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Economic competitiveness increase through development of SMEs in cross-border regions of Poland, Belarus and Ukraine

Abstract

The purpose of this article is to analyse economic competitiveness increase through the development of SMEs in cross-border regions of Poland, Belarus and Ukraine. This article is dedicated to the analyses of the Cross-border Cooperation Programme Poland-Belarus-Ukraine 2007-2013. The study primarily used the analysis of Ukrainian, Polish and Belarusian legislation, literature resources and statistical data.

A detailed analysis of the regional socio-economic facilities, trends of development and cross-border cooperation helped to formulate the following main priorities: improving conditions for the development of SMEs (creating supportive conditions for free competition and modernisation of the current regional economic structures); improving entrepreneurial and innovative attitudes in the region's population; support for innovative businesses and stimulation of initiatives aimed at starting new innovative enterprises; enhancing cooperation between the academic sector and business entities; development of the region's business management personnel and improvement in the level of education, skills and competences; promotion of the economic and investment potential of the region including potential high-growth sectors.

Keywords: Cross-border Cooperation; Cross-border Regions; Economic Competitiveness; Small and Medium Enterprises (SME); Poland; Belarus and Ukraine

JEL Classification: O18; F15

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Економічне зростання конкурентоспроможності за рахунок розвитку малого та середнього бізнесу в прикордонних регіонах Польщі, Білорусі та України

Анотація

Мета цієї статті полягає в аналізі зростання конкурентоспроможності економіки за рахунок розвитку малого та середнього бізнесу в прикордонних регіонах Польщі, Білорусі та України. Ця стаття присвячена аналізу Програми транскордонного співробітництва Польща-Білорусь-Україна 2007-2013. Для статті в основному здійснювався аналіз українсько-польського та білоруського законодавства, літературних ресурсів та статистичних даних.

Детальний аналіз регіональних соціально-економічних об'єктів, тенденцій розвитку та прикордонного співробітництва дозволив сформулювати основні пріоритети: поліпшення умов для розвитку малого та середнього бізнесу; створення сприятливих умов для вільної конкуренції та модернізації діючих регіональних економічних структур; поліпшення підприємницьких та інноваційних відносин населення регіону; підтримка інноваційних підприємств і стимуляції ініціатив, спрямованих на запуск нових інноваційних підприємств; зміцнення співпраці між академічним сектором та бізнесом; розробка бізнес-управління персоналом регіону й поліпшення рівня освіти, навичок і компетенцій; просування економічного та інвестиційного потенціалу регіону, включаючи потенційні швидко зростаючі сектори.

Ключові слова: транскордонне співробітництво; транскордонні регіони; економічна конкурентоспроможність; малі та середні підприємства (МСП); Польща; Білорусь; Україна.

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Экономический рост конкурентоспособности за счет развития малого и среднего бизнеса в приграничных регионах Польши, Беларуси и Украины

Аннотация

Цель этой статьи заключается в анализе увеличения конкурентоспособности экономики за счет развития малого и среднего бизнеса в приграничных регионах Польши, Беларуси и Украины. Данная статья посвящена анализу Программы трансграничного сотрудничества Польша-Беларусь-Украина 2007-2013. Для статьи в основном осуществлялся анализ украинского, польского и белорусского законодательства, литературных ресурсов и статистических данных.

Детальный анализ региональных социально-экономических объектов, тенденций развития и приграничного сотрудничества позволил сформулировать следующие основные приоритеты: улучшение условий для развития малого и среднего бизнеса; создание благоприятных условий для свободной конкуренции и модернизации действующих региональных экономических структур; улучшение предпринимательских и инновационных отношений населения региона; поддержка инновационных предприятий и стимуляции инициатив, направленных на запуск новых инновационных предприятий; укрепление сотрудничества между академическим сектором и бизнесом; разработка бизнес-управления персоналом региона и улучшение уровня образования, навыков и компетенций; продвижение экономического и инвестиционного потенциала региона, включая потенциальные быстро растущие сектора.

Ключевые слова: трансграничное сотрудничество; трансграничные регионы; экономическая конкурентоспособность; малые и средние предприятия (МСП); Польша; Беларусь; Украина.

