



Study Guide

Topic Area A

Promoting the role of Small and Medium - sized Enterprises (SMEs) in international markets. The importance of providing guarantee funds, promoting dialogue on e-commerce and enhancing customs matters cooperation in the Black Sea Region

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Study Guide for the Topic Area A: *Promoting the role of Small and Medium - sized Enterprises (SMEs) in international markets. The importance of providing guarantee funds, promoting dialogue on e-commerce and enhancing customs matters cooperation in the Black Sea Region* to be discussed at the Council of Ministers for the Ministerial Summit of the Black Sea Economic Co-operation for its simulation during the 7th Rhodes Model Regional Co-operation to be held in Rhodes, October 12-16, 2016. Version 1.0 – Pages 26 – Last update: 20/08/2016

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1. Welcoming message

Dear participants,

It is our uttermost pleasure to welcome you to RhodesMRC 2016 and more specifically to BSEC, one of the first committees that have ever been simulated in this magnificent simulation of regional and international organizations. We first participated in RhodesMRC back in 2014 and despite the fact that its size almost quadrupled over the past two years its unique characteristics such as academic excellence, organizational perfection and cooperation ambience are still omnipresent. For those reasons we truly believe that your participation in RhodesMRC will be an unforgettable experience for each and every one of you regardless your previous experience in such simulations. The document that you are holding in your hands is the study guide of our committee. Its aim and our expectation is that through this document you will be capable of acquiring a more profound insight into the topic under discussion. During your preparation this document will be a compass for your research and combined with it, will allow you to present us your position paper (= your country's policy on the topic) and will prepare you academically for the sessions of the simulation. However, apart from acquiring knowledge on the topics under discussion do not neglect to read the rules of procedure something that will facilitate our committee's work.

As the board of BSEC we are here to assist you in your endeavor through the functioning of the SME sector and food security issues. We acknowledge that this year's topics are both intriguing and challenging but we are here to answer your inquiries and assist you in any way possible. We both expect that our cooperation will be based on trust, communication, punctuality and respect which all work both ways.

Looking forward to meeting you all next October in the beautiful island of Rhodes,

The Board of BSEC,

Tzivra Kallirroï-Rodanthi, President

Lagouvardos-Kotronicis Orestis, Secretary General

2. Introduction to the Institution

The Organization of the Black Sea Economic Cooperation (also known as BSEC) dates back to 1992 when the heads of 11 states gathered in Istanbul with the purpose of signing the ‘Istanbul Summit Declaration’ and the ‘Bosporus Statement’. With the entry into force of its Charter on 1 May 1999, BSEC acquired international legal identity and was transformed into a fully-fledged regional economic organization –the Organization of the Black Sea Economic Cooperation¹.

With the accession of Serbia in 2006, the Organization has now 12 member states. Those are the following: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Serbia, Turkey and Ukraine. Apart from them, there are also 13 observer nations (including the United States of America), 8 sectoral dialogue partner nations and a plethora of observer and sectoral dialogue partner organizations.

The role and the mandate of the Organization of the Black Sea Economic Cooperation is to promote multilateral political and economic cooperation in many important areas such as agriculture, the role of SME’s, crime prevention, banking and finance, energy etc. in the Black Sea region.

Moreover, the financial pillar of BSEC is the Black Sea Trade and Development Bank (BSTDB). Created from the 11 founding members of BSEC the BSTDB’s cumulative portfolio has approved many operations in the key sectors of infrastructure, energy, manufacturing and telecommunications with total funds provided that amount to EUR 3.5 billion².

BSEC headquarters are located in Istanbul.

¹ The Organization of the Black Sea Economic Cooperation, *BSEC at a glance*. Available from: <http://www.bsec-organization.org/Pages/homepage.aspx> . [Accessed: 12th May 2016]

² Black Sea trade and Development Bank, *About Us*. Available from: <http://www.bstadb.org/about-us>. [Accessed: 12th May 2016]

3. Introduction to the Topic

During the past three decades the term small and medium-sized enterprises (SMEs) is being used so as to determine those businesses occupying the space between microenterprises and large firms³. Despite the fact that there is no internationally accepted definition for SMEs, two basic criteria are taken under consideration for the classification of a firm as an SME or not: the number of its employees and the value of its revenues (or its turnover).

The World Bank for instance has set the threshold concerning the maximum number of employees at 300 and concerning the volume of revenues at \$15 million. On the other hand, in the European Union, a small-sized enterprise is a company with fewer than 50 employees, while a medium-sized enterprise is one with fewer than 250 employees⁴. Regardless the fact that those thresholds vary from country to country the most frequent threshold concerning the number of employees is at 250 employees per SME.

On the other hand, the BSTDB characterizes as an SME a business which meet the following criteria: '(i) be fully registered as legal business; (ii) have up to 250 employees; and (iii) not be majority owned subsidiary of large enterprises, either domestic or foreign based'⁵.

Regardless the fact that the Small and medium-sized enterprises neither hire many employees nor have significantly high revenues are being characterized as the “backbone” of the economy of many countries. “Their share in total firms can account for as high as 95% in some countries. They are deemed the biggest contributors to creating new job opportunities within economies. It is found that SMEs with 250 employees or less generate 86% of the new jobs”⁶. In a report/survey conducted by the World Bank’s development and research group on finance and private sector development team on April 2011 it was found that in countries where unemployment rates were decreasing, small entities with less than 20 employees generated slightly less than 50% of the new jobs. However,

³ Brooking Global Economy and Development (2009), *Defining SMEs: A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries*. Available from: http://www.brookings.edu/~media/research/files/papers/2008/9/development%20gibson/09_development_gibson.pdf . [Accessed on 14th May 2016]

