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PROMOTING AND ENABLING ENVIRONMENT FOR ENTREPRENEURSHIP  
AND SME DEVELOPMENT

Report of the International Conference  
“Reducing barriers to entrepreneurship and encouraging enterprise development:  
Policy options”

Note by the secretariat

*Summary*

The International Conference discussed the administrative barriers to enterprise establishment and operation, and Government action aimed at alleviating them (para. 4–7), regulatory changes, which render taxation systems more conducive to entrepreneurship and facilitate SME access to finance (para. 8 – 10), obstacles to the expansion of SMEs abroad (para. 11 – 12) and ways and means of fighting corruption hindering enterprise development (para. 13 – 15). It also discussed conclusion and recommendations, and made a number of proposals regarding the future directions of UNECE work (para. 16–37).

## I. ATTENDANCE

1. The International Conference brought together 62 representatives of Governments, private companies, business associations and academia from 21 UNECE member States. Representatives of the Eurasian Economic Community, the European Commission, the Organization for Economic Cooperation and Development, the Organization for Security and Co-operation in Europe also attended the Conference.

## II. OPENING OF THE MEETING

2. Mr. Andrey Vasilyev, Director of the UNECE Economic Cooperation and Integration Division opened the International Conference. He welcomed the participants and highlighted the major issues to be discussed. Among those – administrative barriers to start-ups, in particular cumbersome and protracted registration procedures, burdensome government monitoring of operational enterprises and associated corruption, heavy taxation and inadequate access of enterprises to external finance. He encouraged the Conference to reflect on policy actions, which could be advised to Governments to alleviate the indicated barriers.

## III. SUMMARY OF DISCUSSION

3. The International Conference discussed major drivers of entrepreneurship and enterprise development with particular focus on the catching-up economies of the region,<sup>1</sup> including the countries with economies in transition. It identified the prevailing barriers to entrepreneurship in those countries and addressed ways and means to alleviate them. In particular, the discussion focused on administrative barriers to enterprise registration and operation, and the ways these might incite corruption. Along with those, cumbersome taxation procedures as well as heavy tax rates incurred by SMEs were referred to as major obstacles to enterprise development. The Conference also reflected on how to facilitate the SME access to finance, and a special session was devoted to reducing barriers impeding their cross-border expansion. The subsequent round table discussion focused on the exchange of country experiences and good practices in fighting corruption. The final segment of the Conference focused on possible future policy actions to alleviate barriers to enterprise development and facilitate the cooperation of Governments, private sector, and the public to this end. This discussion resulted in the recommendations to national and local Governments agreed by the International Conference (see Annex I).

4. The discussion at the Conference confirmed that the major obstacles to enterprise development throughout the region were similar in all groups of countries and included administrative barriers to registration and operation of companies, impeded access to finance for entrepreneurs lacking track record and collaterals acceptable to lenders, high interest and taxation rates, as well as a certain lack of entrepreneurial skills within the population. The participants also emphasized the importance of psychological and cultural barriers to

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<sup>1</sup> The term “catching-up economies” is used to define the group of ten new EU member States (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), countries of Southern-East Europe (Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and The former Yugoslav Republic of Macedonia) as well as the countries of Eastern Europe, Caucasus, and Central Asia (EECCA) ( Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan).

entrepreneurship, in particular the fear of failure, and unfavourable attitude to would-be and failed entrepreneurs in the society, especially to youth and women. With respect to the latter, in particular, it was noted that women entrepreneurs in some countries of the region often faced additional difficulties, which included the lack of business networking opportunities, challenging traditional large family concept and difficulties of fund-raising for their enterprises (women not having property of their own to be used as collateral).

5. Speakers noted substantial progress in alleviating legal obstacles and burdensome administrative procedures related to registration and operation of companies in the catching-up economies. The revision of legislation is often the first step to this end. In the Republic of Moldova, for example, 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 to render them more conducive to entrepreneurship. Throughout the region, the simplification of enterprise establishment procedures, the use of a “single window” approach including at the regional level, the privatization of notary services, the liberalization of the system of licensing as well as on-line enterprise registration were considered as factors contributing to the shorter and cheaper company establishment process. The participants attested to the reduction in the number of inspections and simplification of associated procedures as one of the core elements of smooth enterprise operation.

