/12/2003	2/11/2004	14/12/2000	4/12/2002
Serbia	7/4/2005	not ratified	Accession	18/12/2002 a	not signatory	11/12/2003	20/12/2005	12/12/2000	6/09/2001
Commonwealth of Independent States, of which:									
Armenia	17/2/2004	7/1/2005	15/5/2003	9/1/2006	not signatory	19/05/2005	8/03/2007	15/11/2001	1/07/2003
Azerbaijan	21/5/2003	11/2/2004	21/5/2003	11/2/2004	not signatory	27/02/2004	1/11/2005	12/12/2000	30/10/2003
Belarus	not signatory	not signatory	not signatory	not signatory	not signatory	28/04/2004	17/02/2005	14/12/2000	25/06/2003
Georgia	4/11/1999	22/5/2003	27/1/1999	not ratified	not signatory	not signatory	not signatory	13/12/2000	5/09/2006
Kazakhstan	not signatory	not signatory	not signatory	not signatory	not signatory	not signatory	not signatory	13/12/2000	not ratified
Kyrgyzstan	not signatory	not signatory	not signatory	not signatory	not signatory	10/12/2003	16/09/2005	13/12/2000	2/10/2003
Rep. of Moldova	4/11/1999	17/3/2004	24/6/1999	14/1/2004	not signatory	28/09/2004	not ratified	14/12/2000	16/09/2005
Russian Federation	not signatory	not signatory	27/1/1999	4/10/2006	not signatory	9/12/2003	9/05/2006	12/12/2000	26/05/2004
Tajikistan	not signatory	not signatory	not signatory	not signatory	not signatory	accession	25/09/2005 a	12/12/2000	8/07/2002
Turkmenistan	not signatory	not signatory	not signatory	not signatory	not signatory	accession	28/03/2005 a	accession	28/03/2005 a
Ukraine	4/11/1999	19/9/2005	27/1/1999	not ratified	not signatory	11/12/2003	not ratified	12/12/2000	21/05/2004
Uzbekistan	not signatory	not signatory	not signatory	not signatory	not signatory	not signatory	not signatory	13/12/2000	9/12/2003

Source: Council of Europe Civil Law Convention on Corruption: <http://conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=174&CM=7&DF=5/19/2007&CL=ENG>

Council of Europe Criminal Law Convention on Corruption: <http://conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=173&CM=7&DF=5/19/2007&CL=ENG>

OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions: http://www.oecd.org/document/21/0,2340,en_2649_34859_2017813_1_1_1_1,00.html

United Nations Convention against Corruption: http://www.unodc.org/unodc/crime_signatures_corruption.html

United Nations Convention against Transnational Organized Crime: http://www.unodc.org/unodc/en/crime_cicp_signatures_convention.html

a: accession and b: succession

To summarize, recent years have borne witness to intensified government action against corruption. However, its effect on enterprise development is still not easy to quantify. While longer time series are not available, the limited data for 2002-2006 from the EBRD-World Bank Survey and from Transparency International attest to a certain improvement in the corruption situation in the new EU members in the first place, while in the countries of Eastern Europe, Caucasus, Central Asia and South-East Europe progress seems to have been less significant.

In this context, the International Conference recommended to central and local Governments to implement systemic measures aimed at improving public governance, and alleviating corruption and unofficial payments by enterprises. Strengthened independence of judges, enforcement of taxation rules penalizing illicit payments, the establishment of anti-corruption public-private advisory bodies and enhanced accountability of civil servants should serve the interests of emerging entrepreneurs and enterprises. At the same time, the Conference recommended to encourage business operators to embrace and enact the ten principles spelled out by the United Nations Global Compact.

F. Raising Awareness of Gender-Specific Obstacles and Helping Women Entrepreneurs

Women are often viewed as a largely untapped reservoir of potential entrepreneurs. Activating their potential for entrepreneurship and self-employment also has important implications for their status in society and their quality of life. The barriers to women entrepreneurship form a part of broader gender-related barriers related to social stereotypes and the position of women in society. Therefore, addressing the barriers faced by women entrepreneurs is linked to reforming institutions, adjusting social policies and attitudes towards women's role in society.⁶²

The 2002 Global Entrepreneurship Monitor Executive Report found that men were more likely than women to start a new enterprise. The Total Entrepreneurial Activity Indicator for men was 50 per cent higher.⁶³ Consequently, on average 13.9 per cent of men become entrepreneurs compared with 8.9 per cent of women.⁶⁴ This significant gender gap exists for both early stage entrepreneurial participation and established business operations; and it tends to be the widest in the high-income country group, regardless of the type of activity.