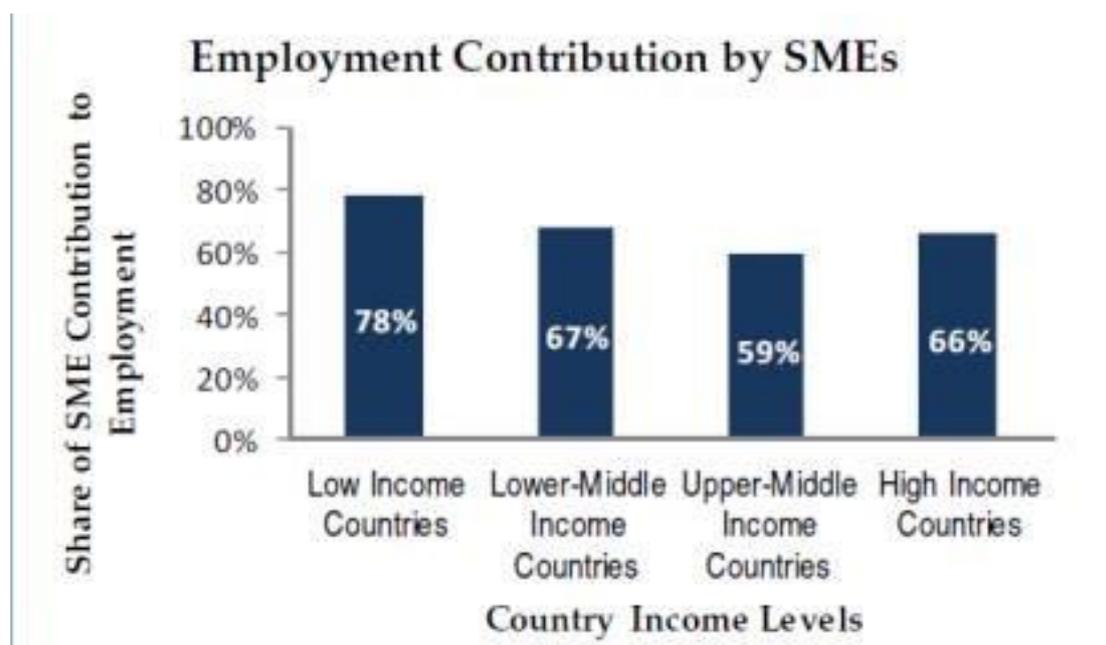
⁴ Investopedia, *Small and Medium-sized Enterprises–SMEs*. Available from: <http://www.investopedia.com/terms/s/smallandmidsizeenterprises.asp>. [Accessed on 14th May 2016]

⁵ BSTDB, *supporting small and medium-sized business in the Black Sea region*. Available from: http://www.bstdb.org/publications/BSDTB_SME_2016.pdf. [Accessed on 16th June 2016]

⁶ BSEC (2014), *Action plan of the Working Group on SMEs*. Available from: <http://www.bsec-organization.org/aoc/smes/Pages/AnnexIV-ActionPlanWGSMEs-annexes-combined.pdf>. [Accessed 14th May 2014]

even in countries with increasing unemployment rates such entities were substantial jobs creator with a share of 36.54% over the total number of the newly created jobs.

Diagram 1: Employment contribution of SMEs according to country’s income



Some statistics from countries across the globe are even more fascinating. In Poland for example the sector of Small and medium-sized enterprises generates up to 50% of the country’s GDP or an amount that exceeds \$ 400 billion. Moreover, in New Zealand, 99% of national businesses hire less than 50 employees. Last but not least, in Greece an overwhelming majority of 74% of employees are hired by companies with less than 50 employees.

From the abovementioned we can understand that SMEs play a pivotal role in modern economies. The Organization of Black Sea Economic Cooperation has long ago understood their usefulness and their importance for the development of its member states. Thus, the sector of SMEs is not only one of the main priorities of BSEC but the whole organization has taken steps in order to promote their role nationally, regionally and internationally.

Aiming at supporting the sustainable and sufficient development of the SME sector in the Black Sea region, BSEC moved to the creation of the BSEC Working Group on SME’s in 2001 with a mandate “to help create an enabling business environment, to foster entrepreneurship and to promote

cooperation among the SMEs in the region”⁷. This Working Group focuses on some key priorities and every two years publishes an action plan concerning the achievement of those priorities. In the light of achieving those priorities, the Working Group works in close cooperation with the **International Network for SMEs (INSME)** which is actually (since 2006) a sectoral dialogue partner for BSEC.

Having considered the importance of SME sector in the global economy and its importance for BSEC’s member states we can now move forward with the thorough examination of our topic. Bear in mind that whilst many member states of BSEC still face severe turbulences from the economic and financial crisis of 2008 (including countries such as Greece and most recently the Russian Federation) the SME sector could be used in order to fuel the development of the member states and reduce the unemployment rates.

4. SME’s in the Black Sea region and BSEC: Historical Background

4.1 Introduction

The Organization of the Black Sea Economic Cooperation, as we mentioned before, was created in 1992 in an era where the Black Sea region was undergoing a series of political, economic and ideological transformations due to the dissolution of the Soviet Union. The challenge for many among the member states of BSEC was to shape and promote the sustainable development of the private sector and thus the importance of SMEs and entrepreneurship in terms of achieving the aforementioned goal was pivotal.

The member states of BSEC acknowledged the importance of promoting the national and regional role of SMEs from early on and implemented many initiatives with an aim to enhance the capabilities of SMEs in the BSEC region. More specifically, from 1997 to 2001, 17 workshops were held in BSEC member states providing recommendations and suggestions for the promotion of the sector of small and medium-sized enterprises in the region

⁷ BSEC, *Supporting the sustainable development of the SME sector in the Black Sea region*. Available from: <http://www.bsec-organization.org/aoc/smes/Pages/information.aspx>. [Accessed on 14th May 2016]

4.2 The milestone of 2001

In 2001 “3 million of SMEs in 11 BSEC Member States employed approximately 20 million in total, while the number of unemployed amounts to more than 10 million”.⁸ Moreover, SMEs amounted to three quarters of businesses operating in that region, creating up to 30% of total employment as well. This reality obliged BSEC to take the appropriate measures in order to increase the number of SMEs in the Black Sea, increase their competitiveness and reduce the unemployment rates through the development of such firms. In other words, their main aim was to shape a more stable environment for the development of the sector of small and medium-sized enterprises. For this reason, the very same year the ministers of foreign affairs of the 11 BSEC member states signed the **Declaration on small and medium-sized enterprises at the dawn of the 21st century** in Istanbul.

