

Title: Review of distinctive features of export promotion for small and medium-sized enterprises: experience of EU and of Armenia

Abstract:

Export promotion programs for small- and medium-sized firms (SME) are primary for export development of each country. As an indivisible component government-sponsored programs must be developed to promote export activities of SME's. Many export-oriented firms are motivated to expand in foreign markets, but they lack the necessary abilities to do so effectively. Basically, this paper aims at developing and enriching the analysis of distinctive features of export promotion for small and medium-sized enterprises in literature and in policy making process: main focus to the experience of EU and Armenia. This study attempts to evaluate the use and benefits of export promotion programs for SMEs. The paper provides a general characterization of optimal export promotion programs in order to better understand the needs of SME exporters. This study theoretically and empirically examines various problems they face in export of small and medium business and types of government assistance desired.

Keywords: small- and medium-sized enterprise, export promotion, government programme, entrepreneurship, European Union, Armenia

JEL classification codes: D21, D22, E61, E65, F13, F17, L25

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Review of distinctive features of export promotion for small and medium-sized enterprises

1. Survey of the literature on Small and Medium-sized Enterprises' export development

In fact, the significant part of the literature focuses on large and multinational enterprises, which possess higher quality resource stock and more sophisticated business decision-making systems. Small and Medium-sized Enterprises (SME) on the other hand have comparatively less resources, and decision making is normally less clearly thought through and meticulous. Therefore, it is very relevant that we get a better understanding of what factors stimulate export market entry decisions in these firms. This understanding will help to guide export policy makers in designing export promotion programmes to motivate micro- and smaller firms to get involved in international business.

Truly, large firms are said to have more resources (e.g. financial, technology, human capital, etc.) than smaller firms; thus, they are more successful in exporting (Katsikeas and Piercy 1993; Philp 1998). The empirical evidence, however, is mixed. For example, Hall and Tú (2004) looked at the impact of size on both export propensity¹ and intensity², and found that size mattered for export propensity but not intensity.

It should be mentioned also that on the level of the firm, exports offer the opportunity for economies of scale. By broadening its market reach and serving customers abroad, a firm can produce more and do so more efficiently, which is particularly important if domestic sales are below break-even levels. As a result, the firm may achieve lower costs and higher profits both at home and abroad. Through exporting the firm benefits from market diversification, taking advantage of different growth rates in different markets, and gaining stability by not being overly dependent on any particular market. Exporting also lets the firm learn from the competition, makes it sensitive to different demand structures and cultural dimensions, and proves its ability to survive in a less familiar environment in spite of higher transaction costs. All these lessons can make the firm a stronger competitor at home (Grigoryan, 2011a).

¹ Export propensity is ratio of firm's export to production

² Export intensity is ratio of firm's export to sales

Theoretically and empirically, the literature demonstrates that size and levels of international involvement do impact on how firms react to export stimuli (e.g. Cavusgil 1984; Leonidou 1995; Katsikeas and Piercy 1993; Ghauri and Kumar 1989).

Indeed, government programmes can provide assistance in the form of promotion in international markets of products made by these micro- and small firms. This will give foreign customers more awareness of their product offerings and can lead to an unsolicited order in the future. Unfortunately, with the country's push towards an export-led development policy, one would expect the government to play a stronger role in stimulating smaller firms to enter export markets. The fact that growth and the identification of attractive foreign markets are also highly rated in this study is evidence of the entrepreneurial nature of small and microfirms (Williams, 2008). Entrepreneurship, it is argued, is about seeking and exploiting opportunities (Covin and Slevin 1991).

Moreover, as internal/proactive forces appear to be most important in inducing exports, this provides further evidence to support the entrepreneurial nature of these firms. This observation is significant for export policy makers. It points to the fact that, to stimulate exports from these firms, more attention will have to be paid to their entrepreneurial nature and not merely apply the one-size-fits-all approach (Williams, 2008).

Furthermore, there are multiple, interrelated reasons that these initiatives have been developed: most firms are small firms; most people work for small firms; small firms play a critical role in industry innovation; growth-oriented small firms benefit their communities through economic development; and internationalization can provide firm-specific growth opportunities that exceed industry averages (Acs, 1999; Aldrich, 1999).

However, while it is true that the number of SMEs operating in foreign markets is increasing, it is still the case that only a small proportion of SMEs sell a significant proportion of their output outside their own domestic markets (cf. Bell, 1997; Leonidou, 1995). Numerous studies of factors predictive of the degree of firm internationalization (e.g. Crick and Jones, 2000; Eriksson et al., 1997; Knight, 2000; Kutschker and Baurle, 1997; Liang, 1995; McDougall and Oviatt, 1996) indicate that characteristics of SME owners are of critical importance to the internationalization of their firms and that they need to be taken into account when designing or delivering export support services.

This group of firms is operating in the global market place more rapidly today than ever before thanks to the globalisation of markets. Although there is an increased propensity for these firms to operate internationally, we still do not know if this operation arises from a systematic planned process or it is a mere response to unsolicited order from foreign customers. Although many export-willing firms are motivated to expand internationally, they lack the necessary internal skills to do so successfully. Export assistance initiatives for these firms should revolve around the training of firms in the intricacies of export market development (Grigoryan 2011b).

The following sections in this paper studies the characteristics of SME exporters in the European Union (EU), analyses and classifies the barriers for export activities, outlines the main features of export promotion of SME in EU, discusses “Small Business Act” for Europe as a basic instrument in SME export promotion, examines the experience of EU member countries in applying export promotion principles and the opportunities of improvement of export promotion of SME, as well as export promotion policy in Armenia.

2. Study of the main characteristics of SME exporters in the European Union

Definitely, small firms, and particularly in developing countries, in most cases, due to their limited resource stock, suffer from limited and sub-standard production. Micro- and small firm owners highlighted their inability to expand production as a major problem for export expansion. Many of them mentioned the need to have more space to be able to operate at their full potential. They also lamented the lack of highly qualified workers. The more qualified workers go to work for multinationals or larger firms. These factors, they opine, impact on their ability to produce to their full potential. Therefore, there is no excess capacity for export.

To illustrate, the main factors determining whether a company is an SME are:

1. number of employees and
2. either turnover or balance sheet total.

Table 1. Main factors of SME determination

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m

Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Specifically, these ceilings apply to the figures for individual firms only. A firm which is part of larger grouping may need to include employee/turnover/balance sheet data from that grouping too.

In addition, the place of SMEs in the European economy can be illustrated by the data presented in Table 2. It provides an overview of the size, structure and importance of SMEs and their contribution to growth and jobs. There are nearly 22 million SMEs in EU27.

