

**ORGANIZATION  
OF THE BLACK SEA  
ECONOMIC  
COOPERATION (BSEC)**

**KONRAD  
ADENAUER  
STIFTUNG  
(KAS)**

**WORKSHOP ON  
“INNOVATIVE ENTREPRENEURSHIP AND SUSTAINABLE DEVELOPMENT  
FOR SMEs”**

**Tbilisi, 12-14 September 2012**

**Summary Proceedings**

1. The Workshop on “Innovative Entrepreneurship and Sustainable Development for SMEs” was held in Tbilisi, Georgia, on 12-14 September 2012. It was jointly organized by the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS) and the Konrad-Adenauer-Stiftung (Foundation) (KAS) in Turkey.

2. Welcoming statements were delivered by Ambassador Traian CHEBELEU, Deputy Secretary General of BSEC PERMIS; Dr. Colin DÜRKOP, Head of Office of the Konrad-Adenauer-Stiftung (KAS) in Turkey; Dr. Canan ATILGAN, Head of the Regional Program “Political Dialogue South Caucasus” of the Konrad-Adenauer-Stiftung in Tbilisi; H.E. Irakli MATKAVA, First Deputy Minister of Economy and Sustainable Development of Georgia; and Mr. Giorgi PERTAIA, Deputy Director, National Investment Agency of Georgia.

2.1. Ambassador T. CHEBELEU in his opening statement, focused on the ever-increasing role the SMEs are playing in innovation, in the entrepreneurial economy, driven by changes in technologies and markets, emphasizing that the problem is that a great part of the SMEs are not capitalising on their advantages and – as studies and researches show – they are on average less involved in collaboration for innovation activities. The activities in the BSEC framework reflect the acknowledgement by the BSEC Member States of the important and significant role the SMEs play in their economic, social and political development. The new Plan of Action adopted by the BSEC Working Group earlier this year establishes as specific objectives to increase technological and economical collaboration amongst the institutions and SMEs in the Member States in the field of energy efficiency and to strengthen their institutional capacity for determining and adopting of shared policies. Support for the sustainable development of the SME sector is one of the goals of the “BSEC Economic Agenda: Towards an Enhanced BSEC Partnership”, adopted by the Council of Ministers of Foreign Affairs and endorsed by the BSEC Summit held in Istanbul on 26 June 2012. It sets out also a framework of action to achieve this goal.

The major objective of BSEC is to contribute, through the activities in the framework of the Organization, to stimulating the SMEs from the BSEC region to improve their quality performance and to allowing them to approach the level of excellence of the advanced European companies.

The text of opening statement of Ambassador CHEBELEU is attached as Annex I.

**2.2.** Dr. C. DÜRKOP welcomed the participants of the Workshop on behalf of the KAS and emphasized the importance of cooperation between KAS and BSEC. He mentioned that the aim of the Workshop is strengthening the dialogue between policy makers and exchange of experience of entrepreneurship and information between SMEs and other NGOs. Innovative entrepreneurship and sustainable development have become a central concern for policy makers in the BSEC region. It is a prerequisite for the economic growth and well-being. Dr. DÜRKOP stated that the obstacles for growth of the innovative entrepreneurship would be examined at the Workshop. Holistic approach need to be considered. He highlighted the importance of the SMEs in the EU and mentioned the Lisbon Strategy. In spite of the fact that the Lisbon Strategy did not reach all its targets, the number of SMEs has increased by 13% (i.e. 2.4 million new companies) against a 5% in large enterprises. Also the productivity gap has narrowed.

In Germany the Mittelstand is the backbone of the whole industry and remains the linchpin of the country's export sector. The export champions are basically SMEs.

To conclude, he expressed his appreciation to the Georgian Ministry for Economy and Sustainable Development and National Investment Agency of Georgia; BSEC PERMIS and its distinguished Deputy Secretary General Ambassador T. CHEBELEU; Dr. Antal SZABO and his ERENET for his intellectual input in conceptualizing this Workshop and his valuable networking abilities and activities; and the KAS Office staff in Tbilisi.

**2.3.** Dr. C. ATILGAN welcomed the Participants of the Workshop on behalf of KAS and introduced the required conditions for SMEs. KAS has offices in Tbilisi and Baku. The Regional Program promotes good governance, transparent government, independent media, strengthening democratization processes, strong active citizenship, social justice and support regional structure. Complexity and diversity are the main characteristics. Regional cooperation is the most important challenge. Earlier more countries happened to work together. Today each country is working more independently. However, looking at the region as a whole, the need for unity is growing. It is a process that brings more cooperation. BSEC has a significant importance in this aspect since it brings the Caucasus closer to Europe.

