



## PROCEEDINGS

### INTERNATIONAL CONFERENCE SMEs DEVELOPMENT AND INNOVATION: BUILDING COMPETITIVE FUTURE OF SOUTH-EASTERN EUROPE

An abstract graphic of a computer keyboard is shown from a low angle, with the keys appearing to recede into the distance. Several black arrows point upwards and to the right, overlaid on the keyboard. The overall color scheme is blue and grey.

Ohrid, 3-4 October, 2014  
Macedonia

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# **INTERNATIONAL CONFERENCE**

## **SMEs DEVELOPMENT AND INNOVATION: BUILDING COMPETITIVE FUTURE OF SOUTH-EASTERN EUROPE**

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**Ohrid, 3-4 October, 2014**

**Macedonia**



## **CONFERENCE TOPICS**

SMEs Internationalization and Innovation  
ICT impact on the competitiveness of SMEs  
Open innovation for SMEs growth  
Innovation policies in SEE  
Innovation Management in knowledge-based economy  
Challenges of the Social Innovation in SEE

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## **PREFACE**

Nowadays, the South-Eastern Europe (SEE) faces a challenge to increase the innovation capacity as a basic precondition for achieving sustainable growth and competitiveness on the global market. The new strategic direction of the SEE is based upon the ambitious goal to follow the leading world economies and to attain the EU membership. This implies the necessity for SEE countries to adjust towards the main EU developments. In this context, the new EU strategic framework underlines the role of SMEs as a driving force of the European economy. The knowledge intensity and innovation capability of SMEs are becoming the basic pillars for competitiveness and prosperity of the economies. These trends are actually the rationale and idea for organizing a conference that will be focused on further clarification of the role and importance of the innovative SMEs for improving the SEE economic performance.

The main goal of the Conference is to highlight many aspects of the contemporary changes in the SEE countries aimed at increasing innovation and achieving sustainable growth. More specifically, the conference will create a platform for presenting different academic and professional approaches (conceptual, empirical, multidisciplinary, case studies, etc.) and debates about the SMEs innovation developments in the SEE countries. The Conference will provide an opportunity for researchers, practitioners, PhD students and policy makers to give their contribution in considering the issues from theoretical and empirical point of view. In addition, it will offer the possibility to exchange the ideas, build partnerships, share knowledge and experience related to perspectives for improving the SMEs innovation capabilities and enriching the scientific achievements.

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## SME DEVELOPMENT AND FDI: OPPORTUNITY OR NECESSITY

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### Abstract

*SMEs play an important role in economic growth and development. In this way, globalization and trade liberalization have ushered in new opportunities as well as challenges for SMEs. Only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges. The majority of SMEs in developing and transition countries, has been less able or unable to exploit the benefits of globalization and, to add to the situation, are frequently under pressure on the local or domestic markets from cheaper imports and foreign competition.*

*Many transition and developing countries, in particular face a need to promote and strengthen the long term development of the SME sector, which requires access to market opportunities, as well as to new technology and management know-how, often in a situation of considerable resource scarcity.*

*This paper aims to focus on contribution for developing the strategies that could help to strengthen the SME sector. From one side it could be done through their promoting of integration into, and potential benefits from external markets. Implementation of the strategies should increase the attractiveness of the transition and developing countries for foreign investors which will improve the capacity of the SME sector. From the other side, the policies will strengthen the benefits from FDI to local economies through facilitation of SME trade and capacity building of local SMEs to use the opportunities from the external markets.*

**Key words:** SME, foreign investors, strategy, globalization, trade

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## **INTRODUCTION**

FDI has been seen to be the preserve of large firms, both in developed and developing countries. However, there is growing evidence of changes in patterns of foreign direct investment, involving a wider range of source and destination countries and the increasing involvement of SMEs as foreign investors. There is evidence that a growing number of medium sized firms, in particular, are internationalising their operations as a strategic response to increasing competitive pressure. In this context, internationalisation represents a means of reducing costs, as well as of opening up new market opportunities, thereby enabling them to combine greater flexibility with cost reduction (ACCA, 2012a).

