

REGIONAL POSITION PAPER

We, the business community* of the Eastern Partnership (EaP), have come together to highlight the importance of the ongoing transformative process of Eastern partnership countries' economies into market-driven economies, which generates both challenges and opportunities. We hereby convey to you, the Governments of Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine, the European Union and the donor community, our concerns and recommendations which we should work on together to improve conditions for growth and for the best possible business climate. The degree of the challenges and recommendations varies from country to country in the EaP region.

The transformation process and the implementation of necessary reforms can only be done by involving the private sector in the policy making process. We, the business support, and private sector organisations call upon the political decision makers to consider us as partners for the design and implementation of the reform processes, strategies for economic development, and regional cooperation.

We call for a systematic Public - Private Dialogue (PPD) for SMEs, conducted on a regular basis, focusing on concrete topics in an appropriate timeframe and in a language understandable to SMEs.

We welcome the launch of the web portal EU4Business consolidating all necessary information for the business community of the EaP countries.

Investments & Business Climate

Challenges	Recommendations
An unpredictable business environment (frequent changes in government and legislation, volatility of exchange rates, conflicts in the region) hinders economic development. SMEs lack the technical capacity and knowledge, and are ill prepared to plan and adapt their business to new legislation.	<p>Develop a long-term strategy and a roadmap of economic development with European vector for the Eastern Partnership region, fully following the recommendations of the EU Small Business Act.</p> <p>Ensure that any new legislation that impacts SMEs should be SME friendly by applying the “think small first principle”. A period of 6 to 12 months should be foreseen before the regulations enter into force.</p> <p>Carry out regular SME needs assessments, facilitate SME access to business development services, support entrepreneurship, and implement the recommendation of the OECD assessment of the SME Policy Index 2016 for the EaP countries fully and in a timely manner.</p>
Corruption and other malpractice are still widespread despite anticorruption legislation being in place. Complicated bureaucratic procedures and administrative barriers increase the risk of corruption.	Simplify administrative procedures for businesses, as well as facilitate regulatory and controlling systems in the direction of self-regulation of economy.

	<p>Guarantee the revision of existing regulations on economic activities based on the principles of effectiveness and limited intervention, with a focus on economic growth.</p> <p>Implement the principle of SMART regulations, fight informality and corruption through education, good implementation of anti-corruption legislation, and training of business and public officials on anticorruption compliance instruments.</p> <p>Adopt the relevant legislative framework and ensure the implementation of E-Government for more transparency in the EaP economies along the European Interoperability Directive.</p>
The quality of laws is poor and their impact is not assessed.	Install a system of impact assessment for draft laws (including laws concerning SMEs).
Courts are very slow and unreliable, making the resolution of economic disputes difficult and unpredictable.	Establish specialised business-courts or other institutions that deal with solving economic disputes and protection of enterprise's and investor's rights. A Business Ombudsman for SME issues could be an option.
Property rights are not secure both on a legislative level and in its implementation. The guarantee to protect property rights is important to attract investment and encourage Research and Development, and Innovation.	Ensure the protection of property rights and eliminate opportunities for corruption by providing accountability of decision-making officials.
Public-private dialogue in the region is deficient and the level of consolidation of position in the segment of small and medium businesses is very low.	Enhance and ensure public-private dialogue for the equal participation of all relevant stakeholders, including the private sector organisations in the policy making process.
The awareness of business associations and government officials of public-private dialogue's benefits for economic development is low. Both the culture of dialogue and the culture of associations is weak.	<p>Reinforce the capacity building of both private and public sectors through training, exchange of experience and implementation of best European practices. E-learning could be a cost-effective variant.</p> <p>Elaborate and implement a universally applicable tool for the measurement and assessment of the</p>