A number of factors are often presumed to contribute to the relatively low rates of women entrepreneurs. Among those are the cultural stigmas associated with gender roles and property ownership; the perceived lower risk tolerance among women; insufficient experience in business operation and entrepreneurial training, inadequate access to finance as well as to

⁶² UNECE, "Access to financing and ICT for women entrepreneurs in the UNECE region", Geneva and New York, 2004.

⁶³ The Total Entrepreneurial Activity indicator measures the percentage of individuals in the labour force who are either actively involved in starting a new business, or who own or manage an enterprise that has been established less than 42 months ago.

⁶⁴ Minniti, M. and Arenius, O., "Women in Entrepreneurship", The Entrepreneurial Advantage of Nations: First Annual Global Entrepreneurship Symposium, 2003.

information and peer networks, and a competing demand for time related to family responsibilities.⁶⁵

Impeded access to finance and excessive collateral requirements often represent one of the most serious handicaps to women's entrepreneurship.⁶⁶ A 2000 paper found that women used the starting capital worth only one third of that invested by male entrepreneurs, irrespective of economic sector. The same research discovered that at the initial stages of enterprise development female entrepreneurs tended to rely more than men on family savings, household income, inheritance, grants and friends as sources of business finance. Women's personal savings constituted between 80 and 99 per cent of initial female-owned company capitalization while in the case of men-owned companies the respective percentage was between 30 and 59 per cent. It was also found that at subsequent stages of enterprise operation female-owned companies faced more difficulties in getting access to the finance. This fact is largely explained by difficulties of penetrating informal financial networks dominated by men.⁶⁷

Enterprises owned by men also are often more profitable than those owned by women. According to the United States Centre for Women's Business Research, nearly 10.4 million firms are owned by women. Yet, only 3 per cent of firms owned by women have revenues of USD 1 million or more compared with 6 per cent of those owned by men. The U.S. Census data show that as much as 46 per cent of women-owned businesses are tiny enterprises with revenues of less than USD 10,000 per year, as compared with 30 per cent of men-owned businesses. Fewer than 4 per cent of women-owned businesses have revenues of USD 500,000 or more per year against 11 per cent of businesses owned by men.⁶⁸

Governments address the problem of availability of financial resources through special programmes targeting women-entrepreneurs. In Finland, for instance a micro-credit programme benefiting women-entrepreneurs has been operational since 1997. The State-owned specialized financing company "Finnvera plc" grants loans to enterprises employing maximum 5 people and having women as the majority of its owners (over 50%). The amounts of loan can vary between EUR 3,000 and 35,000, enabling the entrepreneur to start a small business, to develop the operations and to make investments in situations where the available collateral is not available or insufficient. In Bulgaria, in 2005 as many as 545 unemployed women started their own business with direct financial support from the Government.⁶⁹

International experience and good practices have shown that incorporating gender issues into government policies is becoming more common. In an effort to encourage more women into entrepreneurial activity, regulatory incentives have been a key strategy. The United States Government, for example, has implemented a number of initiatives including a target to award at least 5 per cent of all Government contracts to women-owned small

⁶⁵ OECD, "Women's Entrepreneurship: Issues and Policies", 2nd OECD Conference of Ministers Responsible for SMEs, 2004.

⁶⁶ Carter, S. and Cannon, T., "Women as Entrepreneurs", London: Academic Press, 1992.

⁶⁷ Shaw, E., Carter, S., and Brierton, J., "Unequal entrepreneurs – why female enterprise is an uphill business", Policy Paper for the Industrial Society, 2001.