This reflects the fact that globalisation is not exclusively a multinational or large firm issue, as a growing number of SMEs are looking to expand their markets internationally. In general, SME internationalisation is greater in smaller, open economies and less in larger economies. One of the best examples is Italy, where 70% of exports are contributed by SMEs (Meghana, Beck and Kunt, 2003). In addition, supply chains in sectors such as “high-tech” and component manufacturing are becoming increasingly global in character, contributing to the development of new business opportunities for SMEs as potential suppliers world-wide, and opportunities for local SMEs in developing countries as second or third tier suppliers to main contractors.

One reason why the growing involvement of SMEs in FDI is important is because there is evidence to suggest that FDI by SMEs has some distinctive characteristics in comparison with FDI by larger firms, with potential positive implications for destination economies. For example, a survey of SMEs involved in FDI showed that more than half of their investment involved some form of partnership between the investing company and a domestic SME (Dunning, 1992). This is because it can be attractive for a foreign investing SME to work with an existing firm, rather than starting from scratch with a greenfield investment, with positive implications for the local SME, in terms of spillover effects. There is also the phenomenon of medium sized companies from mature market economies following larger firms investing abroad, as suppliers.

Although the evidence base is limited, such trends offer potential opportunities, as well as threats, for local SMEs in transition and developing countries. Opportunities may exist for some local SMEs as suppliers to these inward investing medium sized companies, which for a few may represent a stepping stone into wider markets. By encouraging their existing suppliers to become global players, MNEs can help to raise the entry barriers for local SMEs, as potential suppliers, at least in the short term. There is evidence that when SMEs invest abroad independently, they tend to invest in geographically close regions. The reasons for this are limited information fields and greater resource constraints compared with larger firms.

## **THE EFFECTS AND GAINS OF FDI**

Foreign direct investment is an integral part of an open, international economic system and a major potential catalyst for development. The potential benefits of FDI for host economies include (Lall, 2001):

- increasing the supply of capital;
- technology and knowledge transfer;
- the generation of employment and human capital;
- the effect on enterprise development, through linkages and spillover effects.

An additional source of capital is clearly important in countries where financial constraints act as a major barrier to development. The extent to which potential positive externalities from FDI are achieved in practice is likely to be affected by a variety of factors at the macro- and micro- levels.

Human capital spillovers from FDI in developing countries appear to be mainly indirect, occurring more as a result of government policies seeking to attract FDI through enhanced human capital, than directly from MNEs themselves. However, human capital spillovers can occur where FDI involves the acquisition of a local firm by a foreign company. As capital investment often follows acquisition in such cases, in order to upgrade equipment and machinery, many employees are likely to require training. Moreover, indigenous managers are likely to enhance their knowledge through interaction with foreign managers, with some possibly benefiting from spending working periods abroad.

There are example where FDI has also made a significant contribution to the development of the “high tech” cluster, through linkages between technology partners (Khalid, 1995). In this case, the role of policy was to enhance the development of an initial clustering of research centres by contributing to the attraction of the city as a destination for inward investment. This was achieved through a combination of establishing a consistent policy framework, offering a degree of predictability for foreign investors and an active promotion programme to attract FDI (OECD, 2002).

In this context, it is already known that in Ireland, the Irish firms focused on international supply opportunities which coincided with the establishment of a new agency i.e. Enterprise Ireland (Nilgün, 2002). Enterprise Ireland works with indigenous industry to improve sales, export and profitability through a range of support programmes, with a worldwide network of offices providing a resource through which international supply opportunities can be identified. Alongside the changes in multinational investment, the indigenous Irish sector has matured considerably, with the emergence of some Irish MNEs, which has led to a new role for Enterprise Ireland, in terms of assisting these Irish MNEs to achieve their overseas objectives.

#### **HOW TO PROMOTE THE CONNECTION BETWEEN FDI AND SME**

In literature is known that for developing and transition economies, FDI represents a potential means of growing and diversifying the SME base and achieving greater integration within global networks. In this way, if we thinking how to promote the connection between FDI and SME, the answer is creating effective policies which are based on seeking large number of locations in the world with similar characteristics, which clearly affect the bargaining position of individual governments with potential investors and represent key factors that policy makers need to consider for attracting and exploit the potential benefits of FDI. In the absence of other locational advantages, competition between places typically focuses on offering lower costs.

