

Cross-border Partnerships in Belarus,
Moldova and Ukraine and the Conse-
quences of EU-Enlargement

State of the art literature review

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1. Introduction

The process of EU enlargement is redrawing the political map of Europe with particular implications for regions, which are adjacent to new borders of the EU. This presents entrepreneurs and businesses with new sources of threat and opportunity, which in turn have implications for regional development. It may be argued that enlargement of the European Union will produce negative effects on adjoining NIS countries like Ukraine, Belarus and Moldova, especially in border regions, unless special measures are taken. The orientation of the new EU members towards the West combined with new regulations for cross-border trade and visits may significantly hamper traditional cross-border cooperation of individuals and enterprises (EastWest Institute and Institute for Regional and Euro-Integration Studies 2004). In these circumstances, cross-border co-operation offers a potential source of opportunity which can lead to enhanced competitiveness for entrepreneurs and businesses on both sides of the border.

For firms in transition economies, low domestic purchasing power can limit the scale and scope of domestic markets, encouraging those with ambitions to grow to look abroad to identify and develop new market opportunities. In such circumstances, subcontracting and other forms of collaborative arrangement with foreign firms can offer certain advantages, compared with more independent strategies for penetrating foreign markets, since they can reduce market entry costs and barriers, with lower associated business risks. At a household level, cross-border cooperation can present opportunities for entrepreneurial people to engage in trading activities, which although primarily a means of survival, can also offer a stepping stone towards the development of more substantial enterprises. Institutional co-operation can be instrumental in facilitating sustainable cross-border partnerships between enterprises, contributing to enhanced competitiveness for participating regions.

This paper is an output of a research project supported by INTAS (04-79-6991) which investigates *the extent, nature and forms of cross-border cooperation in border regions in Ukraine, Belarus and Moldova* with EU new members and upcoming accession states, in order to assess its contribution to entrepreneurship, economic

and social transformation. Requirements for successful co-operation, especially the role of trust and learning, will be assessed in relation to other factors influencing the success of these relationships. The paper summarises the results of the literature review undertaken in order to gain a deeper understanding of what constitutes cross-border cooperation and the role trust and learning play herein (chapter 2), the effects of EU enlargement on cross-border co-operation (chapter 3), regional entrepreneurship developments in the three countries surveyed after EU enlargement (chapter 4) and policy efforts to support cross-border co-operation (chapter 5).

2. Conceptualising Cross-border Cooperation

In defining cross-border cooperation, the Madrid Convention understands transfrontier cooperation as ‘any concerted action designed to reinforce and foster neighbourly relations between territorial communities or authorities within the jurisdiction of two or more Contracting Parties’ (European Commission 1980). In refining this concept, some authors (Novitski, 2004, Maksimenko et al., 2002) distinguish between two different concepts, namely ‘border cooperation’ and ‘cross-border cooperation’, where the former includes any co-operation involving a border region with any region of another country and the latter exclusively focuses on any form of cooperation across borders, i.e., between neighbouring and adjacent regions (Biletcka 2002, Urban 2004). Whilst recognising such a distinction, it may be argued that an empirical approach that includes all co-operation across the border, regardless of whether partners are located in the adjacent border region, enables the role of distance in enabling and/or constraining such relationships to be assessed. Other authors consider ‘cross-border cooperation’ as a type of ‘interregional cooperation’ (Storonyanska, 2002).

Correspondingly, in the literature ‘**border regions**’ and ‘**cross-border regions**’ have different meanings. A border region is defined as an administrative-territorial unit that is hierarchically positioned below the state level and is situated along the state frontier, whereas a cross-border region should be seen as a certain territory, which is characterised by the presence of similar natural and geographical conditions and

covers border regions of two or more countries with a common frontier' (Maksimenko et al., 2000, p.141).

2.1 Types and forms of cross-border co-operation¹

Types and forms of cross-border co-operation vary between actors who are involved, which may include enterprises, households and institutions. Cross-border co-operation ranges from informal forms (e.g., petty trading of households, repeat business based on personal contacts) to formal arrangements (e.g., joint ventures of firms, twinning agreements between institutions and/or regions).

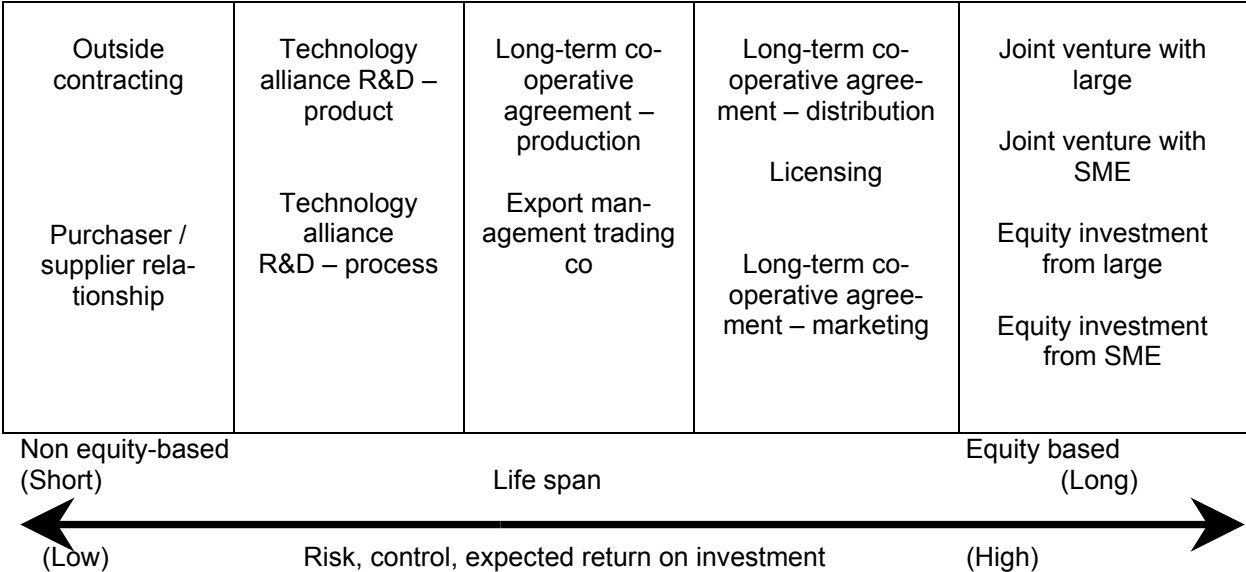
Huber (2003) provides a typology of inter-firm co-operation which distinguishes between the role played by different forms of transaction costs and the importance of building and maintaining trust. He distinguishes three forms of co-operation: firstly, co-operation based on (majority and minority) ownership, where principal agent problems are most important; secondly, incentive contracts (such as franchising and licensing) where incentives are provided for by contract; and, finally, business relationships, which are not based on formal contracts and where building and maintaining trust is likely to be more important.

Figure 1 presents a common distinction of SME-based alliances, which also could be applied to a cross-border context (cf. Smallbone, 2000). Criteria for distinguishing different forms of cooperation include the duration of the co-operation, the risks and financial commitment involved; the power distribution between partners (balanced interdependent and dependent relations); and/or the actors involved (SMEs or SME – large firm). Co-operation between customer firms and supplying firms may also be differentiated along a continuum from 'arms-length' transactions based relationships at one extreme and 'relational contracting' at the other (Smallbone, 2000). While the first focuses on satisfying immediate supply requirements, the second involves a degree of commitment to mutual development and a willingness to accept some degree of involvement by the firms in each others operations.

¹ This section draws on Aculai et al. (2005).

Joint ventures are forms of co-operation based on ownership ties between two or more firms controlling a third party enterprise. Usually, they have narrow and sometimes a short-term focus, although wider cooperation may stem from this. Franchising provides a way of overcoming distance barriers to interaction, enabling the internationalization of elements within the service economy. Franchising can provide self-employed and small firm proprietors with access to a wider organisational resource base, offering a type of co-operation relationship that involves reciprocal learning and some degree of independence to the franchisee. Thirdly, strategic alliances between firms represent another type of cooperation resulting in the conditions of business expansion in uncertain and unstable environments.

Figure 1: A Constellation of SME-Based Alliances



Source: Weaver (2000)

In addition to classifications which mainly focus on co-operation between firms at the individual level, Martinos and Mahnkopf (1999) have outlined different forms of co-operation at the institutional level:

- *Euroregions and similar bodies* can have different legal forms or organization, but they share a number of common characteristics: they are permanent; they have an identity separate from their members; they have their own administrative, technical and financial resources; and their own internal decision making. The geo-

graphical area they cover is determined not only by the administrative units, but also by the extent of socioeconomic integration. They are not a new level of local or regional government but rather an interchange point for existing public and private sector bodies.

- *Working communities* are structures, typically without legal form, resulting from signing a protocol of co-operation or a legally non-binding agreement between regional or local authorities that agreed to cooperate. They can be distinguished by a number of common features: they are permanent; they often retain the identity of their members; they do not have substantial financial and personnel resources of their own; and they rarely have their own decision making structures.
- *Structures specific to INTERREG or other EU programs* are created specifically to manage the implementation of such programmes and have at least a programme monitoring committee and secretariat.

With regard to the nature of cross-border partnerships in relation to different actors, one can distinguish between cross-border partnerships according to their *degree of regulation* (informal – formal). Moreover, co-operation can be either short-term or long-term. Initially, short-term contacts often prevail. Studies suggest that informal contacts take place mainly between private persons and households, based largely on personal connections; and sometimes developing into more formal partnerships. This can be illustrated with reference to relationships developing between individuals and enterprises in Ukrainian and Polish border regions, after the frontiers were opened in the beginning of the 1990s (Solonenko et al., 2004). On the contrary, formal relations are put into effect by signing contracts or agreements in which participants of co-operation, their rights and duties, the plan of joint actions and terms of its realization are determined.

Depending on the number of countries participating in a cross-border partnership, co-operation may be either bilateral or multilateral. Examples of multilateral cross-border co-operation include the 'Carpathian' Euroregion, created in 1993 by a number of western oblasts of Ukraine and frontier regions of Poland, Hungary and Slovakia.

2.2 Trust and cross-border co-operation²

As well as economic and political arguments to support the potential role of regional co-operation between institutions, households and enterprises as a development strategy, there is also anecdotal evidence to suggest that some firms in transition and developing countries, especially smaller ones, have experienced the negative effects of foreign partners seeking co-operation partners as a short-term expedient, faced with uncertain local market conditions. This raises the question of what factors influence the ability of partners to co-operate effectively, with sustainable mutual benefits, particularly where the partners are drawn from different national and cultural contexts, and perhaps different trust environments. In recent years, there has been a growth of interest by some economists in the role of trust in business behaviour, because of its potential influence on reducing transaction costs (e.g., Fukuyama, 1995, Williamson, 1993). This raises the question of the role of different forms of trust for partnerships as well as the processes by which trust is developed.

With regard to trust in business relationships and its impact on forms of co-operation, Zaheer and Zaheer (2006) distinguish between three different constellations of trust environments (i.e. low-low trust, high-high trust, low-high trust) and two partnership constellations, namely low and high interdependence of partners in a collaboration (see table 1, p. 26). With regard to a low-low trust context, this refers to institutional bases for trust. The authors suggest that partners from such a context will favour relation-based investment in trust and in monitoring and governance. Under conditions of low interdependence, these partners run the risk of over investing in trust, which will lead to lower performance in the collaboration. On the contrary, in a high-high trust context, partners are likely to under-invest in trust-building, which can become problematic, if the partnership is a highly interdependent one. Finally, in a low-high trust context, the asymmetry will lead partners from the low trust environment to over invest in trust building, with those from a high-trust context tending to under-invest. At the firm level, when low interdependence exists between partners, this may lead to the partnership reverting to an 'arm's length market relationship', while under condi-

² This section draws on Höhmann and Welter (2005), Welter and Smallbone (2006) and Welter et al. (2006).

tions of high interdependence the low-trust partner might acquire the partner from a high-trust context.

Such issues are of particular potential importance in a transition context, where the relationship between formal and informal institutions is distinctively different to that in a more mature market economy (for empirical evidence e.g. Radaev, 2004, Raiser et al., 2004). Williamson (1993) distinguishes between personal and institutional trust, with the former depending on the characteristics of a group, such as an ethnic group, and the latter on the institutional environment. With regard to institutional trust, Höhmann and Malieva (2005) and Welter and Smallbone (2006) refer to the discussion around high-trust and low-trust milieus, which is grounded in Fukuyama's work. High-trust milieus are characterised as 'trust clusters', where many intensive trust-based relationships of different kinds between a large number of social actors are concentrated (and vice versa). High-trust milieus normally carry high level of institutional trust. Both kinds of milieus are self-enforcing cycles.

