

# Going green to help speed up recovery of SMEs in Southeast Europe

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*Under EU law, small and medium-sized enterprises (SMEs) fall into three groups defined in terms of number of employees and additional criteria, either turnover or total assets, as follows:*

- **Micro:** less than 10 employees; less than 2.0 million euro turnover or 2.0 million euro in total assets
- **Small:** less than 50 employees; less than 10 million euro turnover or 10 million euro in total assets
- **Medium-sized:** less than 250 employees; less than 50 million euro turnover or 43 million euro in total assets

Small and medium-sized enterprises (SMEs), traditionally viewed as the backbone of every national economy, account for an average 99.5% of the total number of companies in the countries in Southeast Europe (SEE). They

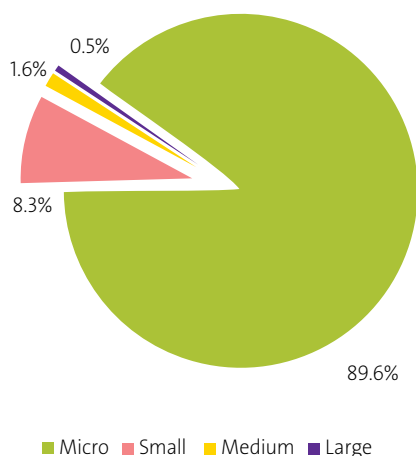
provide 70.2% of the total employment in the region and generate 58% of the gross value added in its economy.

The two most important determinants of

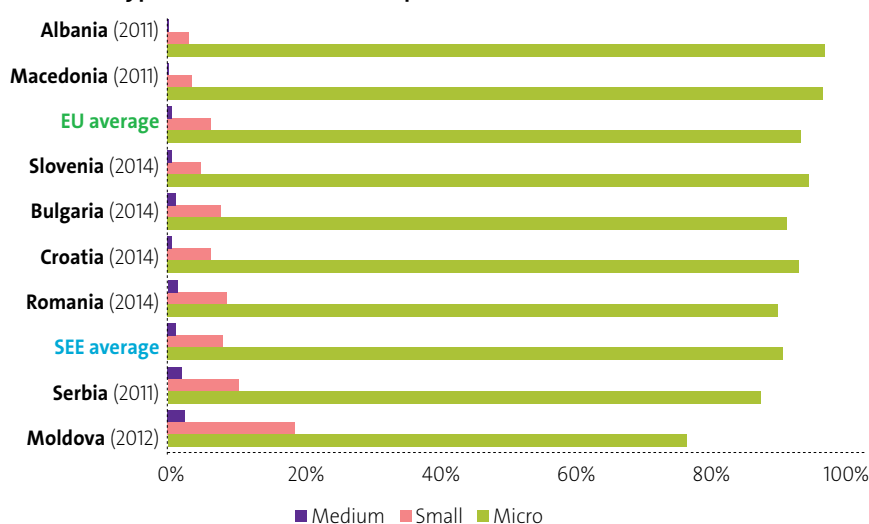
intraregional differences in the structure of the SMEs group are the relative weight of the industry in which they operate in the national economy and the public attitude to entrepreneurship and preferences for self-employment.

According to a European Commission survey, in 2012 the entrepreneurship rate (share of the adult population who have started a business or are taking steps to start one) and entrepreneurial intention (share of the adult population who intend to start a business within three years) in SEE were higher than the EU average. The highest percentage was registered in Bulgaria and Croatia, with Slovenia falling below the EU average. Preference for self-employment follows the same pattern - while an average of 37% of EU citizens prefer to be self-employed, in Croatia and Bulgaria their share stands at 54% and 49%,

Share of SMEs and large companies in total number of companies in SEE



Share of SME types in total number of companies in SEE countries



Sources: European Commission, National Bureau of Statistics of Moldova

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respectively. Soaring unemployment rates and stagnating wages are seen as the key drivers of the intense interest in starting an own business in the region. Even the largely negative public perception of entrepreneurs does not seem to undermine the attractiveness of running your own business. However, the survey results suggest that the majority of entrepreneurs in SEE go into business for lack of alternatives.