1. Introduction

The EU has undergone very fundamental changes in the last two decades. The Treaty of Maastricht introduced the Common Foreign and Security Policy and Justice and Home Affairs (later named Police and Judicial Co-operation in Criminal Matters) as separate pillars. The latter of these now has full application after the abolition of the pillar structure by the Lisbon Treaty. This means that the European Union has increasingly been tapping into areas which were traditionally reserved to nation states. This is particularly visible through the European Neighbourhood Policy and its instruments.

In general, the European Neighbourhood Policy (ENP) is a jointly owned initiative of the EU and its southern and eastern neighbours. The main goal of such an initiative is to achieve the closest possible political association and the greatest possible degree of economic integration. This goal builds on common interests and values – democracy, the rule of law, respect for human rights, and social cohesion¹.

This step brought under one umbrella various geographical programmes (in particular, MEDA for the Mediterranean region and TACIS for Russia and the eastern neighbours) and allowed for an increase in total allocation by 32% up to 12 billion EUR for the period of 2007-2013. The launch of the ENPI programmes under the 2007-2013 financial perspective was supposed to bring greater coherence to the EU's activities in the neighbourhood by pursuing both bilateral and multilateral forms of cooperation with partner countries.

2. Brief Literature Review

The concept of entrepreneurship has been in the sphere of interests of economists since the inception of economic science. It was firstly used by the British banker and economist Richard Cantillon in the 18th century. According to him, entrepreneurship is an economic activity, in the process of which the commodity supply and demand are contained in the relevance in terms of constant risk (A. Murphy, 1987) [2].

A deeper analysis of entrepreneurship was conducted by the French economist Jean-Baptiste Say, who saw it as a creative connection and coordination of the two factors of production – labour and capital in risk conditions (Say, 1855) [3]. J. Schumpeter (Schumpeter 1961, p. 83) [4] and P. Drucker (Drucker, 2002, p. 475) [5] claimed that the for-

mation and development of small and medium-sized enterprises constitute the basis of modern economy. Even though, for a long period of time, only big corporations were in the focus of practitioners and scientists. The situation was changed drastically in the 70s of the last century, when the number of small businesses, only in OECD countries in the period of 1971-1972 increased from 29 million to 45 million (more broadly Chetty, 2009; Audretsch, 2003) [6; 7]. Nowadays, SMEs' share in the total industrial output is very essential, for instance in Germany – more than 40%, in the United States and Poland – more than 50%, and in Israel and Scandinavia – more than 70%².

Therefore, the question of small and medium-sized enterprises' role in generating economic growth in economic theory does not cause major controversy, but at the same time it has a high degree of vagueness. The vagueness appears at the very beginning and is associated with the definition of SMEs. In Poland, as in most EU countries, the criterion of identification is the number of employees in the company, which may not exceed 249. However, in some countries, the upper limit of employment is placed far below (for example, in New Zealand – 19 people, Italy – 20, Estonia – 50), while in others it may be much higher (for example, in Canada – 499 people, and in Korea – 1000³). Moreover, in many countries, small and medium-sized enterprises are defined on the basis of the income received (e.g. France and the USA), or other indicators. These differences have important implications for the debate on the role of SMEs in economic growth.

It is worth while to mention that small and medium-sized enterprises in general are the most numerous part of the economy, and because of this, the condition and dynamics of the development of the SME sector are crucial for regional economy and should be a subject of greatest importance.

In the next part of the paper, we are going to provide an analysis of the condition of SMEs in the form of regional profiles for each territory within the area of Programme implementation and to disclose the role of cross-border cooperation for the development of SMEs.

3. The purpose of this article is to analyse economic competitiveness increase through the development of

¹ European Neighbourhood Policy (ENP) Overview, http://www.eeas.europa.eu/enp/index_en.htm

² EU SMEs in 2012: at the crossroads Annual report on small and medium-sized enterprises in the EU, 2011/12, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf

³ SME statistics: towards a more systematic statistical measurement of SME behaviour, <http://www.oecd.org/cfe/smes/31919286.pdf>

SMEs in cross-border regions of Poland, Belarus and Ukraine. This article is dedicated to the analysis of the Cross-border Cooperation Programme Poland-Belarus-Ukraine 2007-2013.