	<p>effectiveness and quality of public-private dialogue.</p> <p>Organise the EU SME WEEK in all EaP countries to build a public consensus for SMEs.</p>
<p>The infrastructure (poor road network, outdated transport systems, connection to energy sources; lack of up-to-date business parks) is poor in most EaP countries.</p>	<p>Develop a strategy to quickly improve infrastructure and transport connections within the EaP countries and with its neighbours following EU connectivity guidelines. Evolve business and start-up support centres, such as business incubators and consulting points.</p>
<p>There is an unequal playing field between state owned or large companies and SMEs. Non-transparent subsidies are provided for the state owned and large companies, while additional fees to public funds are mainly paid by SMEs. The government has the monopoly to provide certain services to enterprises on a purely commercial basis that could be provided by the private sector.</p>	<p>Ensure an even playing field for all companies and introduce legislation ensuring fair competition following EU competition and state aid guidelines and principles.</p>
<p>International donor money as well as national budgets (resources) are badly used as there is a lack of transparency and accountability. Abuses in the distribution of international technical support funds and national budgets are frequent.</p>	<p>Introduce independent evaluation for accountability and transparency of international technical support funding and national budget distribution. Create a system of Monitoring and Evaluation of these recommended processes, an indexation for benchmarking, and a system of public control of technical support programs.</p>

Access to finance

Challenges	Recommendations
<p>A lack of financial literacy (management, procedures, instruments) in an environment with complicated application procedures for bank loans and high financing costs (interest rates, transaction costs, etc.) creates a strong disadvantage for SMEs.</p>	<p>Create advisory services for SMEs to enhance financial literacy, business planning capacity and improve management practices through separate specialized platform for SMEs.</p> <p>Support the business service community Accounts, consultants, export and financial advisors, notaries, lawyers, and engineers in adopting European guidelines and advising SMEs on European standards.</p> <p>Adopt to European accounting standards.</p>

	Simplify application procedures, increase competition within the banking sector and develop special products for SMEs.
There is a lack of alternative finance sources and instruments, especially for the non-banking sector. Microfinance institutions are weak.	Stimulate the creation and development of non-bank institutions (venture investment funds, business angels, crowd-funding platforms/campaigns, etc.) and alternative financial instruments (guarantees, mortgages, bills, leasing, factoring, etc.). Develop programs for micro-finance institutions (access to EU sources and instruments).
Banks participate in commercial activities (tourism, construction, trade, and others) not related to banking and the core business of banks, creating unfair competition for SMEs.	Increase transparency in the banking sector and introduce codes of conduct and ethics for banks in order to enhance corporate governance and control.
Lack of payment certainty and enforcement mechanisms create uncertainty for SMEs.	Adopt the EU Payment Directive and ensure debt collection via courts and private bailiffs is working systematically.
There is a lack of collateral; guarantee funds do not exist.	Establish a functioning market for land as well as guarantee funds based on European Guidelines for Spatial Information (INSPIRE). Implement appropriate valuation methods for collaterals as based on the TEGOVA guidelines.

Access to market

Challenges	Recommendations
A lack of fair competition caused by an oligarchic/monopolistic business model alongside weaknesses in public procurement hinders SMEs in their access to local, regional, and international markets. SMEs have only limited access to the public procurement market.	Create efficient competition legislation and establish institutional mechanisms dealing with competitiveness for SMEs. Improve the public procurement systems, including using e-public procurement tools to better involve SMEs in the procurement chain. Ensure SME thresholds and smaller lot sizes that allow SMEs to participate in public procurement.

<p>SMEs are not competitive on international markets due to problems with cost, quality, and available quantities. They can hardly guarantee an uninterrupted supply which is especially important when working in international value chains. Logistics and transportation as well as adequate packaging and labelling is overly expensive. Significant changes in production processes and additional investments for SMEs are required to meet the Sanitary and Phytosanitary standards and Technical Regulations.</p>	<p>Install an online platform that will allow SMEs across the EaP countries to connect among each other, to easily access relevant information, to operate internationally, and to share their experiences, innovations, and best practice.</p> <p>Increase and support participation of EaP countries' SMEs in EU trade fairs, aiming at business to business matching.</p> <p>Assist companies in accessing new technologies and financial means to improve their production.</p> <p>Endorse the implementation of the concept of EU Electronic Trading Platform (ETP), a private sector, – led and multi – stakeholder initiative for public – private dialogue. ETPs can incubate e-Trade rules and foster a more effective and efficient policy and business environment for cross- border and regional electronic trade (e-Trade) development.</p>
<p>SMEs do not have access to affordable local but internationally recognized quality infrastructure services for tests, certification, metrology, accreditation, and conformity assessment.</p>	<p>Establish internationally recognised quality infrastructure services locally, and encourage regional cooperation in the field.</p>
<p>SMEs do not recognise the value of clustering and/or joint branding, which could help their access to market and into value-chains, and so increase their opportunity to export.</p>	<p>Enhance incentives that would help SMEs reach global markets especially for innovative products. Help them to access foreign sources of advanced technologies and knowledge.</p>
<p>EU companies are not aware of the EaP countries, their potential, and the benefits of increased economic cooperation.</p>	<p>Raise awareness with EU companies about SMEs in EaP Countries and the potential for cooperation.</p>