⁶⁸ Women Partner International, "Woman's Media Desk", 2007. <http://www.ivwcc.org>

⁶⁹ OECD, "Women's Entrepreneurship: Issues and Policies", 2nd OECD Conference of Ministers Responsible for SMEs, 2004.

business enterprises, and some agencies have exceeded the 5 per cent target. The migration of women to entrepreneurship is also fostered through fiscal incentives applied to retirement contributions.⁷⁰

The Finnish “Ladies Business School” programme, which started in 1987, provides training programmes for female executives and key employees in SMEs. Organized by the Ministry of Trade and Industry and financially supported by the EU, the courses have targeted women entrepreneurs and would-be women entrepreneurs, and have been implemented through Employment and Economic Development Centres. Group mentoring projects have involved over 100 women entrepreneurs coaching the target audience in 5 areas of Finland.⁷¹ In 2007, the United Kingdom Ministry of Industry and Regions started a new support programme for women graduates endeavouring starting a business. The programme includes a three-day residential business readiness course, one-to-one mentor support and access to dedicated online support.⁷²

In the United States, the Department of Commerce has launched a new Global Diversity Initiative, aimed at encouraging export efforts of women and minority entrepreneurs. The same Department has also recently initiated a US outreach tour to train women-owned business enterprises on issues related to international trade.⁷³

Governments also endeavour to raise the awareness of the potential and benefits of women’s entrepreneurship. In Belgium, for example, the Flemish Government jointly with the European Social Fund has financed a television programme highlighting the activities of several highly-educated female entrepreneurs.⁷⁴ The Royal Bank of Canada (RBC) offers training sessions, publications and other services to women business owners across Canada and sponsors the RBC Canadian Women Entrepreneur Awards.

A number of initiatives promoting women’s entrepreneurship originate from NGOs, often working in partnerships with Governments and international organizations. As a means for supporting women entrepreneurs, particularly in networking and supply markets, Canada’s governmental Atlantic Canada Opportunities Agency (ACOA) funds non-profit business organizations under the Women in Business Initiative (WBI) to offer women business owners the resources they need to expand their enterprises and strengthen their competitiveness. The Agency also aims at improving business advisory services, develop business networks, and assist in enhancing innovation and export capacity.

The Ch.A.S.E project (Chambers against Stereotypes in Employment), launched in 2005 and led by the Association of European Chambers of Commerce and Industry (Eurochambres), aims at identifying existing cultural prejudices and societal stereotypes that prevent girls and women from freely accessing the professions or employment sectors which correspond best to their aspirations. It also aims at developing practical tools that will enable

⁷⁰ Sannikova, E., “Regulatory Impediments to Enterprise Development: Mobilizing Women’s Economic Potential”, Paper presented at the UNECE International Conference on Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development: Policy Options, Geneva, 18–19 June 2007.

⁷¹ European Network to Promote Women’s Entrepreneurship, Activities Report 2005, September 2006.

⁷² Ibid.

⁷³ OECD, “SME and Entrepreneurship Outlook”, 2005.

⁷⁴ European Network to Promote Women’s Entrepreneurship, Activities Report 2005, September 2006.

the Chamber network to successfully promote the role of women and especially female entrepreneurs in all business sectors. As a first part, the project partners carried out a survey in their countries/regions, interviewing female entrepreneurs in male dominated sectors and female managers in traditionally male-dominated jobs. The purpose of the survey was to ascertain the profile of these women, their business environment, possible stereotypes, and suggestions for improving the situation. In response to this initial step, the project “Woman in Business” developed a “Talent Check” which is available in several languages and helps girls to develop their own interests and to learn more about jobs. The project also develops role models that are targeting school girls and students, as well as women entrepreneurs and employees at the European level.⁷⁵

The UNECE International Conference on Reducing Barriers to Entrepreneurship recommended that central and local Governments should seek to redress the imbalance with regard to communities underrepresented in the enterprise economy – particularly women and ethnic minorities. The enterprise development policies should be gender-sensitive. It also recommended that Governments should target women in their SME policies and allocate resources to create “focal points” for women entrepreneurship development. These should both assist women interested in becoming entrepreneurs and address the related social issues that currently constrain their motivation.