6. At the same time, the administrative barriers to enterprise development persist. In the Republic of Belarus, for example, the number of procedures related to enterprise establishment and its operation is as high as 1500 at national and regional levels. In certain cases it is not the establishment of an enterprise but its exit from the market through bankruptcy that claims additional funds and time from entrepreneurs (taking up to 4 years in Kyrgyzstan). The technique of “single window” (credit registers) accumulating all information on financial obligations of enterprises would be helpful to remedy this situation.

7. To a certain extent, the reduction of administrative barriers is conditioned by the resources available to government bodies in charge of enterprise development. It was emphasized that the inconsistent and unpredictable changes in the relevant laws and regulations represented an important risk factor for enterprises. In order to be conducive to business establishment and operation, laws and regulations should be developed in cooperation between government agencies, associations of entrepreneurs and SME promotion bodies. The principle of “Think Small First” should be introduced to ensure that the impact of new regulations on SMEs is favourable.

8. The Conference noted that recently Governments in the catching-up economies of the region have endeavoured to decrease the tax rates and simplify the tax systems. According to UNDP, in the Republic of Belarus for example, the introduction of the imputed tax for SMEs was generally conducive to small enterprises and individual entrepreneurs coming out of the shadow economy; its fiscal impact was also beneficial. In many countries of the region, however, the tax administration and the taxation burden still represent an important impediment to entrepreneurship, pushing companies into the shadow economy. The participants emphasized that rendering taxation systems conducive to entrepreneurship would require a systematic assessment of their impact on enterprises through company surveys, and a feedback from SMEs

and individual entrepreneurs. A number of examples presented at the Conference attested to the importance of a dialogue between government officials and entrepreneurs in this context.

9. Several speakers noted a growing interest of commercial banks in the financing of SMEs in catching-up economies. In the Russian Federation, almost all of the existing 600 banking institutions have special programmes for SMEs, including those in the regions. However, the share of medium and small enterprises in the bank lending remains low, often not exceeding 10 per cent. To remedy this, Governments invest in capacity-building – for example, consultative services, business incubators and training centres, which foster the investor readiness and the demand of entrepreneurs for financial services. Venture funds and loan guarantees are particularly helpful at the regional level.

10. The emerging networks of business angels in the catching-up economies need support from SME associations and specialized government agencies. Potential investors should be trained in minimizing their losses and raising the investment returns. While the systems of certification for business angels in different countries vary, their introduction in catching-up economies may contribute to rendering investment in start-ups less risky. The Italian experience shows that public funding used to co-finance new companies can be conducive to enterprise development in high technology sectors. The key to success is combining public seed money with contributions from interested private investors.

11. Surveys by international organizations, OECD in particular, show that SMEs are underrepresented in the internationalized sector of the economy, international trade in particular. The Conference discussed obstacles to foreign expansion of enterprises, which include inadequate access to financing and market information gaps (obstacles internal to companies), as well as home and host country regulations unfavourable to exporting, importing and investment, and the lack of relevant incentives from Governments (obstacles external to companies). Throughout the region, regulations, which foreign traders have to take into account are complex and change frequently. However, the experience of the United Kingdom testifies that up to 20 per cent of the time an enterprise invests in studying and abiding by regulations can be saved through simplifying the latter and providing exhaustive information on-line through a “single window”.

12. The participants emphasized the importance of the company feedback to policymakers when the foreign trade and investment regulations are drafted or modified, and in the course of negotiating the trade barriers’ reduction. Public-private cooperation can be particularly helpful when facilitating the SME participation in international value chains. Governments can assist the would-be participants through providing information on the available networks, their innovation and technological capacity, and intellectual property rights protection measures, international patenting, in particular. In the same way, they can also foster consortia of SMEs to operate abroad and their clusters as springboards towards internationalization.

