CROSS-BORDER COOPERATION PROGRAMME
POLAND-BELARUS-UKRAINE 2007-2013

Thematic handbook no. 1

SMEs DEVELOPMENT
SMEs DEVELOPMENT

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INTRODUCTION

The EU has undergone very fundamental changes in the last two decades. The Treaty of Maastricht introduced the Common Foreign and Security Policy and Justice and Home Affairs (later named Police and Judicial Co-operation in Criminal Matters) as separate pillars. The latter of these now has full application after the abolition of the pillar structure by the Lisbon Treaty. This means that the Union has increasingly been tapping into areas which were traditionally reserved to nation states. This is particularly visible through the European Neighbourhood Policy and its instruments.

In general, the European Neighbourhood Policy (ENP) is a jointly owned initiative of the EU and its southern and eastern neighbours. The main goal of such an initiative – to achieve the closest possible political association and the greatest possible degree of economic integration. This goal builds on common interests and on values – democracy, the rule of law, respect for human rights, and social cohesion. (European Neighbourhood Policy (ENP) Overview, http://www.eeas.europa.eu/enp/index_en.htm)

This step brought under one umbrella the various geographical programmes (in particular, MEDA for the Mediterranean region and TACIS for Russia and the Eastern neighbours) and allowed for an increase in total allocation by 32% up to 12 billion EUR for the period of 2007-2013. The launch of the ENPI under the 2007-2013 financial perspective was supposed to bring greater coherence to the EU’s activities in the neighbourhood by pursuing both bilateral and multilateral forms of cooperation with partner countries.

This article is dedicated to analyses of the Cross-border Cooperation Programme Poland-Belarus-Ukraine, mainly in the sphere of small and medium enterprises (SME) development and improvement of the regional competitiveness.

The main research hypothesis is that cross-border cooperation within the Cross-border Cooperation Programme “Poland-Belarus-Ukraine” improves the effectiveness of the entrepreneurship and competitiveness of the regions within the Programme. The study primarily used the analysis of Programme documents, Ukrainian, Polish and Belarusian legislation, literature resources and statistical data.

The structure of this paper is as follows: in the first chapter I am going to provide the theoretical background to the definition of SMEs, their role in economic development and competitiveness development. The second chapter is dedicated to the SMEs’ current operation in Poland, Belarus and Ukraine, moreover some aspects of legislation, development of SMEs and regional competitiveness are clarified and analysed. In the third chapter the role of cross-border cooperation for the development of SMEs is disclosed. Moreover, examples of the projects within Cross-border Cooperation Programme Poland-Belarus-Ukraine 2007-2013. Chapter four is devoted to a conclusion and recommendations for further effective implementation of Programme instruments.
Among the most important methodological problems were the selection of appropriate data and indicators. This required to use not only data from official statistic agencies, but also from other institutions such as the Ministry of Finance, Ministry of Foreign Affairs, regional labour offices, local government units, both local and regional, programme documents and data of the Cross-border Cooperation Programme Poland-Belarus-Ukraine 2007-2013.

Belarus – sources and methodology

The main sources of data for research were data from the Statistical Yearbooks of Belarus, yearbooks of Belarus regions and website of the National Statistical Committee of the Republic of Belarus.

Lack of data

The first observation relates to the lack of data for districts of the Minsk oblast. The data for most indicators are not available for the districts covered by the Cross-border Cooperation Programme Poland-Belarus-Ukraine 2007-2013 within the Minsk oblast.
Therefore (taking into account the small intra and interregional differences in Belarus), as simplification, it was assumed that the indicators for this area will be proportional to the population of the whole oblast.

Secondly, the official statistical publications do not provide data on a regional basis for:
- Gross Domestic Product,
- The structure of employment

**Ukraine – sources and methodology**

The primary source of information which was used in our research was the Statistical Yearbook of Ukraine. Moreover, some data was also found on the websites of regions within the Programme implementation.

**Lack of data**

In addition to the shortcomings arising from the delay in data publication, some information in Ukraine in the regional context are not published at all.
THEORY

Main theoretical approach in the SMEs sector. Role of small and medium enterprises in modern economy.

The concept of entrepreneurship was in the sphere of interests of economists since the inception of economic science. It was firstly used by British banker and economist Richard Cantillon in the 18th century.

According to him, entrepreneurship is an economic activity, in the process of which the commodity supply and demand are contained in the relevance in terms of constant risk.

A deeper analysis of entrepreneurship was conducted by the French economist Jean-Baptiste Say, who saw it as a creative connection and coordination of the two factors of production – labor and capital in risk conditions.

“The essence of the capitalist economy is the birth of new businesses on the ruins of those that have fallen.” This thesis, sometimes called “creative destruction thesis”, was formulated by J. Schumpeter (Schumpeter 1961, p. 83) more than half a century ago.

This process noticed by Schumpeter causes continuous reincarnation of a market economy leading it to even higher levels of development. It is also the basis for the formation and development of small and medium enterprises, which in this approach constitute the basis of modern economy.

These companies are the “salt of the market economy and a base of democratic social order of economy” (Drucker, 2002, p. 475).

For a long period of time, only big corporations were in the focus of practitioners and scientists. The situation was changed drastically in the 70’s of the last century, when large economic organisations which were struggling with the problems of management, a lack of flexibility and costs not related directly to production, began processes of restructuring, involving, among others, imploring organisational structures and resignation of non-core business processes. As a result, the number of small businesses, only in OECD countries in the period of 1971-1972 increased from 29 million to 45 million (more broadly Chetty, 2009; Audretsch, 2003.).

What are the main advantages of the small business?