Key policy issues are related with creating conditions to attract foreign investors together with policies to encourage and facilitate different forms of cooperation between inward investors and domestic SMEs. In this way, defining the role for policy to attract FDI includes (Nilgün, 2002):

- promotional activities;
- creating an appropriate and effective legal and regulatory framework;
- capacity building programmes for potential suppliers that include training and quality assurance;

- wider role of business support services and other intermediaries, which might include partner searching facilities.

### **POLICY IN DEVELOPED COUNTRIES**

In developed countries the main policy changes required to increase the economic development benefits of FDI need to be made in host countries. The extent of the market opportunities for SME exporters from transition and developing countries in their markets could be affected (Grilo and Thurik, 2008). Most governments in mature market economies have been involved in export promotion activity for some years, recognising the potential welfare gains for the economy as a whole of increasing foreign earnings.

In transition and developing countries the development of FDI-SME connection would be assisted if the provision of support for the internationalisation of domestic firms in developed countries included co-operation with business support agencies in transition and developing countries. This could help to facilitate partner searching and assisting firms to prepare to co-operate with local suppliers, including raising awareness and understanding of the local business culture; planning for co-operation; and training management and key staff.

Policy makers in developed countries also need to consider how overseas development aid might be better used to leverage FDI through, for example, technical assistance or infrastructure projects for local SMEs to develop supply linkages with inward investors. Another issue which policy makers in developed countries need to embrace is corporate social responsibility and its implications for supply chain management. This presents a global issue rather than confined to MNE activity in developing countries.

### **PROMOTION POLICY AND STRATEGY IN DEVELOPING AND TRANSITION ECONOMIES**

To make a strong connection between FDI and SME, policies for encouraging this relationship need to be multidimensional. That is the reason why policy makers in transition and developing countries pay attention to the broader business environment that affects both SME development and their ability to attract FDI. Also they pay attention on making SMEs more attractive as business partners for inward investing enterprises. Their third aim is creation a strategy for encouraging this type of co-operation. In this context, there is need to implement reforms for increasing macroeconomic stability, democracy and a commitment to economic reforms. Another important issue is the importance of high profile publicity efforts, aimed at informing potential investors of improvements in the business environment. The means is that potential investors need to have an up-to-date and accurate picture of the contemporary business environment.

Development of connection between FDI and SME also seek a creation of a business environment that is conducive both to attracting FDI and to facilitating domestic entrepreneurship and SME development (Morriset, 2000). This includes measures like improvements to the general macroeconomic and institutional framework, to increase institutional predictability; creation of a regulatory environment conducive to attracting FDI; upgrading infrastructure, technology and human capital to a level where the potential benefits of a foreign corporate presence for the domestic economy can be realised through positive spillover effects, ect.

Developing effective programmes, agencies and instruments to promote individual transition and developing countries to foreign investors is an important corollary to policies designed to improve the general business environment. Key priorities in this regard are firstly

measures specifically focused on improving the attractiveness of the economy to FDI, such as upgrading infrastructure; removing restrictions on capital flows, and removing any restrictions on imports; and secondly, the establishment of FDI promotion agencies. International good practice suggests these should be at arms-length from government and focused on attracting and facilitating inward investment. There is also a role for specific policies aimed at encouraging and facilitating co-operation between local SMEs and foreign investors by improving the flow of information about suppliers to potential purchasers and about supply opportunities to potential suppliers. The penetration and success of such initiatives is likely to be enhanced if they are introduced in co-operation with appropriate business support agencies and actively disseminated through various channels.

Improving the flow of information about supply opportunities in some way underlines the importance of existing and persuading FDI enterprises to develop transparent programmes which aim to build the capacity of local SMEs. This refers to the need of assisting local SMEs to upgrade in order to meet the demanding quality standards of MNEs, with respect to products and service delivery. Another incentive designed to encourage the development of spillover benefits could include fiscal incentives to encourage training to be provided by MNEs for local staff.

