

Project INTRA:

Joint State of Affairs Report

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INTRA PROJECT PARTNERS:

Lead Partner - Maribor Development Agency (MRA)



PP2 - Regional agency for entrepreneurship and innovations - Varna (RAPIV)



PP3 - Foundation FUNDECYT Scientific and Technological Park of Extremadura (FUNDECYT-PCTEX)



PP4 - University of Algarve



PP5 - Coventry University Enterprises Ltd



PP6 - CAPITANK – Chemical and Pharmaceutical Innovation– (Limited Liability Consortium)



INTRODUCTION

The **INTRA project** "Internationalisation of Regional SMEs" (PGI01464) is funded under the first call for proposals under INTERREG EUROPE 2014-2020 of the European Commission (EC) under Priority "Competitiveness of SMEs". The project focuses on the role of public authorities in creating services to promote internationalisation and to support the competitiveness of regional economies, thus contributing to the goals set out in the Europe 2020 strategy. The duration of the project is 5 years (from 01.04.2016 to 31.03.2021).

Partners of the INTRA project are from 6 EU Member States: Maribor Development Agency (Slovenia), Regional Entrepreneurship and Innovation Agency - Varna (Bulgaria), FUNDECYT - Estremadura Science and Technology Park (Spain), University of Algarve (Portugal), Coventry University (UK) and CAPITANK (Italy). All these organizations are supported by the bodies managing the European Regional Development Fund (ERDF) funds as well as by the active participants in the internationalisation process in their countries / regions.

The objectives of INTRA are to provide comprehensive mapping, evaluation and benchmarking of various internationalisation services available across the regions, highlight good practices/gaps that promote/impede on SMEs at various stages of the internationalisation process.

The **Joint State of Affairs Report** has the aim to show the level of internationalisation of SMEs in the project partners' regions.

The **first part contains the regional reports** of the project partners with estimation of main barriers and needs faced by the companies for international activity development, as well as the driving forces for internationalisation of SMEs. An assessment of the available policy instruments and measures supporting internationalisation of business has been made and recommendations for improvement of the international environment in the region are also given.

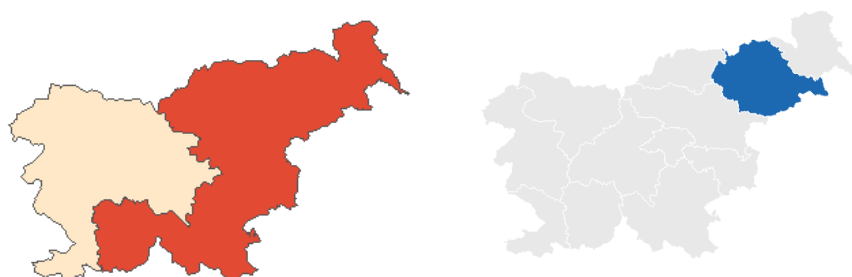
The **second part of this report contains interregional view** on the subject. Similarities as well as differences in findings are discussed in order to derive solutions that fit the diversities and support the development of the internationalisation – especially the common challenges. Moreover, the report has to outline some of the main areas where additional efforts can be made and specific initiatives can be organized fostering internationalisation on regional and national level.

A. REGIONAL REPORTS

I. VZHODNA SLOVENIJA REGION, SLOVENIA

1.1. Portrait of the Vzhodna Slovenija Region

Republic of Slovenia is divided into two NUTS 2 (East and West Slovenia/Vzhodna in Zahodna Slovenija) regions and 12 NUTS III regions and 212 municipalities (LAU 2), of which 11 are city municipalities. Maribor is the second largest city in Slovenia and the centre of Podravje region in East Slovenia.



Source: SURS, 2017

Fig. 1.1: Cohesion regions NUTS II (East and West Slovenia), NUTS III (12 regions, Podravje...)

16% of Slovenia's population lived in the Podravska statistical region in 2015. The region generated 13% of the national GDP, but GDP per capita was the fifth lowest in the country. The region had slightly less than 26,000 enterprises with an average 4.6 persons employed. There were 423 dwellings per 1,000 population. 7% of dwellings were completed after 2005 which means that the Podravska region had a relatively high share of new dwellings.