G. Alleviating Psychological and Cultural Barriers

Regional diversity in the scope of enterprise development suggests an important role of cultural and related psychological factors. Culture reflects ethnic, social, economic, ecological, and political peculiarities imbedded within individuals producing attitude variations across different societies. Cultural differences make individuals from different countries and strata of society react to entrepreneurial opportunities and barriers differently.⁷⁶ Although “cultural attitude” is difficult to quantify, the existing literature measures it in terms of power distance, propensities to individualistic and collectivistic behaviour, trust in institutions, perception of uncertainty and risk, and of economic security, and status of entrepreneurial occupation in society.⁷⁷

In very general terms, the existing theory assumes that high degrees of individualism, trust in institutions, risk acceptance, good prospects for economic security and well being, and positive perceptions of entrepreneurs’ societal position augment entrepreneurial motivation. As an example, individual attitudes in the United States are often recognized as both highly individualistic and entrepreneurial. In contrast, the collectivistic culture imposed on individuals in the former socialist economies gave little room to entrepreneurial attitudes and coupled with risk-aversion and a tradition of a patronizing State is likely to hinder entrepreneurial motivation.⁷⁸

⁷⁵ Ibid.

⁷⁶ OECD, “Promoting Entrepreneurship in South Eastern Europe; Policies and Tools”, ..., Iss. 12.

⁷⁷ Lindsay, Noel J., “Toward a Cultural Model of Indigenous Entrepreneurial Attitude”, *Academy of Marketing Science Review*, Vol.2005.

⁷⁸ OECD, “Promoting Entrepreneurship in South Eastern Europe: Policies and Tools...”.

Along the same lines, in societies that have suffered from high levels of corruption, the degree of trust in the legal, political and economic institutions is relatively low. This results in high perceptions of entrepreneurial risks. In some of the formerly planned economies, the methods of privatization, which were largely perceived as unfair, have reinforced the sense of mistrust in government action that often continues to affect the entrepreneurial climate.⁷⁹

In addition, the value attributed to economic security in countries where historically the State has performed the role of both employer and social safety net (e.g. in countries of the former Soviet Union) has been presumed to be a major barrier to entrepreneurship. In the same way, as compared with countries with different economic and political traditions, the fear of risk-taking and of business failure impedes entrepreneurial motivation.

Therefore, government agencies and other stakeholders, dealing with the issue of reducing barriers to enterprise development, aim at gradually changing the entrenched cultural perceptions and attitudes hindering entrepreneurial motivation. The objective is to strengthen the sense of responsibility for one's own well-being, raise the risk tolerance and develop trust in government institutions, in particular those supporting enterprise development. Equally important is to restore the status of entrepreneurs in society and develop mechanisms aimed at motivating and stimulating individuals to become entrepreneurs.

Motivating and training young future entrepreneurs are the objectives of a number of institutions throughout the region. For example, the worldwide Junior Achievement – Young Enterprise organization, supported by the European Commission, has created a European network that functions at national and local levels. This organization, enjoying both public and private sector support, targets the cultural perceptions of upcoming generations, and develops programmes aimed at initiating young people into the major issues of entrepreneurship and enterprise operation.

The network focuses on providing business training and services, as well as some basic information related to starting and running a business, good practices and stories of successful undertakings. Surveys conducted in 2005 among students in countries where the programme was implemented attested to a certain effectiveness of the programme. In particular, as many as 90 per cent of students surveyed in the Republic of Moldova, Serbia and Montenegro, and the former Yugoslav Republic of Macedonia saw it as prestigious to set up one's own business.⁸⁰

To the same end, business incubators and clusters work towards changing the societal attitudes towards entrepreneurs. For example, the “EXIST – University-based start-ups”, a programme initiated by the German Federal Ministry of Economics and Technology, aims to improve the start-up climate at universities and increase the number of start-ups originating in German academic institutions. Models to motivate, train and support entrepreneurial

⁷⁹ Anttonen, N., Tuunanen, M., Alon, I., Academy of Marketing Science Review, “The International Environments of Franchising in Russia”, 2005, Vol.2005, p.1.

⁸⁰ OECD. “Promoting Entrepreneurship in South Eastern Europe; Policies and Tools...”

personalities have been created and implemented through regional networks in which universities work together with partners from academia, industry and local authorities.⁸¹

In a number of emerging market countries of South-East Europe such as Croatia, the former Yugoslav Republic of Macedonia, Serbia, Bosnia and Herzegovina, capacity-building programmes target young people at the secondary school level through organizing practice-oriented mini-enterprises.

