

**BLACK SEA
ECONOMIC
COOPERATION**

**KONRAD
ADENAUER
STIFTUNG**

**CHAMBER OF
COMMERCE OF
SERBIA**

**WORKSHOP ON
“FINANCING OF SMES”**

Belgrade, 13-16 October 2005

Summary Proceedings

1. The Workshop entitled “Financing of SMEs” was held in Belgrade on 13-16 October 2005. It was jointly organized by the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS) and the Representation of the Konrad-Adenauer-Stiftung (KAS), Turkey, in cooperation with the Chamber of Commerce of Serbia.

2. Welcoming statements were delivered by Ambassador Tugay ULUÇEVİK, First Deputy Secretary General of BSEC PERMIS; H.E. Andreas ZOBEL, Ambassador of the Federal Republic of Germany to Serbia and Montenegro; Dr. Stojan JEVTIĆ, Vice-President of the Chamber of Commerce of Serbia; and Dr. Bernhard LAMERS, Resident Representative of KAS in Belgrade.

2.1. Ambassador T. ULUÇEVİK welcomed the participants of the Workshop on “Financing of SMEs”. Pointing to the world-wide broad agreement that SMEs are the backbone of modern market economies he said that more than 3 million SMEs in 12 BSEC Member States employed over 21 million employees in total, while the number of unemployed amounted to 10 million. Underlining the role of SMEs in the economic, social and political development of the Member States of BSEC, particularly those of in transition, he recalled that BSEC PERMIS had engaged in a campaign to raise the public awareness in the BSEC region of the importance of SMEs. He expressed thanks to KAS for its cooperation in this effort.

Emphasizing the significance of the Workshop Ambassador T. ULUÇEVİK pointed that lack of access to finance was one of the major obstacles SMEs were facing. He expressed the view that without finance SMEs could not acquire or absorb new technologies, nor could they expand to serve global markets or even establish business linkages with larger firms. He concluded that finance seemed to be the obstacle and/or the key to everything and that for the SMEs to grow and compete in the global economy, the banks had the most important role to play.

2.2. H.E. A. ZOBEL, in his words of greetings, highlighted the important role played by the SME-sector in Germany. He drew attention to the importance of the direct investment in order to stabilize the entire region.

2.3. Dr. S. JEVTIC mentioned the importance of learning in the era of entrepreneurship while the SMEs are the vital players of the economy, but they are also vulnerable and face difficulties to access to financing.

2.4. Dr. B. LAMERS welcomed the Participants of the Workshop on behalf of KAS and expressed the significance of the event. He mentioned the role of the social market economy, which is a successful political framework condition in Germany. This is still valid in the world after 40 years of its existence, especially in a widening globalized world.

3. The welcoming statements were followed by key-note addresses on the subjects of “Development of the SME Sector and Investment Stimulation” and “Financing of SMEs” which were delivered by H.E. Ms. Zora SIMOVIC, State Secretary, Deputy Minister for Economy, Member of the Commission for the EU Accession Coordination, Government of Serbia; and Mr. Radovan JELASIC, Governor of the National Bank of Serbia, respectively.

3.1. H.E. Ms. Z. SIMOVIC delivered a lecture on the “Development of the SME Sector and Investment Stimulation”. The Government of Serbia achieved significant results from an economy with 112% inflation rate in 2000 and reduced it to 14% in 2004. Since 2004, 154 laws passed by the Parliament including 70 ones related to change of the economic environment. The current government policy aims at eliminating restrictions to SME growth and provide more development fund facilities for new small SMEs.

3.2. Mr. R. JELASIC summarized the major problems in “Financing of SMEs” in Serbia as following:

- (i) high interest rates that match the level of risk cannot be accepted very high-risk related to the entire business chain;
- (ii) non-existence of a credit registry; and
- (iii) legal costs are high - no major difference compared to large corporate although loan amounts substantially lower.

Current soft loans available to SMEs in Serbia are :

- European Agency for Reconstruction;
- European Investment Bank;
- Government of Italy;
- European Fund for Serbia.

4. The Workshop was co-chaired in rotation by Dr. Stojan JEVTIC, Vice-President of the Chamber of Commerce of Serbia; Mr. Frank SPENGLER, Resident Representative of KAS in Turkey; Ambassador Tugay ULUÇEVİK, First Deputy Secretary General of BSEC PERMIS; and Dr. Bernhard LAMERS, Resident Representative of KAS in Belgrade.

5. The Workshop was attended by the representatives of the following BSEC Member States:

Republic of Armenia
Republic of Azerbaijan
Republic of Bulgaria
Hellenic Republic
Republic of Moldova
Romania
Russian Federation
Serbia and Montenegro
Republic of Turkey
Ukraine

6. The representative of the Black Sea Trade and Development Bank (BSTDB) and the former UNECE Regional Adviser on Entrepreneurship and SMEs from Hungary also participated in the Workshop.