**2.4.** H.E. Irakli MATKAVA welcomed the Participants of the Workshop and emphasized the importance of SMEs in the sustainable development, which determinate its future. Georgia tries to be active as a regional player. Strong economy of the neighbours will strengthen the Georgian economy as well. The "Tbilisi+35" event held last week made a great contribution to green economy. The whole essence of the economy is making the work of SMEs easier. The challenges are growing. The international affairs of SMEs represent also a challenge. Exchange of best practices of innovation is to be stimulated.

**2.5.** Mr. G. PERTAIA underlined that SMEs are important for job creation and reduction of unemployment. Georgia has introduced a new tax code with fixed rate. Opening a company has become easier in Georgia. He stated that they would like to know the practices in innovation management in more advanced countries. He pointed out that Georgia has initiated a free trade negotiation process with the European Union. The major question is how to harmonize legislation with the EU without harming the interests of the SMEs.

**3.** The Workshop was co-chaired by Ms. Eteri MAMUKELASHVILI, Chief Specialist, Economic Analysis and Policy Department, Ministry of Economy and Sustainable Development of Georgia; Mr. Fikret N. ÜÇCAN, President of TOSYÖV (Turkish Foundation for Small and Medium Business); Ambassador T. CHEBELEU; Mr. Samir AHMADOV, Executive Manager of BSEC PERMIS; and Dr. A. SZABO, UNECE ret. Regional Adviser on Entrepreneurship and SMEs, Scientific Director of ERENET.

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

Republic of Albania  
Republic of Armenia  
Republic of Azerbaijan  
Republic of Bulgaria  
Georgia  
Hellenic Republic  
Republic of Moldova  
Romania  
Republic of Serbia  
Republic of Turkey  
Ukraine

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

**5.** On the second day of the Workshop, Ms. Lali GOGOBERIDZE, Head of Economic Analysis and Policy Department, Ministry of Economy and Sustainable Development of Georgia, SME Coordinator, Eastern Partnership Platform 2 – Economic Integration and Convergence with EU Policies; Prof. Dr. Hans-Jürgen WEISSBACH, University of Applied Sciences Department of Economy and Law, Institute for Entrepreneurship, Frankfurt am Main; Mr. Dieter IBIELSKI, Presidential Counselor of the Union of Small and Medium Sized Enterprises (UMU); and Dr. A. SZABO addressed the Workshop as lead speakers.

**5.1.** Ms. L. GOGOBERIDZE started her presentation mentioning that broad comprehensive and radical reforms were carried out towards a more free regulated economy. The country introduced a liberal tax code which left only 6 taxes. Simplified custom procedures were introduced. A modernized system of licenses and permits was introduced. The number of licenses and permits was reduced by 90% and the “one-stop shop” system was introduced. Georgia is one of the best places for Doing Business according to the World Bank. The economy shows trusted diversified and stable growth. Small enterprises have

annually employed no more than 20 persons with an annual turnover no more than 300,000 GEL (Georgian Lari). Micro businesses with turnover less than 30,000 GEL are exempted from taxes. The Government SME policy is based on two institutions: the Georgian National Tourism Administration and the Georgian National Investment Agency. The Tbilisi Municipality has a Local Business Development Program. More than 30 Business Support Organizations are working in the country. There are donor's programs like TAM/BAS, UNDP and REC Caucasus. Concerning innovation policy, the aim is to grow Georgia's competitiveness.

**5.2.** Prof. Dr. H. WEISSBACH presented the relation between creativity and entrepreneurship, including creative knowledge and innovation management. Creativity and innovation involve the creation of something new. In modern theories creativity is the ability to recombine information and matters in a way that combinations are appreciated and value added. Different types of entrepreneurship require different styles of creativity. He highlighted the Schumpeterian, the Knight's, Kirznerian and Falck's entrepreneurship. We need different entrepreneurial creativities for factor-driven, efficiency-driven and innovation driven economies. BSEC countries are extremely heterogeneous and this is why different types of entrepreneurs and entrepreneurial activities are needed. Finally, he summarized that Kirznerian entrepreneurship, in which the entrepreneur is a discoverer of unused and inactive production factors that can be creatively combined, should be given more attention in the BSEC countries.