A small business responds quickly to changing market conditions, gives a market economy an increased mobility and provides profitability of those products which have become unprofitable for large enterprises.
It provides a competitive environment, prevents monopolization, helps to reduce unemployment. Small business provides a significant share of GDP and a significant number of jobs. Small businesses usually operate also in more competitive conditions than large companies. Due to the fact that they are not able to effectively restrict access to the market, they are forced to more intense competition than other entities, resulting in more efficient use of production factors.

The specificity of small businesses (as well as greater motivation) affects their greater ability to adapt to new market conditions and higher flexibility. This greater flexibility mostly is due to the simpler structure of a small company in comparison to a large business, and often less complicated decision-making processes, because of their smaller strength and less possibility of influencing the market.

Those countries with transition economies where the sector of small and medium-sized enterprises are actively developing, as a rule show better economic growth. Small business in countries with transition economies redistributes resources from inefficient industries in the sector, where resources are used more efficiently. Market restructuring of state-owned enterprises is also associated with the release of labour surplus. The small business sector absorbs these surpluses, and creates new jobs, market mentality, accumulates budget revenues and softens the severity of social problems.

The small business has particular importance in transition economies, where, in fact, along with privatization, it is the foundation for economic growth of the private sector and institutions of a market economy.

Taking into consideration such great importance of a small business, the international organisation (such as World Bank, OECD, World Trade Organisation and later the EU) began to use term “SMEs – small and medium enterprises”.

Nowadays, SMEs’ share in the total industrial output is very essential, for instance in Germany – more than 40%, in the United States and Poland – more than 50%, and in Israel and Scandinavia – more than 70%. Therefore, the question of small and medium-sized enterprises’ role in generating economic growth in economic theory does not cause major controversy, but at the same time it has a high degree of vagueness.

The vagueness appears at the very beginning and is associated with the definition of SMEs. In Poland, as in most EU countries, the criterion of identification is the number of employees in the company, which may not exceed 249. However, in some countries, the upper limit of employment is placed far below (for example, in New Zealand – 19 people, Italy – 20, Estonia – 50), while in others much higher (for example, in Canada – 499 people, and in Korea – 1000).

Moreover, in many countries, small and medium-sized enterprises are defined on the basis of the income received (e.g. France and the USA), or other indicators.

These differences have important implications for the debate on the role of SMEs for economic growth. Why? For example, due to different specificities of the companies employing
a dozen or dozens of people and those that employ hundreds of workers. As a result, we could often find in literature facts that small and medium businesses have all possible benefits for economic growth and development.

In most countries of the European Union (EU), as a basis for defining the size of the company, the general quantitative criteria is used. According to the current recommendation of the European Commission\(^1\), the following companies are distinguished:

Visit at a building materials production plant in Lviv within the project IPBU.01.01.00-06-570/11 "Developing an innovative model of the cross-border use of zeolitic tuff".
● micro – employing on average in the last two years up to 9 people, and having revenues from the sales of goods, products and services and financial transactions up to 2 million Euro and / or whose total assets do not exceed the same amount;

● small – for which the above criteria are: 10-49 people and 10 million Euro;

● medium – respectively 50-249 people and with an income amount of 50 million or total assets of 43 million Euro.

In addition to the characteristics mentioned above, Polish business practice has also other assumptions on the quantitative classification of enterprises.

As an example, we can use the reports provided by the Polish Central Statistical Office (GUS), which takes into account the employment criterion and ignores the value of income and wealth², or the Act on Accounting of 29 September 1994, where a group of small businesses includes individual entrepreneurs or their companies, which in the preceding year did not exceed the income amount of 1,200 thousand Euro.

Definitely, as an immediate effect of micro-enterprises created from the point of view of local authorities are the budget benefits arising from establishing new places of work (increase in revenue from income tax, real estate, reduced spending on social assistance).

Therefore, the generated free financial resources can be used for public support of economic growth and development that generally develops only after satisfying the basic current social needs, just in case free financial resources appear.

New jobs also means the stimulation of demand in the region due to the potential profit-reached by the new entity. In addition, we could observe further benefits of job creation rather quickly. For example, it could be improving the entrepreneurial spirit in an area with a high concentration of businesses.

Other benefits for economic growth stemming from the need to operate in a competitive environment should be higher innovativeness (Huse, Neubaum, Gabrielsson, 2005). This innovativeness is often not formal and not supported by research and development activities, but comes as a result of entrepreneurial attitudes towards observation of the changing market. Similar stimuli induce firms to invest, resulting in expanding the stock capital in the region, which is necessary in the process of value creation (Gajewski).

It is worth to mention that small and medium-sized enterprises in general are the most numerous part of the economy, and also because of this, the condition and dynamics of the development of the SME sector are crucial for regional economy and should be the subject of greatest importance.

In the next part of the paper, we are going to provide the analyses of the condition of SMEs in the form of regional profiles for each territory within the area of Programme implementation.

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² http://www.stat.gov.pl/
Description of the Programme territory

The Programme territory has a peripheral character in economic terms. Before the Programme started, the average GDP per capita in 2005 amounted to some EUR 3.7 thousand in the Polish part of the area and EUR 1.2 thousand in the Ukrainian part. The average GDP per capita in 2005 in the Belarusian part of the Programme Area amounted to EUR 2.5 thousand.

In comparison, GDP produced within the analysed cross-border area in 2012 was about EUR 23125.6 billion, with more than half of this quantity produced on the territory of Poland (58.2%). The proportion for other regions included in the analysed cross-border area was lower – 18.8% in the Brest oblast, 17.1% in the Lviv oblast and only 5.9% in the Volyn oblast. In real terms, the average annual GDP growth in Lublin voivodeship in the period 2004-2010 was 3.5% in comparison to 4.6% for the whole of Poland, Lviv oblast – 1.2% compared with 3.1% for the whole of Ukraine.