Research and development expenditure in the public sector decreased in 2016 in comparison to the 2010 and represented only 66.2% of European average. According to the European Innovation Scoreboard 2017 Slovenia is a **Strong Innovator**. Slovenia has an innovation-friendly environment (114.3% in comparison to the EU), although it exhibits negative change from 2010 to 2016 (-24%), e.g. increased broadband penetration to 177.8% and decrease of opportunity-driven entrepreneurship to 69.5% of the EU average (decrease of - 64.6% from 2010 to 2016; source: <http://ec.europa.eu/docsroom/documents/23941>)

13,48% of registered companies are located in Podravje region (as part of East Slovenia with 43,99% registered) contributing only 10.86% to the income. 95,26% of all SME are micro, 3.7% - small and 1,04% - medium sized SME.

Table 1.1. Slovenian enterprises, NUTS I, II (East) and NUTS III (Podravje), 2015

	No of companies	Income (1000 EUR)
SLOVENIJA	191863	95298760
Vzhodna Slovenija	84407	36078232
Podravska	25873	10345996

According to the activities, the highest share of enterprises are those engaged in **professional, scientific and technical activities**, followed by **wholesale and retail trade, repair of motor vehicles and motorcycles and other service activities**. In the fourth place are companies operating in **construction sector**, closely followed by **manufacturing** and **arts, entertainment and recreation**.

Table 1.2. Structure of SMEs, Slovenia, 2015 by size class

total SMEs	191537
Micro (0-9)	95,26%
Small (10-49)	3,7%
Medium (50-249)	1,04%

The export competitiveness of the Slovenian economy has improved considerably in the last few years and the export market share exceeds the pre-crisis levels on the key geographic markets. The greatest increases in market shares have been on the largest export markets (Germany, Italy, Austria and Croatia). In addition to the consolidation of position on traditional markets, the fast growth on less important export markets in the EU indicates the diversification of exports within the European Single Market. In terms of product composition, the market share of high-technology-intensive products has reached the pre-crisis level, and since 2012, when industrial production in the EU recovered, the shares of medium- and low-technology-intensive products, which are usually intermediate products in the global supply chains, have also been increasing.

In 2016 the most important Slovenian export markets were Germany, Italy, Austria, Croatia and France, to which the exports amounted to 12.727 million EUR. Most important Slovenian export markets are in the Europe and next to the European Union, with ties to former Yugoslavian market remaining strong. The most important third country markets are the Russian Federation and the USA.

1.2. Internationalisation environment

Based on the Promotion of Foreign Direct Investment and Internationalisation of Enterprises Act (Official Gazette of the RS no. 107/06 - UPB1, 11/11, 57/12 in 17/15) (further: ZSTNIIP), the Government adopted in May 2015 the Programme for internationalisation 2015 - 2020 and biannual Action plan (International challenges 2015-2016 and International challenges 2017-2018, further IC).

The Slovenian strategic objectives in the field of internationalisation are: increase exports by 5% annually, increase of GDP p.c. for 2-3% yearly, increase of export share in GDP on the yearly level as well as increase of export to the so called third markets for 5% on annual basis. Although the objectives are measurable the target was met neither in 2014 nor in 2015. Also by inward FDI the indicators did not meet the targeted value.

In the programme 2017 – 2018 on national level there are also the FDI measures: provision of information, programme for identification of foreign investors, training of the promoters, providing “on-line” investment opportunities, promotion of Slovenia, regions and industries,

further growth and development of companies with foreign or mixed ownership; preparation of analytical tools and studies as well as financial instruments.

The Ministry of Economic Development and Technology (MGRT) plans the activities for improvements of business and support environment, notably the action plan for the removal of barriers for investors. The new act on FDI does not discriminate between the foreign and domestic investors. In 2017 the entry point for internationalisation and foreign investors, so called One-stop-shop should be operative. In 2018 the revision of the Programme for internationalisation 2015 – 2020 should be prepared, taking into account the actualization of the measures, indicators as well as targets.

MGRT has national as well as EU funds for internationalisation. In 2017 there were 15.350 million EUR (for the internationalisation 8.946 million EUR), of which for new measures (EU funds) 4.996 million EUR and for the FDI 6,404 million EUR, of which for the direct financial incentives 5,828 million EUR.