Innovations & Skills

Challenges	Recommendations
<p>There is no adequate legal framework for innovation. Adopted laws and policies are not fully implemented. Policy documents do not include qualitative and quantitative targets. There is no statistical data nor monitoring of innovation performance, no access to reliable and detailed indicators, and a lack of data on innovation.</p>	<p>Establish a State Innovation Council in each country that will implement a systematic and continuous, high-level inter-sectoral coordination mechanism to better develop and coordinate strategic approaches and law enforcement mechanisms.</p> <p>Establish a joint body in all EAP countries for the coordination and monitoring of innovation processes. (Innovation EAP Council).</p> <p>Extend the European Union Innovation Scoreboard to EAP countries to have access to reliable statistics on innovation.</p> <p>Focus the national statistics committees on the innovation sector.</p>
<p>Vocational education/trainings, especially in professions strongly depending on innovation, is weak. Companies do not want to invest in the training of potential employees. There is a strong mismatch between skills and competences needed by SMEs and skills provided by the educational system. There is no forecast of the labour market. The quality education enabling innovation is low.</p>	<p>Reform the educational system and involve the business community in the design of curricula.</p> <p>Work with relevant stakeholders from the EU to develop a 'dual system' approach to class and work-based Vocational Education & Training (VET).</p> <p>Organise the EU Vocational Skills Week in all EaP countries.</p> <p>Set up and implement a system to forecast the needs of the private sector and better regulate the education market.</p> <p>Create a scholarship system reviewed every year and adapted to the demands of the private sector.</p> <p>Create additional, non-formal innovation education.</p>
<p>There is a weak link between education, entrepreneurship, research, and innovation.</p>	<p>Create a legal basis for cooperation among scientific-research institutes, universities, industry, and the finance sector in innovation.</p> <p>Enhance cooperation between public and private sectors on a contractual basis.</p>

	<p>Organise the European E-Skills week in all EaP countries to foster e- skills and innovation. To foster respect for entrepreneurship.</p>
<p>There are inadequate institutional mechanisms to commercialize innovation.</p>	<p>Support and foster innovation substructures (innovation-research centres, business incubators, technology parks, innovation funds, labs to validate innovation).</p>
<p>The innovation culture is poor and the existing innovation management capacity is not assessed.</p>	<p>Raise awareness on EU tools designed to measure the capacity of innovation management.</p> <p>Start with campaigns to increase awareness for the importance of innovation for the economy.</p>
<p>SMEs lack the capacity to participate in EU innovation initiatives/programmes.</p>	<p>Develop training programs to improve the quality of projects and applications for all EAP countries to be competitive on an international level.</p>
<p>There is a limited access to risk finances such as ventures capital, business angels etc.</p>	<p>Develop tools to assess investment readiness in all EAP together with universities (research) and NGOs.</p> <p>Create a favourable legal environment for investment funds in innovation, angel investors, crowdfunding, and e-commerce.</p>
<p>SMEs lack the necessary business education, skills, and knowledge, especially in regard to innovative technologies.</p>	<p>Organize trainings to share and deliver managerial and business skills especially through e-learning.</p>
	<p>Organize the Start Up Week Europe and the Global Entrepreneurship Week in all EaP countries.</p>