Here, Lewicki et al. (1998) bring in an important perspective through conceptualising trust and distrust, thus enriching the discussion around high-trust and low-trust environments by looking at individual trust-based relationships. They understand trust and distrust not as two sides of one coin, but as separate and linked dimensions, where it is possible that trust and distrust co-exist. Trust is understood as 'confident positive expectations regarding another's conduct, and distrust in terms of confident negative expectations regarding another's conduct.' (p. 439). These authors suggest that relationships are multifaceted and multiplex, therefore 'enabling parties to hold simultaneously different views of each other; views that may be accurate but, nonetheless, inconsistent among them.' (p. 442). Moreover, balance and consistency are more likely to be temporary and transitional states. This leads Lewicki et al. (1998) to suggest that both trust and distrust can exist within multiplex relationships. In a cross-border co-operation, this could explain different levels of trust between institutions on both sides of the border.

In relation to transition environments, a number of authors refer to a lack of systemic trust, and instability of norms, contributing to an extensive use of personal networks

(e.g., Peng, 2000, Radaev, 2001, 2004, Raiser et al., 2004, Yan and Manolova, 1998). For example, in Russia, Voronkov and Zdravomyslova (2004) identify the 'master norm of double standards or hypocrisy' as a legacy of the Soviet period impeding trust building. Written regulations regulated the official public realm, while unwritten codes dominated the a-legal, but tolerated informal society, which evolved under socialism. Such habitual codes regulated the 'social practices of the private sphere, the household economy, as well as shadow entrepreneurship, counter-cultural activities, and even the mundane functioning of kollektiva' (Voronkov and Zdravomyslova, 2004: 110). Habitual codes were not questioned and were based on collective identities and trustworthy relations which developed throughout everyday life. When transformation started, the double standards collapsed and people no longer had to switch between official and private codes governing their conduct. Here, the authors suggest that personal trust still dominates in lower classes and where survival strategies and coping strategies are concerned, but that in entrepreneurship impersonalised contracts slowly force out old practices. However, the authors also argue that a trust culture is likely to take generations to emerge, as it is resistant to radical change. This has consequences for cross-border co-operation between post Soviet countries and new EU member states, as they might experience difficulties where a post Soviet 'distrustful' environment meets a more advanced trust culture.

Nuissl (2001) draws attention to cultural and historical 'heritages' in developing trust, which might gain importance in a cross-border context. He reviews the transition literature, sketching the main (in his view oversimplifying) perspectives: (1) A few authors strongly support for the hypothesis that 'real socialism' was incompatible with cultural proclivity for trusting behaviour. These advocates see post-socialist environment being caught in a development trap stemming from a lack of interpersonal trust between strangers; (2) others have a more optimistic view, claiming that the necessity to rely on informal networks in 'real socialism's' everyday life and legacy of ideology of solidarity support development of trust between actors. Based on empirical results, the author identifies specific conditions for trust-building in his particular setting (post-socialist entrepreneurs). These are a weak market position and the role of

previous disappointment, both of which predisposes entrepreneurs either to trust or not to trust.

This could be of particular importance in border regions between countries with a common background. For example, results from the interviews conducted with households and enterprises within this project suggests that personal trust appears to play a particular important role between Moldova and Romania (an EU candidate for the next round of accession), facilitated by a common language and culture, whilst institutional conditions such as double citizenship and simplified non-visa procedures for border crossing by citizens of both countries assist the existence of various forms of cross-border partnerships; all of which is bound to change with Romania's forthcoming EU accession. However, so far this has not been researched systematically. As such, an empirical investigation of the topic as conducted within the frame of our research project can contribute to greater understanding of the role of different forms of trust on enterprise behaviour, particularly with regard to whether or not trust facilitates or impedes cross-border institutional, household and enterprise co-operation.

2.3 Learning, trust and cross-border partnerships³

Entrepreneurial learning refers to changes of known and trusted patterns, i.e., 'theories-in-use', which individuals use to reflect on and interpret their environment, while 'espoused theories of action' guide their decisions and actions (Schön 1975). Learning is generated if the entrepreneur's interpretation of what to do, leads to an action that is no longer 'wanted' by the external environment, e.g., in case new regulations have made this particular action illegal. Internal or external events act as triggers for a change in entrepreneurial behaviour, provided they exceed a 'threshold', above which the entrepreneur gets irritated and recognises an urgent need for behavioural changes. This threshold obviously depends on the entrepreneur's background and experiences and his/her business objectives, but entrepreneurial learning is also affected by the institutional environment.

³ This section draws on Welter et al. (2006).

Organisational learning is an organisational response to market signals (Stopford, 2001) or 'a vital process by which organisations adapt to change in their social, political, or economic setting' (von Rosenstiel and Koch, 2001: 198). It may also be triggered by initiatives or changes within the organisations. Therefore, learning triggers are located either within the organisational context (internal) or outside its boundaries in the organisation's environment (external) (Zhang et al., 2006).

In this context, recent research has adopted a regional perspective in discussing *collective learning*, which is understood as the learning process between different agents (enterprises, public research institutions, etc.), rather than as organisational or individual learning (Morgan et al., 2003). Collective learning includes the regional accumulation of knowledge which is freely shared and transferred among the participants through social interactions (Capallo, 1999). This draws attention back to the role of institutional trust, as collective learning needs environments, where the institutional framework is established and functioning and where individuals can trust in institutions. Such an environment would contribute to entrepreneurship development at the national and regional levels, and would also help poor NIS countries, such as Moldova, to overcome social problems, e.g., illegal migration of labour force mainly to EU states.

In this regard, cultural differences could trigger organisational and individual learning, as the diversity across nations 'provides a firm with a broader learning opportunity than is available in a purely domestic operation' (Kim and Inkpen, 2005: 316). In this process of cross-cultural learning, cultural differences can be of great importance. According to Yamazaki and Kayes (2004: 366) 'a person-culture congruence is needed to trigger cross-cultural learning'. If the congruence is high, this means that the difference between host and home culture of the individuals involved is small, and cross-cultural learning which leads to high levels of effective cultural adaptation will be more successful and vice versa. Petrakos and Tsiapa (2001) assume that the provision of required information, links and interaction between economic actors encourage and also facilitate cross-border learning. Geography, in the sense of the locality of partners can play an important role in the process of enterprise learning in a cross-border cooperation as well as behavioural and structural factors.

Yamazaki and Kayes (2004) identified cross-cultural competencies, which can be seen as factors triggering learning within cross-border settings. These competencies refer to the skills and abilities necessary for expatriate and cross-cultural success. These include interpersonal skills for building relationships with others and valuing people of different cultures; information skills, such as listening and observation and coping with ambiguity; analytical skills in translating complex information into another language; action skills, in order to take action and initiative and manage others; adaptive skills by demonstrating acceptance of change, setbacks, and challenges and managing stress.

There are several thresholds to successful cross-border co-operation identified in the literature, which will result in lower levels of learning and knowledge transfer. This includes the collision of different formal and informal institutional frameworks in the border region (Mantzavinos et al., 2003), different political and economic priorities, as well as different economic and socio-cultural norms, which can act as barriers to communication, cooperation and finally learning (Krätke, 1999). This could be aggravated by asymmetries in the economic potential of neighbouring countries (Adamczuk and Rymarzyk, 2003a, 2003b), as is apparent in the case of Romania and Moldova. The threat of economic asymmetry is able to negatively affect the behaviour on both sides of the border: while one side fears the negative impact of an expansion of low wage export processing industries, the other fears that the premises close to the border are used as a cheap labour area, which will not improve regional industrial competence or innovative capacity (Krätke, 1999).

Additional thresholds are posed by signs of dislike and even animosity, traditional prejudices and negative attitudes towards the neighbouring nationality (Krätke, 1999, Adamczuk and Rymarzyk, 2003a, 2003b); attitudes towards ethnic minorities, and the explicit and implicit acceptance or demand of discrimination or disadvantaging of foreigners (Krätke, 2002a). Other authors point to unsolved controversies, such as returning works of art and elements of cultural heritage of the partner, as well as certain unregulated ownership aspects following World War II (Adamczuk and Rymarzyk, 2003b) or national rivalries in the last two decades.

At the individual level, the fear of opportunistic behaviour during inter-organisational learning, which is known as a 'learning race', can often leave a firm in a Catch-22 situation: 'if it contributes too little to building the relationship, the alliance may be doomed to fail; on the other hand, if it contributes too much and too openly, its partner will gain the upper hand (Kale et al., 2000: 222). This also indicates a role for trust in learning processes.

The most important barriers in international learning processes are typically related to language problems and cultural differences, opinions, beliefs, educational background, and attitudes of the participating individuals and groups (Lane et al., 2005, Kale et al. 2000). With respect to cross-border economic co-operation, it is also vital to create a positive attitude of the regions' population towards European integration in order to overcome endogenous blockages (Krätke, 2002b). These barriers do not only affect the attitude to cross-border co-operation in a negative way but also the economic performance of firms in the border region (Dimitrov et al., 2003). Therefore the impact of EU enlargement needs to be reconsidered more on a regional than on a national level.

3. Enlargement, Entrepreneurship and Cross-border Partnerships⁴

3.1 Enlargement and border issues

In considering the possible impacts of EU enlargement on border areas, it is necessary to distinguish between direct effects, such as those associated with the impacts of changes in border controls and indirect effects, such as changes in the economic geography of a neighbouring country, which, over time, may contribute to its border regions becoming relatively less prosperous. Immediate or short term effects may also be different to longer term effects, because of the presence of other dynamic influences. These dynamic influences may be associated with EU wide effects related to enlargement that are regionally (and/or nationally) differentiated in their spa-

⁴ This section draws on Smallbone and Meng (2005).

tial impacts. Although not necessarily directly affecting border regions, all may have possible knock-on effects on them.

A consideration of the effects of EU enlargement on border regions also needs to distinguish between so-called 'hard' and 'soft' borders, depending on the nature and extent of border controls and regulations. In EU terms, hard borders are the external borders of the EU (although they can be softened through trade and other agreements that affect cross-border interaction); while soft borders are those between EU members where the border controls may be low or non-existent. Clearly, the distinction is a potentially important one in affecting the scope and context for cross-border co-operation.

Another issue that can potentially influence the nature and extent of cross-border interaction and co-operation is the relative levels of development of regions on either side of the border. The existence of a major discrepancy in this regard may influence the nature and extent of the motives for cross-border investment, since both market opportunities for individual enterprises and the potential for reducing labour costs may be affected. Cross border migration flows of labour are also likely to be influenced by the relative levels of economic development. Other relevant factors to consider include: cultural affinity and the existence of a shared history; language issues, ethnic ties and the ability to draw on social capital.

3.2 EU-wide Effects from Integration

It has been suggested that enlargement of the European Union is a historical opportunity for peace and prosperity in Europe (Commission of the European Communities, 2001). The two underlying strategic aims of the enlargement are projecting political stability and strengthening Europe as an economic power (Commission of the European Communities, 2000). Enlargement of the Union will help to strengthen European stability and security, economic welfare and development, and environmental protection (Moller, 2002). Enlargement will further increase economic integration between the new and existing EU Member States, creating economies of scale and comparative advantages in an expanded market (Commission of the European

Communities, 2001). It is argued that there will be immense opportunities for companies, employees and consumers throughout the continent. The integration of the Central and Eastern European countries into the European Union is potentially a win-win situation, since integration should increase wealth and prosperity in the new Member States, as well as stimulating economic growth in pre-existing members (Moller, 2002).

Whilst enlargement brings an economic development opportunity for both the new and existing member countries, it also poses significant challenges (Brubacher, 2003). Given the different political and economic systems of new member states during recent decades, and their general stage of economic development, integrating these countries into the EU structures represents a real challenge. Greater opportunities for expansion are accompanied by stronger competition on a European wide scale, which will not only affect enterprises in new member countries, but also enterprises in EEA states as well. It has been suggested that, in general, the more similar that economies are, the less likely that the increased competition will lead to serious disruptions of the benefits of enlargement (Wibe and Egilsson, 1999).

By entering the EU, the acceding countries have committed themselves to a path of economic liberalisation, which is already deemed sufficiently advanced for them to survive the rigours of entry. This will open their markets and institutions to transparent social and economic governance, and bring economic opportunities and challenges for their businesses and workers through having easy access to the product and labour markets in rest of the EU, as well as increased opportunities for others to exploit their own domestic markets.