This declaration laid the foundations for the expansion of this sector in the area of the Black Sea. Firstly, it is recognized that a “competitive SME sector is precondition for sustainable development and higher standard of living for all involved in the process of globalization, accelerated technological change and innovation”⁹. Hence, the Organization endorsed fifteen years ago, in 2001, the belief that SMEs constitute the backbone of modern economies and a prerequisite for achieving positive development rates based on sustainability. Furthermore, the importance of the cooperation of BSEC not only with other regional and international organizations but also with political institutions is highlighted. More specifically, through this declaration a closer cooperation between BSEC, the European Union, the United Nations Economic Commission for Europe and the Konrad Adenauer Stiftung is introduced aiming at but not limited to: best practices and recommendations sharing, seminars and workshops organization and scientific know-how exchange.

In this document also, the idea for the establishment of a BSEC Working Group on SMEs was introduced for the first time. Its role would be to improve the resilience of the small and medium-sized entities through support and assistance policies. Before moving forward with the presentation

⁸ BSEC, *DECLARATION ON SMALL AND MEDIUM-SIZED ENTERPRISES AT THE DAWN OF THE 21st CENTURY*. Available from: <http://www.bsec-organization.org/aoc/smes/Pages/Decl.aspx>. [Accessed on 15th May 2016]

⁹ BSEC, *DECLARATION ON SMALL AND MEDIUM-SIZED ENTERPRISES AT THE DAWN OF THE 21st CENTURY*. Available from: <http://www.bsec-organization.org/aoc/smes/Pages/Decl.aspx>. [Accessed on 15th May 2016]

of our topic we will seize this opportunity in order to elaborate more on the mandate and the work conducted by the BSEC Working Group on SMEs.

4.3 BSEC Working Group on SMEs

The BSEC Working Group on SMEs was established in 2001, with three main objectives: fostering entrepreneurship, enhancing a more sound business environment and promoting regional cooperation between SMEs. The Working Group has a variety of different priorities, which will be analyzed in the main body of our study guide, and every two years publishes a report in a form of an action plan concerning the means of achieving those priorities. In other words the existence of this working group highlights the importance of SME's for the development and the enhancement of the bilateral and regional cooperation in the Black Sea region

4.4 Conclusion

Until today more than 47 workshops have been held in the BSEC region concerning the role of SME's in the Black Sea region member states with an aim of increasing the both the role and their status in the region. This fact highlights the fact that the Organization hierarchizes the role of the SME as prerequisite for the development of the whole region as well. Moving now to the core of this study guide, we will proceed with the analysis of the SME sector in the Black Sea from the perspective of promoting their role in international markets through the provision of guarantee funds, the establishment of a comprehensive dialogue on e-commerce and the enhancement of customs matters cooperation.

5. SME's from the perspective of recent developments

5.1 Introduction/Overview

As it was previously mentioned the role of the BSEC Working Group on SMEs is pivotal regarding the promotion of the role of such entities in the Black Sea region. More specifically the main priorities

of the Working group as described in the Goal number 9 of the **BSEC Economic Agenda towards an Enhanced BSEC Partnership** are the following:

1. *“Increasing the competitiveness of the SMEs by creating fair conditions at both national and regional levels and undertaking regular surveys on SMEs’ needs, priorities and problems in the BSEC Region*
2. *Developing BSEC programs aimed at promoting favorable conditions for local businesses and foreign investments; facilitating networking, exchange of experiences and know-how; organizing training for young entrepreneurs.*
3. *Promoting and supporting access to finance to SMEs which produce green products and services.*
4. *Improving the access of SMEs from the BSEC Member States to other markets, in particular by stimulating the export capacity of SMEs and promoting cross-border cooperation and business partnership with neighboring countries.*
5. *Focusing on high technology, innovation, clusters, industrial-technology and software parks and business incubators as concrete instruments to facilitate SME start-ups in the Member States and to encourage entrepreneurship, competitiveness and cooperation with large companies in the BSEC Region.*
6. *Developing a support system for innovation and technology at BSEC region, with the view to promoting cooperation among SMEs and the university environment, or research and development institutions.*
7. *Promoting the e-business system in the BSEC Region and the use of the BSEC Innovation Data Bank, to be updated under the coordination of the BSEC PERMIS.*
8. *Aggregating an information network of regional and Member States financial resources available to SMEs, accessible through the BSEC Innovation Data Bank.*
9. *Promoting business to business contacts through “BSEC SME Expert Exchange” programme.*
10. *Finalizing the establishment of the BSEC Quality Award for SMEs”¹⁰.*

¹⁰ Republic of Turkey, Ministry of Foreign Affairs, *BSEC Economic Agenda towards an Enhanced BSEC Partnership*. Available from: http://www.mfa.gov.tr/the-bsec-economic-agenda--towards-an-enhanced-bsec-partnership_-26-june-2012_-istanbul.en.mfa. [Accessed 13th June 2016]

In the above mentioned goals of the BSEC we can understand the paramount importance of the development of the SME sector as a prerequisite for both promoting regional economic cooperation and fostering the role of the Black Sea region in global markets. However, despite the progress being made by the Organization and its member states there are still many things to be done in order to meet the expectations of our peoples and live up to the contemporary challenges. In this part of our study guide we will examine the progress of the Organization until today in terms of achieving the above mentioned goals while focusing on a variety of actions that are still necessary aiming at adopting a holistic approach to this topic. Thus, our attention will be merely paid in the fields of guarantee funds provision, dialogue on e-commerce promotion and customs cooperation enhancement

5.2 Guarantee funds provision

Before we proceed with the thorough examination of this section of our topic it is necessary to elaborate more on the term “guarantee fund”. A guarantee is provided by a bank or a lending institution in general so as to reinsure that ‘the liabilities of a debtor will be met’¹¹. In the event that a debtor fails to comply with his debt the credit institution is responsible for repaying it. When using the term guarantee fund we are referring to a pool of money that is being used for the above mentioned purposes. For instance, a shop owner uses such funds as a guarantee for his suppliers that in case that he is not able to repay them the credit institution that issues those guarantees will be held accountable for paying them off.