The list of participants is attached as Annex I and the Program of the Workshop is attached as Annex II.

7. On the second day of the Workshop, Dr. Zoran BOJOVIC, Senior Adviser, Chamber of Commerce of Serbia; Prof. Dr. Dejan ERIC, Belgrade Banking Academy; Dr. Elke HELLSTERN, Representative of the Kreditanstalt für Wiederaufbau (KfW) in Serbia and Montenegro; Dr. Antal SZABO, UN (ret.) Regional Adviser; and Dr. Ahmet Nebil İMRE, Chief Economist, Black Sea Trade and Development Bank addressed the Workshop as lead speakers.

7.1. Dr. Z. BOJOVIC provided information on the Strategy for Development of SMEs in Entrepreneurship in Serbia in 2003-2006. The strategy focuses on priority sectors, capable of generating economic growth, increasing employment and increasing foreign currency flow. Serbia consider the following sectors as priorities: (i) food-processing; (ii) manufacturing; (iii) tourism; and (iv) e-commerce, e-business.

The current 69,000 SMEs employing 270,000 people face problems in getting financial resources. Recently a republican guarantee fund was introduced. In addition to the lack of financing the major obstacles of entrepreneurship development consist of low management capabilities, lack of quality assurance and low level of innovation.

7.2. Prof. Dr. D. ERIC analyzed the situation of the SME-sector in the SEE region. Some common problems faced by SMEs are:

- technological gap and inefficiency;
- human capital - knowledge and education;
- uncertainty and asymmetric information;
- marketing;
- R&D, innovation; and

- financing start-up, growth, expansion, transformation, reorganization, modernization, etc.

He highlighted that different target groups request different forms of financing from pre start-up phase to start-up and from expansion to turnaround satisfying the need a financial lifecycle of SMEs.

Governments could help bridging the financial gaps with a lot of government schemes and measures.

7.3. Dr. E. HELLSTERN and Ms. Svjetlana MANDRINO, Project Coordinator in Serbia and Montenegro informed the participants on the European Fund for Serbia, a revolving financing fund which enables existing Serbian banks to build up small enterprise portfolio.

7.4. Dr. A. SZABO made a presentation on “Microfinance and Credit Guarantee Schemes - Experiences in the EU and in Economies in Transition”. The preconditions for effective work in financial support of SMEs include (i) an enabling legal and regulatory environment for business; (ii) appropriate government policies; (iii) appropriate alternative financial schemes as start-up credit scheme, microcredit, credit guarantee schemes, leasing and equity facilitation.

In the line of the UN Millennium Development Goals microfinance plays an important role to provide financial services to a significant number of unemployed, start-ups, low-income, economically active people to become self-employed and improve their conditions and local economies. The European Council urged its Member States to play attention to micro-credit for job creation, enterprise development, financial sector development, self empowerment and poverty alleviation. Credit/loan guarantee schemes provide access to loans to SMEs who would not otherwise obtain this finance. Guarantee schemes should aim at sustainability, covering their costs from fees and other income.

7.5. Dr. A. N. ÎMRE highlighted the tremendous potential of the BSEC countries with total population of 325 million. BSTDB is a relatively new bank, established in 1999, with major shareholders from Greece, the Russian Federation and Turkey. In spite of the fact that development of SMEs is a crucial step in transition to market economy, basic macroeconomic policies consider privatization rather as an aim instead of an instrument for the economic growth. In order to foster active and sustained development of SMEs across the region harmonization of existing country-specific approaches to SME financing needs to be enhanced. There is a need to create SME-specific financial services and diversify the financial support. Dr. A. ÎMRE presented various good practices from the BSEC region and drew attention to the availability of the financial tools offered by BSTDB.

8. An exchange of experience in financing of SMEs by national representatives/experts from the BSEC Member States took place. Issues addressed included:

- a) Legal and administrative environment for creation of financial intermediaries (like micro credit institutions, credit guarantee schemes. etc.) for support of SMEs;
- b) Special start-up tools (grants, loans, etc.);

- c) Effects of microfinance on social and human development – poverty alleviation;
- d) Relationship between start-up businesses, business service providers and financial intermediaries;
- e) The role of venture capital and business angels in development of fast growing enterprises.

Question and answer session was held after each presentation.

9. On the third day of the Workshop, Prof. Dr. Dejan DJORDJEVIC, Expert for SMEs and Entrepreneurship, Professor at the Faculty for Technical Science Mihajlo Pupin and Ms. Ljiljana BOZOVIC, Manager for Institutional Support, Directorate for Development of SMEs – Montenegro provided information on “The Situation of SMEs regarding Financing in Serbia and Montenegro”.

10. Later on the Participants of the Workshop, accompanied with the Representatives of the Serbian Chamber of Commerce and the Regional Chamber of Commerce Valjevo, had the opportunity to visit the “Farmakom” Entrepreneurship and the Fair for SMEs “PRIMA” in Sabac (at the Sport Arena).