In 2018 there will be 15,564 million EUR (for the internationalisation 9.011 million EUR, of which for new measures (EU funds) 4,996 million EUR and for the attraction of FDI 6,553 million EUR, of which for the direct financial incentives 5,818 million EUR. MGRT will finance the activities of implementing agency SPIRIT Slovenia, inward and outward business delegations as well as preparation of meetings for companies in cooperation with other stakeholders.

Table 1.3: Internationalisation measures

No	Measure	Description
1	Online info	Info on markets, business opportunities, industries
2	Advertising and promotional materials	Promo materials about activities and services, Slovenian business environment, cooperation with different media houses and presentation at different business events Organisation of promotional events in support to internationalisation
3	Counselling	Assistance or advance to the exporters, test the exporting readiness, preparation of export plans for the effective entrance to the foreign markets (co-financing of ITM vocational training), training of the companies for internationalisation
4	Market research	Co-financing of market research on foreign markets for exporting companies that enter new markets or enlarge or diversify their business activities on foreign markets
5	Participation at fairs	Co-financing of joint or individual participation of Slovenian companies at international fairs abroad
6	Delegations, B2B, days of suppliers	Organisation of business delegations (delegations where the support of government is required; targeted industrial or semi-industrial oriented delegation to enter supply chains), co-financing of the participation at B2B or other specialised events abroad (support to the companies by search of business partners via B2B platforms, where the companies can find the

		corresponding partners in advance), support to networking
7	<i>Business clubs</i>	Co-financing of Slovenian business clubs abroad, linked to the promotion of Slovenian economy and assistance to the Slovenian companies by entering the markets abroad
8	<i>Business quality</i>	<i>Enhancement of business quality</i> – co-financing of companies' costs by acquiring international certificates or other certificates that demonstrate the ability of business quality or products as well as the protection of intellectual property
9	<i>Set up of e-business</i>	Co-financing of e-business processes to ease the foreign market entry (development, preparation and launch of online business, translation into foreign languages)
10	<i>Development of business models</i>	Co-financing of development of use of new business models (development, adaptation, introduction into the business systems/processes etc.)
11	<i>Set-up of partnerships</i>	Co-financing of partnerships activities/business networks/clusters/consortiums etc. With the aim to lower the costs and business risks at foreign markets or empowerment for participation in global value chains.

The Operational Programme for implementation of the EU Cohesion Policy in the period 2014-2020 plays a decisive role in encouraging economic development and ensuring prosperity for all citizens in Slovenia while taking into account the specific characteristics of the two NUTS II regions - Western Slovenia and Eastern Slovenia. It significantly contributes to the achievement of the national and Europe 2020 targets for smart, sustainable and inclusive growth. It aims to strengthen efforts particularly in the area of research and development, boost the innovation potentials of small and medium sized enterprises (SMEs), promote resource efficiency and reduce environmental pressures, further develop the transport sector, boost the growth of employment rates and reduce the number of people at risk of poverty and social exclusion. The EU funding of EUR 3.011 billion from the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF) and the specific allocation for the Youth Employment Initiative (YEI) is targeted according to development needs, existing disparities and growth potential of Slovenia. The Programme encompasses all 11 thematic objectives and corresponding investment priorities, as some of them are:

- Increasing the international competitiveness of enterprises, particularly of SME, to accelerate economic development and the creation of jobs.
- Improving the infrastructure for research and innovation while strengthening its links with enterprises and the higher education sector.
- Improving the responsiveness of the education and training systems to the needs of the labour market and ensuring equal access to education, trainings and lifelong learning for all groups.
- Increasing the institutional capacities and the efficiency of the public administration and public services.
- Enhancing competitiveness of the economy for green growth and creation of jobs and improving the business environment.

If Slovenia wishes to boost economic competitiveness it should make efforts to step up the productivity and competitiveness of existing enterprises and to encourage the creation of

new innovative enterprises with an emphasis on high-tech enterprises active in the areas defined in the Smart Specialization Strategy. Innovative and emerging enterprises conceal enormous untapped potential. Also enterprises should be provided with support in all stages of their lifecycle through a combination of various forms of incentives.