Therefore, both regions show a relatively constant trend towards divergence, i.e. to deepen the disparities of development compared to their countries.

Close to the average national level was the average annual rate of economic growth in the Brest and Hrodna oblasts for 2009-2011 – 4.4% compared with 4.5% for the whole of Belarus; the only region within analysed cross-border area where economic growth was mainly above the national average was Volyn oblast (4.4% compared to 3.1% for the whole of Ukraine).

In general Nomenclature of Territorial Units for Statistics, which includes 348 territorial units of the European Union (NUTS2), as well as all regions of Ukraine and Belarus, Lublin voivodeship has the distant 314th position in terms of GDP at purchasing power parity per capita, Podlaskie voivodeship – 343; Podkarpackie – 323; Brest oblast – 315; Hrodna oblast – 313; Minsk oblast – 310; Lviv oblast – 335; and Volyn and Zakarpattya – 343 and 341. No matter what method of comparison is adopted, the analysed territorial units are among the most underdeveloped regions in Europe.

In contrast, the Belarusian cross-border region is one of the most developed part of the country (in 2010 GDP per capita was 90% of national average).

The cross-border regions of the three countries clearly differ in the structure of employment. The Polish part of the cross-border region, in terms of the labour market, was dominated by agriculture (38.1%).

Source: own research based on data of Lublin, Podkarpackie, Podlaske Departments of Statistics, the General Directorate of Statistics of Brest, Hrodna oblasts, Minsk region, the Main Statistical Office in Lviv, Volyn and Zakarpattya regions.
Belarusian regions are the most industrialized among other parts of the Programme (34.3%) and in Ukraine, the services sector is the leader in the structure of employment – 59.5%. It should be noted that the degree of innovation in products manufactured in the Programme area is still low, due to the small expenditure on research and development (for example in the Polish part of the border region it is only 47% of the national average per capita, while in the Belarusian border region, employment in R & D sector is less than 10% of the total national employment).

Regional profiles in Programme cross-border area.

Micro, small and medium-sized enterprises play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises.

However, too few EU SMEs operate beyond national borders. Only 25% operate in one or more EU countries other than their own, and only 13% do business beyond the borders of the European Union (almost the same situation is in Poland). The internationalization of SMEs must be one of the priorities.

Cross-border cooperation in the development sphere of SMEs is very important for Ukrainian and Belarusian economic entities. Such cooperation will help to create the conditions for win-win situations. On one side, Polish companies benefit from easier access to external markets. In particular SMEs were helped to internationalize, gain access to foreign markets and influence the authorities of visited countries to eliminate non-tariff barriers, harmonize standards and strengthen the rule of law (Tajani, 2014). On the other side, local actors and authorities have a concrete chance to lure foreign investment.

Direct contacts between EU entrepreneurs and foreign authorities and companies are also an important part of the strategy to foster durable business relations. These missions bring together representatives of EU businesses and the authorities of third countries, encouraging future cooperation.

In Poland the SMEs sector generates almost 50% of the GDP, and of that, for instance, in 2011, micro companies generated 29.6%, small companies 7.7%, and medium companies 10.4% (large companies 24.0%; other entities 16.5%, and revenues from customs duties and taxes generated 11.9%). In 2011, out of the total of 1,784,603 entities operating in Poland, merely 3,189 were classified as ‘large’, so 1,781,414 were micro, small or medium. Companies of the SMEs sector employed 6.3 million people of the total of 9.0 million of labour employed in the private sector (Walczak & Voss, 2013).

In the Polish part of the region the level of entrepreneurship was relatively stable and ranged from approximately 70 entities registered for every 1,000 inhabitants.
As the most active in economic terms, we may refer to Podlaskie voivodeship where the number of economic agents per 10,000 inhabitants is at the level of 753, and less active, which include Lublin (724) and Podkarpackie (690) voivodeships.

In 2010, the average value of the analysed indicator for Poland in total was 981, for its part within the Programme – 736 (25.0% less).

The largest increase in the number of entities per 10,000 inhabitants was reported in the border area with Ukraine (from Hrubieszów in the north to Lubaczów poviat in the south). However, it was still lower than the national average. This mainly results from the structure of the business entities: visibly prevailing are family enterprises with low levels of sales, insufficient competitiveness and innovativeness. This fact also has an adverse impact on the share of SMEs in the total export of goods and services.

In general, the Polish part of the Programme region occupy a low position among other regions in terms of basic indicators showing the level of entrepreneurship.

Therefore, in the Polish part of the Programme small and medium enterprises have a potential which is still not fully used. The share of SMEs sector in sales income is smaller than its share in the total number of employed persons which shows that the sector is less effective.

The share of micro-businesses in export is also falling, both in terms of registered turnover and the sales at marketplaces, which is connected with factors like the limited number of Eastern tourists arrivals.
Despite the formal availability of all necessary laws and other regulations for the development of SMEs, Belarus is a country where the number of small businesses per thousand of the population is very low.

The main factor in the development of entrepreneurship in Belarus is significant government regulation and macroeconomic policies aimed to support the inefficient public sector.

The size of small enterprises in Belarus is slightly higher (13.2 people) than in industrialised countries (EU – 6 people, Russia – 9, Ukraine – 7). Apparently, this is due to the fact that in Belarus the category of individual entrepreneurs (IP) is separated.

In Belarusian GDP, the share of micro organisations is 4.9% (an increase of 1.2 percentage points compared with the results of 2010), small organisations – 8% (an increase of 0.9 percentage points), medium-sized organisations – 9.7% (0.1 percentage points). In 2011, the share of SMEs in the Belarusian GDP reached 22.9% (in 2010 – 19.8%).