Growth oriented small firms represent a potentially rewarding target group for capacity building initiatives. Capacity building programmes should include supply chain and cluster initiatives, which recognise the potential for developing tiers of suppliers to maximise trickle down effects, including to microenterprises as lower tier suppliers. Policy makers should work with inward investing enterprises, donor organisations and other appropriate intermediaries to develop capacity building programmes for local potential SME suppliers, in order to facilitate the development of backward linkages and other positive spillover effects. Such programmes will need to pay attention to quality management, training and management development programmes. It is important to recognise that a number of governments have adopted special policies and programmes to promote buyer-supplier relationships between MNEs and domestic SMEs, not all of which have been successful (World Bank, 2000). The role of government, is also to facilitate the actions of other actors, namely FDI enterprises, local SMEs, business support intermediaries and the various providers of technology, education, training and financial services.

Continued attention to the development of an effective business support system is an important condition likely to influence the success of a capacity building strategy. It requires business support agencies, which are customer-oriented and which have a demonstrated capability of penetrating the SME sector. Most governments in mature market economies recognise that the international competitiveness of SMEs depends in part on an effective business support system (Kemal et al., 2002). The general case for state intervention is often based on deficiencies in the markets for information, advice, workforce and management training and finance, as far as small firms are concerned. In a transition and developing context, it is typically necessary for government to intervene in order to contribute to the development of high quality business services, although the nature of the intervention should help to build market capacity in the longer term and not crowd out private sector service providers. An example is the use of accredited private sector consultants to deliver business advice, rather than government advisers. Continued attention also needs to be paid to improving access to finance for SMEs to enable them to undertake any upgrading.

### **STRENGTHENING SME COMPETITIVENESS IN TRANSITION AND DEVELOPING ECONOMIES**

In the literature some authors argue that competitiveness is embodied in the characteristics of the firm like (IFAC, 2010):

- the current efficiency and effectiveness of the use of resources,
- the willingness and the ability to relate profitability to growth of capacity (i.e. the willingness to invest), and
- the ability to innovate to improve technology and organization and thus improve efficiency and effectiveness.

The authors state that competitive advantage, which must be measured in relation to rivals in markets, is determined by how efficient and effective the prevailing markets for products, labor and capital are. They further add that entrepreneurship; the introduction of new productive combinations, and innovation is the driving force that continually creates new competitive advantages and opportunities for profit and growth.

Each country will have its own challenges, opportunities and priorities for change when the question is development of SME strategies. Resources available for implementation will vary by country, so that results achieved will also be different. For example, in the 1980s and most of the 1990s, enterprise policy in European countries focused on employment creation, and initiatives supporting new business creation were prominent (White and Chacaltana, 2002). Then, emphasis changed to one of achieving international competitiveness and programs encouraging business growth, support for technology based businesses and creation of an enterprise culture within the society started to gain in importance.

Past and present experiences and practices of developed countries and scholarly assessments of results accomplished are of value and offer a menu of lessons and best practices for transition and developing countries. The responsibility rests with the transition and developing countries to make their choices based on sound assessments of their own context. OECD and other development partners can assist developing countries by building capacities in conducting such assessments, and when they make the choices, by providing capacity building assistance towards implementation (OECD, 2007).

### **COMPETITIVE SME BUSINESS PRACTICES AND STRATEGIES**

It is up to the SMEs to implement competitive business operating practices and business strategies. However, the options available to SMEs are also closely related to the quality of institutions, markets and organizations that constitute the business environment. It is the efficiency and effectiveness of institutions, markets and organizations that encourage or discourage SMEs to take their cues for learning new ways of doing business, compare their own competitive characteristics with those of their rivals, and make their decisions to invest, including the introduction of innovations into their business strategies. If the environment is weak, SMEs' ability to detect market signals that would enable them to invest and grow will also be weakened (OECD, 2000).