The selection of appropriate data and indicators was among the most important methodological problems. This required using not only data from official statistic agencies, but also from other institutions such as the Ministry of Finance, the Ministry of Foreign Affairs, regional labour offices, local government units, both local and regional programme documents and data of the Cross-border Cooperation Programme Poland-Belarus-Ukraine 2007-2013.

4. Results

*The analysis of the development of SMEs and regional competitiveness*⁴. The Polish-Ukrainian-Belarusian borderland has a peripheral character in economic terms. GDP produced within the analysed cross-border area in 2012 was about EUR 23125.6 billion, with more than half of this quantity produced on the territory of Poland (58.2%). The proportion for other regions included in the analysed cross-border area was lower – 18.8% in Brest oblast, 17.1% in Lviv oblast and only 5.9% in Volyn oblast. In real terms, the average annual GDP growth in Lublin voivodeship in the period 2004-2010 was 3.5% in comparison to 4.6% for the whole of Poland, Lviv oblast – 1.2% compared with 3.1% for the whole of Ukraine.

In the Nomenclature of Territorial Units for Statistics, which includes 348 territorial units of the European Union (NUTS2), as well as all regions of Ukraine and Belarus, Lublin voivodeship has the distant 314th position in terms of GDP at purchasing power parity per capita, Podlaskie voivodeship – 343; Podkarpackie – 323; Brest oblast – 315; Hrodna oblast – 313; Minsk oblast – 310; Lviv oblast – 335; and Volyn and Zakarpattya – 343 and 341 respectively.

No matter what method of comparison is adopted, the analysed territorial units are among the most underdeveloped regions in Europe. Micro, small and medium-sized enterprises play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises. However, too few EU SMEs operate beyond national borders. Only 25% operate in one or more EU countries other than their own and only 13% do business beyond the borders of the European Union (almost the same situation is in Poland). The internationalization of SMEs must be one of the priorities.

Cross-border cooperation in the development sphere of SMEs is very important for Ukrainian and Belarusian economic entities. Such cooperation will help to create the conditions for win-win situations. On one side, Polish companies benefit from easier access to external markets. In particular, SMEs were helped to internationalize, gain access to foreign markets and influence the authorities of visited countries to eliminate non-tariff barriers, harmonize standards and strengthen the rule of law (Tajani, 2014) [10]. On the other side, local actors and authorities have a concrete chance to lure foreign investment.

Direct contacts between EU entrepreneurs and foreign authorities and companies are also an important part of the strategy to foster durable business relations. These missions bring together representatives of EU businesses and the authorities of third countries, encouraging future cooperation.

Regional profiles in the Programme cross-border area.

1. Poland. In Poland the SMEs sector generates almost 50% of GDP, and of that, for instance, in 2011, micro companies generated 29.6%, small companies – 7.7%, and medium

companies – 10.4% (large companies – 24.0%; other entities – 16.5%, and revenues from customs duties and taxes generated 11.9%). In 2011, out of the total of 1,784,603 entities operating in Poland, merely 3,189 were classified as «large», so 1,781,414 were micro, small or medium. The companies of the SMEs sector employed 6.3 million people of the total of 9.0 million of labour employed in the private sector (D. Walczak and G. Voss, 2013).

In the Polish part of the region, the level of entrepreneurship was relatively stable and ranged from approximately 70 entities registered for every 1,000 inhabitants. In general, it occupies a low position among other regions in terms of basic indicators showing the level of entrepreneurship. Therefore, small and medium-sized enterprises of the Polish part of the Programme have a potential which is still not fully used. The share of SMEs sector in sales income is smaller than its share in the total number of employed persons which shows that the sector is less effective. The share of micro-businesses in export is also falling, both in terms of registered turnover and the sales at marketplaces, which is connected with factors like a limited number of Eastern tourist arrivals.