Traditionally, Belarusian SMEs are located primarily in Minsk (22.8%) and the Minsk oblast (17.5%), the fewest Belarusian SMEs are in the Hrodna oblast (8.1%). Among individual entrepreneurs the trend is similar: the most in Minsk city (25%), the fewest in the Mogilev oblast (9.7%).
Today, entrepreneurship in Belarus is one of the most important components of the economy. It is characterised by the increasing in the number of business entities, namely of small and medium businesses. On 1 January 2013, according to the Ministry of Taxes and Duties, 403,294 business entities were registered, of which 334,326 are in the sector of small and medium-sized businesses (individual entrepreneurs – 232,851, micro-organisations – 88,607, small organisations – 10,531, medium-sized business entities – 23,37). Compared with the beginning of 2012, the number of small and medium-sized enterprises increased by 20,933 units or 6.7%.

Among the problems faced by SMEs in the implementation of their activities, we could underline the following:
1. Insufficient financial support and lack of real financial and credit mechanisms to ensure such support.
2. Tax legislation is still controversial and complex. Lack of fines differentiation is a negative factor for the performance of SMEs, since fines are a cost for any enterprise.
3. Administrative barriers. There are a number of barriers that appear on the way of improving the procedures for registration.
4. Large list of grounds for refusal in registration. There is a very extensive list, which sets out the grounds for refusal of registration.
5. Availability of requirements for notarization of constituent documents (and copies thereof), and high rates of notary public duties.

In 2013, in Ukraine there were more than 100 thousand SMEs, including 77.4 thousand individual entrepreneurs.

The regional SMEs distribution in the Programme area is presented in table 1.

### Number of SMEs by region (percentages to the total number of SMEs in relevant region (=100%))

<table>
<thead>
<tr>
<th>Region</th>
<th>Enterprises</th>
<th>Individual entrepreneurs</th>
<th>Enterprises</th>
<th>Individual entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>15.8</td>
<td>84.2</td>
<td>13.8</td>
<td>86.2</td>
</tr>
<tr>
<td>Volyn oblast</td>
<td>11.7</td>
<td>88.3</td>
<td>9.8</td>
<td>90.2</td>
</tr>
<tr>
<td>Zakarpattya oblast</td>
<td>14.2</td>
<td>85.8</td>
<td>11.2</td>
<td>88.8</td>
</tr>
<tr>
<td>Ivano-Frankivska oblast</td>
<td>13.5</td>
<td>86.5</td>
<td>11.7</td>
<td>88.3</td>
</tr>
<tr>
<td>Lvivska oblast</td>
<td>19.2</td>
<td>80.8</td>
<td>17.7</td>
<td>82.3</td>
</tr>
<tr>
<td>Ternopsilska oblast</td>
<td>12.1</td>
<td>87.9</td>
<td>10.0</td>
<td>90.0</td>
</tr>
</tbody>
</table>

According to the provided data, the leader in number of SMEs is Lviv oblast; however, in comparison to the EU average numbers, it is still too much work to do.
ANALYSES

The number of SMEs per 10 thousand of population (units)

<table>
<thead>
<tr>
<th></th>
<th>SMEs 2010</th>
<th>SMEs 2011</th>
<th>SMEs 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>77</td>
<td>77</td>
<td>81</td>
</tr>
<tr>
<td>Volyn oblast</td>
<td>50</td>
<td>50</td>
<td>55</td>
</tr>
<tr>
<td>Zakarpattya oblast</td>
<td>54</td>
<td>54</td>
<td>66</td>
</tr>
<tr>
<td>Ivano-Frankivska oblast</td>
<td>57</td>
<td>57</td>
<td>61</td>
</tr>
<tr>
<td>Lvivska oblast</td>
<td>80</td>
<td>80</td>
<td>81</td>
</tr>
<tr>
<td>Ternopilska oblast</td>
<td>43</td>
<td>43</td>
<td>49</td>
</tr>
</tbody>
</table>

In the Programme region, Lviv oblast’s economic characteristics differ a little than other cross-border regions within the Programme. First of all, according to economic potential, Lviv oblast has a leading position in Ukraine. It creates about 4% of Ukrainian GDP and takes 7th place among other Ukrainian regions.

As per 10 thousand of Lviv oblast’s actual population is 81 small enterprises, this is according to the average of the national index. Over 17% of small businesses operate in the industry. Attractive for small businesses are engineering, the light and food industry, the manufacture of wood and products made from it.

In Volyn oblast, on 01.01.2012, the total number of SMEs per 10 thousand of the actual population was 55 units.

At the districts level, the number of small enterprises per 10 thousand of the actual population of the oblast was from 13 to 59 units. 3.7 thousand smaller enterprises and about 29 thousand individual entrepreneurs which were registered in the Volyn oblast, generate 9.2% of the total regional production and provide more than 20% of budget revenues in the local budget. The same situation is better in Zakarpattya, where the number of active SMEs per 10 thousand of the actual population was 66 units.

Sales of products (works, services) by SMEs in 2012 was EUR 462,156,151. The share of small enterprises in the total volume of products (works, services) in the region was 18.3%.

According to author’s own previous research and detailed analysis of the literature database, we can underline the following main problems of SME development in Ukraine:

- Limited opportunities (especially for start-ups) in access to loans, credits and state financial support;
- Low purchasing power, large share of population in poverty;
- Worn-out and outdated technical and technological resources;
- Weak cooperation network with large companies and low involvement in public procurement;
- Insufficient access to regional, national and international business information, including on innovations, markets conjuncture, cooperation opportunities, etc.;
- Insufficient level of knowledge, skills and training in the entrepreneurial sphere.
The border regions act as natural structures during integration of national economic spaces in the “great economic space”.

Cross-border cooperation is a kind of “small” integration – an important part of “big” integration.