**5.3.** Mr. D. IBIELSKI made observations and recommendations on innovation requirements from the small business management point of view. SMEs often attested that they are more innovation heralds than big enterprises. Observation of every day facts reflects that both technology-based establishments as well as non-technological innovation play an important role in boosting economical performance. Small companies have poor resources in terms of skilled human resources. Innovation happens many times by accident because small companies are highly centralized and executives are too occupied. Sustainable innovation management is a multi-disciplinary function which has to take into account a variety of measures. Finally he presented the extensive support in Germany to promote innovation. In 2012, nearly 190 companies and 120 research institutions have notified their interest to participate in the publicity supported innovation exercise.

**5.4.** Dr. A. SZABO, in his lecture, highlighted the factors which led the failure of the Lisbon Strategy. The currently adopted Europe 2020 Strategy sets out a new vision for the European market economy, which rests on three interlocking and mutually reinforcing priority areas including smart, sustainable and inclusive growth. The EU set five ambitious objectives relating to the employment, innovation, education, social inclusion and climate/energy. The new tools identified to boost growth and jobs are called as flagship initiatives. In order to create new jobs and increase competitiveness the Innovation Union flagship initiative has to play the most important role.

**6.** An exchange of experience concerning the problems of small and medium-sized enterprises in innovation and competitiveness and promotion measures to increase the creativity and competitiveness of SMEs in the BSEC Member States took place. The representatives of the BSEC Member States made their presentations. Issues addressed included:

1. The role of innovation in development of the national economy with special focus on the SME sector in the author's country.
2. The problems facing SMEs in innovation and technological development.
3. Government policies for creating a right environment for creative ideas.
4. Government actions to support innovative, technology-oriented, high-tech and environment-friendly SMEs.
5. Institutional actors and their strategies, policies and initiatives;
6. Good practices of innovative SMEs in the author's country.

Question and answer sessions were held after presentations and recommendations were made to be included in the Summary Proceedings to be agreed upon at the final session of the Workshop.

7. On the third day of the Workshop, presentations were made by Mr. Raphael JOZAN, Advisor to the Minister of Economy and Sustainable Development of Georgia; Mr. George NANOASHVILI, Team Leader of Economic Development in UNDP Georgia; Mr. Kakha SHAVADZE, Director of Ajara Economic Development Project; Ms. Nino ELIZBARASHVILI, Founder and President of the Georgian Association Women in Business; and Dr. Kakha NADIRADZE, President of Association for Farmers Right Defense.

### **Final Discussions and Conclusions**

8. The following points were made in conclusion:

**8.1.** Creativity and innovation are the heart and spirit of the enterprise and thus companies must constantly innovate, even if only gradually. Innovation is considered as an essential characteristic of entrepreneurship which relates to new products, new production methods, new market and/or new form of organization.

**8.2.** Innovative enterprises are those which respond to the challenges, accept change, increase the profitability, undertake new actions, develop new products and offer more efficient and user-friendly services.

**8.3.** Innovation is not a component of one designated Ministry's policies, but has to permeate all policies and be endowed with appropriate effective instruments with clear objectives, continuous assessment and benchmarking with competitors.

**8.4.** Innovation is market driven and pushed not only by the companies. Innovation management is a prerequisite for innovation. The majority of SMEs encounters difficulties in planning, implementing and marketing innovative products. Innovation should work only by taking people (employees, customers, stakeholders, etc.) into account.

**8.5.** SMEs often ignore the true meaning of innovation. Enterprises which do not innovate would quickly stagnate and lose their competitive position without renewing.

**8.6.** SMEs must feel the stimulating forces for the innovative environment and sustainable development and have to understand that when something is changing, they have to change too.