The role of providing guarantees to small and medium is of paramount importance for both the sustainability and the development of this sector not only in the Black Sea region but also in the international framework. According to the International Labor Organization (ILO) ‘guarantee funds for small enterprises can make bank finance more accessible for small entrepreneurs often offering risk-sharing and motivating financial institutions to explore new market segments’¹². In its manual

¹¹ Bank Guarantee, *What is a bank guarantee*. Available from:

<http://www.investopedia.com/terms/b/bankguarantee.asp?o=40186&l=dir&qsrc=999&qo=investopediaSiteSearch>. [Accessed on 15th June 2016]

¹² International Labor Organization, *Guarantee funds for small enterprises. A manual for guarantee fund managers*. Available from:

http://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_PUBL_9221160335_EN/lang--en/index.htm. [Accessed on 15th June 2016]

concerning the provision of guarantee funds for small enterprises the ILO proposes some important remarks concerning their advantages and disadvantages while proposing also some incentives and sanctions that derive from their use. This document aims at, but not limited to, suggesting best practices for maximizing the benefits from the existence of a guarantee fund.

In the light of the recent economic developments in the BSEC territory, guarantee funds become a more and more effective tool. As we all now in retail markets sells and collections are deferred. In that sense, a supplier of a store for example is not always be paid upon delivery of his products. In Greece during the summer of 2016 and because of the capital controls many suppliers have been requesting their payment upon their deliveries. This fact hindered and hinders the functioning of numerous small and medium enterprises. This is actually the reason why those funds are so important for the smooth functioning and the rapid expansion of this sector.

Moving now to our organization as we have previously mentioned, the financial pillar of BSEC is the Black Sea Trade and Development Bank (BSTDB) located in Thessaloniki. Its assistance and role in terms of providing financial aid and back-up to SME's can be characterized as pivotal.

5.2.1 BSTDB and the SME sector

According to the BSTDB mandate one of its strategic goals is to promote the development of the SME sector inter alia through increasing their export capacity, promoting job creation, mobilizing external capital to the region and fostering their competitiveness¹³. The BSTDB uses four different methods in order to provide financial assistance to SME's in the region.

First of all, the most commonly used tool by the BSTDB is the short term indirect financing (mainly concern micro and small businesses) through a local intermediary. The BSTDB works in close cooperation with national banks via establishing a credit line that ultimately ends up to entrepreneurs (the BSTDB gives loans to national banks and them afterwards lend the SMEs). Those credit lines are being used for loans that do not exceed the threshold of 3 million euros. The reason why the

¹³ BSTDB, *Supporting small and medium-sized business in the Black Sea region*. Available from: http://www.bstdb.org/publications/BSDTB_SME_2016.pdf. [Accessed on 16th June 2016]

BSTDB handles this functioning to the private sector is the high technical and monitoring costs that the bank would bear in order to monitor the proper usage of those loans.

The second method being used is the so-called leasing method. More specifically, the Development Bank helps SMEs to lease capital assets (tools, sophisticated machines etc.) for a maximum period of 5 years. The BSTDB covers over the $\frac{3}{4}$ of the leasing cost.

Thirdly, concerning the provision of liquidity to medium enterprises (more than 3 million euros) the bank is involved in direct financing through equity participation and guarantees provision. 'Under the guarantee scheme, BSTDB takes the risk of the borrower company for the loan extended by a commercial bank. Depending on the structure, the scheme may or may not require full assessment of the beneficiary company'¹⁴. Of course the bank charges a premium (something like an interest rate) for its services.

The last method being used by the BSTDB is called 'equity funds' but it is not in the scope of our topic to analyze it more extensively.

5.2.2 National Banks Participation

Despite the importance of the BSTDB it is true that the development bank cannot supply the volume of liquidity or guarantees requested (demanded) by the SMEs sector. In that sense, the actual involvement of national banks is more than necessary. It is however important, apart from the common endeavor of financing the small and medium-sized enterprises sector the uncombined efforts of national governments so as to pursue national private banks to actively participate in the guarantee process.

5.2.3 Issues that arise

As we have understood from the above analysis the provision of guarantee funds is only one of the methods being used by the BSTDB in terms of providing long and short term loans to SME's. However, several issues arise from our analysis that needs to be addressed during our sessions. In the light of the economic crisis that proposes a severe turbulence for the economies of the 12 member states should the eligibility criteria (that an SME must meet as a prerequisite for being

¹⁴ Same

considered as potential borrower) be reconsidered or be less strict? Moreover, given the fact that many economies are far from development, who will bear the burden of a potential default of an enterprises that borrowed money from the BSTDB? Should it be the enterprise itself (if possible), the state in which this bank operates or the whole BSEC will absorb the cost of a potential default? Furthermore, should the interest rate (charged both by the BSTDB and the commercial national banks) be less high in order to more facilitate the development of the SME sector? Last but not least, with which ways can we achieve the actual involvement of commercial banks in the endeavor of promoting financial support to such entities?

Answering the above mentioned questions is pivotal in order to shape a sustainable solution to the issue of fostering the development of the SME sector.

5.3 Promoting dialogue on e-commerce

During the last 50 years humankind has witnessed an unprecedented development and expansion of new technologies and especially informatics. The expansion of the Internet offers us a unique opportunity to eradicate distances and alleviate trade barriers. The **United Nations Conference on Trade and Development (UNCTAD)** in its report of 2010 highlights the strong correlation between poverty reduction and the expansion of information and communication technologies (ICT's) in the framework of enterprises (more specifically small and medium-sized ones). According to this report 'the majority of ICT applications takes an existing activity and alters it in some way through digitization; perhaps reducing its cost or improving its quality'¹⁵.