The nature of cross-border cooperation at different parts of the boundaries is determined by several factors and conditions: 1) the presence of boundaries which are internationally recognised and formalised; 2) the overall level of cooperation of neighbouring countries; 3) the requirements of security; 4) the level of socio-economic development of regions; 5) ethno-cultural characteristics of the border areas and the historical experience of interaction of local communities; 6) the mandate of regional authorities in the implementation of international activities; 7) the condition of cross-border infrastructure, including border crossing points.

We need to underline that our analysis does not have all the objective information, first of all due to the lack of objective data. The projects are in their implementation phase and it is really difficult to calculate real effects for a Programme territory at the present moment. Secondly, our thematic category is not a separate Programme measure or priority; therefore, all analysed projects have their own specificity and importance.

Last but not least, to obtain a whole picture of the competitiveness and development of entrepreneurship within the Programme area, we need to take into consideration many other aspects. For example, regional competitiveness and business sphere development directly influenced by the implementation of infrastructural projects and Large Scale Projects.

However, in our analysis we can use examples from other European-funded Programmes and projects within the same thematic category, and this will help us to see the synergy effect from the development of SMEs and improvement of regional competitiveness.

In general, our thematic category includes 12 cross-border cooperation projects. According to the grant contracts, the total amount which is allocated in this thematic category is EUR 7,888,959.96. In the territorial aspect, the Polish partners received EUR 4,585,286.31 (58% of the whole amount), Belarusian – EUR 277,400.13 (3.5%) and Ukrainian – EUR 3,026,273.52 (38.5%)⁴.

All of these projects are connected with different aspects of the development of SMEs in the region and improving regional competitiveness.

Taking into account the broad framework of the category, the author has grouped all projects into 3 main groups, according to their general course.

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⁴ According to the data from the budgets at the moment of grant contract signature.
Business support instruments

MAPS: IHOR DYKKY
Events for SMEs

Conferences
Business fairs
RES fairs
Business exhibitions
Study visits
1. Improving SMEs’ conditions and cooperation within the cross-border region

**IPBU.01.01.00-18-151/10** – “Science and experience for business”. As main goals of this project we could underline: improving conditions for business development and cooperation between Polish, Ukrainian and Belarusian SMEs (Podkarpackie voivodeship, Lviv and Hrodna oblasts). One of the main results of this project is the fact that until this moment 330 new entrepreneurs and companies were registered and serviced within the project. Therefore, we could speak about an established broad new cross-border network of entrepreneurs.

**IPBU.02.01.00-18-625/11** – “FARADAY” – Building of permanent mechanisms for cross-border cooperation in the field of RES. The main goal of this innovative cross-border project is the exchange of good practice and information in the sphere of how to improve conditions for the development of renewable energy sources within Podkarpackie voivodeship and Lviv oblast. In addition, within the project a three-language website was created. This website has an e-learning platform, which enable the institutions from the project area to increase knowledge and skills in the RES sphere and initiate contacts in the field of technology, science and business, which will establish cooperation between business groups and the research and development of the two regions.
IPBU.01.01.00-88-784/11 – “Development of the Small and Medium Entrepreneurship in Rivne and Lublin”. This project is a striking example of the project which addresses to improve SMEs’ competitiveness through ensuring intersectoral cooperation between business, governments and business support institutions. As a main result of such cooperation we could underline the creation of 2 institutions for business support in Rivne: Centre of Business Assistance and the Council of Small and Medium Entrepreneurs affiliated with Rivne Mayor. Moreover, until September 2014, 985 people received individual consultations at the Centre of Business Assistance; 12 Days of licensing institutions, during which 202 businesses and individuals who want to become entrepreneurs were consulted; 312 people have improved their qualifications through 12 training workshops; the training “Business School” was conducted (number of participants – 40 people).

IPBU.01.01.00-20-636/11 – “Development of cross-border economic cooperation between Białystok-Suwałki subregion and Hrodna Oblast in Belarus and Krosno-Przemysł subregion and Zakarpattya oblast in Ukraine”. The main feature of this cross-border project is a detailed analysis of the economic potential of the area within the project. This research helped to identify expectations, needs, barriers, and prospects of cross-border economic cooperation. Each Partner interviewed 100 enterprises from its area. On the basis of this detailed analysis, up to four cross-border cooperation models will be elaborated. Such models will determine the directions of actions, which should be taken up by the local authorities in order to create conditions for the development of cross-border economic cooperation.

IPBU.01.01.00-78-791/11 – “Time for business.” Creating conditions for business development in rural areas of Volyn Region in Ukraine and Lublin voivodeship in Poland by means of diversifying the agricultural production. This project is dedicated to the essential sector of the cross-border area. As we noted in the previous part of our analysis, the agricultural sector is a very important part of the cross-border economic complex. The main aim of this project is support of entrepreneurship in the sphere of agriculture through the diversification of agricultural production which would significantly improve their competitiveness.

To this date, the project has essential and important results: elaborated, published and distributed 5 thematic brochures for trainings participants in the agricultural sector. Moreover, 15 thematic seminars in Ukraine and 10 in Poland were conducted. According to project, farmers received not only methodological support, but had a unique opportunity for mutual cooperation and promotion at the cross-border regional level. It will significantly improve the competitiveness of the regional agricultural business in the future.

IPBU.01.01.00-18-486/11 – „Enterprise development through making investment areas of the Municipality of Lubaczów accessible and the recultivation of degraded areas of Yavoriv and Novyi Rozdil districts”. To create favourable conditions for entrepreneurship development in Polish-Ukrainian cross-border areas and attract internal and external investors.
Following results will be obtained (among others):

1. Built road infrastructure in Lubaczów city;
2. Rebuilt road infrastructure in the Municipality of Lubaczów;
3. Recultivated/cleared degraded areas in the Yavoriv district;
4. Recultivated/cleared degraded areas in New Rozdil;
5. Elaborated marketing research for investors;
6. Creation of Local Development Agency;

In general, thanks to project implementation 5830 m of new roads were built, 2689.2 m of water supply system, 1369.5 m of sewerage were constructed and modernised; 0.4 km² of degraded areas were recultivated.