Final Discussions and Conclusions

11. The following points were made in conclusion:

11.1. Financing SMEs in countries in transition is one of the major burdens of entrepreneurship development.

11.2. Security access to capital/initial credit is the major problem for start-ups, especially without collateral.

11.3. European SMEs are heavily reliant on bank credits as external finance.

11.4. SMEs represent very heterogeneous groups of businesses. Different status and phases of businesses require different approaches and tools, especially in the (i) pre start-up phase; (ii) start-up; (iii) expansion; and (iv) turnaround.

11.5. Banks perceive start-up businesses and micro-credits as high-risk and low-return activities. The handling costs for micro-loans are very high.

11.6. Access to finance is more difficult for small businesses rather than medium-sized enterprises.

11.7. In many BSEC countries lack of law on microcrediting hinder the creation of microfinancing commercial companies and do not allow non-governmental organizations-NGOs- to deal with lending operation. The recent Law No: 240/2005 on “Microfinancing Commercial Companies” adopted by the Romanian Parliament should be studied and the BSEC Member States are encouraged to develop similar legislative act.

11.8. Existing microfinance institutions in the BSEC region like in Armenia, Bulgaria, Greece, Romania and the Russian Federation demonstrate that through appropriate financial services a significant number of unemployed become self-employed and improve their conditions and local economies. Microcredit has proved to be an efficient and effective tool for promoting entrepreneurship, particularly useful to promote self-employment and solve problem of social inclusions and alleviate poverty.

11.9. Credit/loan guarantee facilities are to reduce the difficulties that SMEs face in having access to financing because of relatively higher risk represent and insufficient security.

11.10. UN Millennium Development Goals, the Microcredit Summit, Ministerial Conferences like the “BSEC Declaration on SMEs at the Dawn of the 21st Century”, Bologna and Istanbul Charters for SME Policies, EU Charter of SMEs emphasized the problems and importance of financing SMEs which should be elaborated in relevant national SME development strategies and programs.

11.11. Venture capital and Business Angel Network among the financial instruments are rather weak or not exist in the BSEC region.

Recommendations

12. The following recommendations were made:

12.1. The priorities for development of financial schemes for SMEs are the following:

- creation of an enabling legal and regulatory environment for SMEs and business operations;
- improvement of capacity-building, development of physical business support infrastructure- especially the establishment of micro-credit guarantee schemes for fostering the entrepreneurship;
- training for staff in lending and fund management in order to increase the managerial and technical expertise of financial intermediaries;
- provide soft advisory services for entrepreneurs;
- encourage accounting bodies to recognize, measure and report intangible assets of small businesses;
- improve the level of financial reporting and disclosure of financial data and statements;
- introduce transparent principles of corporate governance at financial intermediaries.

12.2. Increase public awareness and understanding of microfinance and microcredit as vital parts of the development process;

12.3. The participants of the Workshop urged their countries to pay special attention to microcredit in order to encourage unemployed people to become self-employed and small businesses to get started and growth.

- 12.4.** The participants agreed on the importance of disseminating good practices of financing SMEs in the BSEC region; and
- 12.5.** There is a need to achieve better synergies between enterprise, economic and fiscal policies of each BSEC Member State.
- 12.6.** The Member States are encouraged to provide assistance through their national SME agencies to reduce interest rate and risk in financing SMEs.
- 12.7.** Some participants suggested to review the role and situation of the cooperatives and special mutual credit facilities in one of the coming BSEC Workshops
- 12.8.** BSEC Member States should rely more actively on the financial support provided by BSTDB. On the other hand BSTDB should organize special training and activities for SME national authorities on project development and finance in order to promote financial flows across the region.
- 12.9.** Encourage innovation and new partnership to build and expand the outreach and success of financing start-ups.
- 12.10.** The participants should take note that UNECE will organize a special Forum on Financing SMEs to be held at the Palais des Nations in 2006 in Geneva.
- 12.11.** The participants of the Workshop suggested to devote the next BSEC event for reviewing the achievement of the SME-sector development in the region during the last decade and in line with the “BSEC Declaration on SMEs at the Dawn of the 21st Century” give further orientation for future activities.
- 13.** The concluding remarks were made by Ambassador Tugay ULUÇEVİK, First Deputy Secretary General of BSEC PERMIS who, inter alia, highlighting the project-oriented feature of BSEC said that BSEC had its own Economic Agenda and a project generating mechanism in the form of the Project Development Fund (PDF). He gave information on PDF and the criteria established therein according to which project proposals would be evaluated by BSEC. He encouraged the participants both from the public and private sectors to elaborate and promote projects in the field of SMEs which could duly be presented by the BSEC Member States for evaluation within the mechanism of PDF.
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