13. Corruption hinders enterprise development in many countries, and despite considerable progress in the catching-up economies its threat remains important, correlating with the number of procedures enterprises have to go through during their establishment and operation. Compared with their counterparts in the public sector, private enterprises pay in bribes a higher proportion of their revenues. The participants of the Round Table noted the potential for illegal payments in

various sectors, including the acquisitions of land for construction from the state, export – import licensing, state procurement and other.

14. The reform of the judiciary is one of the key elements of the fight against corruption, and it should endeavour to ensure the independence of courts from government bodies, as well as an adequate remuneration for judges reducing the incentives for bribe-taking. The experience of several new EU members shows that transparent, continuous and universally applied tax systems (for example, single-rate VAT) produce business-friendly environment and reduce corruption opportunities. On-line systems of interaction between government officials and companies contribute to the same objective. The participants noted that in many countries tax rates were still too burdensome for SMEs and entrepreneurs. They emphasized that taxation regimes should encourage companies to pay taxes and discourage tax evasion and bribes. Control by the public over government agencies in charge of enterprises, coordination among the relevant bodies, accountability and transparency of their operation form the core of institutional transformations reducing the potential for corruption. Consultative bodies bringing together representatives of Governments and other stakeholders may also contribute to this endeavour, in particular with regard to the implementation of anti-corruption laws.

15. Several participants mentioned that government officials and private companies should share the responsibility for bribe offering and taking. At the company level, codes of conduct and strong repulsion to bribe-giving integrated into the business culture can be important anti-corruption tools.

#### IV. CONCLUSIONS

16. During the Concluding Segment of the International Conference, the participants discussed its conclusions and recommendations, and made a number of proposals regarding the future directions of UNECE work in the area of enterprise and entrepreneurship development.

17. At the present stage of development of catching-up economies, the emergence of new enterprises and advance of entrepreneurship increasingly promote the national competitiveness, through enhanced innovation, new products and services marketed and better employment opportunities. The experience accumulated in developed market and catching-up 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.

18. 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 catching-up 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.

19. Over the last few years, the catching-up 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. At the same time, the administrative procedures related to setting up a company in catching-up 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.

20. Catching-up 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 catching-up countries.

21. The access of start-ups and SMEs to external sources of finance in the catching-up economies of the region has become easier. At the same time, it remains a source of concern for entrepreneurs in Eastern Europe, Caucasus, and Central Asia (EECCA) and South Eastern European countries.

22. 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. This is being done through the reform of judicial systems, tax reform, establishment of special public-private anti-corruption consultative bodies and strengthened accountability of civil servants. The limited data available

attest to an improvement of corruption perceptions in catching-up countries, progress being particularly tangible in the new EU member States.

23. While the proportion of enterprises operated by women entrepreneurs in catching-up economies has grown recently, persisting gender barriers inhibit access of women entrepreneurs to resources, financing, in particular.

24. 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.

## **II. RECOMMENDATIONS TO CENTRAL AND LOCAL GOVERNMENTS**

25. Consistently implement measures aimed at facilitating enterprise establishment, giving consideration to this end 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.

26. 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.

27. 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.

28. In consultation with banking institutions, design measures facilitating access of SMEs to bank finance, in particular 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 etc. Support the “investment readiness” of enterprises through training and other awareness-raising initiatives that enhance their ability to attract finance.

29. 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.

30. 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.

31. 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.

32. 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.

33. Collect and disseminate information on good practices in reducing barriers to entrepreneurship and enterprise development in developed market and catching-up 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.

34. 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.

35. In the development of policy and legislation for enterprise development to adopt the principle of "Think Small First" to ensure that their impact on SMEs is considered proactively during the decision-making process.

36. The International Conference invites the UNECE secretariat to summarize the good practices presented and discussed, 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.

37. The International Conference recommends the UNECE to 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; and
- (c) Public-private cooperation in promoting the cross-border expansion of SME.