Presently, transition and developing countries seem to have a plethora of policies and strategies that relate to the private sector in one way or another: private sector development strategy, SME development strategy, trade and investment policies and strategies, export strategy, and so on. Yet, the responsibility for implementing these various national strategies and programmes are disbursed throughout the public sector institutions, where both capacities and authority to coordinate are weak. Furthermore, there is need to establish dialogue and partnerships between the government, SMEs, the civil society and the academia to

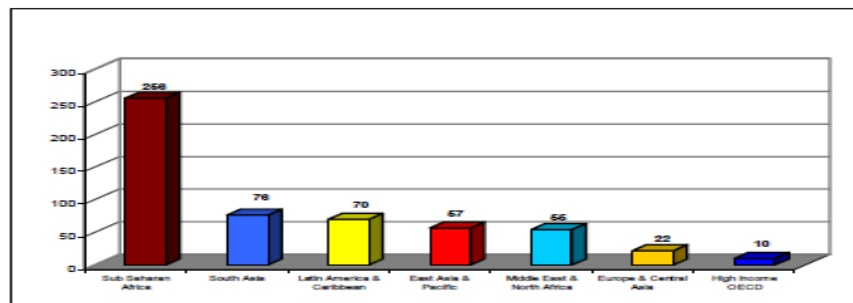
appropriately assess and prioritize SME challenges and to implement remedial actions. Governments usually consult with the private sector, though mostly with large and foreign investors, when setting policies since public-private dialogue enhances ease of implementation, political credibility and sustainability strategies. However, there are also capacity deficiencies that must be overcome on the side of SME membership organizations as discussants.

#### **ACCESS TO FINANCE**

SMEs identify financing, especially medium to long-term finance, as their topmost obstacle to growth and investment. These obstacles come at two levels. In least developed economies, and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment poses major obstacles to access of SMEs to financing. In some economies, capital may just not be available, property rights regimes may not allow ownership of land, markets for transfer of immovable assets may be very underdeveloped, credit and collateral legislation may not allow certain assets that SMEs commonly have access to, to be used as collateral (e.g. future acquired property), absence of registries for mortgages and pledges may increase risks to lenders, contract enforcement and asset liquidation may be hampered due to weaknesses in legislation and in the judiciary. The second level of obstacles may be due to organizational capacity weaknesses: For example, in least developed economies, business services markets in accounting, auditing, financial management and legal counsel may be so underdeveloped that SMEs may not be able to access or afford such services: essential services they would need when they approach banks and other types of lenders.

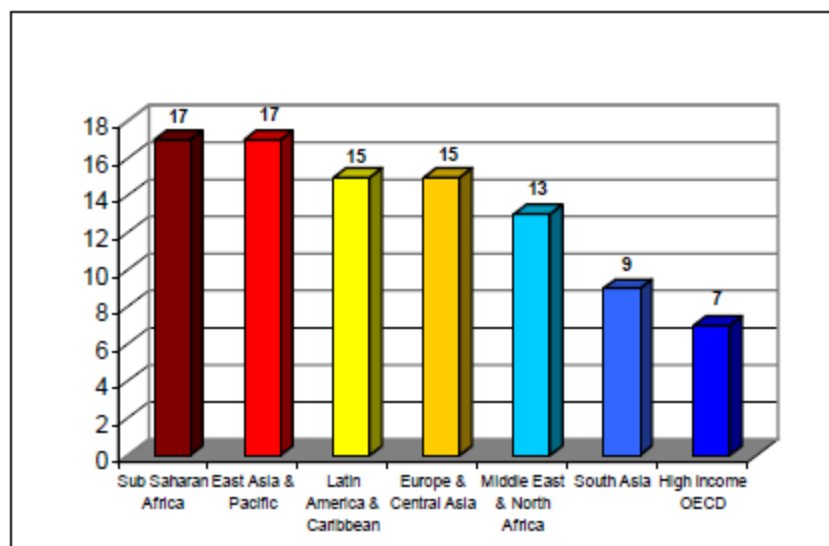
In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital, leasing and so on. For instance, although SMEs are by far the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also very limited. Finally, in many developing economies, banks prefer to lend to governments, which offer less risk and higher returns, crowding out most of the private sector from the financial system (World Bank, 2003).

