

Speech of Ambassador Roland Kobia at the Conference "DEVELOPMENT OF
SMALL BUSINESSES IN AZERBAIJAN", Baku, 14 July 2010

Salam, Zati-Aliləri, biznesmenlər, cənablar və xanımlar,

Thank you for organizing this interesting and topical conference, and for inviting me to make a welcome speech.

Since I am representing the European Union, let me first share with you some thoughts and interesting figures about Small and Medium Size Enterprises in the EU. We will definitely find parallels between the EU and Azerbaijan, and will be able to learn from each other's experience! The second part of my speech will address SMEs development from the prism of EU-Azerbaijani relations.

As a matter of fact, SMEs, as we call them, make up to 20 million companies and thus 99% of European businesses. They cover all areas of economic activity ranging from industrial production and agriculture to provision of diverse services. SMEs are socially and economically crucial to the viability of European economy. According to EU data, they provide around 65 million jobs and contribute significantly to our entrepreneurship and innovation. In the EU they are considered to be crucial for the generation of jobs and for the transition towards a dynamic knowledge-based economy. As such, SMEs are particularly well placed to reap opportunities from globalisation and technological changes, but also to absorb global economic shocks. We believe that our capacity to build on the growth and innovation potential of our SMEs will therefore be decisive for the future prosperity of the EU at large.

However, as we know, *Ladies and Gentlemen*, small size and other characteristics make SMEs very sensitive to changes in the industry and environment in which they operate.

Latest EU surveys show (SME Observatory 2007) that despite some encouraging developments, only less than 1 out of 10 SMEs interviewed in the EU have export operations and only 5 percent have subsidiaries or partnerships abroad – it shows their dependency on local markets. Only one third of them report development of new products. They are also much less than large businesses capable of complying with high environmental and green energy standards. Protection of intellectual property rights is often a challenge. Among key problems our SMEs are facing we can mention limited finance, scarcity of skilled labour at affordable price, lack of management and technical skills, and administrative burdens.

It is therefore important to attribute special importance to the protection and development of SME sector. For this reason, EU and national legislators have been trying to address their problems by providing them with the tailor-made legal, financial and technical support.

A number of EU policies specifically address the SMEs. Numerous laws, programmes and projects were launched in this regard. The recently adopted Europe 2020 Strategy named the development of SMEs and improvement of their business environment as one of EU's key priorities in order to promote *smart, sustainable and inclusive* growth in the EU. In 2008, the so-called "Small Business Act for Europe" was adopted in the EU. The Small Business Act creates a strategic framework to address SME sector's development. This Initiative aims to create favourable conditions, at both the EU and member states level, for the growth and sustainable competitiveness of European SMEs.

So what's in this Initiative, dear Ladies and Gentlemen? The Small Business Act is basically founded on ten principles aimed at framing national and EU policy-making, as well as practical measures for implementing them. These principles first of all include the so-called "Think Small First" principle. According to this principle, before adopting new rules and regulations, the Commission and Member States should first evaluate their impact on SMEs and carry out extensive consultations with all stakeholders. Among other important principles is the creation of SME-friendlier business environment; promotion of positive image of SMEs and entrepreneurship culture; adaptation of public administrations to the needs of SMEs and eliminating administrative barriers; increasing access to various financial resources and special incentives; promotion of skills and environmental standards in the SMEs; but also support in entering foreign markets.

Dear Ladies and Gentlemen, having addressed some of key elements of EU SME policy, let me now say some words about SME-related EU policies in Azerbaijan and the region.

As you know the EU has been implementing various projects in Azerbaijan ever since the beginning of 1990s. A number of these projects directly or indirectly, yet substantially, dealt with the development of SMEs and creation of favourable business environment for their operation. Among important projects I could mention the 2002 Project implemented by EBRD on the development of SMEs; multi-annual Managers Training Programme which benefited a number of Azerbaijani SMEs; 2004 Project on the support to regional economic development which facilitated the creation of business information centres and many other projects.

Currently, we are implementing two important projects of concern for the SME sector, namely a project on the Support for the Improvement of the Investment Climate and Export Climate in Azerbaijan, which foresees comprehensive package of measures to improve Azerbaijan's investment and export performance, and further develop Azerbaijan's financial markets. Another project aims at comprehensive support to the Ministry of Economic development. It is devised to assist the Ministry in improving administrative framework for economic policy making, in promoting non-oil sector, regional economic development and accession to the WTO.

Development of SME is also promoted on political level. The EU-Azerbaijani Partnership and Cooperation Agreement signed in 1996, as well as the 2006 EU-Azerbaijan Action Plan, which serves as a comprehensive reform agenda – both describe the development of SMEs and their associations, as well as cooperation between Azerbaijani and EU SMEs as priority area of EU-Azerbaijani relations. Moreover, the Eastern Partnership programme, which was launched in May 2009, pays particular attention to this issue. One of the six major initiatives under the Eastern Partnership is devoted to the development of SMEs. It is called the SME Facility. This regional initiative, which will reach its full cruising speed in September 2010, aims at improving business climate, providing advisory services to SMEs and improving their access to finance. Under this initiative, Eastern partner governments will be advised on regulatory reforms, direct technical assistance to SMEs will be provided, and a joint EU-EBRD-EIB financial facility will be established to support SMEs financially. For 2010-2013, a total of more than EUR 50 million is allocated to this SME initiative.

Lastly, let me briefly mention something what you are all familiar with, but what is worth stressing. Even though it is not directly linked to SMEs, Azerbaijani exporters, including SMEs, since 2009 benefit from the EU General System of Preferences Plus, so called GSP +

regime. As a matter of fact, GSP + provides duty-free access to the EU markets for most Azerbaijani products – in total 6337 tariff lines. It goes without saying that the GSP + contributes to further development of Azerbaijani SMEs and thus to the diversification of Azerbaijan's economy and strengthening of non-oil sector. To assist Azerbaijani authorities and businesses to benefit fully from GSP + and the vast trade opportunities, we are not only implementing diverse projects, but also organize in cooperation with Ministry of Economic Development various information sessions on how to export to the EU markets. You might have heard that recently our colleagues from European Commission's Directorate for Trade presented to Azerbaijani businesses, including numerous SMEs, a free of charge online information tool called Export Helpdesk, which comprises extensive information on the various EU export requirements. I use this opportunity and invite you to visit this very useful website and inform your colleagues about it!

To sum up, you can see, dear Ladies and Gentlemen, the EU and other relevant organizations have a lot to offer for the development of Azerbaijani SMEs. But it is certainly not enough to bear all the fruit – active engagement of SMEs and their associations, as well as relevant Azerbaijani authorities is crucial role in seizing all these opportunities.

I warmly thank the audience for attention and wish a very fruitful, enriching conference !

Sağ olun!