Table 2. **Main indicators of EU SMEs³**

	micro	small	medium	SMEs	Large	Total
Number of enterprises	91.8%	6.9%	1.1%	99.8%	0.2%	100.0%
Employment	30%	21%	17%	67%	33%	100%
Number of occupied persons per enterprise	2	19	100	4	1006	6
Value added at factor costs	21%	19%	18%	58%	42%	100%

Remarkably, an earlier study for DG Enterprise and Industry showed that the highest share of SMEs is engaged in importing (29%). Some 25% of all EU SMEs are engaged in exporting. Importing and exporting often coincide³ within the same enterprises. Of all enterprises in EU27 that either import or export, more than 40% are active in both ways. It is also relevant to note that some two thirds of them started with importing. So, importing can be an important stage in the internationalization process of SMEs.

³ Source: European Commission, *DG Enterprise and Industry. European SMEs under Pressure, Annual Report on EU Small and Medium-sized Enterprises 2009*, published on: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

7% of SMEs within the EU27 are involved in technological co-operation with a foreign partner, 7% are a subcontractor to a foreign partner, 7% have foreign subcontractors and 2% of SMEs are active in foreign direct investment. Moreover, there is a direct link between the level of internationalisation and size of the company. The larger the company, the more it tends to internationalise. This applies to any single mode of internationalisation. For exports 24% of micro, 38% of small and 53% of medium-sized SMEs are active, for imports the respective percentages are 28%, 39% and 55% (European Commission 2010). Additionally, most often SMEs start international activities by importing. If SMEs are both importing and exporting, they start with import twice as often (39%) as starting with exports (18%). 42% started with imports and exports in the same year.

Accordingly, the smaller the country, the more its SMEs are internationalised, but the SME's proximity to a national border does not have much effect on its level of internationalisation. There is a negative correlation between the size of the SME's home country population and its level of international activity. Countries such as Estonia, Denmark, Sweden, the Czech Republic and Slovenia have a much higher percentage of exporters than the EU average of 25%. Germany, France and UK score below average. SMEs located close to a border show much higher activity rates with their cross border regions but this is not followed by being more internationally active in general.

In fact, trade, manufacturing, transport and communication and research are the most internationalised sectors. The highest percentage of internationalised SMEs is found in wholesale trade, mining, manufacturing and sale of motor vehicles. Within services, the sector 'research' scores very highly. Sectors of activity with the highest share of exporting SMEs are mining (58%), manufacturing (56%), wholesale trade (54%), research (54%), sales of motor vehicles (53%), renting (39%) and transport and communication (39%).

In addition, the major countries for international business of EU SMEs outside the EU are the USA (1), Switzerland (2), Russia (3) and China (4). The percentage of SMEs using public support programmes to develop their business in the seven key target markets is very small. Only 4 or 5% are using support for Brazil, Russia, China and South Korea, whereas in India, Japan and Ukraine it is as low as 1%.

Importantly, exporting and importing activities increase in intensity by age of enterprise. The percentages of SMEs that are exporting gradually increases from just over 15% for enterprises up to 4 years of age to nearly 30% for enterprises that have existed for 25 years or more.

In the meantime, not many of the internationally inactive SMEs are planning to start international activities in the foreseeable future. Few non-internationalised companies show any intention to start international operations. Only about 4% of all SMEs have concrete plans to start such activities. Partner countries are mostly other EU countries. Except for imports from China, relations with BRIC countries (Brazil, Russia, India, China) are generally underdeveloped. Whereas three quarters of all exporting SMEs are oriented towards markets in other EU Member States, emerging markets such as BRIC are only served by 7% to 10% of exporting SMEs. Only in transport and communication is this percentage much higher. Also for imports, most SMEs (86% of importers) focus on other EU Member States, but here also China (27%) is quite important (European Commission 2010).

Certainly, companies involved in E-commerce are more internationally active. Having the possibility to sell products or services online is positively correlated with being active in export or import markets (also when controlled for other effects such as size of firm). The conclusion would be that the Internet has made it easier for SMEs of all sizes to overcome some of the barriers to internationalisation. In fact the relationship between certain barriers and the size of firm has weakened because of the Internet.

3. Analysis of barriers for export activities

One of the last surveys of the Observatory of European SMEs, was carried out in the 27 Member States of the European Union (25 at the time of the fieldwork), as well as in Norway, Iceland and Turkey – in the countries participating in the Multiannual Programme for Enterprise & Entrepreneurship (MAP)⁴ – under the framework of the Flash Eurobarometer survey series. The purpose of this specific contract is the provision of information, through a survey, on the characteristics and specificities of small and medium-sized enterprises (SMEs; enterprises with less than 250 persons employed) across Europe. For this purpose, the replies of SMEs are compared to those of large enterprises (enterprises with at least 250 persons employed). The sample was stratified by country, industry (NACE main codes) and number of persons employed (1-9 categorized as “micro-SMEs”, 10-49 as “small-sized SMEs”, 50-249 as “medium-sized SMEs” and 250+ persons as “large-scaled enterprises” or LSEs)⁵. The sample was selected disproportionally to have a minimum number of cases in each cell of this three-dimensional matrix.

⁴ http://ec.europa.eu/enterprise/enterprise_policy/mult_entr_programme/programme_2001_2005.htm

⁵ See SME definition at: http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm

Specifically, the sample of the survey covered all firms active in the countries surveyed, in any of the following industries (with NACE main codes⁶): D. Manufacturing, F. Construction, G. Wholesale and retail (referenced as “trade”), H. Hotels and restaurants (“hospitality”), I. Transport, storage and communication (“transport”), J. Financial intermediation (“financial”), K. Real estate, renting and business activities (“business services”), N. Health and social work (“healthcare”), O. Other community, social and personal service (“personal services”).

Overall, Gallup interviewed 16 339 SMEs (17 283 enterprises in total) across the survey area, and 14 683 SMEs in the 27 Member States of the European Union (EU), dominantly between the 17th of November and 15th of December, 2006 (Observatory of European SMEs Summary 2007).

Indeed, the most important individual business constraint reported by SMEs is the limited purchasing power of customers: 46% of the managers interviewed in the EU reported that this issue was a business constraint in the last two years. Two other business constraints affect a large number of SMEs in the EU: excessive administrative regulations (more than a third – 36% – of SMEs claim to have faced difficulties in this area over the past two years) and the issue of the availability (35% reported problems) and cost of appropriate human resources (33%).

Meanwhile, at the EU level, 44% of SMEs consider themselves as operating in an over-regulated environment. On the other hand, 29% are satisfied with the current regulations, and an additional 12% would even welcome additional measures to achieve the given goals: for example, financing of public services or a cleaner environment. Hence, on balance, SMEs that find regulations fair, or too modest, are only slightly fewer in number than those who think that the regulations go too far.