In the private sector, companies also develop programmes encouraging young people to start a business. Working through local enterprise development organizations and partnerships with schools, universities, governments, other corporations and community programmes, the LiveWIRE initiative of Shell, for example, delivers practical support to would-be entrepreneurs in developing skills needed to plan, launch and manage new business ventures.⁸²

Reducing cultural and psychological barriers to entrepreneurship remains a long-term objective for many emerging market economies. Its results will gradually materialize in the changed perceptions of entrepreneurship in the society and will benefit most the younger generations to come.

⁸¹ EFMD. EntreNews. Issue 2. 2004
www.efmd.org/attachments/tmpl_1_art_050222usmw_att_050222ztsp.pdf

⁸² Ibid

**III. CONCLUSIONS AND RECOMMENDATIONS
OF THE UNECE INTERNATIONAL CONFERENCE
“Reducing Barriers to Entrepreneurship and Encouraging Enterprise Development:
Policy Options”**

(18-19 June 2007, United Nations, Geneva, Switzerland)

CONCLUSIONS

1. At the present stage of development of emerging market (transition) economies, the emergence of new enterprises and advance of entrepreneurship increasingly promote national competitiveness, through enhanced innovation, new products and services marketed and better employment opportunities. The experience accumulated in developed market and emerging market economies shows that the main preconditions for unhampered enterprise development are:

- (a) General settings for a market economy, political will of Governments to foster entrepreneurship, the rule of law in general, and the stability of property rights and consistent anti-corruption policies; in particular, business-friendly tax regime and labour-market regulations;
- (b) Favourable regulatory and institutional conditions governing the development of enterprises, which include conditions for enterprise entry and exit from the market, as well as conditions for their operation and competition;
- (c) Strong capacity of innovating enterprises to translate the results of R&D into commercial products;
- (d) Well-functioning financial markets and uninhibited access of entrepreneurs to the finance required to start and operate an enterprise;
- (e) Adequate education and training, including the opportunities for training of would-be and operating entrepreneurs;
- (f) Favourable attitude towards entrepreneurship in the society, including that towards women's and youth entrepreneurship; and
- (g) Proper conditions for cross-border expansion of enterprises.

2. International surveys show that the inefficiency of governance (government bureaucracy and corruption), taxation issues (taxation regulations and taxation rates), inadequate access to finance and skills shortages are among the major impediments to enterprise development. At the same time, shortage of working capital, inadequate information on business opportunities and markets abroad, and lack of communication with potential overseas customers represent serious obstacles to SME expansion in the international markets. Governments in emerging market countries have designed policies

aimed at facilitating the establishment and operation of enterprises, alleviating their tax burden, improving their access to financing and promoting their cross-border operations.

3. Over the last few years, the emerging market economies across the region have made progress in simplifying and reducing the procedures associated with establishing an enterprise, and this obviously resulted in a decrease in the number of days required to establish a company. The same applies to the cost of starting a business, including the minimal capital requirements, which have also decreased. Importantly, several Governments have streamlined the system of controlling operational enterprises. However, the administrative procedures related to setting up a company in emerging market economies remain numerous and complex. The time needed for entrepreneurs to comply with these procedures, as well as the relative costs involved, are generally still higher than in the developed market economies.

4. Emerging market countries in the region have been trying to simplify their tax systems, and reduce the number of taxes and effective tax burden on SMEs. As a result, according to the surveys, in the new EU member States this burden seems to have been significantly alleviated, while the picture is more heterogeneous in the other emerging market countries.

5. Access of start-ups and SMEs to external sources of finance in the emerging market economies of the region has become easier. It nonetheless still remains a source of concern for entrepreneurs in Eastern Europe, Caucasus, and Central Asia (EECCA) and South-East Europe.

6. Recently across the region, Governments in cooperation with the private sector have been making efforts to strengthen public governance and reduce the scope for corruption associated with business operation and the scale of shadow economy. They are doing so through reforming the judicial systems and the tax regimes, through establishing special public-private anti-corruption consultative bodies and strengthening the accountability of civil servants. The limited data available attest to an improvement of corruption perceptions in emerging market countries, progress being particularly tangible in the new EU member States.

7. While the proportion of enterprises operated by women entrepreneurs in emerging market economies has grown recently, persisting gender barriers inhibit their access to resources, and to financing, in particular.