Selected investment priority:

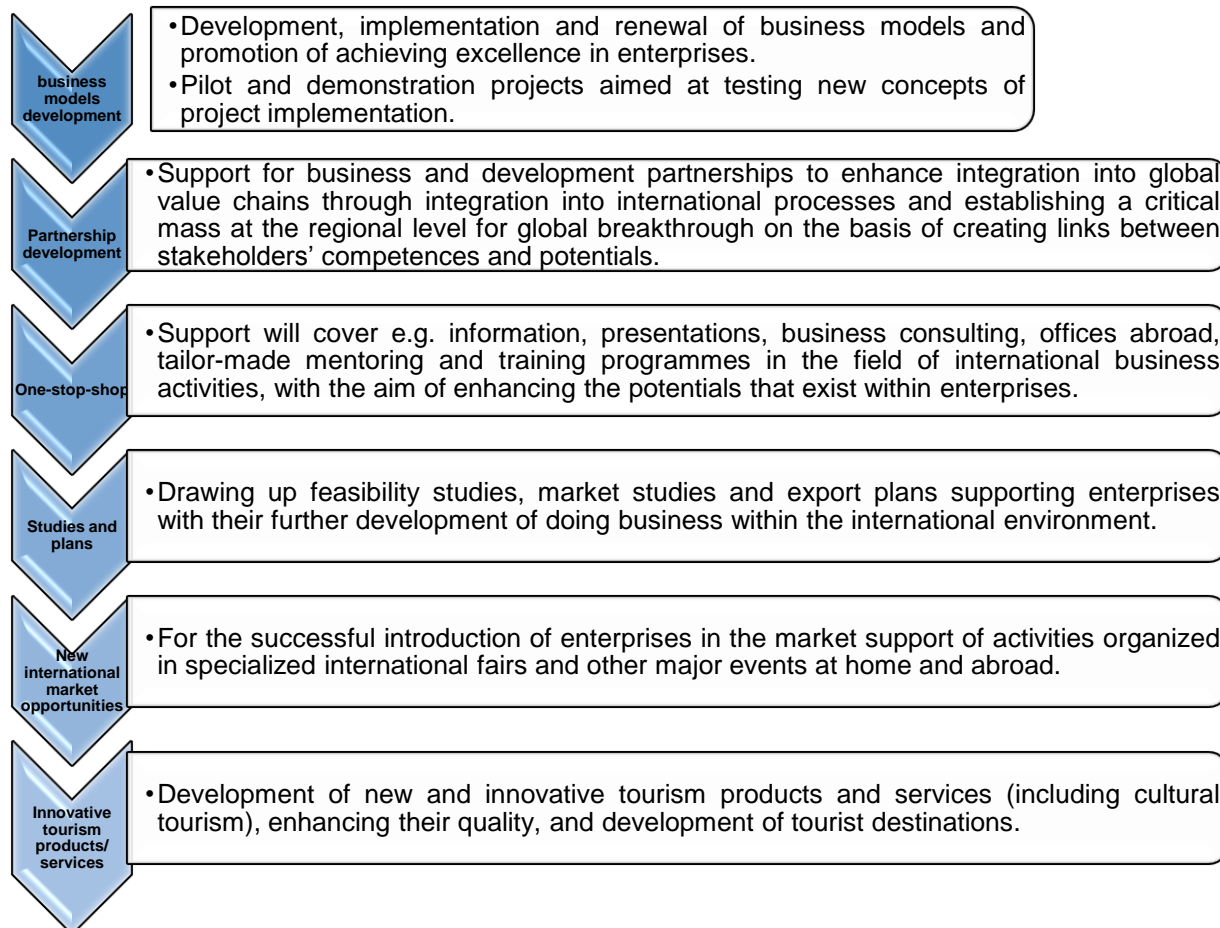
Developing and implementing new business models for SME, in particular with regard to internationalisation

Justification of the selection:

• *In Slovenia, the majority of revenue in foreign markets is generated by large enterprises, while SME, which account for more than 90% of Slovenian enterprises, lack adequate competences and resources to be able to enter global markets and successfully compete therein or to integrate into global value chains. Roll-out of advanced business models and establishment of development partnerships will help enhance their position in the global market.*

• *Exports are largely limited to EU markets and experienced a severe decline during the crisis. Hence, SME should be encouraged to engage in international activities in part through the acquisition of new knowledge, advanced documents, business cooperation and through the search for new business partners that will further strengthen the competitiveness of Slovenian SME.*

Actions to be supported under the investment priority:



1.3. Main national regional stakeholders

The main stakeholders in enhancing internationalisation activities as defined in the Programme for internationalisation¹ 2015 – 2020 are:

- Ministry responsible for economy (2017: MGRT)
- Agency responsible for enhancement of internationalisation and FDI (2017: SPIRIT Slovenia).