Hence, only 5% of EU SMEs have reported that they have subsidiaries or joint ventures abroad. These foreign business partnerships seem to have a positive direct impact on employment in the home countries of EU SMEs: 49% of the involved SMEs confirmed that their partnership does not affect employment in their home country, while 18% reported that it increases and 3% that it decreases their respective employment in the home country. The main reason for SMEs to invest abroad is the geographic proximity as supplier to other enterprises.

⁶ NACE Rev. 1.1, see <http://ec.europa.eu/eurostat/ramon/nomenclatures/>

By the way, SMEs in the EU believe that competition in their markets has increased over the past several years. Six out of ten managers stated that competition had intensified recently. The perception of increased competition is even more widespread among LSEs. To respond to tighter competition, the primary strategy of SMEs is to enhance product quality and intensify marketing efforts. Increasing working hours, looking for new markets abroad, and especially cutting production are seen as last resort strategies.

Thus, 12% of the turnover of EU SMEs comes from new or significantly improved products or services. About 3 in 10 SMEs indicated that they have new products or that they do have income from new products (Observatory of European SMEs Summary 2007). The share of SMEs which reported innovations was higher in the old EU Member States than in the new Member States.

According to the claimed turnover from exports, a large number of European SMEs does not export at all. Overall, about one in ten SMEs in the EU reported some export figures (8 % of all SMEs). While some small open economies report a much higher involvement in exports (Estonia: 23% of companies have some turnover from exports, Slovenia: 21%, Finland: 19%, Denmark: 17%, etc.), SMEs in some in some of the largest EU countries are not particularly involved in cross-border trade: most notably in Spain (3% have turnover from exports) and France (6%). But some of the smaller economies are quite closed as well, with a low proportion of SMEs involved in exports: Cyprus (3%), Bulgaria (4%), and Malta (6%).

Almost half of the exporting SMEs in the EU did not report any particular constraint related to their foreign trade activity: 36% declared no problems and 10% could not identify any of the offered possible difficulties. The top ranked constraint exporters faced was information problem: 13% of those SMEs answering this question said they lacked knowledge of foreign markets (which might be related to current or new export destinations). The second most frequently mentioned problem was that of decreased price competitiveness due to import tariffs in destination countries (9%). Almost as important was the lack of capital to operate within the internal EU market, 9% mentioned this as their prime concern (Observatory of European SMEs Summary 2007).

Relatively less important constraints were the difficulty that different regulations still prevail (8%), the lack of management resources (6%), and different regulations in non-EU destinations (4%). Language problems (3%) and the limited export-suitability of products and services (2%) were the least frequently mentioned primary concerns.

Even, among the various industry sectors, trade SMEs are the most troubled by import tariffs (14% mentioning this as the primary constraint to exports). In the manufacturing and construction sectors, the lack of knowledge of foreign markets poses the most important challenge (indicated by 15% and 22%, respectively). SMEs in the financial sectors complain most frequently about non-harmonized regulations across the EU (15%), followed by those in the transport/logistics/communication sector (10%). Exporters in the latter sector suffer the most from the lack of capital to support their exporting activity - 24% (Observatory of European SMEs Summary 2007).

Remarkably, lack of capital and lack of adequate public support score even higher with reference to EU-EEA (European Economic Area) markets than with reference to third markets. This might be related to the fact that generally somewhat larger and more experienced SMEs are active in third markets. Both barriers are more important the smaller the SME is.

Meanwhile, awareness of public support programmes among SMEs is low. SMEs are generally not well aware of the existence of public support programmes for internationalisation that could be used by their firm. The percentages that are aware range from 15% for micro enterprises to 27% for medium sized enterprises, and from only 10% for enterprises that are not internationally active to 22% for SMEs with international activities. By sector: 20% to 25% of SMEs in wholesale and manufacturing are aware of support programmes, whereas for retail, transport and personal services this is only 10% to 13%.

Step one in adequately supporting SMEs to access international markets opportunities, is to raise the rather low awareness of business support programmes among SME.

So, use of public support is rather low. Only a small number of the SMEs actually use public support measures. Financial support is, in 2009, used more by the larger SMEs: micro 10%, small 13% and medium-sized 16% of enterprises with international activities. Non-financial support is used more by the smallest firms: micro 10%, small 8% and medium-sized enterprises 6%.

By country the differences are very large. A very high percentage of SMEs in Austria (47%) and Turkey (32%) reported using financial support whereas in countries such as Portugal, Denmark, the Netherlands and Iceland this is 1% or less. The use of non-financial support is

highest in Slovenia (23%), Cyprus (19%) and Latvia (16%), but only between 2% and 10% in 10 countries, and below 2% in 15 of the 33 countries.

Through the country studies, a qualitative assessment was undertaken of business support services provided. The following shortcomings could be identified:

- There is a significant problem for some SMEs because not all EU countries provide support: several Member States have a well established and wide network, for other Member States this is not the case.
- Some of the smaller EU countries and new Member States were found to be less proactive in providing support services for SMEs.
- In a number of target countries, there are no lobbying services specifically for SMEs. Lobbying activities tend to favour and are funded by larger corporations where SME interests are underrepresented.
- In several countries, there was an absence of information about the types of business support service on offer. The survey results also suggest that the level of awareness of support measures on the part of European SMEs is limited.
- One of the problems identified was the tendency for support services to be offered only in the largest cities, since all service providers from different Member States tend to locate in the same cities, leaving many commercially interesting local markets un-served.
- When support services are available, the extent of provision is often insufficient to meet the needs.
- Services are not always well adapted to meet the varying strategies adopted by SMEs.

About 7% of all internationalized SMEs use public support for their international business activities. Anyway, a majority of these entrepreneurs (60%) finds that it is not sufficiently easy to get an overview of existing support for business activities in markets outside the EU (European Commission 2011a).

4. Main features of export promotion of SME: The “Small Business Act” for Europe as a basic instrument in export promotion of SMEs

Basically, to assist European SMEs to gain access to these promising markets and to develop their business, the Member States and the EU have put many business support measures in place. There are more than 300 support measures, most of them of a general nature (i.e. not specially focused on markets outside the Single Market), but nearly 100 do focus especially on the seven key target markets. The relevance of these support measures is generally valued highly by representatives of the business community.

In fact, the “Small Business Act” for Europe (SBA), provides a comprehensive SME policy framework, promotes entrepreneurship and anchors the “Think Small First” principle in law and policy making to strengthen SMEs’ competitiveness (European Commission 2011b). This Communication takes stock of the implementation of the SBA and assesses the new needs of SMEs operating in the current economic environment, where they find it increasingly difficult to get financing and access markets. The SBA contributes to achieving the ambitious objectives of the Commission’s new reform agenda, the Europe 2020 strategy⁷, in which several SME-relevant actions have already been set out in the key flagship initiatives. The Annual Growth Survey⁸, presented by the Commission in January 2011, concludes that the delivery of the Europe 2020 strategy requires, in addition to fiscal consolidation, pro-active policies to drive growth in the EU, including measures to improve the environment for industry and business, in particular SMEs.