Tax & Customs

Challenges	Recommendations
<p>State owned enterprises, large enterprises and SMEs are taxed and treated differently, resulting in disadvantage for SMEs.</p>	<p>Introduce and maintain equal treatment of all enterprises with a simplified tax system for micro- and small businesses.</p> <p>Improve public-private dialogue between fiscal and customs authorities and the business community for improving fiscal and customs administration, establishing uniform enforcement practices, and reducing the number of administrative procedures.</p>
<p>Frequent changes in taxation (tax legislation), the heterogeneity of precedents in tax disputes, and problems with tax returns make long-term planning impossible for SMEs.</p>	<p>Ensure a stable taxation system, allow consultative engagement of the stakeholders, develop common approaches to tax disputes, and ensure in-time tax returns.</p> <p>Alleviate the administrative burden on SMEs by reducing the need for government approval and simplifying the remaining approval and filing procedures.</p>
<p>A Single Window System does not exist yet in all the EaP countries.</p>	<p>Jointly develop measures to rationalize, simplify, and align customs procedures, data requirements, and IT processes to be more closely based on global standards such as the WCO (World Customs Organization) SAFE Framework of Standards in order to reflect the global nature of regional and cross-border trade.</p> <p>Speed up the process and transition to electronic customs, which will eliminate the human factor in decision-making and thus increase transparency and reduce bureaucracy and risk of corruption.</p>
<p>Tax & customs procedures lack the mechanisms for a one-stop shop.</p>	<p>Implement paperless technologies, electronic bookkeeping, and electronic document management within enterprises and state structures (Single Window System).</p> <p>Implement IT systems in the EaP countries with harmonized functional and technical specifications. This will enable reception and reuse of wide, harmonized data, and counteract a fragmented implementation of IT systems.</p>

<p>The unavailability of timely data creates problems at customs and border crossing points.</p>	<p>Further improve centralized customs clearance and provide concrete support for the needs of SMEs through more coordinated border management to ensure the harmonised implementation of the new Union Customs Code (UCC) and requirements of the Eurasian Customs Union (EACU).</p> <p>Ensure sustainability of data exchange and extend the scope of information/documents/data exchanged electronically to facilitate cross-border trade and regional trade by improving the IT customs networks and databases of the EaP countries and the EU.</p> <p>Facilitate the utilization of the System for Electronic Exchange of Data (SEED) in all EaP countries.</p>
<p>Standards and certificates are not mutually recognised in the light of EU and Eurasian Union systems.</p>	<p>Facilitate SME access to the services for standardization and certification, and follow CEN guidelines as closely as possible.</p> <p>Develop national and regional action plans that reduce barriers and costs for SMEs to comply with technical regulations. Enhance the transparency of trade procedures and support SMEs in overcoming Technical Barriers to Trade (TBT) and SPS (Sanitary and Phytosanitary Standards)-related issues.</p> <p>Provide technical assistance and trainings for SMEs to enhance the knowledge of SPS Requirements and framework set in the WTO Agreement on the Application of Sanitary and Phytosanitary Measures.</p> <p>Develop and implement a wide range of technical assistance programs targeted at BSOs, both private and public, to improve their capacity to provide regulatory, technical, consulting, and information services on trade and non-tariff measures such as sanitary and phytosanitary measures and other issues affecting the SMEs.</p>
<p>Different levels of customs administration (all procedures, structures, and infrastructure) and operational frameworks for AEO (Authorized Economic Operators) exist in the EaP region.</p>	<p>Launch the procedure for the mutual recognition of AEOs in the EaP countries.</p> <p>Establish a framework to develop and implement training programs to support SMEs to be certified as AEOs.</p>

***A Note on the process:**

The process of drafting of a Regional Position Paper (RPP) with recommendations for policy makers was launched at the East Invest 2 Annual conference in October 2016 using the draft declaration prepared in the frame of the East Invest 2 PPD activity for the Kiev informal ministerial meeting in July 2016. The process was continued in the period November 2016 - May 2017 through the East Invest 2 PPD activities in which about 200 Private Sector Organisations (Business Associations) took part coordinated by 30 coordinators (one per topic in each of the 6 EaP countries), supported by the national facilitators for PPD and experts from both the EU and the EaP countries. The draft RPP is prepared for the East Invest 2 Annual conference in Kiev on 21 June as a contribution to the 4th EaP Business Forum in Tallinn in October 2017.