- 8.7.** Reasons that slow down the process of innovation are:
- fragmented and undeveloped markets;
  - political uncertainty and lack of confidence to build common research subregions in the BSEC countries;
  - costing price of innovations is too high;
  - SMEs have found it expensive to defend their intellectual property rights;
  - poor information levels about products and services;
  - low level of social acceptance for the innovation results and outcomes.
- 8.8.** A different type of entrepreneurial creativity is required for factor-driven, efficiency-driven and innovation-driven economies.
- 8.9.** BSEC countries are extremely heterogeneous from factor-driven economies (e.g. Azerbaijan) through efficiency-driven economies (e.g. Romania) and mixed economies (e.g. Russia) up to moderate innovator (e.g. Greece). Different types of entrepreneurs and entrepreneurial creativity are needed in different situations and countries.
- 8.10.** In some BSEC countries the lack of transparent policy actions create unpredictable changes in legislation (e.g. in Ukraine) and the lack of analysis of the impact of legislation (e.g. in Romania) hamper the development of SMEs.
- 8.11.** Not enough concern is given to the aspect of entrepreneurial training, particularly “financial literacy”, and to advisory services.
- 8.12.** While focusing on tax and regulation system, the importance of improving the quality and “smartness” of business ideas has been widely neglected.
- 8.13.** Agricultural producers are in a weak situation with regard to international chains as their main customers. The generated illiquidity hampers the development of SMEs and supports them to build adequate value chain (e.g. in Serbia).
- 8.14.** Improvement of tax code (Albania, Georgia) containing incentives for micro and small businesses and simplification of starting business procedures would create a good basis for small and medium business further development.
- 8.15.** The access to credit and capital is essential for SMEs. In that context, the Turkish SME support and credit model seems to be particularly efficient. It is close to the EU best practice.
- 8.16.** The Europe 2020 Strategy, especially two cross-cutting flagship initiatives: The Innovation Union and Industrial Policy for the Globalization Era will help to improve and plug the innovation gap for the EU countries, the countries with the EU association agreements as well as with the ones within the EU Eastern Partnership Program.

## **Recommendations**

- 9.** The following recommendations were made:

- 9.1.** In the time of economic crises measures and researches are needed to help transform ideas into new marketable products and services, creating jobs and growth both in Europe and in the BSEC region.
- 9.2.** Governments have to introduce a wide range of schemes to support SMEs, including tax reduction for R&D, contribution to research investment and establishment of innovation centers, link SMEs with academic research institutions, universities and industry. A special range of subsidiary programs is needed for start-ups and small innovation companies.
- 9.3.** There is a need for elimination of bureaucracy and legislation burdens, as well as for formulating new orientation policies towards an innovation friendly environment.
- 9.4.** BSEC countries have to develop business skills through education, especially for young people. For some countries the project of Training of Trainees in youth SMEs should be developed.
- 9.5.** Support actions have to be taken through (i) new legislative measures that simplify procedures and boost competitiveness; and (ii) creation of new financial schemes and facilities such as by more effective use of the EU structural funds.
- 9.6.** An international workshop on leadership and partnership of youth SMEs in South Caucasus should be organized.
- 9.7.** Cross-border cooperation, linkage, networking of business services institutions and innovation consultation companies should be required.
- 9.8.** It is suggested to create networks of business incubators and technological parks in the BSEC countries and collect and disseminate best practices in this field.
- 9.9.** BSEC countries should develop women entrepreneurship development policy within the framework of their national SME policies.
- 9.10.** Support and control of the quality of the business concepts are needed if entrepreneurs are subsidized.
- 9.11.** Innovation performance should be improved through:
- (i) smart and new government policies;
  - (ii) creation of business and innovation friendly environment; and
  - (iii) creation and improvement of access to finance as well as innovation policies.
- 9.12.** BSEC should continue to promote SMEs in the Black Sea region. In this process the traditional cooperation would be maintained with KAS. The BSEC countries would benefit from the intellectual potential of the ERENET Network which provides also a good platform for cooperation and exchange of experience among academicians, university lecturers, representatives of research institutions and NGOs in the field of entrepreneurship from the BSEC countries.

**9.13.** The BSEC countries are encouraged to prepare themselves for the application of the Competitiveness of Enterprises and SMEs (COSME) Program for 2014-2020 of the European Commission.

**9.14.** The Turkish Small and Medium Enterprise Development Organization (KOSGEB) expressed its readiness and willingness for sharing of experience on “SMEs Exchange”, “Venture Capital Trust” and “SMEs Credit Models” through organizing workshops and seminars (minimum five applications).

**10.** The Participants to the Workshop expressed their deep gratitude to the BSEC Organization and to KAS for its support and financial contribution to the Workshop as well as to the Ministry for Economy and Sustainable Development of Georgia and the National Investment Agency of Georgia for the hospitality extended to them during the meeting in Tbilisi.

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