Actually, the SBA is based on ten key principles and a number of concrete actions fully endorsed by the European Council in December 2008. Both the European Commission and the Member States committed themselves to set out the necessary measures to improve the regulatory, administrative and business environment and to support European SMEs. The main focus was, and remains, structured around three areas: ensuring access to finance, taking full advantage of the Single Market and smart regulation (European Commission 2011b). SMEs benefit from specific services of the Partnership between Commission, Member States and business organizations such as a free on-line access to valuable export information in the Market Access Database.

⁷ http://ec.europa.eu/eu2020/index_en.htm

⁸ COM (2011) 11 final.

Additionally, to improve SMEs' access to finance, financial instruments within the Competitiveness and Innovation Framework Programme (CIP) continue to facilitate venture capital investments and provide guarantees for lending to SMEs. Microenterprises represent 90% of the over 100 000 SMEs that have benefited so far from the CIP financial instruments. A further 200 000 SMEs are expected to benefit by 2013. On average, each SME that is granted a guaranteed loan in the EU creates 1.2 jobs⁹. The Commission has also set up a permanent SME Finance Forum bringing together SME representatives, banks, market operators, and other financial institutions, including the European Investment Bank (EIB), in order to address the various practical obstacles faced by SMEs when attempting to get credit.

For instance, in November 2010, the Commission opened an EU SME Centre in China which provides information, advice, training and matchmaking opportunities for European SMEs willing to export to or invest in the Asian market.

Furthermore, Cohesion Policy programmes¹⁰ and the European Agricultural Fund for Rural Development (EAFRD)¹¹ are both key means of turning the priorities of the SBA into practical action on the ground while ensuring complementarity between EU, national and regional support.

Eventually, due to the economic crisis, many SMEs have seen their financial situation and their credit worthiness deteriorate, despite a viable underlying business model and a solid customer base. At the same time, the latest European Central Bank (ECB) lending surveys have shown that several European banks have tightened their credit standards for companies¹². Also, new regulatory provisions for financial institutions introduced either at EU level or by the Member States should be appropriately calibrated and accompanied by impact assessments ('SME Test'). Further investment should encourage regions, to find specific niches in the innovation landscape, based on 'smart specialization strategies'.

Accordingly, the SBA invites the Commission and the Member States to support and encourage SMEs to benefit from the Single Market, including the digital Single Market and the growth of markets outside the EU while facing the challenge of a sustainable economy. Moreover, the Europe 2020 strategy sets out several actions to improve the EU's

⁹ SEC (2005)0433 final, Annex to COM (2005)121 final.

¹⁰ Communication 'Regional Policy contributing to smart growth in Europe 2020', COM (2010)553.

¹¹ http://ec.europa.eu/agriculture/rurdev/leg/index_en.htm and

http://ec.europa.eu/agriculture/fin/index_en.htm

¹² <http://www.ecb.int/stats/money/surveys/lend/html/index.en.html>

competitiveness vis-à-vis its main trading partners, notably through establishing an industrial policy for the globalisation era and a renewed trade strategy¹³, and to promote a resource-efficient Europe. Finally, the Communication “Towards a Single Market Act”¹⁴ sets ambitious objectives to improve the Single Market and presents a comprehensive package of measures.

However, despite considerable progress in helping SMEs to benefit from the Single Market, they still remain cautious in engaging in cross-border activities for various reasons. Making crossborder payments is often perceived as costly and burdensome, as are the available instruments to resolve possible conflicts with customers, in particular in e-commerce.

Also, the Single Euro Payments Area (SEPA) will allow SMEs to benefit from simpler payment arrangements with reduced costs and no need to use more than one bank account within the Single Market¹⁵.

Definitely, SMEs are the leading job creators in the EU but due to the economic crisis some 3.25 million jobs in SMEs have been lost. In the current situation, the Member States must further simplify administrative requirements and the procedures to wind up a failing business. Moreover, about one third of business failures occur in the context of a business transfer. Therefore it is essential to improve the framework conditions for business transfers as over the next decade up to 500,000 businesses providing 2 million jobs will have to be transferred every year¹⁶ (European Commission 2011b).

In particular, there are also SMEs which follow business models different from the traditional capitalbased companies. This category, known as the “social economy”, includes non profit associations, foundations, co-operatives, mutual societies and similar legal forms. In order to respond to the particular needs of these undertakings, the Commission announced in the Single Market Act a number of actions that will provide a level playing field. These actions would address issues related to cooperatives, foundations and mutuals on the one hand and enterprises pursuing social objectives on the other.

Eventually, there could be an important role for the European Commission in prompting developments at a Member State level and in co-ordinating the interaction between national

¹³ Communication “Trade, Growth and World Affairs”, COM(2010)612, 9.11.2010

¹⁴ http://ec.europa.eu/internal_market/smact/index_en.htm

¹⁵ http://ec.europa.eu/internal_market/payments/sepa/

¹⁶ http://ec.europa.eu/enterprise/policies/sme/documents/transfers/index_en.htm

agencies. Co-ordination of appropriate services ‘at home’ and improved preparation of SMEs is essential for ultimate success. This needs to be done at a regional or national level and could usefully involve the Enterprise Europe Network which is in a position to play a critical part in these developments

Actually, in the target third countries, provision is fragmented, there is often duplication or services running less than optimally, e.g. because all service providers from different Member States tend to locate in the same cities and regions. The whole system could benefit from some rationalization and this would include providing greater scope for existing agencies.

An existing EU SME Centre could provide the necessary co-ordination by acting as a hub in the target country linking all support service organizations and acting as a more effective counterpart to the measures ‘back home’. The range of activities of the EU SME Centre could include: direct services and common services, liaison with Enterprise Europe Network partners, co-ordination: acting as the counterpart of co-coordinating bodies at a national level in the EU, signposting and efficiency gains: identifying areas where co-operation between European agencies and authorities can increase the effectiveness of all of them.

4.1 Experience of EU member countries in applying promotion principles

As it mentioned earlier, the SBA is based on ten key principles. EU member countries have different experience in implementation of such a principles.

According to *the principle of “Promoting entrepreneurship”*, many Member States have introduced entrepreneurship programmes to foster the entrepreneurial attitudes and skills of young people and to make them aware of the possibility of starting a business, either by integrating entrepreneurship into school and university curricula or by setting up extra projects¹⁷.

Hence, in some countries entrepreneurship education is the object of a coherent national strategy (Denmark, the Netherlands, Sweden and the UK), while other countries are moving in the same direction (Austria, Portugal). In Latvia, hundreds of students can submit business plans annually in the context of a competition.