The World Bank's Doing Business database provides indicators of the cost of doing business in 133 economies (CIDA, 2003): it identifies specific regulations that enhance or constrain investment, productivity, and growth. Indicators are built on studies of prevailing regulations and cost estimates collected in the field directly from firms (small, independent, limited liability firms employing 5-50 employees), and interviews with organizations charged with administering institutions. The database differs from existing reports on the effects of the business environment on firms, in that; previous studies tend to rely on business perceptions surveys and analyst assessments.



**Figure 1.** Cost of starting a domestic SME (% of GNI per capita)  
Source: <http://rru.worldbank.org/doingbusiness>

Figure 1 shows that an entrepreneur in a Sub-Saharan Africa economy incurs registration costs amounting to 2.5 times that of GNI per capita, in cash, while the same start up in a high income country would need to spend only 10% of GNI per capita. While the same costs vary from 22% to 76% in transition and developing countries in the other regions of the world, they are still prohibitively high and discourage firms from setting up and formalizing.



**Figure 2.** Cost of closing a domestic SME (% of estate)  
Source: <http://rru.worldbank.org/doingbusiness>

Figure 2 shows that entrepreneurs in East Asia and Pacific would forego 17% of their estate when exiting, while the same cost would be 7% in high-income countries. It is also interesting to note that there is not much of a difference among developing countries with respect to exit costs. Market exit costs also influence the to-be-entrepreneur's decisions of entry: the higher the cost of exiting, the more difficult will be the decision to invest.

Access to finance can be critical to business growth and success, particularly for start-up enterprises. It can increase the speed at which company grows, fund additional product development, or simply provide enough capital to run the business until the break-even point is reached. Some authors, who take in account this situation in Croatia, analyzed that small businesses are extremely important and certainly most dynamic segment of Croatian

economy (Kolakovic, 2010). Its share of the total number of companies in Croatia is 99.4% and they account for 64.8% of the total number of employed persons in Croatia. Small businesses are one of the most important impetuses of the overall economic development which stimulates private ownership and entrepreneurship, employment growth and significantly contributes to increase of production and exports.

In this context, Table 1 shows use of future additional finance/equity of Croatian SMEs. Almost 1/3 of the respondents plan to invest additional finance into technology and equipment, while every fifth enterprise plans to finance purchase of land and buildings, which is favorable usage of additional finance. Slightly less than 17 percent of respondents plan to use additional finance for overcoming their cash flow constraints and maintain working capital. Very common problem of Croatian SMEs is non-payment between enterprises within payment date, which can cause difficulties with cash flow and working capital. Therefore, banks offer quickly available straight short term credit lines (up to 1 year) in order for enterprises to overwhelm those difficulties and ensure continuous usual business operations. Only 14 percent of enterprise plan to hire new employees.

**Table 1.** Use of future additional finance/equity Croatian SMEs

<b>Consequences</b>	<b>No. of enterprises</b>	<b>%</b>
Finance R&D	20	8
Update technology/equipment	68	29
Finance purchase of land and buildings	45	19
Invest in marketing and advertising	16	7
Hire new employees	33	14
Working capital and cash flow constraints	39	17
Investing in shares	2	1
Other	12	5
Total number of enterprises	235	100

**Source:** Bureau of Statistics of the Republic of Croatia

Croatian Employment Service has introduced measures for co-financing the employment of persons up to 25 years old with no work experience, no matter of their educational level. These measures also cover unemployed persons that are in its evidence at least for 12 out of last 16 months, as well as unemployed woman above 45 and men above 50 years old, no matter of their previous work experience and educational level if they are at least 6 months in the Croatian's Employment Service evidence (Kolakovic, 2010). Special co-financing measures refer to disabled persons, single parents of under aged children as well as parents with 4 or more children. Only 8 percent of respondents plan to use additional finance for financing research and development, while 7 percent of the surveyed enterprises plan to invest in marketing and advertising. Despite recent popularity in Croatia, only 1 percent of enterprises plan to invest additional money in shares.