**IPBU.01.01.00-78-677/11 – “Cross-border system of investor acquiring Poland-Ukraine”**

The main activities within the project: creation of Cross-border Investment Agency (TAI) in Ukraine, trainings for self-government units’ workers and study visits in Poland and in Ukraine, creation of a joint Internet website e-TAI, publication of the investment offer of Volyn and Podlasie.

The main aim of this project is to improve skills of non-governmental organisations, local government bodies, employees, tourist information centres within the borderland of Poland, Belarus and Ukraine in the implementation of joint cross-border projects in the field of tourism. Until today, 90 specialists have been prepared, and 5 organisations established new cross-border contacts in the field of tourism business.

**2. Cooperation between scientific centres and business organisations**

**IPBU.03.01.00-06-386/11 – “PL-NTU cross-border exchange of experience”.** The main goal of this project is to remove barriers and expand cooperation between Lublin University of Technology and National Technical University in Lutsk in the exchange of information and experience in the field of science, education and organisation. This project is a good example of combining theory with practice: for instance due to the project, partners planned not only to write and publish young scientists’ articles in the fields of mechanical engineering, electrical engineering and management, but to organize 40 business internships for Polish and Ukrainian students.

Such projects are very essential for cross-border economic cooperation and the development of SMEs, because they help to prepare well-prepared and trained specialists for business. An additional value of this project is the fact that the project includes preparing technical specialists, which is very important due to the deficit of such specialists in the cross-border area.

**IPBU.01.01.00-06-570/11 – “Developing an innovative model of the cross-border use of zeolitic tuff”**. This project has significant importance, because it is a great example of how to combine scientific potential and business benefits. The main goal of this project is to create a zeolite tuffs cluster which will help to establish an institutionalised cooperation network of scientific institutions, enterprises and non-governmental organisations in the field of the economic use of zeolite tuffs. Moreover, such cooperation will improve orga-
sational and technical solutions of how to use zeolite tuffs in the Ukrainian part of the region more effectively, and help to create a coherent concept, procedures and tools for sharing knowledge between the scientific and the enterprises sphere at the Polish-Ukrainian cross-border area. Until today, more than 40 companies were serviced within the project and 5 innovative technological solutions were developed.

**IPBU.01.00-06-717/11 “Creating cross-platform Biznestrans promoting and supporting cooperation between business and academic institutions in the direction of better links”**. This project combines the cooperation of facilities of two essential regional scientific centres such as The State Higher School named after Pope John Paul II in Biała Podlaska and Brest State University named after A. Pushkin. The main goal of this project is to create the grounds for common initiatives in cross-border cooperation among enterprises and scientific institutions operating in the cross-border region by breaking down barriers in cooperation between companies and universities, and knowledge transfer from universities in the sphere of entrepreneurship in the cross-border region. Current results: 30 companies consulted within the project, 2 Entrepreneur Service Centres created, e-platform for consultations elaborated.
3. Development of modern information facilities for further economic development within the cross-border region

IPBU.03.01.00-60-741/11 “Creation of unique informational base of agricultural enterprises of transborder union Euroregion ”Bug“. Due to awareness of inhabitants of the Euroregion «Bug» on the possibilities of cross-border cooperation in the sphere of agriculture this project will be developing. Therefore, a single informational database on agricultural enterprises represented by a printed directory in three languages (Russian, Polish, Ukrainian), CDs, Internet site with a «question-answer» column will be prepared. Created database, and other activities within the project implementation will create the prerequisites for cooperation, exchange of experiences among farmers of the three countries: Poland, Belarus and Ukraine.

IPBU.03.01.00-06-725/11 “GIS across the border – the joint platform of the area management in Bug Euroregion”. The main goal of this project is to improve joint and current information about investments and tourist attractiveness of the Bug Euroregion area and create a platform where this information will be available in one place. Such a platform with a database will increase the accessibility of the three countries’ border areas for investors and tourists, which consequently contributes to the economic and social development of the region by attracting outside investments and tourism development in the area.

Opening of the Cross-border Investment Agency in Lutsk within the project IPBU.01.01.00-78-677/11 “Cross-border system of investor acquiring Poland-Ukraine”.

PHOTOGRAPH: VOLYN OBLAST BUSINESS SUPPORT FUND
Promotional materials of the project IPBU.01.01.00-06-717/11
"Creating cross-platform Biznestrans promoting and supporting
cooperation between business and academic institutions in the
direction of better links".