¹⁷ http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/files/member_states_competitiveness_performance_and_policies_en.pdf

The Netherlands established a programme for young entrepreneurs to do networking in the USA. Some countries are involved in national or European programmes encouraging female entrepreneurship (Cyprus, Denmark, Greece, Finland, France, Germany, Iceland¹⁸, Ireland, Italy, Norway, Poland, Slovakia and Sweden). Several Member States use considerable amounts provided by the Structural Funds for these programmes.

Concerning to *the principle of “Second chance”*, in Belgium the law on the continuity of enterprises (2009), providing a moratorium for companies facing financial difficulties in order to prevent a situation of insolvency and pre-bankruptcy. In Estonia the Reorganization Act adopted in 2008 created an alternative to bankruptcy proceedings that enable companies to survive in case of temporary solvency problems. In Latvia a new Insolvency Law entered into force in 2010 making insolvency procedures simpler and faster, ensuring stabilization of the financial sector and reducing the level of debt in the private sector.

In regard to *the principle of “Think Small First”*, in the Netherlands is an interesting example of successful reduction of administrative burden; the Dutch model¹⁹ has been replicated in other countries.

Concerning to *the principle of “Responsive administrations”*, in Czech Republic "The Data box" (2009) aims at simplifying data transfer and communication between businesses and administrations. In Hungary the administration provides one-stop shops for registering a company with simplified and electronic procedures (since 2008, electronic procedures are compulsory and the time required to set up a business has been reduced to one hour). In Portugal the "Simplex" programme aims at simplifying administrative processes, procedures and practices. Since 2009, public consultations are also made via a public blog²⁰.

According to *the principle of “Access to public procurement”*, in United Kingdom the “Supply2.gov.uk” government web portal advertises public sector contracts and provides access to government opportunities. In 2008, the Office of Government Commerce published

¹⁸ Iceland and Norway are among the non EU member States that implement the SBA and benefit from the Competitiveness and Innovation Programme.

¹⁹ https://webmail.ec.europa.eu/exchweb/bin/redirect.asp?URL=http://ec.europa.eu/enterprise/policies/better-regulation/administrative-burdens/action-programme/index_en.htm%23h2-5

²⁰ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

12 recommendations to reduce the barriers SMEs face when competing for public sector contracts²¹.

In regard to *the principle of “Access to finance”*, most Member States have adopted policy measures to facilitate SMEs’ access to finance through public support to guarantee schemes (Belgium, Cyprus, Czech Republic, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and the United Kingdom) or microcredit co-funding (Austria, Germany, Hungary, Ireland, Latvia, Lithuania, Slovakia and Sweden). Several Member States have also taken measures to increase risk capital (Czech Republic, Denmark, Germany, Ireland, Luxembourg, Poland, Slovakia, Sweden and the United Kingdom). It is also worth mentioning that Belgium, Hungary, France, Ireland and more recently Finland have created a "credit ombudsman"²².

Concerning to *the principle of “Single Market”*, 22 Member States have set up operational one-stop shops (points of single contact). They allow service providers to deal with their administrative formalities electronically when they want to do business across Europe.

According to *the principle of “Skills and Innovation”*, several Member States provide funding to young innovative companies through notably seed capital and venture capital (Austria, Belgium, Czech Republic, Finland, Germany, Greece, Hungary, Spain, Sweden and the United Kingdom). Others provide financial support to innovation centres or competitiveness poles linking Universities, research centres and businesses (Austria, Belgium, Czech Republic, Germany, France, Ireland, Italy and the United Kingdom). “Innovation vouchers”, allowing SMEs to buy innovative consulting services and know-how, have become widespread (Austria, Greece, Ireland, the Netherland, Portugal, Slovenia and the United Kingdom)²³.

In regard to *the principle of “Turning environmental challenges into opportunities”*, in order to help SMEs upgrade or replace equipment with energy efficient alternatives, several Member States provide energy efficiency funding through favourable loan conditions or direct subsidies (Belgium, Bulgaria, Cyprus, France, Germany Malta, Portugal, Slovenia and the United Kingdom). Some also support SMEs developing business opportunities on green markets (Bulgaria, Czech Republic, Germany and Slovakia). Member States also provide

²¹ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

²² http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

²³ "SMEs, Entrepreneurship and Innovation" OECD Studies on SMEs and Entrepreneurship, 2010

consulting services for SMEs to inform them and raise awareness of energy efficiency cost-saving and business opportunities (Austria, Belgium, Bulgaria, Germany, Hungary, Spain, Sweden and the United Kingdom)²⁴.

Concerning to *the principle of “Support to internationalization”*, several governments support the internationalization of SMEs, e.g. by financial support for export promotion, market access strategies and participation in trade fairs (Cyprus, Czech Republic, Denmark, Estonia, France, Ireland, Italy, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, the Slovak Republic, Spain, Sweden and the United Kingdom) Some of them (Denmark, Slovenia) focus on high-growth companies willing to internationalize; some others have established new export promotion agencies (Luxembourg) or new support programmes (Hungary). In France a mentoring scheme whereby big companies support the internationalization of SMEs, is also being piloted²⁵ (European Commission, 2011b).

4.2 The opportunities for improvement of export promotion

In order to support SME policy, major awareness campaigns are important. Companies must be made aware of the benefits of internationalisation and be provided with more and easier access to public support. It is important to present a comprehensive view of the different support measures available and to provide tailormade support services, for example:

- Pay attention to misconceptions about barriers.
- Information and counselling campaigns aimed at SMEs that are potentially international traders should be strengthened.
- The type of support offered might need to be adapted according to the stage of international development of the firm.

Assuredly, awareness and use of public support programmes need to be promoted much more vigorously. For SMEs that use the support provided, the effect of public support is relatively important. But SMEs are generally not well aware of the existence of public support programmes for internationalisation and the level of use of these instruments is very limited: less than 10% of the internationally active SMEs use them.

²⁴ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

²⁵ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

In particular, the smallest (micro) SMEs are the ones that need and would benefit most from support programmes yet paradoxically they are the ones that are least aware and are the lowest users. This is particularly relevant in the case of financial support, especially considering that lack of capital figures prominently among the barriers reported in the survey. Therefore efforts should be made to improve the access of especially micro and small SMEs to existing public financial support mechanisms. Support programmes, financial and otherwise, must be more specific in their targets and objectives and include monitoring tools (European Commission 2010).

Definitely, lack of information is a crucial barrier for doing international business and might be due to a market failure. The costs that have to be incurred to address this gap could be substantially reduced by ensuring that the amount of 'double work' within the EU is further reduced. Efficiency gains could be obtained by organising, at EU level, the collection and analysis of information on market developments and the legal and institutional environment in foreign markets. This would allow local agencies to focus on being an efficient interface with their national business community.