8. For successful enterprise development, it is crucial that the major stakeholders cooperate closely: i.e. central and local Governments, operational and would-be entrepreneurs, enterprise associations and training centres for entrepreneurs. Cooperation with the interested partners provides Governments with essential feedback, helping them to establish a regulatory and institutional environment that should create incentives for entrepreneurship, thus encouraging technological change and promoting local economic development.

RECOMMENDATIONS

(a) To central and local Governments

1. Consistently implement measures aimed at facilitating enterprise establishment, giving consideration to the recommendations of the World Bank and the European Commission, in particular to the recommendations to use the “single window” technology to register start-ups, employ standardized forms, enable online registration, introduce the “silence is consent” rule and keep administrative costs of registration low.
2. Simplify the procedures governing operational enterprises, in particular reduce the number of required permits and licences and increase their validity terms, improve coordination among various supervisory agencies and reduce the overall number of inspections born by enterprises.
3. Continue aligning the taxation policy to the needs of enterprises, especially the SMEs, and, in particular, simplify the taxation procedures, reduce the number of tax payments and improve the tax administration for enterprises. Where appropriate, namely with respect to innovating SMEs, consider implementing targeted measures of tax incentives.
4. In consultation with banking institutions, design measures facilitating access of SMEs to bank finance, in particular to special credit schemes for long-term investment financing, including prolonged grace periods, loan guarantees provided via public-private SME-focused programmes, and more favourable collateral acceptance rules. Drawing on assistance from international financial institutions, develop alternative forms of funding for start-ups and SMEs, in particular financing from specialized public-private funds, leasing, micro-financing and the like. Support the “investment readiness” of enterprises through training and other awareness-raising initiatives that enhance their ability to attract finance.
5. Implement systemic measures aimed at improving public governance and alleviating corruption and unofficial payments by enterprises. Strengthened independence of judges, enforcement of taxation rules penalizing illicit payments, the establishment of anti-corruption public-private advisory bodies and enhanced accountability of civil servants should serve the interests of emerging entrepreneurs and enterprise operation. Encourage business operators to embrace and enact nine principles spelled out by the United Nations Global Compact.
6. In order to reduce barriers to SME expansion abroad, in line with the OECD recommendations, create mechanisms that facilitate the participation of SMEs in the trade policy process, assist exporting enterprises in diagnosing and understanding the business environment they face in host countries, and design programmes that help firms to overcome trade barriers.
7. Address cultural barriers to enterprise growth through a series of measures designed to encourage and stimulate entrepreneurial spirit, particularly among young people, and help them understand the opportunities offered by entrepreneurship.

8. Seek to redress the imbalance with regard to communities underrepresented in the enterprise economy – particularly women and ethnic minorities. The enterprise development policies should be gender-sensitive.
9. Collect and disseminate information on good practices in reducing barriers to entrepreneurship and enterprise development in developed market and emerging market economies; on this basis, and in cooperation with interested private companies and entrepreneurs' associations, local governments should initiate training courses for government officials, company managers and would-be entrepreneurs.
10. Use public-private cooperation when designing and implementing enterprise development policy at central and local levels. Facilitate the participation of SMEs in public-private consultations on this subject and take into account their particular needs. In cooperation with entrepreneurs' associations, establish mechanisms for monitoring the implementation of enterprise-development policies.
11. In the development of policy and legislation for enterprise development, adopt the principle of "Think Small First" to ensure that their impact on SMEs is considered proactively during the decision-making process.

(b) To UNECE and its secretariat

12. The UNECE secretariat is invited to summarize the good practices presented and discussed at the Conference, as well as its recommendations, in the three working languages of UNECE as speedily as possible and to distribute the outcome of the Conference to member Governments, the private sector and academic institutions interested in this subject.
13. UNECE should focus its future work in the area of enterprise and entrepreneurship development in the following areas:
 - (a) Government support to innovative start-ups and SMEs; analysis and dissemination of good practices in creating enabling environment for clustering, subcontracting and participation of SMEs in international value-chains;
 - (b) Ways and means of facilitating the access of innovative SMEs to financing, including through venture and guarantee funds;
 - (c) Public-private cooperation in promoting the cross-border expansion of SMEs.