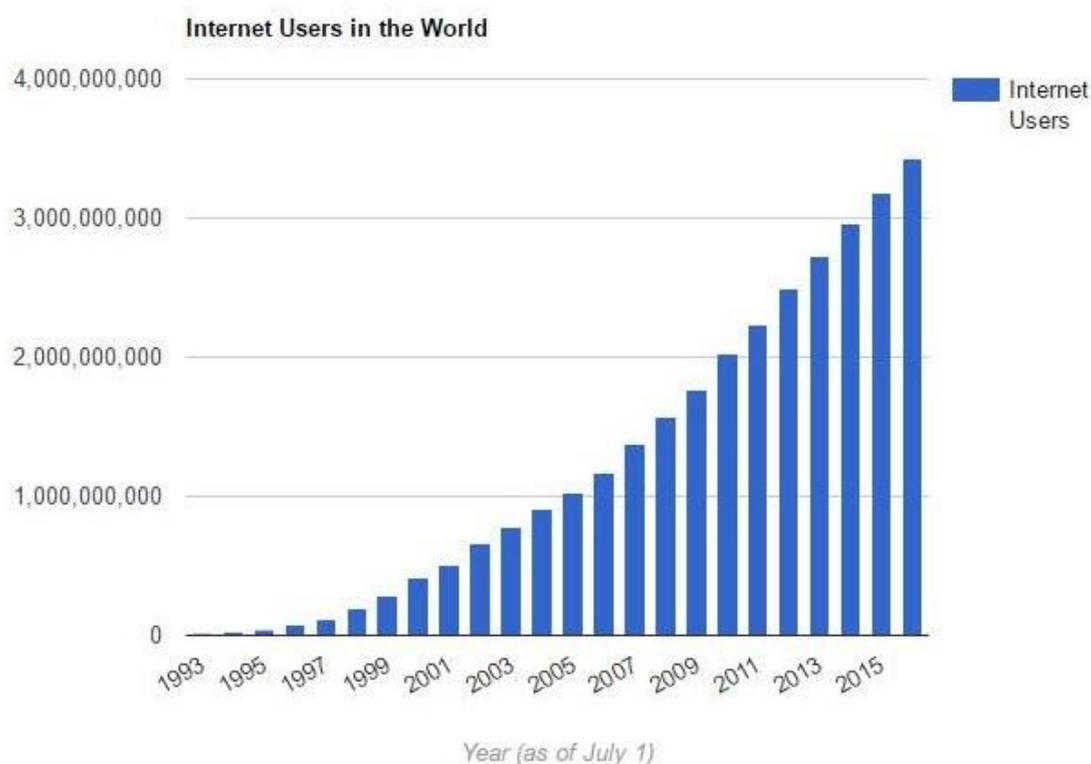
Particularly, the World Trade Organization defines e-commerce as 'the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders'¹⁶. According to statistics from the **Organization of Economic Cooperation and Development (OECD)** in 2013 the total volume of the e-commerce sector surpassed 1.2 trillion dollars. With more and more people using their personal computers or even

¹⁵ UNCTAD, *Information Economy Report (2010)*. Available from: http://unctad.org/en/docs/ier2010_embargo2010_en.pdf . [Accessed on 18th June 2016]

¹⁶ WTO, *Electronic commerce, development and small, medium-sized enterprises*. Available from: <https://www.wto.org/>. [Accessed on 18th June 2016]

their self-phones (!) in conducting their purchases we can understand the dynamic of this sector. In the diagram below we can verify the penetration of the Internet in our daily lives.

Diagram 2: Internet users by year¹⁷



For those reasons, it is a real challenge for the BSEC member states to enhance and promote the usage of e-commerce by entrepreneurs in national, regional and international level.

5.3.1 E-commerce in the Black Sea region

Before we move on to our analysis it is important to highlight the fact that the expansion of e-commerce not only requires measures in terms of promoting the access of SME's in regional and international markets but also measures which target to increasing the penetration of the Internet in the Black Sea region. The statistics concerning our region are rather disappointing. The penetration of the Internet in Armenia and Moldova is less than 50% while in Serbia and Bulgaria is above 50% (54% and 59.1% respectively) but again rather low. It is though necessary that all member states of

¹⁷ Available from: <http://www.internetlivestats.com/internet-users/#trend>. [Accessed on 199th July 2016]

the BSEC invest into their infrastructure concerning the provision of Internet in every household of the region.

Moving now to the SME sector the Russian Presidency of the Organization (1st semester of 2016) set as one of its main priorities the initiation of an exhaustive dialogue on the capabilities of the e-commerce. In the light of the above mentioned the Working Group on Trade and Economic development agreed 'to convene the First Workshop on e-commerce, in the first half of 2016, with due participation of experts from the relevant Ministries and other governmental bodies, private sector, research institutions, academia and NGOs dealing with e-commerce issues to discuss ways and means to develop the cooperation in this field among the BSEC Member States'¹⁸.

Moreover, in 2015 the Russian Federation also presented a proposal on the 'Terms of Reference the expert dialogue on e-commerce'. Actually, the facilitation of networking, the creation of an e-business system and the enhancement of the exporting capacities are major priorities of the Organization.

5.3.2 E-commerce and cost reduction

Enacting a comprehensive dialogue among member states with the active participation of international organizations, NGOs and the private sector is an important step for facilitating the expansion of the SME sector. However, the member states of BSEC must proceed directly with the adoption of concrete measures in order to facilitate this development.

From our analysis we can understand that ICT's and e-commerce in particular not only reduce costs (both fixed and variable) but also propose a window of accessibility of the enterprises in regional and global markets. To conclude with, start-ups, e-businesses and enterprises with limited national but substantial international activities and sales can be characterized as the future of our economies coming out of the whisker of the economic recession. Thus, it is high time for the Black Sea Economic Cooperation organization to move towards this direction.