Eventually, policy instruments for international business should not only be aimed at potential exporters but also at importers. Import is at least as important as export, however the focus of policy instruments is generally on export. Export does indeed bring in 'foreign currency', but for many economic sectors efficient access to required inputs is a very important factor in staying (internationally) competitive. SMEs most often start their internationalisation process with imports and later go into export markets. So supporting importers, will also result in promoting more exporters. The survey shows that import is an important activity for SMEs, not only in its own right (sourcing inputs to remain competitive) but also as a stepping stone to broader internationalisation. However, most public support programmes still focus on exporting.

Additionally, policies must be developed to support greater use of the Internet by SMEs and especially of e-commerce as this lowers barriers for internationalisation for smaller companies. The conclusion would be that the Internet has already made it easier for SMEs of all sizes to overcome some of the barriers to internationalisation. Public bodies may support this process not just by developing specific programmes but also by fostering the development and use of electronic signatures.

Presently internationalisation promotion agencies in many Member States are acquiring and analysing large amounts of information on market developments and the legal and institutional environment in a range of foreign markets. Efficiency gains could be obtained by ensuring that the amount of 'double work' is reduced. A lot could be gained by organising the collection and analysis of this information at the EU level and local agencies focussing on being an efficient interface with their national business community (European Commission 2010).

The findings on the link between innovation and internationalisation do suggest - even if the direction of the casual effect is not always clear - that it is a good thing to design and present policy support measures aimed at stimulating innovation and internationalisation in conjunction as both issues are policy objectives in their own right. Public bodies should consider a unified approach to both issues including merging the implementing agencies into a single body.

Nowadays EC enterprise policy focuses on fostering the competitiveness and innovation capacity of European businesses by establishing a dynamic enterprise environment; and ensuring that businesses have access to markets and to finance. The EC uses various instruments to foster competitiveness and promote innovation. A key instrument to support enterprises is the Entrepreneurship and Innovation Programme (EIP) under the Competitiveness and Innovation Framework Programme (CIP). Other sources of financing include the structural funds and the European Investment Bank.²⁶ In addition, numerous initiatives and funds to support the creation of new businesses are available at the national and regional levels (European Commission 2010).

Thus, the CIP (2007–13) has an overall budget of €3.6 billion²⁷; its objective is to foster the competitiveness of European enterprises, in particular small and medium-sized enterprises (SMEs). The three specific programmes under the CIP are the Entrepreneurship and Innovation Programme (EIP), the ICT Policy Support Programme (ICTPSP), and the Intelligent Energy-Europe Programme (IEE). An interim evaluation of the specific programmes is currently taking place and will be completed by end December 2009.

²⁶ These include the Business to Europe (B2Europe) initiative, and the Enterprise Europe Network, which replaces the Euro Info Centre and Innovation Relay Centres; and the network of Organizations for Promotion of Energy Technologies. The EC cooperates with its partners on industrial policy by establishing different forms of exchange, including industrial roundtables and industrial cooperation.

²⁷ The CIP decision (1639/2006/EC) was adopted by the European Parliament and the Council on 24 October 2006 and entered into force on 29 November 2006.

Through the Multiannual Programme for Enterprise and Entrepreneurship, the EC provides assistance to enterprises, in particular SMEs. The programme focuses on enhancing the growth and competitiveness of business; promoting entrepreneurship; simplifying and improving the administrative and regulatory framework for business; improving the financial environment for business, especially SMEs; and giving business easier access to Community support services.

The programme provides for financial instruments, as well as the Euro Info Centres Network, and the exchange of best practices in regard to SMEs. The financial instruments, managed by the European Investment Fund, are schemes targeted specifically at improving the financial environment for businesses, especially SMEs. They bridge the gaps normally left in the financial markets by: investing in funds providing risk capital to smaller businesses, providing debt finance for small companies, and providing seed capital. Though some of the assistance is aimed at promoting access to new markets, the number of SMEs capable of participating in international activities is small.

Also, assistance is offered to SMEs through the Joint European Venture (JEV) Programme, set up to provide grants to SMEs for setting-up new transnational joint ventures within the EC. The impact of this programme on trade has been negligible, since the export capacity of the SMEs is not taken into account when providing the grants.

However, while recognizing the value of their service to the needs of small and medium-sized enterprises (SMEs), we should not overlook the fact that in virtually every Western European country, most exports and most outward investment goes on without any intervention or knowledge by the national trade promotion organization (TPO).

Obviously, the average European SME knows about marketing and selling and needs little help from government organizations to do this in the home market. But to go abroad, they need help in accessing information, perhaps in analyzing it and certainly in having an outreach.

Surely TPOs, with a network of offices abroad, have a major advantage. The TPO can assist SMEs, which usually have no such network and need help to make contacts in an overseas market and to set up meetings. A large enterprise usually has no such need, unless it is the political influence of an ambassador to open the doors of a large public organization.

There is a gap yet to be filled by the majority of TPOs in the area of services exports and exporters. In major developed economies, such as the UK, manufacturing — the traditional source of enquiries for TPOs — now accounts for 20% or less of gross domestic product. Services, once called “invisible exports”, account for the majority of a country’s production. Getting information on overseas markets and penetrating them when there is nothing tangible the exporter can show is quite a different challenge. Most TPOs do not yet recognize this, partly because they do not know how to respond to enquiries and partly because their staff does not have the skills and knowledge to do so.

5. SMEs’ export promotion policy in Armenia

Complaints by large foreign firms operating in Armenia about the business environment are fewer and less intense than those voiced by smaller firms. Large foreign firms do not complain about corruption, and their assessment of interaction with state administration is also less critical (Kaminski 2005). This comes as no surprise; with easy access to the authorities, large firms are less likely to fall prey to various government agencies. While these comments should not be read as painting a rosy picture of the regulatory regime for large firms, the crux of the matter is that small firms have a much tougher life and that formal arrangements constrain them to a greater degree.

Actually, the process of development of Armenia involves moving from simple poor-country goods to more complex rich-country goods. This process is often called structural transformation. Structural transformation depends on the fact whether companies in Armenia can move their production towards products with higher sophistication (Grigoryan 2012).

Accordingly, in the context of sustainable economic growth policy the development of small and medium entrepreneurship (SME) sector is intended to ensure country's economic growth stability imparting an innovative focus and flexibility to the economy. In this regard the SME sector with its features and capabilities is the cornerstone, which has a significant impact on the country's economic development and provides the tangible socio-economic result, as well as balanced regional development.

Indeed, in 2010 the SME share in the country’s gross domestic product (GDP) has made 43% in comparison with 41.7% of 2008 and is twice as much as the same indicator of 1999. The SME share in the country’s export volume has also increased and made 17.9% in 2010,

versus 17.9% recorded in 2008 and 17.4% in 2007. As of January 01, 2010 SMEs made 97.7% of the registered legal entities and sole proprietors with total number of 132,923. The SME Development Index, calculated by the UN methodology, constituted 441.8 in 2010, which is 7.6 times as much as that of 2002²⁸.