The economic goal of EU enlargement is to remove all barriers to internal trade and to the free movement of labour, capital and technical know-how and thereby to generate better competitive performance in EU firms. With contingent safeguards from structural and cohesion policies, this is intended to improve both EU competitiveness as a whole and the economic position of all EU citizens. The removal of institutional barriers to trade, such as those caused by tariffs or anticompetitive legislation, brings potential economic opportunities to all businesses and workers across the EU. With

the enlargement of 2004, firms are in a position to choose where best to locate in the EU25 space in response to the price signals coming from markets.

Choice of location within the EU for a particular activity in the future should better reflect the fundamental comparative advantage of these locations. This will allow firms to compete more effectively in global markets, and earn higher returns on their assets and skills than they would otherwise be able to achieve. Similarly, EU capital markets will operate more effectively and lower capital costs with enlargement will deliver higher rates of investment. The more recent policy reviews add a new emphasis to the role of knowledge and trade in encouraging technological innovation and diffusion, with associated cumulative competitive advantages. The expectation is that economic growth for new member countries will accelerate quickly with better access to EU capital markets for investment and to more affluent EU consumers and businesses for their exports. For existing members, the benefits will come from EU firms having better access to new sources of labour and priority access to markets that promise faster growth, if the economic integration process proves successful (Brettell, 2004).

Further discussions and findings on the EU-wide effects can be found, amongst others, in Fidrmuc et al (2002), Bchir et al (2003), Brettell (2004), Maliszewska (2003), and Moller (2002).

3.3 Effects of EU Enlargement on Ukraine, Belarus and Moldova

In an effort to enhance EU relations with border countries to the south and east, the European Commission launched the European Neighbourhood Policy (ENP), also known as “Wider Europe”, in March 2003 (European Commission 2003). While promoting relationships between the EU and neighbour countries, an important principle of differentiation has been adopted, with policies tailored to meet country-specific needs and capacities.

From 2007, neighbouring countries will enjoy enhanced trade preferences, increased financial assistance, the development of interconnected infrastructure (particularly

energy and transportation), and, most importantly, the extension of the EU Internal Market to neighbouring countries. Of course, the Internal Market has been extended to non-EU countries, such as Switzerland and Lichtenstein, previously. This is the first time, however, that the Internal Market would be extended to non-European countries that tend to have less well developed infrastructure, lower per capita GDP, and that are in a different stage of economic development. However, precisely because of these differences, there is considerable potential for economic gains, especially for the poorest neighbour countries.

The Internal Market is a well-tried framework, as countries with access to the Internal Market have seen economic benefits. Other value-added benefits include financial and technical assistance from the EU, monitoring (through progress reports), peer pressure effects (political pressure may be exerted by fellow neighbour countries if one country seems to be falling behind) and closer economic relations with the EU. All these “soft” incentives will encourage economic growth either directly or indirectly, which is one of the ENP’s fundamental goals. In the long term, the process of the ENP will break down, or substantially reduce the existing tariff- and non-tariff barriers to trade and factor movements. Thus, the ENP is similar in qualitative terms to the experience of accession countries’ economies during previous EU expansions (Warren 2005).

For Ukraine, Belarus and Moldova the EU enlargement creates new possibilities and problems in the framework of the ‘neighbourhood’ policy, as each of the neighbouring countries has its own objectives towards the EU.

- For the **Ukraine and Moldova**, becoming part of a wider Europe is a clear priority as of today. Kotsan (2001) emphasises that growth rates of foreign trade between Western region of Ukraine and Central and Eastern European countries have significantly exceeded the country average during the last decade. Similar trends can be observed in Moldova, where as a result of EU enlargement, the EU share in the total volume of Moldova’s turnover increased significantly. Ukraine signed a number of agreements with EU countries, as well as an action plan Ukraine-EU, including the facilitation of visa procedures. The European Commission opened an office in Chisinau, the capital of Moldova; and an action plan has been ap-

proved. Within the Neighbourhood Programme, the EU will allot 5 million Euro to Moldova, aiming at strengthening the intergovernmental and border region cooperation between Moldova and countries of enlarged EU, in particular Romania.

- In the case of **Belarus**, the question of integration with EU countries is ambiguous, as the Belarussian people have to decide between integration into the EU or re-unification with Russia. Moreover, the Belarus economy is of insignificant importance to the EU, since Belarus has few economic relations with Western Europe providing only 0.1% of EU turnover (EU, 2005). At the same time, Russia has clear economic interests towards Belarus. However, being in the immediate proximity of EU, Belarus became “a country of European interest” (Morinich, 2004).

3.4 Legacies of cross-border co-operation in Ukraine, Belarus and Moldova

Before 1989, some of the borders between Western Europe and the former Soviet republics, such as Ukraine and Belarus, were almost hermetically sealed. Travel was restricted; cultural exchanges were limited; and cross-border trade was almost non-existent. However, since the mid-1990s, there had been a major change in this regard (Adams 2003).

Ukraine. Throughout history, the western territories of Ukraine have belonged to different countries including Poland, Austro-Hungarian Empire, Czechoslovakia, Romania, Russian Empire and Soviet Union. At the beginning of the 20th century, most parts of Ukraine belonged to the Russian Empire, and the rest to the Austro-Hungarian Empire. In 1919, the International Conference in Paris made Eastern Galitsia a part of Poland. According to the Riga Agreement, in 1921 the western part of Volynska oblast was allotted to Poland. The Russian part of Ukraine became independent, joined the Soviet Federative Socialist Republic in 1922, and later became one of the Soviet republics.

After gaining independence, Ukraine joined the European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities in 1993. Although the ratification of these international documents has to be considered as an

essentially political move, it has considerable potential importance as legal basis for cross-border cooperation. Moreover, the concept of state regional policy directly influences cross-border co-operation by stipulating that the powers of local authorities need to be strengthened (Conception of State Regional Policy, 2005). In this context, the Law of Ukraine 'On cross-border cooperation' was adopted in 2004, defining basic concepts, purposes, and principles of the cross-border cooperation, organisational forms and forms of governmental support. Local municipalities and regional authorities are responsible for assisting enterprises to develop external economic links, export potential, international cooperation, including the establishment of joint ventures.

Belarus. From 1921 until 1939, the Western parts of Belarus belonged to Poland, being mainly used as a source of materials and cheap labour, as well as a consumer market for Polish industry. The European Outline Convention on Transfrontier Cooperation has been valid since 1997 (Conovaljuk, 2005). However, in spite of many legislative initiatives oriented towards strengthening cooperation with neighbouring countries, a law on cross-border cooperation has not yet been adopted, although international contracts on cross-border cooperation exist with single countries, such as Poland or Latvia. Moreover, the Belarussian law on local self-government, introduced in 1991, did not empower regional bodies, but mainly maintained their "decorative role from soviet times" (Masiukov, 2004). As Pepik (2004) noted, Belarussian regions cannot become independent economic entities, because the competence of self-governing bodies is limited, either by local bodies or by upper oblast councils and their financial base totally depends on central authorities. At the same time, administrative expenditure in Belarus is typically high, because all projects and requests must be approved by both local and regional bodies and the Ministry of Foreign Affairs.

For centuries, **Moldova** and Romania have had a common history, forming a single state in the Middle Ages – The Moldovan Principality (1389-1812). After the first Russian-Turkish war (1806-1812), the eastern part of the Moldovan Principality (Bessarabia), situated between Prut and Dniester rivers, was taken by the Russian Empire, while the rest remained under the jurisdiction of the Ottoman Empire, being

granted considerable autonomy. In 1862, the Moldovan and Volohian Principalities joined to form the Romanian Kingdom, which gained independence after the second Russian-Turkish war in 1877-1878. As a result, the border territory of modern Moldova has been part of Russian Empire between 1812 and 1918; Romania, between 1918 and 1940 and 1941-1944); and the USSR, between 1940 and 1941 and from 1944 to 1991. In contrast, the border territories of modern Romania remained part of Romania throughout this period.

In 1999, the Parliament of Moldova ratified the European Outline Convention on Transfrontier Co-operation, which is the main basis for any policy of border cooperation involving Moldova. At the end of 2004, the Government adopted the Concept of border cooperation of the Republic of Moldova for 2004–2006. This document stipulates a wide range of different actions and initiatives, which are to be realised by common efforts of local and central bodies of neighbouring countries.

3.5 Cross-border cooperation of eastern neighbours of the EU within the framework of Euroregions⁵

In order to foster cross-border partnerships, so-called Euregios or Euroregions, in which two or more countries and regions not directly bordering each other participate, have gained importance, presenting an example of more institutionally driven partnership. Euroregions and similar bodies can have different legal forms or organisation, but share a number of common characteristics: they are permanent; have a separate identity from their members; have their own administrative, technical and financial resources; and their own internal decision making. The geographical area is determined not only by the administrative units, but also by the extent of socio-economic integration. They are not a new level of local or regional government, but a point of interaction between existing public and private sector bodies. The concept appeared in the 1980s and for more than 20 years has been an important aspect of foreign and internal policy of European states. About 150 Euroregions are currently

⁵ This section draws on Aculai et al. (2005), Smallbone and Meng (2005).

functioning in Europe, with activities financed by a number of European programmes and funds.

Table 1: Euroregions in Ukraine, Belarus and Moldova

| Euro-region | Countries - participants | Districts / oblasts | Year of foundation |
|----------------------|---|---|--------------------|
| Carpathian | Ukraine Hungary Poland Slovakia Romania (from 1997) | Lvov, Zakarpattia, Ivano-Frankivsk, Chernivitsy Borshod-Abuy-Zemplen, Gaydu-Bigar, Gevesh, Yas-Nad'kun-Solnok, Sabolch-Satmar-Bereg Krosno, Peremyshli, Jeshuv; Tarnuv Bardiyy; Humenne; Coshitse Satu-Mare, Maramuresh, Bihor; Galati; Botoshani | 1993 |
| Bug | Ukraine Belarus Poland | Volynska oblast Brest Lublin province; Tarnobjeg county of Subcarpathian province | 1995 |
| Lower Danube | Ukraine Moldova Romania | Odessa Former counties, now – districts Cahul, Cantemir, Vulcaneshti (the later is a part of ATU Gagauzia) Braila, Galati, Tulcha counties | 1998 |
| Upper Prut | Ukraine Moldova Romania | Oblasts of Chernovitsk, Ivano-Frankovsk Former Balts and Edinet counties, now – districts of Edinet, Bricheni, Ocnita, Dondusheni, Ryshcani, Glodeni, Faleshti, Syngerei and the municipality of Balts Botoshani, Suchava counties | 2000 |
| Siret-Prut-Dniester | Moldova Romania | Chisinau, Ungheni, Lapusna Iasi, Neamt, Vaslui counties | |
| Neman | Belarus Lithuania Poland Russia | Oblast of Grodnensk Mariampoli and Alitus districts Podlyas province Cherneahovskii, Krasnoznameniskii, Ozerskii, Gusevskii and Nesterovskii districts of Kaliningrad oblast | |
| Belavezhskaya Puscha | Belarus Poland | Svisloch, Prujansk and Kamenetsk districts Gainuv district | 2002 |
| Ozerny Krai | Belarus Latvia Lithuania | Braslavsk, Miorsk, Verhnedvinsk, Gluboksk and Postavsk districts of Vitebsk oblast Daugavpils, Rezekne towns and corresponding districts, Kraslavsk, Preilsk Ignalin, Shvenchen, Uten, Visagin and Zarasai districts | 1999 |

Source: Aculai et al. 2005.

The concept has been taken up in NIS countries as well. Ukraine, for example, created the first Euroregion back in 1993, currently having four such regions with both new EU members, accession countries (Romania), Belarus and Moldova (Ilka et al. 1998, Nosareva 2002). The Western territories of Ukraine are part of four Euroregions: 'Carpathian' Euroregion, 'Bug', 'Lower Danube' and 'Upper Prut' Euroregions. Belarus is also member of four Euroregions, namely 'Bug', 'Neman', 'Ozerny Krai' and 'Belavezhskaya Puscha' Euroregions. Moldova is part of two Euroregions, created with the participation of Ukraine, Romania and Moldova – 'Upper Prut' and 'Lower Danube' Euroregions, as well as a part of 'Siret-Prut-Dniester' Euroregion,

which includes regions of Moldova and Romania. Table 1 presents some short characteristics of these Euroregions.

Little data are available to assess the impact of Euroregions on regional entrepreneurship development; in particular on cross-border partnerships. Belarus does not have preferential trade status with any of the new EU member countries, which means that the EU is no longer likely to have an impact on the structure of trade flows between EU members and Belarus in the short run (Romanchuk 2002). Moreover, cross-border cooperation with western neighbours is currently negatively affected by confrontation with the EU; an eastward-looking foreign and economic policy; and strong centralisation of power. In this context, participation by Belarussian border regions in Euroregions remains nominal (Lobatch 2005).