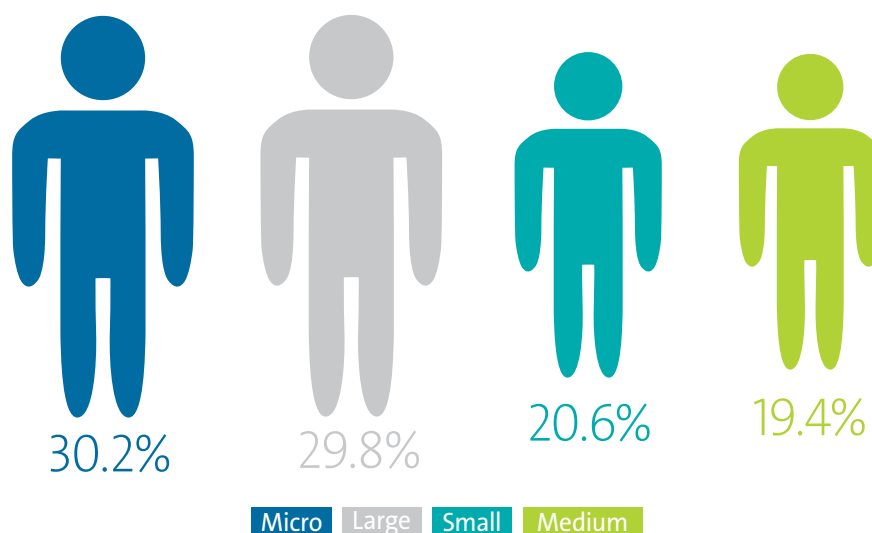
Although the **structure of the SMEs group** is similar in the countries in the region, some national specifics exist. Nine out of ten companies in SEE are micro enterprises, which is in line with the situation in the EU and globally. In Serbia and Romania, with their traditionally well-developed heavy industries, the share of micro companies is lower. In Moldova only 75.6% of the companies are micro, but the share of small enterprises is three to four times higher than in the rest of the region and the EU average. In Macedonia and Albania, on the opposite end of the spectrum, where the economies are dominated by agriculture, trade and services, the share of micro enterprises is above 95%. Small enterprises constitute 8.3% of the total number of enterprises in SEE. The countries with a small share of micro enterprises – Moldova and Serbia - have an above-average share of small companies. Medium-sized enterprises do not exceed 2.0% in any of the national economies in the region with the exception of Moldova.

In terms of **employment generated by SMEs**, the situation in the region is identical to that in the EU with 70% of all employed people working for SMEs. In Albania and Macedonia, SMEs provide with a job over 80% of the population, while in Moldova this share is 57%. Within the SMEs group, micro enterprises are the biggest employers (except in Moldova), accounting for 30% of employment in the region, followed by small companies with a 21% share and medium-sized companies with a 19% share.

Across the region, disparities in the employment structure match the differences in the structure of the SMEs group in terms of number of companies. While almost half of the working population in Albania and Macedonia is employed in micro enterprises, in Moldova this figure is only 17%.