Definitely, in Armenia SME state support programs are based on fundamental principles of the economic policy adopted by the Government of the Republic of Armenia (RA) and contribute to the country's economic development, especially in rural and remote areas, and inconsistency reduction, which is one of the strategic priorities of the economic policy pursued by the Government of the RA. Through effective and purposeful implementation of SME state support programs (Business Programs and Initiatives), as well as establishment of appropriate infrastructure in SME sector, in recent years the impact of the SME sector on the economy of Armenia has been increased.

Surely, the white paper on SME development policy is the "The Concept of Small and Medium Entrepreneurship Development Policy and Strategy in Armenia" adopted by the Government of the RA on 3th August, 2000, where are presented the economic, social and political goals of SME development policy (strategy), as well as the key directions for implementing them. The adoption of the above-mentioned document created the preconditions for acceptance of the Law on Small and Medium Entrepreneurship State Support (adopted by the National Assembly on 5th December, 2000), which first defined the SMEs standards and main directions of SME state support in the Republic of Armenia. In order to comply the standards of SMEs of Armenia with the standards set for SMEs by European Union, the Law of the RA "On Making Addendum and Amendments to the Law of the RA on State Support of Small and Medium Entrepreneurship" has been developed and adopted by NA on 5th October, 2010²⁹.

Hence, since 2001, SME State Support Annual Programs are developed and implemented in Armenia, which aim to ensure SME sector development enforced by the Law of the RA on Small and Medium Entrepreneurship State Support. The competence for elaboration of SME development policy (strategy), as well as SME development and state support annual programs in Armenia is on the agenda of the Ministry of Economy, and the main organization

²⁸ SME assistance program 2012, 15 December 2011, Decree N 1790 of Government of the Republic of Armenia, <http://www.mineconomy.am/eng/38/gortsaruyt.pastatuxt.html>

²⁹ Source: RA Ministry of Economy, www.mineconomy.am

implementing them is the "Small and Medium Entrepreneurship Development National Center of Armenia" Fund (SME DNC of Armenia), which was established by the Decree N282 of the Government of the RA on 19th March, 2002, as the program activity in the framework of the SME State Support Program for 2002.

Remarkably, the international and foreign organizations/programs also have a significant role in designing and implementation of SME development and support programs. The activities are carried out for establishment of contacts and cooperation between enterprises of Armenia and the EU countries, in particular, amendments were made to the Law of the RA "On Small and Medium Entrepreneurship State Support" (05.10.2010, HO-142-N), the goal is harmonizing the SMEs standards with standards adopted in EU countries.

Economic Policy Performance Program is realized under the platform of EU Eastern Partnership (EaP) "Economic Integration and Convergence with EU policies", which resulted in 2012 the report concerning general situation of SMEs in Armenia and each country participating in this process to be issued and presented by the European Commission.

In the meantime, starting from 2008 SME Development National Center of Armenia has become a member of Enterprise Europe Network as a result of the tender announced by European Commission to select partner organizations and currently acts as the Enterprise Europe Network Correspondence Center in Armenia.

The Network offers the following services:

- Providing information on European legislation, policies, standards, possible sources of financing, business cooperation opportunities and other EU issues,
- Supporting SMEs to establish new business cooperation, identify potential business partners and conduct market researches,
- Supporting to carry out the negotiations and endorse a cooperation agreements,
- Supporting SMEs to evaluate their efficiency and opportunities for doing cross-border business activities,
- Assisting to SMEs applying innovations for R&D activity and commercializing of their innovative undertakings,

- Providing feedback from the enterprises, response on interested issues.

Besides, the Loan Guarantees Provision program allows the solvent entrepreneurs to get loans in terms of insufficient pledge amount and low liquidity, which is particularly specific for the SMEs operating in distant and close to the border regions of Armenia. The program allows entrepreneurs to qualify for loans by guaranteeing up to 70% of the principal of the loan and the interest rates for up to 5 years. The maximum amount guaranteed cannot exceed 15 million drams. The annual interest rates for the loans provided by the SME DNC of Armenia partner banks through Loan Guarantees Provision program are lower than those practiced in the market.

The Loan Guarantees are provided in accordance with following priorities:

- SMEs operating in manufacturing, services provision and trade* sectors
- SMEs operating in the regions with low level of economic activity (close to the border and countryside settlements, disaster zone, former industrial and scientific sites)
- Import substituting, exporting SMEs and those with export potential
- SMEs introducing and using new technologies and innovations.

In addition, the Start-ups participated in the “Start-up support program” of SME development national center of Armenia may also receive seed financing such as loan guarantees. Start-up Businesses Support Program the financial support (loans) is provided to start-up entrepreneurs (through the partner banks of the SME Development National Center of Armenia) for realization of best business initiatives (business plans) as a final result of start-up business establishment. In addition, the business plans received the highest estimation are to be submitted to lending with the SME Development National Center of Armenia’s 100% guarantee of credit liabilities, maximum 3 mln AMD, 12% annual interest rate, up to 3 years of maturity date. By the SME state support program purchase of stocks or indirect investments are planned aimed at financing of production capabilities and production new lines expansion in SMEs. *Equity Financing* mechanisms provide businesses with ample opportunities to accumulate capital sources for realization and management of large-scale projects. Equity financing is executed for the amounts

needed for the implementation of the projects having the confirmation of the SME development national center of Armenia board of trustees.

Eventually, within 3-5 years after the project starts the share is to be sold by the simple social demand method, beforehand the company stocks will go through registration and listing procedures of Armenian Stock Exchange, as well as others defined by the law of the republic of Armenia "On securities market".

Earlier, the Small and Medium Entrepreneurship Development National Centre (SME Development National Center of Armenia) was established in the frameworks of SME State Support Program 2002 by the Government Decree (No 282, 19.03.2002) as a main body implementing SME State Support in Armenia.

Emphasizing the role of SME sector in regional economic development of Armenia and taking into consideration the necessity of support availability provision in the marzes (regions) of the country, SME Development National Center regional branches were created in all marzes of Armenia in 2003-2005.

However, there are number of problems in SME activities. No SME targeted policy was executed during the whole period of economic reforms and transition to market economy in Armenia. Surveys and expert research work done by SME division of Ministry of Economy of RA, as well as by a number of NGOs, international and foreign organizations, allow to have the complete picture of problems encountered by Armenian SMEs.

According to them, the following factors affecting on the development of entrepreneurship, especially small businesses can be outlined.

- Taxation is a major problem for Armenian SMEs. There are no incentives for the startups. Actual tax rates are not encouraging the development of enterprises as well as they are not conducive for both internal and external investments. Proprietors often complain of the tax system administration, which is said to be uncertain and unfriendly. Tax regulations are complicated and subject to frequent changes, and information is hardly available for the taxpayers. In this state tax system boosts tax administrators to abuse power on one hand, on the other hand the businesses are given the chance to operate outside of law.