PHOTOGRAPH: JTS
Conclusions and recommendations

Taking into account the previous analysis of the situation with the development of SMEs and regional competitiveness within the cross-border region, the author developed a SWOT analysis of further cooperation in this sphere. Therefore, all recommendations are corresponding and have logical connection to this analysis.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>● relatively high level of education among inhabitants of the region</td>
<td>● outdated economic structure</td>
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<tr>
<td>● a well-developed base of higher education</td>
<td>● insufficiently developed high-tech industry</td>
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<td>● creation of incentives for investors</td>
<td>● dominant monofunctionality in rural areas</td>
</tr>
<tr>
<td>● openness of the companies, institutions and people on cross-border cooperation</td>
<td>● insufficient level of education among rural inhabitants</td>
</tr>
<tr>
<td>● significant resources of natural raw materials</td>
<td>● organisational weakness in the support of cross-border economic cooperation</td>
</tr>
<tr>
<td>● favourable conditions for the development of the agricultural sector</td>
<td></td>
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<tr>
<td>● developed network of business support</td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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</thead>
<tbody>
<tr>
<td>● search for new markets by foreign capital</td>
<td>● differentiated legal provisions regarding the economic activities in Belarus, Poland and Ukraine</td>
</tr>
<tr>
<td>● improving the competitiveness of the labour force by increasing the level of specialization and education</td>
<td>● customs barriers</td>
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<tr>
<td>● development of technology transfer in universities, creation of science and technology parks</td>
<td>● lack of information about conditions of economic activity</td>
</tr>
<tr>
<td>● creation by regional and local authorities of a favourable climate for the development of SMEs and improving regional competitiveness</td>
<td>● low transport accessibility from other more developed regions</td>
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<tr>
<td>● support reforms in the agricultural sector</td>
<td></td>
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<tr>
<td>● further implementation of cross-border cooperation projects (New financial perspective)</td>
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After detailed analysis of the regional socio-economic facilities, trends of development, cross-border cooperation and implementation of the Cross-border Cooperation Programme Poland-Belarus-Ukraine 2007-2013, the following main priorities were formulated.

5. For this chapter adopted advice from the following types of documents were used as own recommendations: 1) Strategy for socio-economic development of eastern Poland until 2020, 2) Strategy for socio-economic development of Lviv region until 2016
Improving conditions for the development of SMEs. Creating supportive conditions for free competition and modernisation of the current regional economic structures.

It is necessary to provide opportunities for entrepreneurs to undertake activities aimed at making adjustments to the requirements of the EU market, by increasing access to information and consultancy, as well as possible sources for financing such activities. In accordance with the above, it is necessary to develop an advisory and information system for entrepreneurs, covering all areas related to enterprise management.

There is a number of institutions associating entrepreneurs and institutions providing information, advice, training and financing services to enterprises. However, their weak point is poor cooperation. This situation significantly limits possibilities for rapid development of the potential connected with providing entrepreneurs with a complex package of services; it hinders both efficient adaptation to changes in the external environment and the effective process of getting through to all entities potentially interested with their catalogue of services. Projects, which aim to enhance the position and function of the economic self-governing institutions of entrepreneurs as their representation and partner for other institutions (regional administration, financial institutions, etc.), must also be supported.
Activities to increase accessibility and the quality of specialist services must be undertaken by supporting training and investment projects for institutions which provide support and training for entrepreneurs, and institutions of labour market. Activities undertaken by institutions constituting an entrepreneurship environment, which enable a more efficient absorption of structural funds for supporting enterprises, are of special importance.

Due to the existing unfavourable conditions for the operation of SMEs, especially for micro-enterprises operating within the open market, modernisation and promotion projects for the benefit of this sector must be supported within this priority. Ventures aimed at improving the conditions for their functioning will focus on creating logistics centres, which provide services for companies by using experience and organisational structures of local governments, based on the Public and Private Partnership principle.

**Improving entrepreneurial and innovative attitudes in the region’s population**

Entrepreneurship, as well as formation and development of small and medium enterprises, is an effective method of stimulating the economic and social growth of the region and relieving problems related to the labour market. Due to the fact, that the SMEs sector plays a dominant role in the economy in the process of creating new jobs, it is necessary to create an adequate background and conditions for undertaking independent activities in this economic sector.

This priority is related to creating socio-psychologic conditions for changing the type of professional activity: from the role of an employee to the role of an employer; it should also be incorporated within the educational process designed for young people. It requires both financial support, as well as training and advice connected with the knowledge of enterprise formation and operation, opportunities to change one’s own social role and promotion of self-employment as one of the possible ways of functioning within the labour market.

This activity is designed to provide individuals, who plan to set up their own economic activity (fulfilling criteria defined for the micro-entrepreneur), with direct, complex support aimed at overcoming barriers, which hinder the process of starting activity business. The development of entrepreneurship in the region should be enabled by a variety of methods, including: financial and training/advice support related to launching and operating enterprises; forming new entities and developing already existing institutions; providing pro-innovative services mainly based on demand for new solutions reported by enterprises. Within this measure, various forms of assistance should be designed taking into consideration the support for entrepreneurs in the process of setting up enterprises and in the first period of their operation. Implementation of this activity should take place especially with the use of the network of centres providing training and advisory services.

The system of public education should be supplemented with activities conducted by entities implementing continued learning programmes. Promotion of lifelong learning requires to be supported by increasing access to education at all levels, including continuing education of adults, especially for people living in rural areas.
Main tasks to do:

- development of entrepreneurship in the region through financial and training/advisory support related to launching and operating enterprises,
- financial, training and training/advisory support, especially provided for microenterprises; development of academic entrepreneurship, support for economic activity based on connections between universities and the industry (particularly spin-off and spin-out companies) and establishing entrepreneurship incubators,
- promotion of entrepreneurial attitudes by means of training/advisory support and the educational system,
- creation of proinnovative and entrepreneurial attitudes among children and teenagers by education, training and training/advice systems,
- integration of science and research centres to increase the supply of innovations, which are in demand on the market,
- promotion of local demand for the products of regional enterprises by stimulating community campaigns aimed at raising consumers’ awareness of their impact on regional development.

Support for innovative businesses and stimulation of initiatives aimed at starting new innovative enterprises.

The Polish, Belarusian and Ukrainian economies are characterised by a relatively low level of innovativeness. There is a lack of mechanisms supporting innovation-related activities. The gap in the range of business activity resulting from the size of enterprises is very large in the region. Innovativeness of small enterprises in relation to the innovativeness of medium enterprises is 1:6, and in comparison with large ones it is 1:15. In EU countries, small enterprises are also less innovative; however, the proportion of innovativeness in small enterprises vs. large companies is 1:2, which means, that the gap between the range of activities performed by small and large enterprises is much smaller than in the cross-border region. The comparison of innovativeness of small enterprises in Poland, Belarus and Ukraine and in the leading EU states turns out to be disadvantageous for the regional enterprises.