In contrast, six Ukrainian border regions (oblasts) belong to four Euroregions (Bug, Lower Danube, Carpathian and Prut), together with the corresponding regions of Poland, Romania, Slovakia, Hungary, Moldova, and Belarus. Since 1993, the volume of export-import operation within the Ukrainian Euroregions regions saw a five-fold increase, with approximately one third of investment in them coming from their counterparts in the same Euroregion. INTERREG, TACIS and PHARE programs have also contributed to the development of the regions (Pavlenko 2005).

At the same time, these Euroregions face difficulties such as legal inconsistencies or a lack of decision-making powers and responsibilities for local authorities (Perstneva 2000). Moreover, partnerships within these regions appear to be restricted to the local government level, as this is mainly a top-down experiment. However, little is known on the influence of these regions on regional economic development, as well as their outreach to public and business partnerships.

4. Regional Development of Entrepreneurship and Small Businesses in Ukraine, Belarus and Moldova⁶

The extent of entrepreneurship is shaped by many factors, including entry barriers, the balance between risk and reward, the existence of capacity and skills and the level of access to entrepreneurship. The European Commission (2003) further points out that the growth-orientation of enterprises may be affected by the regulatory environment, taxation, access to skilled labour and finance, as well as by policies designed to help firms to exploit knowledge and international opportunities, intrapreneurship and corporate venturing. As previous research has also emphasised, a key underlying influence on the nature and extent of the development of entrepreneurship in Belarus, Ukraine and Moldova is the political commitment of government to the process of market reform and its influence on institutional change (Smallbone et al., 2001).

With EU enlargement, and the associated action plan for European Neighbourhood Policy, bordering countries are experiencing changes in many of the above areas, and these changes are likely to continue over time. Changes in the above areas may induce, or negatively influence, the development of entrepreneurship, which will in turn affect institutional development. According to the European Commission (2005), EU enlargement should be beneficial to SMEs, especially to those located in proximity to borders. The following sections will explore the changes in entrepreneurship development at regional level in the three countries participating in our research project.

4.1 Ukraine

In Ukraine, as in other countries, major regional variations in small business development can be observed between the capital, Kiev, and the periphery (Klochko & Isakova, 1996; Klochko and Isakova, 1997; Smallbone et al., 2001). Such variations reflect differences in economic structures, demand conditions and institutional arrangements that can have implications for the orientation of the population towards

⁶ This section draws on Slonimski (2005).

entrepreneurship and the ability of the small business sector to develop (Smallbone et al., 2000b). Regional diversities can also be affected by the pace of market reforms and privatisation being lower in the periphery; the markets being less developed; and the business support infrastructure (especially the financial system), being less advanced. A Ukrainian scholar (Varnaliy, 2005) has argued that regional variations in enterprise development reflect differences in the *integral potential of regions*, which unites natural resources, production resources, human resources, finance, scientific potential and information, with the territory itself into a certain type of organization.

Table 2: Number of small enterprises in Ukraine by regions

| Regions | Number of small enterprises | | | Number of small enterprises per 10000 inhabitants | | |
|-----------------|-----------------------------|---------------|----------------|---|-----------|----------------|
| | 1998 | 2004 | 2004 % of 1998 | 1998 | 2004 | 2004 % of 1998 |
| Ukraine | 173404 | 283398 | 163.4 | 35 | 60 | 171.4 |
| Vinitza | 5179 | 7540 | 145.6 | 28 | 44 | 157.1 |
| Volyn | 2665 | 4739 | 177.8 | 25 | 45 | 180.0 |
| Dnepropetrovsk | 12374 | 18960 | 153.2 | 33 | 54 | 163.6 |
| Donetsk | 17076 | 26020 | 152.4 | 34 | 55 | 161.8 |
| Zhytomir | 2982 | 6019 | 201.8 | 21 | 45 | 214.3 |
| Zakarpattya | 4995 | 7554 | 151.2 | 39 | 60 | 153.8 |
| Zaporizha | 6419 | 10839 | 168.9 | 32 | 58 | 181.2 |
| Ivano-Frankivsk | 4332 | 7259 | 167.6 | 30 | 52 | 173.3 |
| Kiev(city) | 24543 | 47711 | 194.4 | 94 | 180 | 191.5 |
| Kiev (oblast) | 5167 | 8994 | 174.1 | 27 | 50 | 185.1 |
| Kirovograd | 4055 | 5450 | 134.4 | 34 | 50 | 147.0 |
| Luhansk | 8403 | 10267 | 122.2 | 31 | 42 | 135.5 |
| Lviv | 12622 | 16191 | 128.3 | 47 | 62 | 131.9 |
| Mikolaiv | 5518 | 7723 | 140.0 | 42 | 63 | 150.0 |
| Odessa | 6403 | 14126 | 220.6 | 24 | 58 | 241.7 |
| Poltava | 5304 | 7559 | 142.5 | 31 | 48 | 154.8 |
| Rep. of Crimea | 6895 | 14197 | 205.9 | 32 | 71 | 221.9 |
| Rivne | 2923 | 4743 | 162.3 | 25 | 41 | 164.0 |
| Sevastopol | 1985 | 2537 | 127.8 | 50 | 67 | 134.0 |
| Sumy | 2794 | 5846 | 209.2 | 21 | 47 | 223.8 |
| Ternopil | 2423 | 4292 | 177.1 | 21 | 38 | 180.9 |
| Kharkiv | 12541 | 18124 | 144.5 | 42 | 63 | 150.0 |
| Kherson | 3903 | 6182 | 158.4 | 32 | 54 | 168.7 |
| Khmelnitski | 3241 | 5833 | 180.0 | 22 | 42 | 190.9 |
| Cherkasy | 3582 | 5851 | 163.3 | 25 | 43 | 172.0 |
| Chernihiv | 2823 | 4961 | 175.7 | 22 | 41 | 186.4 |
| Chernivtsy | 2445 | 3881 | 158.7 | 26 | 43 | 165.4 |

Source: Osaulenko, 2002, p. 318, Osaulenko, 2005, p. 330

Kiev is leading in the number of small enterprises per 10,000 inhabitants (Table 2), followed by Crimea, Sevastopol, Kharkiv, Mikolaiv, and Lviv, which in 2004 demonstrated a higher level of small business development compared to the Ukrainian average. Among the border oblasts, it is only in Lviv that the number of small enterprises per 10,000 people exceeds the mean value for the country. In Zakarpattya, Odessa and Ivano-Frankivsk, the concentration of small enterprises is slightly smaller, and Volyn and Chernivtsy oblasts take the last places among the border regions.

A detailed analysis of the *dynamics of small business development* in the border regions in recent years reveals a low pace of development more generally. However, border regions do not differ much in this respect from the rest of the country. Between 1998 and 2004, the number of small enterprises per 10,000 people increased in all the border regions. More progress was recorded in Odessa oblast (241.7%), Volyn oblast (180.0%), and Ivano-Frankivsk oblast (173.3%); less successful were Chernovtsy (165.4%), Zakarpattya (153.8%) and Lviv (131.9%), compared with the Ukrainian average of 171.4%. A comparison of the regions selected for the field study (i.e., Lviv, Volyn and Zakarpattya) allows us to conclude that although small business is more developed in Lviv and Zakarpattya, more progress was made in recent years in Volyn oblast (Osaulenko, 2005). Information available on the number of individual entrepreneurs in border regions supports the view that this type of entrepreneurship is more developed in Chernivtsy and Ivano-Frankivsk oblasts (Table 3).

Table 3: Number of individual entrepreneurs in Ukrainian border regions in 2003

| Regions | Number of individual entrepreneurs, persons ¹ | Able-bodied population ² | Share of individual entrepreneurs in ABP ³ |
|-----------------|--|-------------------------------------|---|
| Chernivtsy | 33,400 | 359,800 | 9.3% |
| Ivano-Frankivsk | 43,900 | 537,800 | 8.2% |
| Volyn | 35,500 | 513,200 | 6.9% |
| Zakarpattya | 36,700 | 592,900 | 6.2% |
| Lviv | 67,400 | 1192,400 | 5.7% |

Source: ¹ www.kmu.gov.ua/control/publish/article?art_id=8424530. ² Osaulenko 2005, p. 386. - ³ Authors calculations

Table 4: Small enterprises employment in Ukraine by regions

| | Number of SE employees, in 1,000 | | | Share of SE employment in total employment, % | |
|-----------------|----------------------------------|---------------|----------------|---|------------|
| | 1998 | 2004 | 2004 % to 1998 | 1998 | 2004 |
| Zhytomir | 16.7 | 53.5 | 320.4 | 2.8 | 9.5 |
| Odessa | 36.9 | 104.2 | 282.4 | 3.2 | 9.7 |
| Rivne | 16.3 | 41.4 | 254.0 | 2.9 | 9.2 |
| Ternopil | 15.4 | 38.3 | 248.7 | 3.0 | 9.7 |
| Khmelnitski | 20.4 | 50.7 | 248.5 | 2.8 | 8.5 |
| Vinitza | 24.6 | 58.1 | 236.2 | 2.9 | 7.9 |
| Poltava | 29.3 | 63.5 | 216.7 | 3.7 | 9.1 |
| Chernihiv | 20.6 | 44.6 | 216.5 | 3.4 | 8.7 |
| Kharkiv | 62.9 | 136.0 | 216.2 | 4.5 | 10.3 |
| Kiev (oblast) | 34.3 | 73.8 | 215.2 | 4.3 | 9.4 |
| Cherkasy | 21.9 | 47.1 | 215.1 | 3.5 | 8.0 |
| Volyn | 17.5 | 36.4 | 208.0 | 4.0 | 8.4 |
| Kherson | 19.2 | 39.2 | 204.2 | 3.4 | 8.0 |
| Sevastopol | 9.8 | 19.9 | 203.1 | 5.7 | 10.9 |
| Rep. of Crimea | 42.5 | 84.9 | 199.8 | 5.2 | 9.1 |
| Chernivtsy | 14.9 | 29.5 | 198.0 | 3.6 | 8.2 |
| Sumy | 24.0 | 46.7 | 194.6 | 3.7 | 8.6 |
| Ukraine | 1032.5 | 1978.8 | 191.7 | 4.6 | 9.5 |
| Lviv | 69.2 | 128.9 | 186.3 | 5.9 | 12.0 |
| Mikolaiv | 27.0 | 50.0 | 185.2 | 4.3 | 9.2 |
| Dnepropetrovsk | 69.6 | 128.4 | 184.5 | 4.2 | 7.9 |
| Kirovograd | 19.6 | 35.7 | 182.1 | 4.0 | 7.9 |
| Zaporizha | 40.8 | 73.1 | 179.2 | 4.6 | 8.7 |
| Ivano-Frankivsk | 26.6 | 47.5 | 178.6 | 4.7 | 9.1 |
| Luhansk | 42.0 | 73.0 | 173.8 | 3.9 | 7.1 |
| Zakarpattya | 25.6 | 43.5 | 169.9 | 4.5 | 7.4 |
| Donetsk | 103.9 | 163.8 | 157.7 | 4.5 | 7.8 |
| Kiev(city) | 181.1 | 267.1 | 147.5 | 13.7 | 19.3 |

Source: Osaulenko, 2002, p. 386, Osaulenko, 2005, p. 363

Judging by official statistics, the contribution of small businesses to employment has been increasing in recent years. As Table 4 demonstrates, despite the generally low level of the contribution of small businesses in 2004, a growth of employment in small enterprises was reported in all regions of Ukraine. The average rate of small enterprise employment growth between 1998 and 2004 equalled 191.7% and the majority of the regions demonstrated better results compared to the mean rate for Ukraine as whole. Among the border regions, Odessa, Volyn and Chernivtsy were more successful, compared to Lviv, Ivano-Frankivsk and Zakarpattya. The share of SE employment in total employment in 2004 was above the Ukrainian average in the border regions of Lviv and Odessa, with the rest lagging behind in this respect.

The share of small enterprises in the output of goods (services) appears rather insignificant, at 5.3% in 2004. In recent years, there has been a tendency for the share of small enterprises share in goods produced (and services delivered) has decreased by 1.5 times on average; with the tendency being especially characteristic of the capital city of Kiev, where this indicator has decreased by 2.5 times (Table 5).