2. Belarus. Despite the formal availability of all necessary laws and other regulations for the development of SMEs, Belarus is a country where the number of small businesses per one thousand of the population is very low. The size of small enterprises in Belarus is slightly higher (13.2 people) than in industrialised countries (the EU – 6 people, Russia – 9, Ukraine – 7). Apparently, this is due to the fact that the category of individual entrepreneurs (IP) is separated in Belarus. In Belarusian GDP, the share of micro organisations is 4.9% (an increase of 1.2 percentage points compared with the results of 2010), small organisations – 8% (an increase of 0.9 percentage points), medium-sized organisations – 9.7% (0.1 percentage points).

In 2011, the share of SMEs in the Belarusian GDP reached 22.9% (in 2010 – 19.8%). Traditionally, Belarusian SMEs are located primarily in Minsk (22.8%) and Minsk oblast (17.5%); the fewest Belarusian SMEs are in Hrodna oblast (8.1%). On 1 January 2013, according to Ministry of Taxes and Duties, 403,294 business entities were registered, of which 334,326 were in the sector of small and medium-sized businesses (individual entrepreneurs – 232,851, micro-organisations – 88,607, small organisations – 10,531, medium-sized business entities – 2,337). Compared with the beginning of 2012, the number of small and medium-sized enterprises increased by 20,933 units or 6.7%.

Among the problems faced by SMEs in the implementation of their activities, we could underline the following: insufficient financial support and lack of real financial and credit mechanisms to ensure such support; tax legislation is still controversial and complex. A lack of fines differentiation is a negative factor for the performance of SMEs, since fines are a cost for any enterprise; administrative barriers. There is a number of barriers that appear on the way of improving the registration procedures; a large list of grounds for refusal in registration. There is a very extensive list, which sets out the grounds for refusal of registration; availability of requirements for notarization of constituent documents (and copies thereof), and high rates of notary public duties.

3. Ukraine. In 2013, in Ukraine there were more than one hundred thousand SMEs, including 77.4 thousand individual entrepreneurs. In the Programme region, Lviv oblast's economic characteristics differ somewhat from other cross-border regions within the Programme. First of all, according to its economic potential, Lviv oblast has a leading position in Ukraine. It creates about 4% of Ukrainian GDP and takes the 7th place among other Ukrainian regions. As per ten thousand of Lviv oblast's actual population, there are 81 small enterprises according to the average of the national index. Over 17% of small businesses operate in the industry. Engineering, the light and food industry, the manufacture of wood and products made from it are attractive for small businesses. In Volyn oblast, on 1 January 2012, the total number of SMEs per ten thousand of the actual popu-

⁴ Own research based on data of Lublin, Podkarpackie, Podlaske Departments of Statistics, the General Directorate of Statistics of Brest, Hrodna oblasts, Minsk region, the Main Statistical Office in Lviv, Volyn and Zakarpattya regions

lation was 55 units. At the district level, the number of small enterprises per ten thousand of the actual population of the oblast was from 13 to 59 units. 3.7 thousand smaller enterprises and about 29 thousand individual entrepreneurs which were registered in Volyn oblast generate 9.2% of the total regional production and provide more than 20% of budget revenues in the local budget. The same situation is better in Zakarpattya oblast, where the number of active SMEs per 10 thousand of the actual population was 66 units.

According to the authors' own previous research and detailed analysis of the literature database, we can underline the following main problems of SME development in Ukraine: limited opportunities (especially for start-ups) in access to loans, credits and state financial support; low purchasing power, large share of population in poverty; worn-out and outdated technical and technological resources; weak cooperation network with large companies and low involvement in public procurement; insufficient access to regional, national and international business information, including innovations, markets conjuncture, cooperation opportunities, etc.; the insufficient level of knowledge, skills and training in the entrepreneurial sphere.

The role of cross-border cooperation for the development of SMEs: case of Cross-border Cooperation Programme Poland-Belarus-Ukraine 2007-2013. The border regions act as natural structures during integration of national economic spaces in the «great economic space». Cross-border cooperation is a kind of small-scale integration which is an important part of large-scale integration. The nature of cross-border cooperation at different parts of the boundaries is determined by several factors and conditions:

- 1) the presence of boundaries which are internationally recognised and formalised;
- 2) the overall level of cooperation of neighbouring countries;
- 3) the requirements of security;
- 4) the level of socio-economic development of regions;
- 5) ethno-cultural characteristics of the border areas and the historical experience of interaction of local communities;
- 6) the mandate of regional authorities in the implementation of international activities;
- 7) the condition of cross-border infrastructure, including border crossing points.