- Access to finance is the next major factor hindering business development:

- high interest rates;

- shortage of mid- and long term loans;

- difficulty in providing of collateral and loan guarantees;

- inconsistency of the bank staff in assessment of the business plans.

Enterprise financing problems in Armenia are connected with almost lack of start-up and development capital conditioned by transition period peculiarities.

- Low demand of the local market is considered to be a serious obstacle to progress. Although the internal market is far from the saturation point, Armenia's economy has to be oriented to great extent toward external markets in order to develop dynamically, which requires state support, time, finance and training.

- There is not a national business-information and consulting system, offering value for money, quality services, with open access to it, to assist SMEs to compete successfully in local markets as well as abroad.

- Lack of vocational education and training system is another hindering factor which has a key role in market economy as an institution creating new forms of job organization, promoting entrepreneurship and propagating mentality of new age.

- Availability of reliable statistics is a critical issue. Development and implementation of a comprehensive and timely strategy and policy in all sectors of economy, particularly for the SMEs, require as precise as possible, complete and up-to-date statistical data on economic units. It could prove useful for businessmen as well as for organizations and specialists dealing with issues on entrepreneurship.

SME Development Strategy would address the above issues and promote the creation of favourable conditions for the development of entrepreneurship in Armenia. Solution of SME problems could become a significant shift toward socio-economic progress of Armenia.

Consultancy support to SMEs should be directed to:

- enterprise management
- finance management
- market research
- enterprise financing
- business plan elaboration
- quality management
- financial report preparation, etc.

To secure the provision of the SMEs with relevant information and consultancy the government should assist the business support structures and co-ordinate the programmes carried out by them.

Consequently, small business in transition economies due to structural reforms, privatization and overall liberal policy become the key component of private sector. SMEs in Armenia operate in a considerably unfriendly environment and encounter additional obstacles conditioned by transition period. Taking into consideration SME peculiarities, special approaches need to be implemented to overcome these obstacles.

Remarkably, in Armenia as well as almost in all transition countries due to some objective reasons the main productive capacities dramatically have lost. It creates huge unemployment with sharp decrease of incomes, which has to be addressed. Small enterprises could help to fill that increasing gap. In fact both large companies and SMEs should develop simultaneously and jointly since their development concepts are not mutually excluding but vice versa are inter-complimentary. Fast and timely responding to changing demand of market, and offering small lots of goods SMEs at the same time compliment the large enterprises' activities. They can take over those technological cycle' sectors of large enterprises that is more feasible to accomplish in small-scale enterprise. Thus SMEs collaborating with industrial giants conduce to optimize the whole technological cycle.

Foremost the projects and undertakings deriving from SME Development State Strategy have to be directed to revitalization and empowerment of industrial sector of Armenia.

Particularly in this field the main efforts have to be performed in high-tech industries, innovations as well as informational technologies.

Equally important issue is Regional Development. The overcoming of existing economic disparities between regions of Armenia and fostering the socio-economic uprising of underdeveloped regions or those in emergencies have to be amongst the key targets of the projects and measures aimed at SMEs development. SME Development should to large extent contribute to the realization of Food Security Programme through boosting food-processing industry where small businesses better fit in than larger ones especially in the early stages of processing of agricultural products. In this regard SMEs play key role in the provision of Armenian consumers with both basic need foodstuff and other non-primary products.

Eventually creation of favourable conditions for the development of small entrepreneurship in Armenia will bring to state revenues' increase through the enlargement of tax base (decrease of shadow sector). The relevant figures referring to SME sectors of Eastern European countries serve as basis for such an allegation.

Conclusions

In general, small and medium-sized enterprises (SMEs) perform an important role in the European economy. Europe's capacity to build on the growth and innovation potential of SMEs will be decisive for the future prosperity of the EU. Article 157 of the EC Treaty is the basis for the Commission's enterprise policy, which is shaped by work in three key areas: SMEs, innovation, and competitiveness, including single market opportunities and benefits. The EC's policy on SMEs, adopted in 2005, is geared towards creating a more coherent, pragmatic and horizontal framework for enterprises. It proposes action in five key areas: promoting entrepreneurship and skills; improving SMEs' access to markets; cutting red tape by simplifying the regulatory and administrative constraints on SMEs; improving SMEs growth potential; and strengthening dialogue and consultation with SME stakeholders.

In sum, common forms of support extended to SMEs include the provision of information about foreign markets, assistance in contacting brokers or agents, financial assistance such as trade credits or loans, and special incentives such as contributions toward the initial costs of developing products for non-domestic markets. Many programs are intended to

support either the initiation of exporting by firms that previously only operated in their domestic markets, or the growth of export sales by firms that have done some limited exporting (Fischer and Reuber, 2003). According to the EU SMEs the three most important barriers for doing business in markets outside the Single Market are: lack of financing, payment risks, difficult paperwork, i.e. bureaucratic procedures.

On the whole, the results from this study reveal that micro- and small firms' export market entry is systematic and planned, and is not a mere response to fortuitous orders. This finding departs from most of the empirical literature in the area, which argue that export stimulation in the smaller firm is unplanned. These results become even more interesting given that a systematic planned behaviour requires a substantial amount of resources. However, the firms in the study sample generally have a small stock of resources. Therefore, there is a need for public policy officials to provide consultative services and or financial assistance to help these firms overcome their research constraint problem.

Definitely, export assistance must be directly linked to domestic industries to ensure that the policy gains abroad can be taken advantage of by firms. Doing so must include collaboration for both product and process technologies, which now play a crucial role in attaining global competitiveness. The issue of quality performance can well become the focus of a cooperative effort throughout an entire industry, its suppliers and customers alike. Rather than concentrate only on the well entrenched industries, it is particularly important here to include a focus on sunrise industries (Grigoryan 2011b). The lack of coordination between the private sector organizations and the government, as well as among levels of government, is a key weakness of the many export assistance programs. Some issues that are also much addressed by non-financial business support measures score just a bit lower: lack of adequate market information, laws and regulations in foreign markets, different national technical standards. Additionally, not only are interesting few support measures properly evaluated, also few evaluation studies are published or made available to researchers.

Thus, substantive achievements of Armenian economy can be assured in case of essential increase of export volumes and improvement of negative trade balance. One of the main principles SME Development State Strategy is fostering of import substitution and export oriented industries.

Anyway, the SMEs' flexibility and their conformity to ever-changing demand of market perhaps are the most valuable characteristics in the post-industrial hi-tech world. In this respect the existing industrial infrastructure and capacities and, which is more important, available human resources in Armenia ensure that the economic development of the country can be achieved by the investments in high technologies and innovations. SME Development Strategy and Policies have to be carried out according to a number of cardinal principles, which are among the main concepts of socio-economic development of Armenia.

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