Table 5: Share of small enterprises in the output of goods (services) across regions of Ukraine, %

| Administrative unit | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------------|------|------|------|------|------|
| Ukraine | 8.1 | 7.1 | 6.7 | 6.6 | 5.3 |
| Vinitza | 13.0 | 12.6 | 12.6 | 11.4 | 10.6 |
| Volyn | 5.8 | 5.0 | 4.2 | 6.7 | 4.1 |
| Dnepropetrovsk | 5.0 | 4.2 | 4.6 | 4.9 | 3.5 |
| Donetsk | 5.4 | 4.8 | 4.4 | 4.1 | 2.8 |
| Zhytomir | 14.5 | 13.2 | 10.8 | 10.8 | 6.9 |
| Zakarpattia | 22.9 | 19.8 | 18.1 | 14.2 | 9.2 |
| Zaporizha | 8.1 | 7.1 | 7.3 | 6.7 | 5.3 |
| Ivano-Frankivsk | 14.8 | 13.8 | 13.2 | 9.3 | 7.3 |
| Kiev(city) | 6.1 | 4.9 | 4.7 | 5.6 | 4.8 |
| Kiev | 10.2 | 9.2 | 8.1 | 8.0 | 5.7 |
| Kirovograd | 14.9 | 15.6 | 14.3 | 13.3 | 10.8 |
| Luhansk | 7.7 | 6.2 | 4.8 | 4.5 | 3.9 |
| Lviv | 12.7 | 10.9 | 10.0 | 8.3 | 7.8 |
| Mikolaiv | 14.3 | 13.2 | 10.3 | 10.5 | 8.7 |
| Odessa | 10.6 | 9.7 | 8.0 | 7.7 | 7.3 |
| Poltava | 9.3 | 8.6 | 8.3 | 7.7 | 5.0 |
| Republic of Crimea | 14.1 | 14.6 | 14.8 | 14.3 | 13.4 |
| Rivne | 15.6 | 12.6 | 11.6 | 11.0 | 8.7 |
| Sevastopol | 18.2 | 14.0 | 13.3 | 15.1 | 13.4 |
| Sumy | 11.5 | 9.9 | 9.2 | 11.9 | 10.7 |
| Ternopil | 15.6 | 16.1 | 15.6 | 16.1 | 12.8 |
| Kharkiv | 11.4 | 10.5 | 9.7 | 7.2 | 6.3 |
| Kherson | 13.7 | 10.9 | 11.0 | 10.5 | 9.8 |
| Khmelnitski | 14.1 | 11.5 | 11.8 | 10.8 | 9.8 |
| Cherkasy | 11.8 | 11.6 | 11.9 | 11.5 | 10.0 |
| Chernivtsy | 20.2 | 17.9 | 17.7 | 17.3 | 14.3 |
| Chernihiv | 12.4 | 12.2 | 11.4 | 11.6 | 11.0 |

Source: Osaulenko,2005, p.333.

The low level of this indicator in large industrial cities (e.g. Zaporizha, Kiev, Luhansk, Dnepropetrovsk, Donetsk) accounts for the overall share of small enterprises in the output of goods (and services) in Ukraine. The contribution of small enterprises to regional output is higher in Chernivtsy, Zakarpattia, Lviv and lower in Ivano-Frankivsk, Odesa, particularly in Volyn. Presumably, the higher share of small enter-

prises in regional output is related to the number of large enterprises operating in the region, rather than to the performance of small business, although this explanation may not hold for Volyn.

Table 6: Structure of small enterprises sector by basic types of activities in 2004, %

| Administrative unit | Number of enterprises | Agriculture, hunting, forestry | Industry | Construction | Trade | Hotels and restaurants | Transport and communication | Realtors' activity | Services | Other |
|---------------------|-----------------------|--------------------------------|-------------|--------------|-------------|------------------------|-----------------------------|--------------------|------------|------------|
| Ukraine | 283398 | 5.2 | 15.6 | 9.3 | 36.0 | 3.4 | 4.8 | 18.6 | 3.6 | 3.5 |
| Vinitsa | 7540 | 9.9 | 17.7 | 8.3 | 37.3 | 2.3 | 3.4 | 14.6 | 3.6 | 2.8 |
| Volyn | 4739 | 9.5 | 14.3 | 8.5 | 38.6 | 3.8 | 6.1 | 13.5 | 3.0 | 2.7 |
| Dnepropetrovsk | 18960 | 3.4 | 13.5 | 9.4 | 42.8 | 2.1 | 3.9 | 18.7 | 3.1 | 3.1 |
| Donetsk | 26020 | 3.2 | 13.2 | 9.5 | 41.0 | 3.2 | 4.2 | 18.4 | 4.2 | 3.2 |
| Zhytomir | 6019 | 10.8 | 23.0 | 7.9 | 32.9 | 2.0 | 3.8 | 14.1 | 3.1 | 2.4 |
| Zakarpattia | 7554 | 6.9 | 21.7 | 8.6 | 34.4 | 5.5 | 4.8 | 12.9 | 3.1 | 2.3 |
| Zaporizha | 10839 | 4.6 | 14.3 | 10.2 | 40.2 | 3.5 | 3.9 | 17.9 | 2.5 | 3.0 |
| Ivano-Frankivsk | 7259 | 5.5 | 19.7 | 9.6 | 36.8 | 4.2 | 3.7 | 13.9 | 3.8 | 2.9 |
| Kiev(city) | 47711 | 0.5 | 12.5 | 10.5 | 34.9 | 2.3 | 4.8 | 26.1 | 3.3 | 5.1 |
| Kiev (oblast) | 8994 | 7.0 | 19.3 | 11.3 | 34.8 | 2.7 | 4.7 | 14.2 | 3.2 | 2.7 |
| Kirovograd | 5450 | 12.2 | 16.7 | 8.8 | 35.4 | 2.4 | 3.9 | 14.3 | 3.4 | 2.9 |
| Luhansk | 10267 | 5.2 | 16.1 | 9.3 | 39.4 | 2.2 | 3.9 | 17.3 | 3.5 | 3.1 |
| Lviv | 16191 | 3.7 | 18.2 | 7.0 | 36.4 | 6.6 | 5.2 | 15.8 | 3.8 | 3.4 |
| Mikolaiv | 7723 | 8.6 | 15.6 | 9.4 | 32.9 | 3.4 | 5.1 | 18.7 | 2.7 | 3.6 |
| Odesa | 14126 | 5.3 | 12.7 | 8.6 | 30.7 | 4.8 | 9.1 | 20.2 | 4.7 | 4.0 |
| Poltava | 7559 | 5.9 | 13.7 | 10.6 | 37.8 | 2.6 | 4.6 | 18.2 | 3.8 | 2.7 |
| Republic of Crimea | 14197 | 5.2 | 13.0 | 10.7 | 31.3 | 7.6 | 7.6 | 16.5 | 4.4 | 3.7 |
| Rivne | 4743 | 6.8 | 18.4 | 10.1 | 34.8 | 2.9 | 5.5 | 15.7 | 3.0 | 2.8 |
| Sevastopol | 2537 | 1.1 | 15.9 | 10.0 | 30.6 | 4.9 | 6.9 | 21.6 | 3.8 | 5.2 |
| Sumy | 5846 | 8.6 | 14.5 | 9.4 | 38.3 | 2.3 | 3.7 | 17.3 | 3.7 | 2.2 |
| Ternopil | 4292 | 13.0 | 19.5 | 7.4 | 30.5 | 3.4 | 4.9 | 13.3 | 4.7 | 3.5 |
| Kharkiv | 18124 | 3.1 | 18.5 | 8.0 | 32.6 | 2.7 | 3.1 | 24.3 | 3.7 | 4.0 |
| Kherson | 6182 | 9.1 | 15.6 | 8.2 | 36.0 | 3.3 | 4.3 | 15.1 | 4.8 | 3.6 |
| Khmel'nitski | 5833 | 8.4 | 19.2 | 8.6 | 34.7 | 2.9 | 4.4 | 14.6 | 3.9 | 3.3 |
| Cherkasy | 5851 | 11.6 | 18.3 | 10.1 | 33.9 | 2.1 | 3.8 | 14.2 | 2.7 | 3.3 |
| Chernihiv | 4961 | 10.7 | 15.6 | 7.6 | 38.4 | 2.9 | 4.2 | 13.6 | 4.6 | 2.4 |
| Chernivtsy | 3881 | 11.7 | 20.3 | 7.5 | 29.2 | 4.0 | 7.0 | 13.4 | 3.4 | 3.6 |

Source: author's calculations based on Osaulenko, 2005, p. 332.

An analysis of the regional distribution of small enterprises by types of economic activity points to a number of conclusions. In line with the general Ukrainian trend, trade is the basic type of activity for small enterprises in all border regions (Table 6).

As in the rest of the country, trade is the most popular type of activity of small enterprises in border regions, particularly in Volyn, Ivano-Frankivsk and Lviv. The percentage of small enterprises engaged in industrial production (manufacturing) is higher than the Ukrainian average in Zakarpattia, Chernivtsy, Ivano-Frankivsk and Lviv. Odessa is a large sea port, which explains why transport and communication activities are more frequently carried out in this oblast. Interestingly, the share of small hotels and restaurants in all the border regions is higher than the Ukrainian average, particularly in Lviv and Zakarpattia. Based on anecdotal information, a significant development of restaurant and hotel businesses may be observed in Zakarpattia and Lviv oblasts, which traditionally are the tourist centres of Western Ukraine. An example of cross-border cooperation, in this case, is the co-operation of travel companies with hotels of neighbouring countries (i.e. Poland and Hungary) through the development of tourist routes. Property development and estate agency services are less developed in this area, apart from Odessa (20.2%), because of its sea side location. In the structure of small businesses in border regions, agriculture accounts for from 11.7% in Chernivtsy to 3.7% in Lviv.

Analysis of the financial activity of small enterprise operations, in 2003, showed that 62.9% were profitable, generating 4.2 billion Hryvna; the rest (37.1%) were unprofitable, losing 5.4 billion Hryvna (www.kmu.gov.ua/control/publish/article?art_id=8424530). However, in recent years a positive trend has been observed with regard to business performance of small enterprises in Ukraine. As Table 7 demonstrates, the number of unprofitable small enterprises has reduced slightly from 40.2% in 2000 to 36.7% in 2004. In Odessa, Chernivtsy and Lviv, the share of unprofitable small enterprises in 2004 was higher than the Ukrainian average, while the other border regions demonstrated slightly better results. Judging by statistics in Zakarpattia, the share of unprofitable small enterprises was the lowest among the border regions.

Table 7: Level of profitability and share of unprofitable small enterprises, %

| Regions | Level of profitability | | | Share of unprofitable small enterprises in total number of small enterprises | | |
|--------------------|------------------------|-------------|-------------|--|-------------|-------------|
| | 2000 | 2002 | 2004 | 2000 | 2002 | 2004 |
| Ukraine | 1.6 | -3.6 | -2.3 | 40.2 | 39.6 | 36.7 |
| Vinitza | 2.3 | -10.3 | 0.3 | 39.3 | 38.9 | 32.2 |
| Volyn | 5.8 | -5.2 | -4.3 | 45.8 | 42.1 | 33.5 |
| Dnepropetrovsk | -0.1 | -4.0 | -0.6 | 52.0 | 45.4 | 42.2 |
| Donetsk | 0.9 | -2.8 | -20.3 | 40.1 | 37.3 | 36.0 |
| Zhytomir | 3.5 | -5.7 | -6.2 | 44.7 | 43.4 | 37.7 |
| Zakarpattya | 2.5 | -3.9 | 0.3 | 30.1 | 26.1 | 21.4 |
| Zaporizha | 1.6 | -1.3 | 0.5 | 45.2 | 44.0 | 38.1 |
| Ivano-Frankivsk | 1.9 | -0.8 | -2.9 | 51.8 | 40.4 | 28.6 |
| Kiev(city) | 1.9 | -0.9 | 1.8 | 33.9 | 37.5 | 37.6 |
| Kiev (oblast) | 0.2 | -1.3 | -5.7 | 36.4 | 36.9 | 37.2 |
| Kirovograd | 0.7 | -1.9 | -2.7 | 44.5 | 33.4 | 28.9 |
| Luhansk | 0.1 | -13.2 | -9.5 | 38.2 | 37.4 | 35.8 |
| Lviv | 2.4 | -1.2 | -2.5 | 36.7 | 39.5 | 36.9 |
| Mikolaiv | 0.9 | -6.1 | -2.5 | 36.5 | 36.5 | 33.3 |
| Odesa | 1.3 | -3.9 | -6.6 | 48.3 | 42.4 | 40.1 |
| Poltava | 1.7 | -4.3 | -5.4 | 42.0 | 40.7 | 38.6 |
| Republic of Crimea | 1.6 | -6.8 | -2.3 | 41.9 | 37.2 | 34.9 |
| Rivne | -1.1 | -7.2 | -2.0 | 48.2 | 45.9 | 33.3 |
| Sevastopol | 3.4 | -1.0 | -2.5 | 40.1 | 41.2 | 42.5 |
| Sumy | 1.9 | -8.2 | -9.0 | 48.2 | 39.1 | 37.0 |
| Ternopil | 0.0 | -7.1 | -3.3 | 46.2 | 43.3 | 33.1 |
| Kharkiv | 2.7 | -4.5 | 0.9 | 44.2 | 42.7 | 42.6 |
| Kherson | 1.3 | -7.6 | -2.9 | 24.9 | 45.2 | 36.1 |
| Khmelnitski | -0.3 | -6.3 | -6.0 | 44.4 | 40.6 | 36.4 |
| Cherkasy | 0.6 | -2.6 | -2.3 | 36.2 | 40.5 | 34.5 |
| Chernihiv | 1.0 | -4.7 | 1.2 | 45.2 | 43.4 | 38.2 |
| Chernivtsy | 1.1 | -5.3 | -5.7 | 43.8 | 42.5 | 39.0 |

Source: Osaulenko, 2005, p. 196, 218.