We need to underline that our analysis does not have all the objective information, first of all due to the lack of objective data. The projects are in their implementation phase and it is really difficult to calculate real effects for a Programme territory at the present moment. Secondly, our thematic category is not a separate Programme measure or priority; therefore, all analysed projects have their own specificity and importance. Last but not least, to obtain a whole picture of the competitiveness and development of entrepreneurship within the Programme area, we need to take into consideration many other aspects. For example, regional competitiveness and business sphere development directly influenced by the implementation of infrastructural projects and large-scale projects. However, in our analysis we can use examples from other European-funded Programmes and projects within the same thematic category, and this will help us to see the synergy effect from the development of SMEs and improvement of regional competitiveness.

In general, our thematic category includes 13 cross-border cooperation projects. According to the Programme documents and grant contracts, the total amount which is allocated in this thematic category is EUR 8,237,792.96. In the territorial aspect, the Polish part of the Programme received EUR 4,627,872.91 (56.19% of the whole amount), Belarusian – EUR 422,743.13 (5.13%) and Ukrainian – EUR 3,187,176.92 (38.68%). According to a more detailed regional analysis, the situation with the allocation of funding is presented in Figure. All of these projects are connected with different aspects of the development of SMEs in the region and improving regional competitiveness.

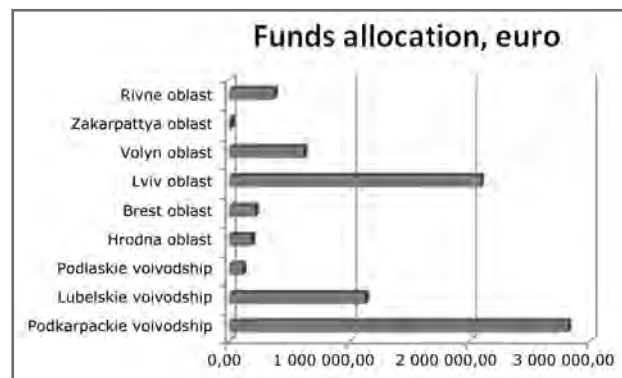


Fig.: Funds allocation - territorial aspect

Source: Authors' own calculation according to the project data

Taking into account the broad framework of the category, the authors have grouped all projects into 3 main groups, according to their general course: improving SMEs' conditions and cooperation within the cross-border region; cooperation between scientific centres and business organisations; development of modern information facilities for further economic development within the cross-border region.

5. Conclusions and recommendations⁵. After the detailed analysis of the regional socio-economic facilities, trends of development, cross-border cooperation, the following main priorities were formulated.

1. *Improving conditions for the development of SMEs. Creating supportive conditions for free competition and modernisation of the current regional economic structures.* It is necessary to provide opportunities for entrepreneurs to undertake activities aimed at making adjustments to the requirements of the EU market, by increasing access to information and consultancy, as well as possible sources for financing such activities. In accordance with the above, it is necessary to develop an advisory and information system for entrepreneurs, covering all areas related to enterprise management.

There is a number of institutions associating entrepreneurs and institutions providing information, advice, training and financing services to enterprises. However, their weak point is poor cooperation. This situation significantly limits possibilities for rapid development of the potential connected with providing entrepreneurs with a complex package of services; it hinders both efficient adaptation to changes in the external environment and the effective process of getting through to all entities potentially interested with their catalogue of services. Projects, which aim to enhance the position and function of the economic self-governing institutions of entrepreneurs as their representation and partner for other institutions (regional administration, financial institutions, etc.), must also be supported.