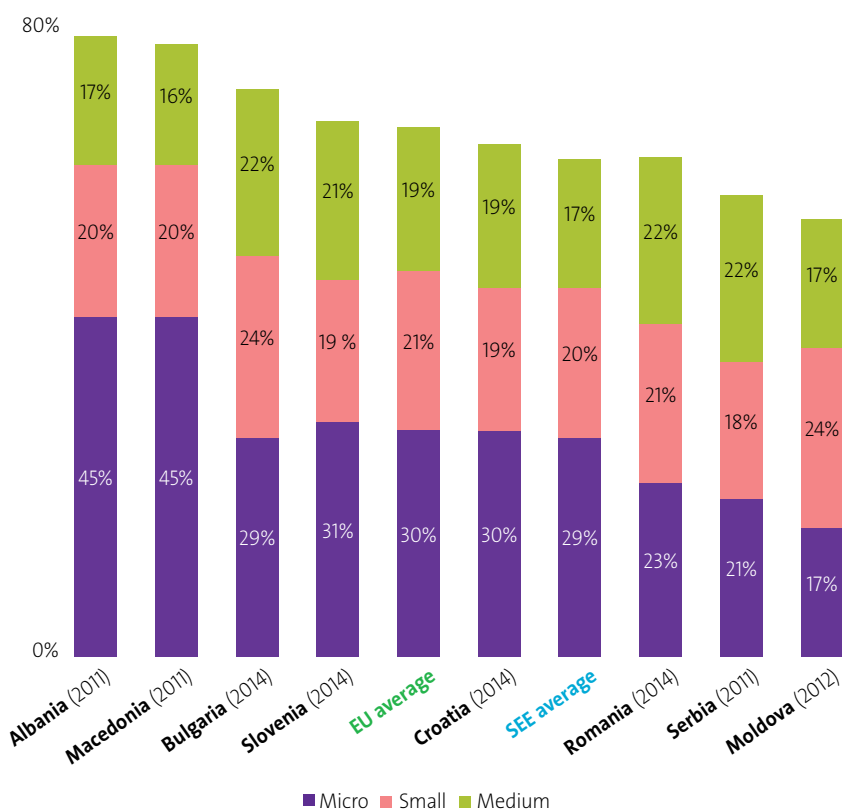
The **weight of SMEs in the total gross value**

### Share of SMEs and large companies in total number of employees in SEE



Sources: European Commission, National Bureau of Statistics of Moldova

### Share of SMEs in total number of employees in SEE Countries



Sources: European Commission, National Bureau of Statistics of Moldova

**added** generated by the national economies in the region - 58% - is comparable to that in the EU. In Albania, Macedonia and Montenegro, where the highest number of

businesses are SMEs, they account for more than two thirds of the total gross value added, while in Moldova this share is roughly one third.

Micro enterprises account for 21% of the total gross value generated by the SME group, and small and medium-sized companies hold an 18% share each. In line with the national specifics in the group's structure, in Albania and Macedonia micro enterprises have the biggest share of total gross value added generated by the group, in Moldova small companies account for the bulk, and in the other SEE countries medium-sized companies create most of the gross value added.

Generally, SMEs show lower productivity levels compared to large enterprises for a number of reasons – lack of economies of scale, more difficult access to financing and limited opportunities to carry out research and development activities. Large enterprises dominate sectors with high gross value added, while SMEs constitute the majority of the companies in low value added sectors like agriculture and trade.

Using gross value added per employee as a measure of productivity, two trends can be distinguished - gross value added per employee of a large enterprise is almost twice as much as that per employee of an SME in both the EU and SEE, whereas in Slovenia the low average number of employees of SMEs and better developed knowledge-intensive industries and business services boost the country's productivity well above the EU average.

## Domestic demand seen spurring growth

SMEs in EU weathered the 2009 downturn better than larger enterprises but recovered at a slower pace. This disparity is largely due to weak domestic demand in the region, which is a key market driver for SMEs, whereas large enterprises generally benefit from rapidly recovering exports. However, domestic demand is expected to strengthen in 2014, which should affect positively the development of SMEs. In SEE, like elsewhere in the EU, SMEs started hiring new staff again in 2012, much later than large enterprises. As of 2013, SMEs are trailing behind larger enterprises in terms of value added growth, as well.