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ANNEX

Notes to Tables: Selected Indicators Measuring the Impediments to Entrepreneurship in UNECE Countries

Table 1 presents the rankings of the “most problematic factors in doing business”, as perceived by local executives surveyed by the World Economic Forum in 2004 in 125 countries. The ranking of ‘1’ corresponds to the “most problematic” factor of the total of 14 factors identified, while the ranking of ‘14’ – to the least problematic.

Table 2 presents the results of the enterprise survey conducted in 2005 in Belarus. The participants identified major obstacles to business development in that country ranking them from 1 (least important) to 5 (most important).

Tables 3 (a) and 3 (b) present the selected results of the World Bank survey of major impediments to entrepreneurship conducted in 2003–2008 in 175 countries. The indicators relate to the administrative procedures associated with starting an enterprise and the cost incurred by the entrepreneurs in terms of time and money spent for registering and rendering the enterprise operational.

The following are the assumptions regarding the companies to be established and operated. These are limited liability companies registered in the most populated city of the country. They are 100 per cent domestically owned and have 5 owners, none of whom is a legal entity. They have a start-up capital of 10 times the per capita income in 2005, paid in cash. They are engaged in general industrial activities, conduct no foreign trade operations and do not produce products subject to a special tax regime (e.g. tobacco). Their production is not associated with heavy pollution, and production sites and offices are leased. They do not qualify for investment incentives or any special benefits. They employ up to 50 national employees one month after starting up. They have a turnover of at least 100 times the per capita income and the company deeds are 10 pages long.

Tables 4 (a) and 4 (b) present selected indicators of the business environment as they influence the enterprise operation. These indicators come from the World Economic Forum’s Executives Opinion Surveys 2005-2006 and 2006-2007. The first indicator measures the impact of taxation on the incentives to work or invest, the score of ‘one’ corresponding to the perception that taxation significantly limits the incentives to work or invest, and ‘seven’ to the perception that taxation has little impact on the incentives to work or invest. The second indicator attests to the perception of businessmen regarding the easiness of obtaining a bank loan with a good business plan but without collateral. The score of ‘one’ corresponds to the perception that this is impossible and ‘seven’ to the perception that it is easy. The third indicator measures the availability of venture capital to entrepreneurs with innovative but risky projects. The ranking of ‘one’ means that the venture capital is perceived as not available and ‘seven’ that it is perceived as easily available. In addition to these three indicators of the business environment contained in both tables, the Table 4(a) referring to 2005-2006 presents also the fourth and the fifth indicators measuring respectively the impact of regulatory standards, that is, standards on product/service quality, energy, and other regulations (outside environmental regulations), and the scale of the informal sector in a

country. The fourth indicator's ranking of 'one' attests to the laxity or non-existence of regulatory standards as perceived by respondents and 'seven' to the perception that they are among the world's most stringent. Finally, the fifth indicator's ranking of 'one' corresponds to the perception that all the economic activity is registered and 'seven' to the perception that more than fifty per cent of it is unofficial or non-recorded. The indicators are calculated as moving weighted averages for two years.

Table 5 (a) and 5 (b) present the results from the World Bank survey relating to the taxation of medium-sized enterprises for 2005-2008. The "tax burden" incurred by medium-sized enterprises in their 2nd year of operation comprises the number of tax payments, time spent to comply with taxation requirements and the total tax rate as a percentage of profit. For 2006 and 2008, the total tax rate is further split into the profit tax rate, the rate of labour tax and contributions and other tax rate.

Table 6 shows the share of bank loans in the total value of external funding of small and large firms in selected developed economies in the second half of the 1990s. Firms with sales lower than EUR 7 million are considered small firms, whereas firms with sales exceeding EUR 40 million are considered large.

Table 7 presents the results of Transparency International ratings (Corruption Perception Index (CPI)), assessing the levels of corruption in selected emerging market economies of the region. The CPI is based on seven international surveys of business people, political analysts and the general public in 52 countries, and reflects their perceptions of corruption. The index varies from 0 to 10, and the higher the index value the lower the perceived corruption.

Table 8 presents the status of ratification of major international conventions referring to fighting corruption. The countries covered are the UNECE emerging market (transition) economies.