In Ukraine, statistical data do not demonstrate any significant correlation between the near-border position of regions and proximity to EU, and the volumes of export operations. For example, in 2003, the share of exports of regions, such as the Autonomous Republic of Crimea, Vinitza, Zakarpattya, Kiev and the Chernihiv regions in the total Ukrainian exports represented between 1 and 2%; in Volyn, Zhytomir, Ternopil, Chernivtsy and Khmelnitski regions, it represented less than 1 %. The main share of exports was provided by the Dnepropetrovsk (15.6 %, GVA- 8.7%), Donetsk (21.5%, GVA – 12.4%) and Luhansk (5.9%. GVA – 4.1%) regions, and by the city of Kiev (12.3%, GVA – 18%) (Osaulenko, 2004). At the same time, it may be argued that the

volume of regional export operations depends on characteristics of economy of the region and on the commodity structure of exports of the country, rather than on regions' geographical location.

Empirical evidence in support of this argument is provided by a survey of female entrepreneurs in 2001-2002, which showed that more than 90% of small entrepreneurs have no markets in other countries. Moreover, the share of entrepreneurs who had foreign markets is practically the same in Kiev and Chernivtsy, despite the different geographical situation of these cities (Welter, 2003).

It is generally held that heterogeneity is a peculiar feature of the small business sector and this characteristic applies in the case of Ukraine as well. Ukrainian experts (Lyapin, 2003) identify three main types of small enterprises based on business performance, growth orientation, exporting, contribution to economy and social development:

- Small enterprises 'against poverty'. This group covers individual entrepreneurs and micro business engaged in informal market trading activities and providing consumer services. Self-employment and providing a living for their families are their main business goals.
- Stable small enterprises are successful profitable companies, but without business growth ambitions.
- 'Tigers' of small entrepreneurship, which are successful fast growing small enterprises, oriented to innovation, exporting and growth.

The third category is the most promising for increasing the contribution of small enterprises and entrepreneurship to economic development. Unfortunately, statistical data are insufficient for evaluating the qualitative characteristics of entrepreneurship development in the regions. Interviews with entrepreneurs and key informants are the research instruments to be applied for in-depth description of the situation in the regions.

The observed regional variations in small business and entrepreneurship development in Ukraine lead to the conclusion that more progress could be achieved with the

help of *relevant regional SME policies*. In the case of border regions, the geographical location, i.e., proximity of European Union could *foster cross-border co-operation*, which in its turn can have a *positive impact on entrepreneurship*.

4.2 Belarus

The regions researched in Belarus are the Brest region, which borders on Poland; the Grodno region which borders on Poland and Lithuania; and the western part of the Vitebsk region, which borders on Lithuania and Latvia. Based on available regional statistics, it is possible to reveal the *features of development of business in the Brest and Grodno regions* in comparison with the other territories of Belarus.

As in Ukraine, a majority of small enterprises in Belarus (55%) are concentrated in its capital city, for broadly similar reasons. In terms of the number of small enterprises per 1000 inhabitants, the western regions are similar to other regions of the country; if anything, lagging behind them slightly (Table 8).

Table 8: Number of small enterprises and individual entrepreneurs in Belarus by regions

| Period | Number of small enterprises | | | Number of individual entrepreneurs, in 1,000 | | | Number of small enterprises per 1,000 inhabitants | | Number of individual entrepreneurs per 1,000 inhabitants | |
|-----------------------|-----------------------------|--------------|----------------|--|--------------|----------------|---|------------|--|-------------|
| | 1998 | 2004 | 2004 % of 1998 | 1998 | 2004 | 2004 % of 1998 | 1998 | 2004 | 1998 | 2004 |
| Total | 28094 | 32824 | 116.8 | 126.0 | 228.0 | 181.0 | 3.1 | 3.4 | 12.5 | 23.6 |
| Including by regions: | | | | | | | | | | |
| Brest | 2062 | 2383 | 115.6 | 19.5 | 32.3 | 165.6 | 1.3 | 1.6 | 13.1 | 21.7 |
| Vitebsk | 2236 | 2596 | 116.1 | 15.3 | 29.1 | 190.2 | 1.8 | 2.0 | 11.1 | 22.4 |
| Gomel | 2313 | 2646 | 114.4 | 14.2 | 30.3 | 213.4 | 1.7 | 1.8 | 9.2 | 20.6 |
| Grodno | 2141 | 2125 | 99.3 | 16.1 | 26.2 | 162.7 | 1.7 | 1.9 | 13.6 | 23.4 |
| city of Minsk | 15259 | 17035 | 111.6 | 35.6 | 59.6 | 167.4 | 9.8 | 9.6 | 21.2 | 33.6 |
| Minsk | 2360 | 3718 | 157.5 | 14.7 | 27.2 | 185.0 | 2.1 | 2.5 | 9.4 | 18.3 |
| Mogilev | 1723 | 2321 | 134.7 | 10.6 | 23.3 | 219.8 | 1.8 | 2.0 | 8.7 | 20.1 |

Source: author's calculations based on Gulida and Tamashevich, 2005, p.140- 141

In the Brest and Grodno regions, entrepreneurs carry out their entrepreneurial activity mainly as individual entrepreneurs. By the end of 1998, the number of individual en-

trepreneurs per 1,000 inhabitants was generally higher in these regions in comparison with others, apart from Minsk. By the end of 2004, the Grodno region continues to lead in this regard, although during the previous six years, growth rates of the number of enterprises have started to lag behind. In the Gomel and Mogilov regions, the number of individual entrepreneurs has more than doubled during this period, whereas in the Brest and Grodno regions the increase has constituted less than 70%. The total number of small enterprises (legal entities) decreased only in Grodno region.

A study commissioned by International Financial Corporation (IFC) on the development of small and middle-sized business in Belarus (carried out in November – December 2000), illustrates that despite the majority of entrepreneurs reportedly being registered in Minsk, the share of respondents possessing personal entrepreneurial experience is highest in the Brest region. Almost 30% of respondents reckon themselves among people who perform entrepreneurial activity, whereas in Minsk this indicator constitutes 10% and in other regions 6-8%. At the same time, Brest is the only region, where the share of entrepreneurs who have been disappointed with entrepreneurial activity is over 50% (Jelowskih, 2005).

A more recent survey of the IFC, conducted in February-March 2005, shows that over 50% of the surveyed small business representatives indicated worsening business conditions, although this view was more commonly reported in the Grodno region (61%), compared with Mogilev as one of the Eastern regions in Belarus (43%; Jelowskih, 2005). One reason might be that in the western regions of the country, the licensing procedure has become longer. In Grodno region it has increased by 14 days, in Brest by 6 days. This being said, in one eastern region, Mogilev, this procedure has shown a growth of 2 days, and in Gomel region it has declined by 4 days (Jelowskih, 2005). The reaction of Belarussian businesses to worsening business conditions is also reflected in the change of Polish joint and foreign enterprises, which declined by 58% between 1996 and 2003; the majority having been operational in the western regions of the country (Gulida and Tamashevich, 2005).

Table 9: Small enterprises employment in Belarus by regions

| | Number of employees of small enterprises, in 1,000 | | | Number of employees of small enterprises with account of individual entrepreneurs, in 1,000 | | | Share of employees of small enterprises in the total number of employees, % | | Share of employees of small enterprises with account of individual entrepreneurs in the total number of employees, % | |
|---------------|--|--------------|--------------------|---|--------------|--------------------|---|------------|--|-------------|
| | 1998 | 2004 | 2004, in % of 1998 | 1998 | 2004 | 2004, in % of 1998 | 1998 | 2004 | 1998 | 2004 |
| Total | 321.9 | 396.6 | 123.2 | 447.9 | 624.6 | 139.5 | 7.3 | 9.2 | 10.1 | 14.5 |
| Brest | 31.1 | 38.7 | 124.4 | 50.6 | 71 | 140.3 | 4.9 | 6.5 | 8.0 | 11.9 |
| Vitebsk | 34.5 | 39.1 | 113.3 | 49.8 | 68.2 | 136.9 | 6.0 | 7.2 | 8.7 | 12.6 |
| Gomel | 30.5 | 41.2 | 135.1 | 44.7 | 71.5 | 160.0 | 4.7 | 6.5 | 6.9 | 11.3 |
| Grodno | 33.6 | 32.0 | 95.2 | 49.7 | 58.2 | 117.1 | 6.7 | 6.7 | 9.9 | 12.1 |
| city of Minsk | 128.6 | 160.3 | 124.7 | 164.2 | 219.9 | 133.9 | 15.0 | 16.7 | 19.1 | 22.9 |
| Minsk | 32.2 | 52.6 | 163.4 | 46.9 | 79.8 | 170.1 | 5.0 | 8.5 | 7.3 | 12.9 |
| Mogilev | 31.4 | 32.6 | 103.8 | 42.0 | 55.9 | 133.1 | 6.0 | 6.7 | 8.0 | 11.6 |

Source: author's calculations based on Gulida and Tamashevich, 2005, p. 141

A similar trend is observable with regard to the number of employees in private firms in Belarus. In 1998, and excluding Minsk, more employees had a job in SMEs located in the western regions of Belarus compared to the present time (Table 9).

In sectoral terms, in the western regions (Brest and Grodno), as well as generally across Belarus, small enterprises are mainly to be found in trade, public catering, and industrial sphere, although transport enterprises are also over-represented in these regions (Table 10). In terms of employment, three sectors are leading: industry (38.8% of all employees in SMEs), trade and public catering (26.1%), and construction (13.8%).

Table 10: Sectoral distribution of SMEs across regions of Belarus in 2003

| Regions | Industry | Transport and communication | Construction | Trade and public catering | Other branches | Total |
|---------------|-------------|-----------------------------|--------------|---------------------------|----------------|--------------|
| Brest | 29.4 | 12.4 | 10.1 | 32.2 | 15.9 | 100.0 |
| Vitebsk | 25.9 | 6.3 | 11.2 | 38.5 | 18.1 | 100.0 |
| Gomel | 25.2 | 4.2 | 14.5 | 40.6 | 15.5 | 100.0 |
| Grodno | 27.1 | 10.8 | 13.6 | 33.7 | 14.8 | 100.0 |
| Minsk | 30.7 | 5.9 | 11.3 | 38.5 | 13.6 | 100.0 |
| Mogilev | 25.9 | 6.1 | 14.1 | 39.2 | 14.7 | 100.0 |
| City of Minsk | 17.5 | 5.1 | 10.8 | 46.8 | 19.8 | 100.0 |
| Total | 22.2 | 6.1 | 11.6 | 42.4 | 17.7 | 100.0 |

Source: author's calculations based on Minstat, 2004

In 2003, the share of industrial products (works, services) produced by small manufacturing enterprises constituted 6.9% of the total industrial output of the country. In the Brest region, wood, wood-working and pulp-and-paper industries dominate; in Grodno and Vitebsk regions food processing is a dominant industry. In Vitebsk, the share of the engineering industry is above average also.

The financial position of small enterprises all over the country has worsened during the last four years: profitability has declined by 3.4 percentage points, while the share of unprofitable enterprises has increased by 6.4%. However, in 2000, the profitability of small enterprises in western border regions was higher than in other regions of the country, but in 2004, the financial results of entrepreneurs from the Brest region have considerably worsened. However, the profitability of small enterprises in the Grodno region is higher, compared to other regions (Table 11).