¹⁸ BSEC (2015), *REPORT OF THE MEETING OF THE BSEC WORKING GROUP ON TRADE AND ECONOMIC DEVELOPMENT*. Available from: <http://www.bsec-organization.org/aoc/TradeEconomic/Reports/Report%20WGTED%202015.pdf>. [Accessed on 19th June 2016]

5.4 Customs matters cooperation

In 2016 the intra-BSEC gross trade volume surpassed the amount of 330 billion dollars¹⁹ which is actually higher than the GDP of the majority of the member states of the Organization. Thus, we can understand that given the fact that the BSEC is merely an economic Organization, trade and trade facilitation is one of the main pillars of its existence. The Organization is dedicated in promoting intra-regional trade and therefore there are several working groups on this field such as the Working Group on Trade and Economic Development and the Working Group on Customs Matters. Before moving on with our analysis it is very important to describe the initiatives of the Organization concerning the enhancement of customs matter cooperation.

5.4.1 Initiatives decided and implemented by the Organization

The Organization of the Black Sea Economic Cooperation has decided and/or implemented many initiatives in terms of facilitating the trade of good and services between its member states. Some of them are the BSEC permit system, the International Vehicle Weight Certificate and the single window system.

The **BSEC permit system** was decided in 2010 by seven member states of the Organization (Albania, Armenia, Georgia, Moldova, Romania and Turkey). Its role is to facilitate road transportation in the Black Sea region. One of the main projects of the Organization is the creation of the 7100 kilometers long “Black Sea Ring Highway” which will link with a high-speed motorway all BSEC member states. When this motorway is completed, ‘ the BSEC Permit will be used for a single round trip only and the empty or loaded trucks holding such a BSEC Permit will be allowed during this single round trip to transit through the territories of all participating Member States without having to present any other bilateral transit permit’²⁰. Since the trade between many BSEC countries is mainly conducted by land the existence of the BSEC permit system is pivotal for the further expansion of the intra BSEC trade.

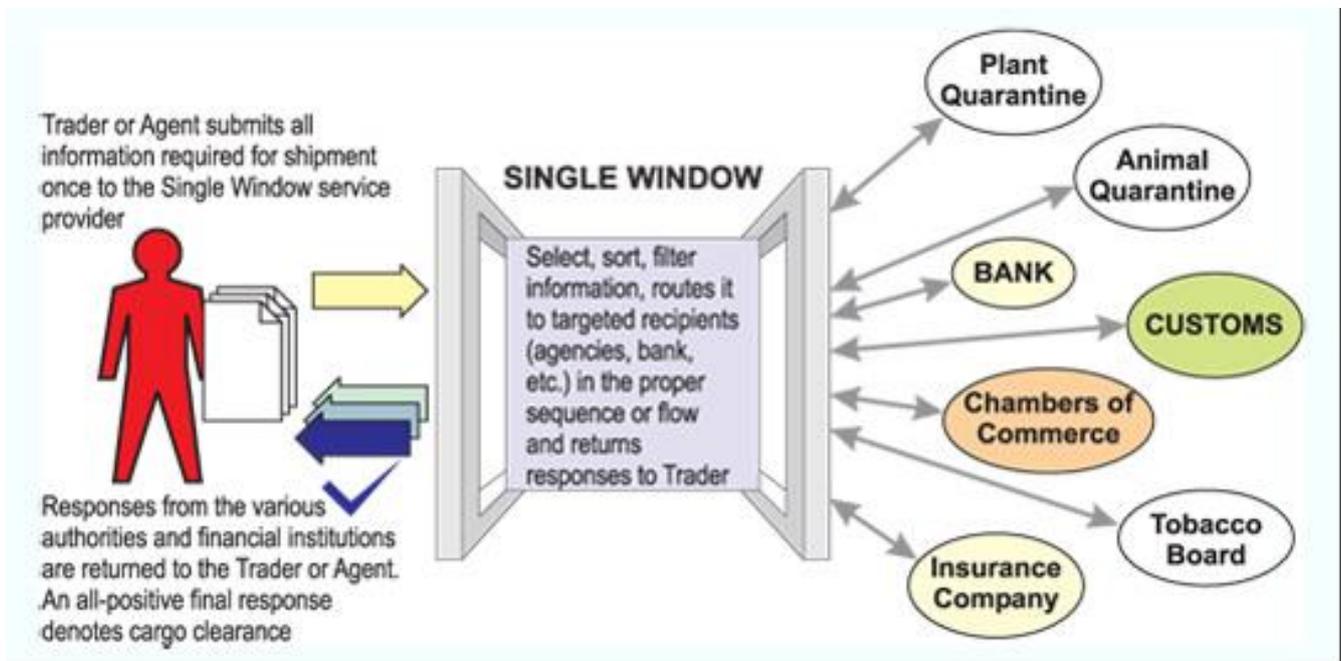
¹⁹ BSEC, *Title field value*. Available from: <http://www.bsec-organization.org/information/pages/bsec.aspx> . [Accessed on 21st June 2016]

²⁰ BSEC, *PRESS RELEASE ON THE LAYNCING OF THE BSEC PERMIT SYSTEM*. Available from: <http://www.bsec-organization.org/bsecnews/PressReleases/PressReleases/Press%20Release-PERMIT%20system-English-16Feb2010.pdf>. [Accessed on 21st June 2016]

The **International Vehicle Weight Certificate (IVWC)** functions under the auspices of the **International Convention on the Harmonization of Frontier Controls and Goods (1982)** and the especially its Annex XIII of 2008 concerning road transportations which have been signed by all members of the Organization. According to this annex the contracting parties are committed ‘ to introduce simplified control procedures and replace actual inspections and physical controls at border crossing points by a simple verification of internationally standardized documentation and certificates’²¹. The facilitation of visa procedures for professional drivers will have a more than positive effect on the volume of the trade imported and exported from the BSEC member states. The first IVWC was published in Chisinau Moldova on September 30, 2016.

Last but not least, the **Single Window System** facilitates trade given the fact that it reduces red tape documents that are necessary during your entry in a member state of the organization (See diagram below). This system is recognized by many regional and international organizations such as (ASEAN and UNECE).