2. *Improving entrepreneurial and innovative attitudes in the region's population.* Entrepreneurship, as well as the formation and development of small and medium-sized enterprises, is an effective method of stimulating the economic and social growth of the region and relieving problems related to the labour market. Due to the fact that the SMEs sector plays a dominant role in the economy in the process of creating new jobs, it is necessary to create an adequate background and conditions for undertaking independent activities in this economic sector. This priority is related to creating socio-psychological conditions for changing the type of professional activity. *Main tasks to do:* development of entrepreneurship in the region through financial and training/advisory support related to launching and operating enterprises; financial, training and training

⁵ For this chapter adopted advice from the following types of documents were used as own recommendations: 1) the Strategy for Socio-Economic Development of Eastern Poland until 2020; 2) the Strategy for Socio-Economic Development of Lviv Region until 2016

ning/advisory support, especially provided for microenterprises; development of academic entrepreneurship, support for economic activity based on connections between universities and the industry (particularly spin-off and spin-out companies) and establishing entrepreneurship incubators; promotion of entrepreneurial attitudes by means of training/advisory support and the educational system; creation of pro-innovative and entrepreneurial attitudes among children and teenagers by education, training and training/advice systems; integration of science and research centres to increase the supply of innovations, which are in demand on the market; promotion of local demand for the products of regional enterprises by stimulating community campaigns aimed at raising consumers' awareness of their impact on regional development.

3. *Support for innovative businesses and stimulation of initiatives aimed at starting new innovative enterprises.* The Polish, Belarusian and Ukrainian economies are characterised by a relatively low level of innovativeness. There is a lack of mechanisms supporting innovation-related activities. The gap in the range of business activity resulting from the size of enterprises is very large in the region. *Main tasks to do:* increasing the ability of enterprises to create and absorb innovations within the regional innovation system, which is being established; development of the regional and local infrastructure supporting innovation, especially by forming and developing already existing: science and technology parks, industry parks, technology incubators, innovativeness centres, etc.; stimulation of and support for the development of innovative trade clusters and partnerships; development of expert advisory services related to the development of enterprises based on innovations (including those related to export and intra-community trade); elaboration of directions for the development of innovative clusters and partnerships.

4. *Enhancing cooperation between the academic sector and business entities.* The key factors crucial for the competitiveness of the regional economy are: high innovativeness of enterprises, as well as the efficient and effective use of knowledge and research by the industry sector. In the cross-border region within the Programme implementation, creation, diffusion and absorption of innovation are at a low level. *Main tasks to do:* enhancement of the research and teaching resources of higher education institutions and R&D institutions, particularly with regard to their facilities and buildings, as well as research equipment; establishing and developing the communication and cooperation network between economy, science and government; development of knowledge and research within the fields of science which are of strategic importance for the region; launching regional laboratory centres; developing a network of accredited laboratories; support for the integration of the structural potential of the laboratory facilities in the region and systematic development of their competences confirmed by accreditation certificates.

5. *Development of the region's business management personnel and improvement in the level of education, skills and competences.* «Soft» activities such as proper education of children and the youth within the school system, constant investments in human capital, workers and entrepreneurs, and also the belief that only creative, entrepreneurial, and innovative attitudes provide a chance for the development of people, enterprises and the regional economy, causes the conviction that only knowledge and innovations develop international competitiveness of the region

to shift to a higher level of quality of life for all inhabitants of the Programme territory. *Main tasks to do:* support for the education of children and teenagers aimed at creating pro-innovative attitudes; support for the integration of research communities and centres aimed at increasing the supply of innovations; training/advisory support (general and specialist) for managements and personnel of enterprises in the region; support for the development of centres which impact knowledge and skills, especially related to technology; training/advisory and financial support for university teachers and personnel of research entities, students, university graduates, doctoral students related to starting their business activity; support for the organisation of mass events promoting sciences.

6. *Promotion of the economic and investment potential of the region including potential high-growth sectors.* Undertakings aimed at improving competitiveness within investment attractiveness should be accompanied by coherent promotional activities, creating a positive economic image of the region. *Main tasks to do:* elaborating and updating the digital catalogue of investment options; intensification of promotional activities aimed at investors representing the high-growth sectors; systematic increase of accessibility to investment areas and also their adequate preparation, both in terms of the necessary infrastructure and defined preferences for investors.

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