One of the important instruments contributing to the process of launching and developing innovative enterprises in the region involves providing support for cooperation of enterprises from the SMEs sector with large enterprises, especially operating within machine and computer industries, which require a large scale of production and high R&D and RTD investments. In such a situation, small and medium enterprises function as subcontractors supplying large enterprises with complex subsystems and components. Diffusion of innovativeness and technology transfer is the result of such cooperation.

Main tasks to do

- increasing the ability of enterprises to create and absorb innovations within the regional innovation system, which is being established,
- development of the regional and local infrastructure supporting innovation, especially by forming and developing already existing: science and technology parks, industry parks, technology incubators, innovativeness centres, etc.,
- stimulation of and support for the development of innovative trade clusters and partnerships,
CONCLUSIONS AND RECOMMENDATIONS

- development of expert advisory services related to the development of enterprises based on innovations (including those related to export and intra-community trade),
- elaboration of directions for the development of innovative clusters and partnerships.

Enhancing cooperation between the academic sector and business entities.

The key factors crucial for the competitiveness of the regional economy are: high innovativeness of enterprises, as well as efficient and effective use of knowledge and research by the industry sector. In the cross-border region within the Programme implementation, creation, diffusion and absorption of innovation are at a low level.
The research proved that universities cooperate with enterprises only to a very small extent, and also they do not cooperate with other academic centres with regard to elaborating and implementing innovations. That is why it is necessary to create, at the regional level, mechanisms stimulating cooperation between the economic and science sector by creating an effective information platform within creating a regional innovation system. The R&D sector should supply economic operators with proposals related to practical applications of the available knowledge with respect to the commercialisation of inventions.

**Main tasks to do**

- enhancement of the research and teaching resources of higher education institutions and R&D institutions, particularly with regard to their facilities and buildings, as well as research equipment,
- establishing and developing the communication and cooperation network between economy, science and government,
- development of knowledge and research within the fields of science which are of strategic importance for the region,
- launching regional laboratory centres; developing a network of accredited laboratories,
- support for the integration of the structural potential of the laboratory facilities in the region and systematic development of their competences confirmed by accreditation certificates.

**Development of the region’s business management personnel and improvement in the level of education, skills and competences.**

“Soft” activities such as proper education of children and the youth within the school system, constant investments in human capital, workers and entrepreneurs, and also the belief that only creative, entrepreneurial, and innovative attitudes provide a chance for the development of people, enterprises and the regional economy, causes the conviction that only knowledge and innovations develop international competitiveness of the region to shift at a higher level with living quality of all inhabitants of the Programme territory.

Workers should be able to retrain or to establish businesses, speak at least one foreign language well (especially English, which is the most commonly spoken language in the EU countries), use ICT and computer programs easily.

**Main tasks to do**

- support for the education of children and teenagers aimed at creating proinnovative attitudes,
- support for the integration of research communities and centres aimed at increasing the supply of innovations,
- training/advisory support (general and specialist) for managements and personnel of enterprises in the region,
- support for the development of centres which impact knowledge and skills, especially related to technology,
- training/advisory and financial support for university teachers and personnel of research entities, students, university graduates, doctoral students related to starting their business activity,
- support for the organisation of mass events promoting sciences.
Promotion of the economic and investment potential of the region including potential high-growth sectors

Undertakings aimed at improving competitiveness within investment attractiveness should be accompanied by coherent promotional activities, creating a positive economic image of the region. All promotional activities should create the image of the region as attractive for investments, and reach a wide group of recipients, especially within the high-growth sectors. During promotion, the most crucial is the regularity of activities undertaken, that is why it is important to join records of the regional development strategy with records of the promotional programme. Promotion should be aimed at national and foreign investors and oriented at attracting outside capital in particular within direct foreign investments. All promotional undertakings should be purposeful and focused on the chosen groups of foreign investors, which is possible due to management of contacts with them.

Activities in the scope of the promotion of the investment potential should be clearly divided into outside and inside promotion. In the group of activities for outside promotion, taking part in the chosen investment fair must be included into traditional activities. There should be much more emphasis on multilevel promotional activities, requiring to engage a number of partners and bearing the hallmarks of direct marketing. The active promotion of the region should be aimed at direct contact with the selected group of potential investors and be multilevel: trade meetings with reference to forming a network of subsuppliers (corporation offers), opportunities to gain qualified personnel, tradition and potential localisations. Such prepared packages of offers should reach the chosen foreign and national companies.

Outside promotion should be focused on advisory activities for local government accountable for pro-investment policy. The common, directed discussion should increase accessibility of investment areas, their proper preparation, popularisation of allowances and preferences for investors (local tax allowances), increase of awareness related to taking care of a proper technical infrastructure. Cooperation of self-governments with local entities dealing with investors should be of a broader scale.

Inside promotional activities also seem to be advisable, e.g. a contest for the best investment areas.

**Main tasks to do**
- elaborating and updating the digital catalogue of investment options,
- intensification of promotional activities aimed at investors representing the high-growth sectors,
- systematic increase of accessibility to investment areas and also their adequate preparation, both in terms of necessary infrastructure and defined preferences for investors.
Supporting agricultural producers is one of the objectives of the project IPBU.01.01.00-78-791/11 “Time for business” - Creating conditions for business development in rural areas of Volyn Region in Ukraine and Lublin voivodeship in Poland by means of diversifying the agricultural production.
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