Diagram 3: Single Window System functioning



²¹ BSEC-URTA, *Seventeenth meeting of the BSEC-URTA general assembly*. Available from: <http://www.bsec-urta.org/content/files/REP-GA17-IVWC-10.pdf>. [Accessed on 21st June 2016]

5.4.2 Customs cooperation and the SME sector

The enhancement of trade between neighboring countries or countries belonging to the same region through customs cooperation is not only about boosting the profits of huge enterprises but inter alia is a prerequisite for the sustainability of the SME sector. Actually, trade barriers have a more significant effect on small and medium-sized enterprises because their size and their low capitals prevent them from involving in intra-national trade. For this reason, alleviating trade barriers (and more specifically non-tariff ones) will have positive effects on the development of the SME sector. In that sense, the Organization and its competent bodies (such as the Working Groups) must work in close cooperation with all stakeholders involved like international organizations (e.g. World Customs Organization), regional organizations (e.g. the EU), sectoral dialogue partners of the BSEC (such as INSME, BSEC-URTA) and above all the private sectors so as to propose and implement best practices for the expansion of the SME sector.

Bear also in mind that expanding the intra-BSEC and international trade between BSEC and non BSEC states are not conflicting but mutually reinforcing goals.

5.5 Conclusions from the analysis

The provision of guarantee funds, the establishment of a comprehensive dialogue on e-commerce and the enhancement of customs matters cooperation will enable the Organization of BSEC to adopt a holistic approach on this topic. Those three pillars require the active involvement of the banking sector, the exhaustive usage of information technologies and the alleviation of trade barriers through customs cooperation. The role of small and medium-sized enterprises in the area of the Black Sea is significant but often neglected –despite its capabilities of fueling the economy of the region-. However our target of promoting the role of SMEs must not only target inwards (in other words the BSEC region) but also outwards (enacting their international expansion). Future requires unanimous movement towards this direction. Nevertheless, national policies often contradict the aforementioned objectives. In that sense before reaching our final remarks we should address the obstacles presented by national policies to the elaboration on a common agenda concerning the expansion of this sector.

6. National policies and common interests

In this section of our analysis we will try to elaborate more on the SME sector in each member state of the Organization respectively so as to identify all those barriers that prevent the SME sector from evolving and strengthening its position in international markets. We truly expect that this section will help you linking your country's setbacks and national interests with the common policies that our Organization will try to adopt during its official processes.

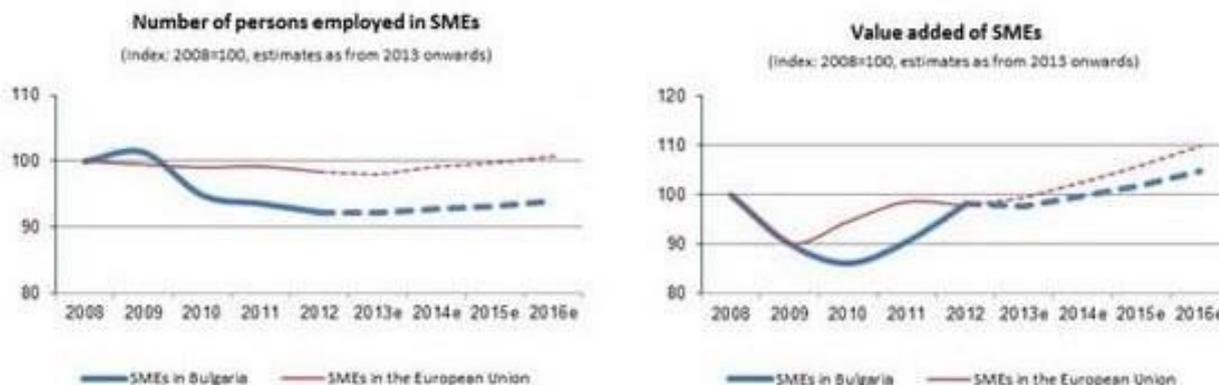
Albania-Moldova-Serbia: As it was mentioned earlier access to the Internet is too limited in those countries. As a result the SME sector has a strategic disadvantage not only internationally but also regionally. Moreover, access to funding and guarantee fund in general is also limited. However, the importance of this sector is pivotal in terms of creating jobs and development and as a result the governments of those countries are committed in improving the resilience of this sector with any way possible.

Armenia-Azerbaijan-Georgia: Unfortunately the position of the SME sector in those countries is far from promising. In Azerbaijan, only 15% of the SMEs have a credit line from financial institutions whilst the same figure for the high income countries is at 51%. In Armenia and Georgia the position of small and medium-sized enterprises is also vulnerable. It is challenge for BSEC to provide assistance in those countries since their geographic location offers great potentials for further expansion and economic development.

Bulgaria: According to statistics from the European Union the Bulgarian SME sector only now managed to return to pre-crisis levels. More specifically, 'they are estimated to have returned to pre-crisis levels of value added in 2014, but have not recovered jobs lost during the crisis: employment in SMEs in 2014 stood 7 % below the 2008 level'²². Furthermore, according to the European Union it is required from the Bulgarian government to make public administration more responsive towards the necessities of this sector and to switch the country's attitude towards the importance of promoting this sector

²² European Commission, *Internal Market, Industry, Entrepreneurship and SMEs*. Available from: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm. [Accessed on 23rd June 2016]

Bulgaria



(Source European Commission)

Greece: Regardless the fact that Greece has one of the highest ratios of SMEs per capita bureaucracy is one of the most important barriers to the development of this sector. Because of the instability of the Hellenic banking system, the available funding towards this sector is lower than before. As a result the competitiveness of the Greek small and medium-sized enterprises is harmed. In that sense, guarantee fund provision is pivotal in terms of restoring the competitiveness of the sector. However, the newly elected government has committed its self in shaping a healthy environment of promoting entrepreneurship and thus small and medium sized enterprises.