Table 11: Profitability level and share of unprofitable small enterprises by regions, %

| Regions | Profitability level | | |
|---------------|---------------------|------------|-------------|
| | 2000 | 2002 | 2004 |
| Brest | 18.2 | 10.0 | 7.8 |
| Vitebsk | 7.7 | 3.8 | 7.5 |
| Gomel | 12.2 | 7.5 | 13.9 |
| Grodno | 13.1 | 7.9 | 14.5 |
| city of Minsk | 18.5 | 11.4 | 13.0 |
| Minsk | 12.5 | 9.5 | 12.1 |
| Mogilev | 8.9 | 3.9 | 8.6 |
| Total | 15.5 | 9.8 | 12.1 |

Source: author's calculations based on Gulida and Tamashevich, 2005, p. 144

An empirical study analysing the activities of small and large firms in the Vitebsk and Grodno regions has shown that only 2% of the surveyed small enterprises had received assistance from local authorities. In fact, entrepreneurs stated that local authorities created obstacles instead of supporting them, with the smallest enterprises showing the highest propensity to report this: 60.4% of enterprises with up to 10 employees, compared with 46.7 % of those with 10 to 50 employees (Shehova, 2002).

This is confirmed by results from an earlier study, carried out in 1997-1998 in the framework of TACIS: 'An identification of the support needs of small enterprises in Ukraine, Belarus and Moldova, with implications for policy at the national and regional levels'. Results showed that the image of officials among the Belarussian entrepreneurs was predominantly negative. At that time, however, entrepreneurs referred to the impediments from the side of local authorities to a considerably lesser extent (14% of respondents), compared to the more recent study. In general, the attitude of local authorities to small enterprises was characterized as neutral (67% of respondents), which mainly reflected a view among entrepreneurs that authorities are estranged from their problems, which as a result remain unsolved (Smallbone et al., 2000a).

A jointly developed regional strategy of entrepreneurship development could become an efficient tool in order to provide reciprocal understanding between entrepreneurs and local authorities. Yet, as the first experience of such an entrepreneurship development strategy in Vitebsk region for 2004-2008 has shown, in Belarus this process is hindered by an excessive centralisation of power and by the weakness of local self-government (Slonimska, 2004).

4.3 Moldova

As in Ukraine and Belarus, regional diversity in the level of small business development can be observed in Moldova, with a core-periphery contrast once again apparent. In Chisinau, there is a considerably higher level of demand for the products and services offered by small firms; the infrastructure is more developed; and the majority of resources (e.g. finance, information) easier to access. Two thirds (66.2%) of all Moldova's small enterprises are concentrated in Chisinau, where there are 23.6 small enterprises per 1,000 inhabitants, which is more than three times higher than the mean value for the country. The municipality of Chisinau is followed by the municipality of Balti (the second-largest city of Moldova), with 7 small enterprises per 1,000 inhabitants. Among the western border districts and other regions no significant differences are observed (Table 12).

Table 12: Number of small enterprises in Moldova by districts

| | Number of small enterprises | | | Number of small enterprises per 1000 inhabitants | |
|----------------------------------|-----------------------------|--------------|----------------|--|------------|
| | 1998 | 2004 | 2004 % of 1998 | 2004 | 1998 |
| Total | 17599 | 27831 | 158,1 | 4,8 | 7,7 |
| Mun. Chisinau | 11605 | 18 430 | 158.8 | 15.4 | 23.6 |
| Mun. Balti | 749 | 1 070 | 142.9 | 4.8 | 7.2 |
| Western border Romania districts | | | | | |
| Briceni | 118 | 341 | 289.0 | 1.5 | 4.4 |
| Cahul | 236 | 414 | 175.4 | 2.6 | 3.3 |
| Cantemir | 48 | 49 | 102.1 | 0.7 | 0.8 |
| Edinesti | 176 | 319 | 181.3 | 2.0 | 3.7 |
| Falesti | 127 | 173 | 136.2 | 1.3 | 1.8 |
| Glodeni | 94 | 172 | 183.0 | 1.4 | 2.7 |
| Hincesti | 217 | 363 | 167.3 | 1.8 | 2.9 |
| Leova | 92 | 83 | 90.2 | 1.7 | 1.5 |
| Nisporeni | 133 | 191 | 143.6 | 1.6 | 2.8 |
| Riscani | 71 | 209 | 294.4 | 0.9 | 2.9 |
| Ungheni | 317 | 388 | 122.4 | 2.6 | 3.2 |
| Other districts | | | | | |
| Anenii Noi | 205 | 391 | 190.7 | 2.6 | 4.7 |
| Basarabesca | 48 | 90 | 187.5 | 1.5 | 3.0 |
| Calarasi | 153 | 198 | 129.4 | 1.8 | 2.4 |
| Causeni | 237 | 248 | 104.6 | 2.2 | 2.7 |
| Cimislia | 125 | 161 | 128.8 | 2.0 | 2.5 |
| Criuleni | 167 | 223 | 133.5 | 2.0 | 3.1 |
| Donduseni | 71 | 142 | 200.0 | 1.1 | 3.0 |
| Drochia | 131 | 217 | 165.6 | 1.6 | 2.3 |
| Dubasari | 39 | 88 | 225.6 | 0.5 | 2.5 |
| Floresti | 97 | 202 | 208.2 | 1.3 | 2.2 |
| Ialoveni | 206 | 396 | 192.2 | 2.3 | 4.2 |
| Ocnita | 174 | 233 | 133.9 | 3.0 | 4.2 |
| Orhei | 317 | 563 | 177.6 | 2.4 | 4.3 |
| Rezina | 197 | 213 | 108.1 | 3.6 | 4.0 |
| Singerei | 87 | 171 | 196.6 | 0.9 | 1.8 |
| Soroca | 271 | 377 | 139.1 | 2.9 | 3.7 |
| Straseni | 211 | 347 | 164.5 | 2.2 | 3.8 |
| Soldanesti | 75 | 132 | 176.0 | 1.6 | 2.9 |
| Stefan-Voda | 118 | 149 | 126.3 | 1.5 | 2.0 |
| Taraclia | 146 | 221 | 151.4 | 3.0 | 4.9 |
| Telenesti | 89 | 126 | 141.6 | 1.2 | 1.7 |
| UTA Gagauzia | 452 | 741 | 163.9 | 2.3 | 4.7 |

Source: Department of Statistics of Republic of Moldova (2005)

In the period 1998-2004 the number of small enterprises per 1,000 people increased in all the districts, except for Leova which is the western border district. More progress was recorded in Riskani and Briceni, which are also the western border districts (Table 13). Thus, the western border districts of Moldova are rather

heterogeneous with regard to small enterprise development. Unfortunately, the lack of statistical information for individual entrepreneurs does not allow the specifics of entrepreneurship development levels to be analysed in surveyed regions of Moldova.

Table 13: Small enterprises employment in Moldova by districts

| | Number of SE employees | | | Share of SE employment in total employment, % | |
|----------------------------------|------------------------|---------------|----------------|---|--------------|
| | 1998 | 2004 | 2004 % to 1998 | 1998 | 2004 |
| Total | 144802 | 173482 | 119,8 | 19,01 | 30,23 |
| Mun. Chisinau | 76079 | 99 065 | 130.2 | 34.07 | 36.06 |
| Mun. Balti | 7270 | 8 503 | 117.0 | 23.28 | 26.57 |
| Western border Romania districts | | | | | |
| Briceni | 1949 | 2 257 | 115.8 | 16.26 | 42.26 |
| Cahul | 2897 | 4 002 | 138.1 | 19.36 | 26.91 |
| Cantemir | 1020 | 647 | 63.4 | 7.92 | 12.76 |
| Edineti | 2236 | 2738 | 122.5 | 11.55 | 29.48 |
| Falesti | 1394 | 1392 | 99.9 | 6.40 | 14.76 |
| Glodeni | 1325 | 1339 | 101.1 | 7.96 | 16.58 |
| Hincesti | 1632 | 2854 | 174.9 | 9.04 | 22.94 |
| Leova | 1387 | 1050 | 75.7 | 14.19 | 31.10 |
| Nisporeni | 1690 | 990 | 58.6 | 16.34 | 29.72 |
| Riscani | 1500 | 1629 | 108.6 | 7.34 | 19.07 |
| Ungheni | 2937 | 2600 | 88.5 | 16.63 | 28.10 |
| Other districts | | | | | |
| Anenii Noi | 1991 | 2 573 | 129.2 | 15.81 | 31.86 |
| Basarabasca | 895 | 819 | 91.5 | 18.03 | 26.82 |
| Calarasi | 1762 | 1 373 | 77.9 | 21.28 | 28.41 |
| Causeni | 2635 | 3 391 | 128.7 | 15.89 | 50.74 |
| Cimislia | 1784 | 1 704 | 95.5 | 13.59 | 26.58 |
| Criuleni | 2647 | 1 721 | 65.0 | 23.89 | 36.06 |
| Dondiuseni | 914 | 858 | 93.9 | 7.40 | 18.26 |
| Drochia | 1810 | 1990 | 109.9 | 7.78 | 14.07 |
| Dubasari | 345 | 668 | 193.6 | 4.74 | 23.15 |
| Floresti | 1166 | 1756 | 150.6 | 7.36 | 19.03 |
| Ialoveni | 1826 | 2287 | 125.2 | 15.07 | 24.03 |
| Ocnita | 1648 | 1702 | 103.3 | 13.48 | 30.53 |
| Orhei | 3040 | 3302 | 108.6 | 18.91 | 28.51 |
| Rezina | 1691 | 1634 | 96.6 | 15.16 | 37.82 |
| Singerei | 1360 | 2111 | 155.2 | 6.91 | 19.73 |
| Soroca | 2695 | 2910 | 108.0 | 12.41 | 25.54 |
| Straseni | 2839 | 2549 | 89.8 | 25.89 | 38.24 |
| Soldanesti | 897 | 888 | 99.0 | 9.03 | 24.88 |
| Stefan-Voda | 1098 | 1278 | 116.4 | 6.49 | 16.10 |
| Taraclia | 1616 | 1442 | 89.2 | 11.33 | 13.99 |
| Telenesti | 1806 | 1556 | 86.2 | 12.21 | 25.32 |
| UTA Gagauzia | 5021 | 5904 | 117.6 | 10.45 | 23.10 |

Source: Department of Statistics of Republic of Moldova (2005)

The share of SE employment in total employment in 2004 was above the Moldovan average in such border district as Briceni; the rest of border regions are lagging behind in this respect.

Table 14: Level of profitability and share of unprofitable small enterprises in Moldova by districts, %

| | Level of profitability | | Share of unprofitable small enterprises in total number of small enterprises | |
|----------------------------------|------------------------|--------|--|-------|
| | 1998 | 2004 | 1998 | 2004 |
| Total | -4.94 | 1.78 | 48.1 | 47.47 |
| Mun. Chisinau | -4.64 | 3.02 | 46.6 | 49.11 |
| Mun. Balti | -4.38 | 1.18 | 42.5 | 42.24 |
| Western border Romania districts | | | | |
| Briceni | -8.01 | 2.37 | 61.9 | 32.84 |
| Cahul | -6.08 | -0.57 | 58.1 | 46.62 |
| Cantemir | -2.84 | -1.91 | 66.7 | 53.06 |
| Edineti | -4.04 | 1.18 | 52.3 | 43.57 |
| Falesti | 3.75 | 2.24 | 63.8 | 34.10 |
| Glodeni | -0.28 | 1.64 | 58.5 | 43.02 |
| Hincesti | -1.34 | 2.79 | 33.6 | 31.96 |
| Leova | -6.35 | -4.24 | 55.4 | 61.45 |
| Nisporeni | -13.98 | -5.06 | 53.4 | 29.32 |
| Riscani | -17.28 | -1.37 | 69.0 | 35.41 |
| Ungheni | -8.01 | -6.46 | 41.3 | 43.04 |
| Other districts | | | | |
| Anenii Noi | -0.25 | -0.33 | 34.6 | 37.08 |
| Basarabasca | -1.61 | -3.18 | 56.3 | 44.44 |
| Calarasi | -1.29 | 0.41 | 53.6 | 37.37 |
| Causeni | -18.16 | -15.39 | 43.9 | 44.76 |
| Cimislia | -16.64 | -4.21 | 46.4 | 44.72 |
| Criuleni | -11.32 | -1.17 | 52.7 | 49.78 |
| Dondiuseni | -45.71 | -7.56 | 56.3 | 51.41 |
| Drochia | -14.53 | -5.70 | 57.3 | 54.38 |
| Dubasari | -0.10 | 3.81 | 30.8 | 35.23 |
| Floresti | -3.31 | 1.58 | 55.7 | 39.11 |
| Ialoveni | -3.03 | -1.22 | 50.5 | 48.48 |
| Ocnita | -2.72 | -1.04 | 58.1 | 50.64 |
| Orhei | -8.03 | 0.43 | 52.4 | 42.63 |
| Rezina | -8.66 | -1.07 | 60.9 | 53.99 |
| Singerei | -7.34 | -3.72 | 63.2 | 50.88 |
| Soroca | -4.42 | -4.32 | 66.8 | 56.76 |
| Straseni | -4.81 | 0.73 | 54.0 | 53.03 |
| Soldanesti | -14.79 | 0.61 | 49.3 | 34.85 |
| Stefan-Voda | -13.84 | -7.15 | 52.5 | 50.34 |
| Taraclia | -3.18 | -7.57 | 39.7 | 42.99 |
| Telenesti | -19.84 | 1.52 | 50.6 | 42.86 |
| UTA Gagauzia | -4.93 | -2.05 | 53.1 | 49.80 |

Source: Department of Statistics of Republic of Moldova (2005)

Employment growth in Moldovan small enterprises averaged 119.8% in 2004 compared with 1998, which is significantly below the Ukrainian level (171.4%), but is slightly higher than in Belarus (116.7%). However, contrary to Belarus, there are many regions in Moldova where the number of small enterprises employees has dropped. Among western border districts these are Nisporeni (58.6%), Cantemir (63.4%), Leova (75.7%), Ungheni (88.5%) and Falesti (99.9%). In western border districts the growth of employment at small enterprises was below the average rate for the country, though this lag was insignificant.