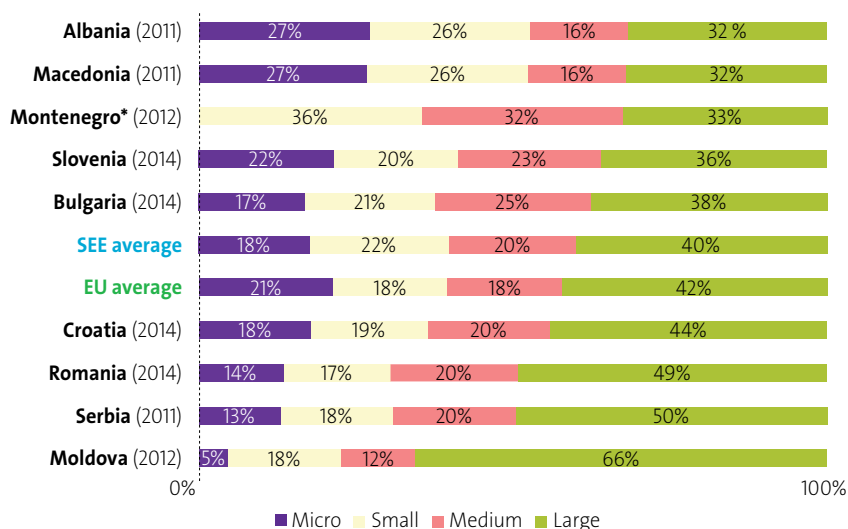
Between 2011 and 2013 the number of people employed in SMEs in the region dropped but the number of SMEs stayed stable. Micro, small and mid-sized companies strived to stay in business, be it at the

## Share of SMEs and large companies in gross value added in SEE



Sources: European Commission, National Bureau of Statistics of Moldova, Statistical Office of Montenegro

## Share of SME types in gross value added of SEE countries



\* In Montenegro micro and small enterprises are presented together as one category.  
Sources: European Commission, National Bureau of Statistics of Moldova, Statistical Office of Montenegro

cost of downsizing their staff and operations.

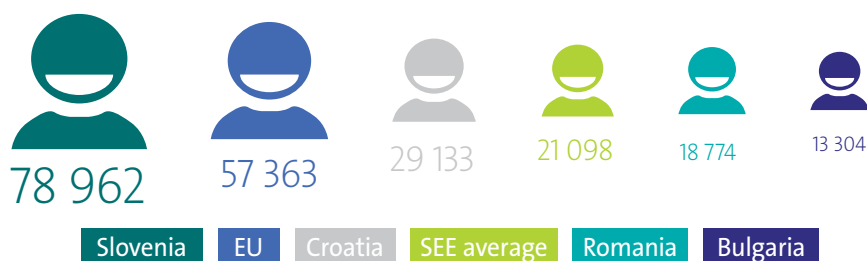
The SMEs in the sector of services, characterised by lower entry barriers, performed better than SMEs in manufacturing, which suffered badly from a sharp decline of investments in capital formation and innovation caused by restrictive credit conditions and sluggish domestic demand.

Some of the essential ingredients of a recipe for SMEs' recovery and prosperity include na-

tional policies harmonised with the EU guidelines, improved access to finance, strong demand for the goods and services produced by SMEs, an appropriate amount of attention to labour market policies and simple regulatory and administrative requirements.

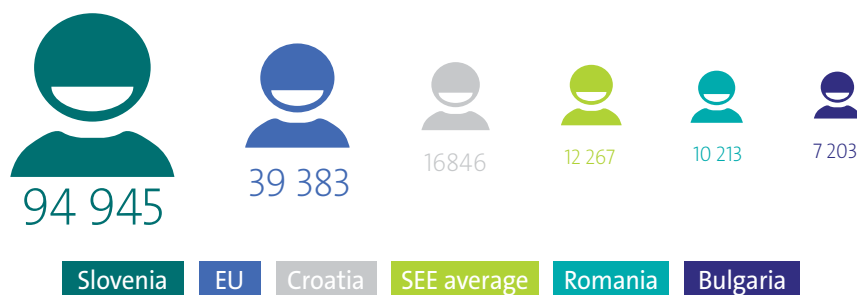
Value added generated by SMEs too is expected to grow in the 2013-2014 period although at a slower pace than with large enterprises. SMEs are also expected to start hiring more workers as lending picks up and domestic demand rises.