Financing of early SMEs development phase include seed and start-up financing. Characteristics of seed financing are the necessity for small amounts of money necessary for finalizing business plan, forming managerial team and early product development. Start-up financing is aimed to be the support for the development of SMEs organizational structure. This financing is aimed towards enterprises that are ready to start their business operations.

Financing of the start-up phase includes financial support of different funds and state grants in order to ensure full production and investments in different marketing activities.

### **THE ROLE OF ENTREPRENEURS**

Creation of effective policies to strengthen the connection between FDI and SME and implementation of reforms with aim to increase the attractiveness depends also from motivation, skills and expertise of the entrepreneurs. In developing and transition country this underlines the need to recognize the importance of inward investment that offer potential business opportunities. These opportunities should expire the suppliers in host country. Entrepreneurs should recognize the need and show willingness to upgrade their knowledge, skills, because if they want to success they must provide high quality product and service. These high quality products and services will bring the competitiveness and satisfy the need of multinational clients (Spanikova et al., 2012). The entrepreneurs also need to recognize any improvements they may be required to undertake as to invest the resources needed to achieve the required upgrading.

In the most of transition or emerging economies the collapse of the state owned enterprise sector and a lack of large privately owned enterprises results in fewer supply opportunities. In this context, inward investment should be seen as a source of potential market opportunities, which policy makers and other stakeholders in national and regional economic development should recognise.

An integrated economy development strategy should seek to increase the opportunities that come from the relation between FDI and SME, and use it in the best possible way to strengthen and diversifying the SMEs sector in the country.

### **CONCLUSION**

Donors (like OECD) have much to contribute in a way that they can help to expedite the learning processes involved by sharing good practices. Also, they can technically and financially assist transition and developing countries in overcoming barriers, most importantly, they can ensure that improved market access complements improved competitiveness of SMEs. Improving the investment climate for SMEs, and strengthening their capacities to respond to trade and investment opportunities, does strengthen the economic performance of SMEs and this in turn has a positive impact on growth and poverty reduction.

Another important strategy to promote and strengthen the connection between FDI and SME is facilitation availability and access to loan and equity finance, particularly medium to long-term opportunities to improve trade and investment capacity of SMEs. Access to finance for development purpose may be enhanced by ensuring that contracts are easily enforceable; issues of collateral and security are managed competitively; financial institutions are managed prudently and are trusted by depositors; legal frameworks enable a sufficient number and type of financial instruments to be used; financial institutions other than banks are functioning; SMEs are encouraged to keep good accounting records. Without access to medium and long-term finance within the economy, SMEs would not be able to make the necessary investments in innovations and technologies to improve their trade capacity and act as partners to foreign direct investors.

Creation of effective policies to strengthen the connection between FDI and SME and implementation of reforms with aim to increase the attractiveness depends also from

motivation, skills and expertise of the entrepreneurs. In developing and transition country this underlines the need to recognize the importance of inward investment that offer potential business opportunities. These opportunities should inspire the suppliers in host country. Entrepreneurs should recognize the need and show willingness to upgrade their knowledge, skills, because if they want to succeed they must provide high quality product and service. These high quality products and services will bring the competitiveness and satisfy the need of multinational clients. The entrepreneurs also need to recognize any improvements they may be required to undertake as to invest the resources needed to achieve the required upgrading.

Nevertheless, a substantial amount of work has been done to assess the roles that SMEs play in driving GDP growth and sustaining employment. The evidence suggests that SMEs are vitally important in both high-income and low-income economies, worldwide. SMEs were adversely affected by the global financial crisis of 2008. Some have continued to struggle, with revenues and employment levels remaining subdued in the following years. Others have recovered relatively fast, indicating the resilience of the SME sector. Many have suffered from reduced access to finance and increased costs of credit. Governments around the world have responded in a variety of ways. To assist SMEs in particular, policymakers' attention has focused on supporting working capital, easing access to finance, implementing a better regulation agenda, and encouraging SME investment in new technologies or markets.

Evidence also shows that when SMEs become internationalised, particularly when they start exporting to foreign markets, their contribution to their home economy increases. For this to happen, substantial barriers need to be overcome. SMEs can face difficulties in financing international activity, identifying opportunities and making appropriate contacts in their target markets.

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