Among the key stakeholders are:

- Chambers – Chamber of Commerce and Industry Slovenia, Chamber of Craft and Small Business of Slovenia and other chambers - domestic as well as foreign;
- SID Bank with the most important role in financial engineering;
- Regional associations or agencies as well as local partners.

¹http://www.mgrt.gov.si/fileadmin/mgrt.gov.si/pageuploads/SEKTOR_ZA_INTERNACIONALIZACIJO/ANG/Program_INTER_2015-2020_koncna_EN-_FINAL.pdf

International Challenges are Implementation Plan of the Programme. It is agreed on biannual basis. In International challenges for 2015-2016 the important stakeholders are also: Ministry of Foreign Affairs, Cabinet of the Premier Minister, Cabinet of the President of the Republic Slovenia, the Cabinet of the President of the Parliament, Cabinet of the President of the National Council of the RS as well as other ministries, chambers, associations, regional institutions etc.

In the INTRA project the following stakeholders are mentioned:

a) National level:

- MGRT (Ministry, responsible for internationalisation, preparation of strategic documents);
- SPIRIT Slovenia (Implementing Agency for internationalisation);
- SID Bank (Slovenian Export and Development Bank);
- STO (Slovenian Tourist Organisation);
- SPS (Slovenian Enterprise Fund);
- RRA giz (Association of regional agencies in Slovenia).

b) Regional level:

- Regional Council;
- Regional Development Council;
- CCI Štajerska;
- Chamber of Craft and Business Maribor;
- University Maribor, Faculty for Economics and Business (EPF);
- University Maribor, TehnoCenter;
- University Business Incubator, Tovarna podjetmov;
- Štajerski tehnološki park (regional business incubator);
- Municipality of Maribor.

c) EU level:

- Slovenian members of the Committee of the Region;
- Slovenian members of the European Parliament.

1.4. Barriers and drivers to SMEs internationalisation

In order to determine what kind of SME support (activities, tools and programmes) is available, which are the main barriers faced by SME and the difficulties that the stakeholders are facing by providing internationalisation services to the SME and to identify how the ESIF could be used for supporting internationalisation, interviews were conducted with some stakeholders and survey was conducted in 263 SMEs, 65 of which completed it.

The largest share of respondents was micro-enterprises (70%), followed by small (22%) and medium-sized companies (8%). According to the economic sector - the largest shares are companies from food/beverage industry (20%), ICT/software (11%), engineering/construction/ steel (11%), consultancy (9%) and energy (8%).