Romania: Romania as a member state of the European Union has received assistance from its partners in order to enhance the functioning of this sector. More specifically the EU 'has adopted today the "SME Initiative" Operational Programme for Romanian small and medium-sized enterprises (SMEs) 2014-2020, worth €100 million'²³. SMEs actually represent the 99% of the country's enterprises and therefore the promotion of this sector is more than important for the Romanian economy. The fact that the Romanian government is committed in creating a stable economic and political environment for the expansion of this sector is very promising for the future.

Russian Federation: One of the key issues of the SME sector in the Russian Federation is the low availability of funding from behalf of the commercial banks. However, the central government

²³ European Commission, *Announcements*. Available from: https://ec.europa.eu/commission/2014-2019/cretu/announcements/improving-access-finance-romanian-smes-eu-adopts-investment-package-worth-eu100-million_en. [Accessed on June 24th 2016]

occasionally provides direct funding to such entities. The SME sector has very strong potential in the country and the reforms decided and implemented by the Russian Government has resulted in ameliorating the position of the sector. In 2014, SMEs provided up to 22% of the Russian GDP and 24% of the total employment in the country²⁴. The high rates of taxation are also one of the main drawbacks of Russian legislation concerning the SME sector. Summing up, despite the shortage of funding and high taxation, Russia has made substantial improvement in terms of facilitating the development of this sector.

Turkey: SMEs account for the 4/5 of jobs in Turkey. According to the World Bank, ‘Turkish SMEs grow slower than both large enterprises in Turkey and SMEs in comparator countries. Second, not only are SMEs in Turkey less productive than larger firms, but the gap across firm size is larger in Turkey than in other countries’²⁵. The main priorities are to enhance access to funding and sophisticated technology that is important for innovation and especially their opening towards global markets. Despite the progress being made in terms of providing guarantee funds there is still a huge gap between Turkish SMEs and the rest of the developed world.

Ukraine: The political destabilization in Ukraine has caused severe turbulences in the Ukrainian economy. Inflation peaked in April 2015 (61%) and public finances also deteriorated. The SME sector was also affected. Thus, it a pressing issue for the BSEC member states to assist their fellow member state in recovering from the economic wounds that the destabilization has triggered.

7. Conclusions and the future

In our analysis we have highlighted numerous times the importance of small and medium-sized enterprises under the scope of fueling economic growth and increasing employment opportunities. During the past decade the Black Sea region has witnessed a long period of political and economic instability. The economic recession that derived because of the financial and economic crisis of 2008, the destabilization in South Ossetia and in Crimea Region and most recently the tensions between Turkey and Russia create a climate of instability in the Region. However, the BSEC being

²⁴ European Investment Bank, *Small and Medium Entrepreneurship in Russia*. Available from: http://www.eib.org/attachments/general/events/2014_03_12_luxembourg_sme_financing_enca_safonov_en.pdf [Accessed on 23rd June 2016]

²⁵ The World Bank, *Open Knowledge Repository*. Available from: <https://openknowledge.worldbank.org/handle/10986/12211>

an economic organization aims at providing economic stability in the region despite the existence of political and geostrategic frictions in the area.

The SME sector in the BSEC region is omnipresent. An overwhelming majority of enterprises in a plethora of BSEC member states are small and medium-sized ones. Unfortunately though, this sector has neither stabilizing its position domestically nor regionally. SMEs originated from the Black Sea region must be assisted in exploring regional and international markets. What the Organization should do is to create a far-sighted plan for the expansion of this sector. SMEs will achieve a sustainable future only if their domestic position is combined with their regional and international expansion. We truly believe that the cooperation among the member states is a prerequisite for national enterprises to develop their regional activities and that the BSEC its self will assist the SME sector of the Black Sea to conquer international markets. Our slogan could be: ***national stabilization, regional expansion and conquering the world.***

In our analysis we merely focused on the importance of providing guarantee funds, promoting dialogue on e-commerce and enhancing customs matter cooperation. We presented the positive effects that the resolution of the existing problematics will offer to the trade between the member states of the Organization. However, we truly expect from you to elaborate more on some of our proposals and try to propose unique, specified and concrete measures according to your country's policy and necessities that will allow the Organization to move forward towards a sustainable future of economic and societal prosperity.

The BSEC despite the fact that it is not an organization with the advantages of an economic or trade union (e.g. the European Union) and with no substantial technological infrastructure has a strategic advantage. Being the heart of Eurasia and linking those major continents can be a pole of development, prosperity and stability. Your task as representatives of your sovereign nations is to try to achieve the aforementioned goals. The SME sector actually is not the only the back bone of our economies. Given its importance for families, neighborhoods, villages and cities, the SME sector is the back bone of our societies...

8. Questions Raised/Points to be addressed during the debate

- I. In the light of the economic and financial crisis of 2008 how can the expansion of the SME sector promote sustainable development of the economies and promote employment opportunities?
- II. Are the existing banking and financial measures in terms of guarantee fund provision efficient? What else can the Organization do in order to assist the development of the SME sector
- III. How can we evaluate the role of the BSTDB? In which possible ways can we promote its cooperation with national commercial banks?
- IV. Which are the responsibilities of each member states concerning the supervision of the financial aid that is provided to an SME?
- V. How can the SME sector take benefit of the expansion of the technological advances in the field of informatics and information and communication technologies (ICTs)?
- VI. Has the Organization taken substantial measures so as to promote access to the Internet in the Black Sea region?
- VII. Through which ways can the SME evolve and expand thanks to the Internet and more specifically thanks to e-commerce
- VIII. Is there a correlation between the trade and the expansion of the SME sector?
- IX. Are the already initiatives concerning the enhancement of customs cooperation sufficient or/and efficient. If not what further steps are necessary in terms of promoting intra-BSEC trade?
- X. Apart from customs cooperation with which other means can we promote intra-regional and international trade and subsequently the expansion of the SME sector?
- XI. What further steps are required in order to increase the competitiveness of small and medium-sized enterprises in the Black Sea region? Additionally, what else should we do to guarantee the sustainability of this sector
- XII. How can we resolve the antinomies between national and regional interests in the light of the functioning of the SME sector?
- XIII. How you evaluate in general the initiatives of the BSEC? What else can be done?

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