### Gross value added per employee of large companies in SEE EU-members in 2013 (euro)



Source: European Commission

### Gross value added per employee of SMEs in SEE EU-members in 2013 (euro)



Source: European Commission

## Green window of opportunity

Given the very low level of innovations and small number of companies that have declared their intention to pursue green business plans compared to the EU average, the development of green products and services could provide a crucial opportunity for growth for SMEs in SEE. Furthermore, the dynamic growth of demand for such products worldwide opens up ample opportunities for expansion to new markets.

However, SMEs in the region seem slow to recognise the potential that green business holds for them. They tend to be much more reluctant than their peers in the rest of EU to embrace the idea of going green, and are considerably less likely to apply measures to improve their resource efficiency compared with the European average, partly due to inadequate public support for such measures than in the rest of Europe. Disparities are clear even within the region - countries with working SME strategies like Serbia and the EU members Slovenia, Croatia and Bulgaria almost match the European average of 93%, while Montenegro, Albania and Macedonia are still trailing far behind with only two

out of three SMEs using resource efficiency measures.

The proportion of SMEs in the region that offer green products or services (20.5%) is considerably below the EU average of 26%. Slovenia is again the only exception - more than a third of the Slovenian SMEs are engaged in green business, which ranks the country among the most advanced in Europe in terms of sustainable business. On the other extreme, only one in ten SMEs in Albania is active in green business. Similarly underdeveloped are environment-friendly products and services in Macedonia, Romania and Serbia.

To speed up the local SMEs' involvement in the green economy and make it more effective, several conditions should be in place: better access to information and financing, technical assistance, identification of the needs of "green skills" and their development - this is done with the support of industry and regional non-government organisations.

A major source of financing for such measures is the EU with its operating programmes and structural funds. The European Investment

Bank (EIB) provides financing opportunities to SMEs in EU member states and all other SEE countries for investment in energy efficiency through its Green Initiative. It finances projects involving improvement of the energy performance of buildings, equipment and infrastructure. The total value of an eligible project must not exceed 25 million euro, the EIB loan is extended for a maximum of three years and can cover up to 50% of the project's value.

Another factor to be considered is that the introduction of innovations by SMEs in the region remains below the EU standards owing to the insufficient local support for research and development and the still emerging culture of entrepreneurship in these countries. However, investment in innovation provides higher return in terms of sales revenue in SEE compared to the rest of Europe, which should be an additional impetus for SMEs to consider investments in research, skills and sustainable business.

Untapped market potential in green business and knowledge-intensive services - largely underdeveloped in the region, where most SMEs operate in wholesale and retail - offer further opportunities for the local SMEs.

According to European Commission projections, SMEs operating in both manufacturing and the services in EU will post growth. The knowledge intensive services sector and businesses with an emphasis on sustainable development, composed largely of SMEs, will contribute actively to the shift in the manufacturing sector towards highly productive and more competitive operations.

SeeNews Competitive Intelligence calculations show that the CAGR (Compound Annual Growth Rate) for the SEE region, based on data for the period 2012-2014 for the economies of the four EU members - Romania, Bulgaria, Croatia, Slovenia - stands at 2.9% in terms of number of enterprises, 1.3% in terms of employment and 2.5% in terms of gross value added. For comparison, the average CAGRs for the same period in the EU amount to 1.5% for number of enterprises, 0.7% for employment and 1.4% for gross value added. The highest growth is projected in Romania, roughly double the average rate of the region, while the slowdown in Slovenia and Croatia will likely continue.

*\* Figures for 2014 in graphs are preliminary.*