As Table 14 shows, the year 2004 saw some improvement in the average performance of the small enterprise sector in Moldova, compared with 1998, when the average picture involved loss making. However, even in 2004, the profitability level (ratio of profit/losses to sales) is low (1.78%) and the proportion of loss-making enterprises is high, amounting to almost half of all enterprises (47%). On average in the western border regions the proportion of unprofitable enterprises is lower, though the region with the highest proportion of loss-making enterprises Leova (61%) is also situated here. The share of unprofitable enterprises is much lower in the regions Nisporeni (29%), Briceni (33%) and Hincesti (32%).

5. Looking ahead: Fostering Cross-border Partnerships⁷

The key policy issues arising from the literature review so far relate to identifying the pre-conditions for developing successful cross-border partnerships and how these partnerships might be facilitated. Potential issues include approaches to raising awareness among businesses of the potential for different types of international co-operation arrangements, including cross-border partnership facilities; the adequacy of legal frameworks for facilitating the development of trust-based partnerships, capacity building projects, to facilitate cross-border co-operation; and the adequacy of existing international partnership support programmes.

⁷ This section draws on Aculai et al. (2005), Isakova (2005), Smallbone and Meng (2005).

5.1 Cooperation perspectives of Ukraine, Belarus and Moldova with EU

EU enlargement has created new possibilities and problems for all three countries in the framework of the EU's 'neighbourhood' policy. Each of the neighbouring countries has their own objectives towards the EU.

Ukraine. At the present time, Ukraine has identified Europe as a priority with respect to international cooperation. Kotsan (2001) emphasises that growth rates of foreign trade between Western region of Ukraine and Central and Eastern European countries have significantly exceeded the country averages during the last decade. Ukraine signed a number of agreements with EU countries and an action plan Ukraine-EU. In May, 2005, Ukraine became a candidate member of the EU. According to the approved neighbourly relations development plan by the European Commission and Ukraine, assistance to the country in the WTO accession and facilitation of the visa procedure between EU and Ukraine are stipulated (European Commission, 2004).

Moldova. For Moldova, the integration in the European economic space represents the main objective for development. As a result of EU enlargement, the EU share in the total volume of Moldova's turnover has significantly increased. According to preliminary data, in 2004 the EU share in Moldovan exports represented 30.1%, and 32.8% of imports. At present, the individual plan of common actions "RM – EU" is approved, which means a new qualitative stage in the relationships between Moldova and EU. In 2005, in Chisinau, the representative office of the European Commission was opened. The EC will allocate Euro 5 million to Moldova to implement two Programmes of good-neighbourliness aimed at strengthening the intergovernmental and border region cooperation between Moldova and countries of enlarged EU, Romania in particular (European Commission, 2004).

Belarus. In the case of Belarus, the question of integration with EU countries is ambiguous, as the Belarus people have to decide: either to integrate in the EU, or to go with Russia. In addition, Belarus has few economic relations with Western Europe providing only 0.1% of EU turnover (European Commission, 2005). At the same time,

Russia has clear economic interests towards Belarus. Thus, the development of external economic relations of Belarus depends very much on political factors. This hampers the economically rational choice of priorities in international cooperation. However, being in the immediate proximity of EU, Belarus became “a country of European interest” (Morinich, 2004).

5.2 Some Policy Issues and Suggestions

The effectiveness of international enterprise partnerships of different types has been in evidence in recent years, which includes, but is not confined to, cross border co-operation. In Europe a large number of cross-border and wider international partnerships have emerged involving German and Austrian SMEs working with SMEs in several of the post-Communist economies, such as Poland, Hungary and the Czech Republic, as well as between Greek and Bulgarian SMEs. In this context, faced with rapidly changing international market environments, co-operative inter-firm activity may be viewed as a rational strategy for SMEs seeking to respond with limited internal resources.

Policies to encourage and promote cross-border partnerships involving SMEs should aim to facilitate the development of mutually beneficial co-operative arrangements, appropriate to the needs of participating firms. In this respect, these policies will need to be selectively targeted on growth-orientated firms that are seeking either to enter, or increase their penetration of, foreign markets and/or to seek to increasingly internationalise their supply base, whilst lacking the internal resources to achieve this independently.

Since the nature and extent of such opportunities typically vary between sectors, it is likely that this will involve a degree of sectoral targeting (perhaps involving clusters), although the specific sectors targeted may vary between regions. In view of the fact that many SMEs operate exclusively on short-term planning horizons, one of the criteria for offering technical support or other resources to help SMEs participate in partnership arrangements should be a demonstrated strategic capability. In this con-

text, the main policy issues identified, to encourage and support cross-border SME partnerships are:

A need to raise awareness of the potential for cross-border partnerships among SMEs: Whilst it is important that the potential pitfalls of joint ventures and other forms of inter-firm co-operation are emphasised as well as the potential advantages, there is merit in increasing the level of knowledge among growth oriented SMEs of the international opportunities offered by this type of business strategy. This can be achieved through the production and distribution of promotional literature and other material, made available to firms through the business support infrastructure. It is also important to provide exemplar cases to demonstrate the benefits to be gained from successful partnerships. Highlighting demonstrator cases in promotional literature and organising study tours and exchange visits can be usefully employed to show entrepreneurs the experience of other SMEs with respect to cross-border partnerships.

A need to foster business to business contacts: The most immediate and widespread method used to stimulate SME partnerships is simply to bring potential SME partners together. Information failures often mean that potentially good SME partners have no knowledge of each other's activities and potentials. UNIDO's long-running SPX programme is an example of a tool to support SMEs operating in developing countries wishing to internationalise and move into cross-border partnerships, particularly sub-contracting relationships. The SPX programme facilitates contact between SMEs in the emerging markets and those operating in the main markets where sub-contracted components are a routine feature. The programme is also concerned with the dissemination of technical and other standards, as well as providing assistance in developing the necessary quality standards and specifications required for higher value-added markets.

The European Union Europartenariat Initiative programme is another long-standing example of promoting direct contacts between potential SME partners. In 1999, the European Commission held the twentieth Europartenariat SME forum in Vienna. The event allows SME's to explore opportunities for future cross-border business co-

operation, helping firms to begin to adapt to the single European market. The European Commission also provides support to SME's through direct business aid, business-related infrastructure as well as through advisory and training services.

The importance of developing appropriate of legal frameworks: Protecting intellectual property rights can expand SME partnerships in knowledge-based industries and franchising can be encouraged through protection of brand names. If higher value-added types of partnership arrangement between SMEs across borders are to be encouraged, governments in transition economies particularly will need to evaluate the adequacy of existing legal frameworks and contract enforcement procedures, particularly with respect to the protection of IPR.

A need to develop international networking capacity: Most governments have some kind of programme of support for business associations which seek links with associations and clusters abroad, with a view to encouraging market development, technology upgrading and technical assistance. The success of the Indian software export industry is, in part, a story of linkages between the SME clusters in Bangalore and Bombay on the one hand and the business clusters in Silicon Valley, Route 128 (Massachusetts) and the emerging Dulles Internet Corridor in Northern Virginia. Business incubators are increasingly being used to promote innovative clusters of SMEs. This increasingly includes support for those most likely to become involved in cross-border partnerships and sub-contracting arrangements. Programmes to support spin-offs include measures to develop sub-contracting arrangements with the "parent" firm, but also prioritise links with international firms in order to reduce the dependency upon a single local customer.

The COOPME programme is one example of network promotion through the EU, aiming to improve the ability of SME associations from Central and Eastern Europe to serve their members; expand relations and twinning arrangements between the EU, SMEs and trade associations as well as their counterparts in Central and Eastern Europe. It also aims to expand co-operation and partnership between SMEs within Central and Eastern Europe.

Developing cross-border partnership search facilities: The Internet offers considerable potential as a tool for partner searching by SMEs and/or their advisers across borders. The concept could include a chat-room facility for initial exchanges of information between potential partners.

Developing cross-border partnership support programmes: Although mainly addressing the needs of potential SME partners in industrialised countries, Donckels and Lambrecht (1995), among others, have set out some of the conditions for setting up successful joint ventures in developing countries that may be potentially transferable to the transition context in Central Europe. They emphasise the need to gain experience of looser form of co-operation with a partner first in order to learn about each partner's culture and improve communication; plan and prepare carefully the operational details of the proposed partnership; develop a blueprint; and provide information training for management and key staff on both sides that includes cultural awareness training. If policy makers are to promote cross border partnerships between SMEs, it is important that appropriate specialist support is made available to potential partners, based on existing partnership experiences (both positive and negative).

The EU has been actively following an integrated strategy to partnership promotion through the Joint Venture Programme (JOP) in Central and Eastern European Countries, the New Independent States and Mongolia. Set up already in 1991 JOP aims to assist the creation of joint ventures between SMEs in countries in transition and SMEs in the EU. JOP is based on a network of financial intermediaries to support feasibility studies; participation in the equity of the joint venture; the training of its staff; and the information necessary for setting it up. The measures implemented have mostly enabled SMEs in EU member states to carry out the preparatory phases of their joint venture projects, thus reducing the administrative, financial and legal constraints. The programme mainly assists SMEs: 69 % of the approved applications were submitted by enterprises with fewer than 100 employees (European Commission, 1998).

Promoting and building on linkages between business support organisations and diaspora communities: Many of the SMEs currently enjoying success in export markets in Germany and other EU countries are based on diaspora-inspired linkages with SMEs in the countries targeted for EU Accession, such as the Czech Republic. Programmes can be established that involve EU and non-EU member countries, working together to identify areas where partnerships based on such linkages are most appropriate and facilitating their establishment. The German government, for example, has supported sub-contracting links between German SMEs, which are owned and operated by those of Croatian origin, and SMEs operating in the under-developed southern regions of Croatia. In addition, many of the refugees returning to Croatia after several years spent in Germany are also encouraged to establish an SME in order to take advantage of their employment and family links with German SMEs developed during their enforced absence.

5.3 Conclusions

To sum up, from a policy perspective, there is a need to strengthen the evidence base of cross border partnerships, which this project is contributing to achieving. In all participating NIS countries, there is a lack of systematically conducted research about the whole spectrum of cross-border activities, including enterprises, institutions and households. Little is also known about the effect EU enlargement is likely to have on the new border regions between new EU members and adjoining NIS countries or on the so-called Euroregions in NIS countries. One of the few empirical studies, which focused narrowly on enterprise-based cooperation, was undertaken in Austria's NE border regions in the context of an INTERREG II project, which offered support for the cross-border activities of private enterprises, especially small ones. Another recent study focusing on Ukraine, researched different cross-border aspects from a macro economic perspective, emphasising issues such as legal regulations, security, ethnic minority issues, transport and energy infrastructure (EastWest Institute and Institute for Regional and Euro-Integration Studies, 2004).

The current INTAS project, of which this paper forms part, adopts a broadly based view of co-operation and partnership, which includes institutions and households as

well as enterprises within a conceptual framework emphasising individual and collective learning and the role of trust (personal and institutional). In this context, the project will contribute to academic knowledge and policy evidence by developing a typology of cross-border partnership activities on institutional, household and enterprise level in different types of region, providing a basis for the development of more evidence-based policies.

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