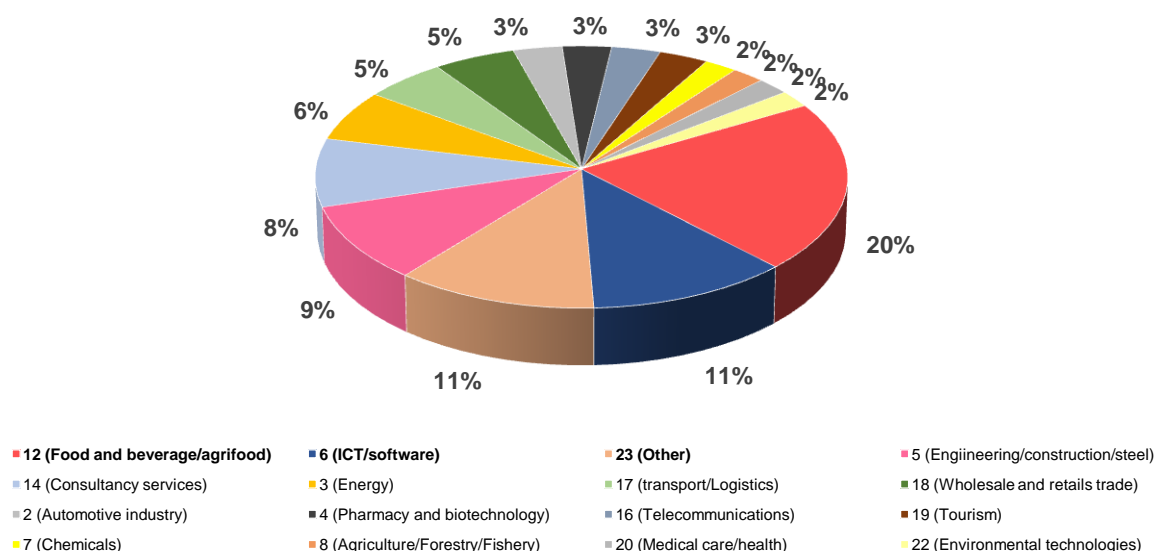


Fig. 1.4.1. Economic sector distribution of surveyed SMEs (Vzhodna Slovenija, SL)

Slovenian SME see their competitive advantage in high quality of products/services as well as high qualification of the personnel both of which contribute to the R&TD activities. In line with the competitive advantage they focus their development on quality of products and services, improving working conditions and employing new staff as well as the optimizing the total and production expenses. The R&D (technology readiness) is not relevant only for 17% of the micro companies.

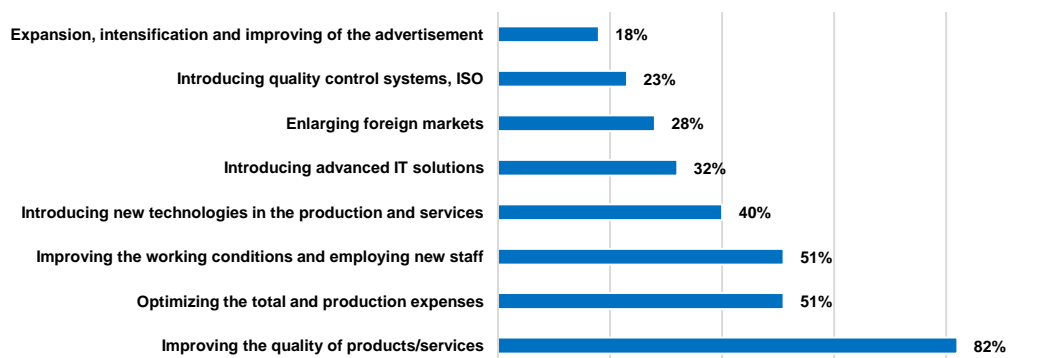


Fig. 1.4.2 Factors, influencing competitiveness of SMEs (Vzhodna Slovenija, SL)

Cohesion and national funds (both in equal share of 57%) were used by SME in the support of their internationalization endeavors. The absence of funds on regional level as well as scarce funds on municipal level does influence the SME participation on those. Preferably they use grants (49%) and loans (47%).

57% of SME do have a strategy for internationalization/export plan. The main reason to go international is to reach new fast-growing markets (55%) as well as to expand competitiveness by accessing new technologies and know how (51%). Least important is the

legal/fiscal environment of the targeted market (9%). 32% are in an early phase of internationalization, 30% are expanding, 28% are exploring and 9% are in mature phase.

73% of SMEs do think that the management and personnel qualifications are adequate to develop internationalization activities.

The main activities on international markets remain exporting (68%) as well as importing (40%).

SMEs received their support from Chamber of Commerce (29%), financial institutions (public plus commercial banks and funds; 24%), EU initiatives (20%) and investment and trade agency (14%). The local and regional entrepreneurship supporting organisations as well as knowledge providers are not focused on SME internationalization, which is reflected in less support obtained by the SME.

For their first internationalisation activities the most crucial was the support for partner(s) in foreign country (80%), web-sites accustomed to foreign customers (67%), scouting for funding opportunities (66%), joint communication and promotion services (65%), distribution channels search (64%) as well as organization of networking and B2B activities in the foreign country (54%) representation and virtual office services (53%), much less important were innovation services (intellectual property, R&D collaboration) and scouting for international joint events.

Internal barrier of SME that is hard or very hard to overcome (Σ 53%) is shortage of working capital to finance export, which is hardest to deal with among micro enterprises but irrelevant for the medium sized enterprises. For 26 out of 48 respondents the lack of managerial time to deal with internationalization is an internal barrier that hinders their internationalization activities. The SME are coping also with the shortage of human resources for export activities, highly challenging for micro companies. For 28% of respondents the qualified and trained personnel for internationalization does represent internal barrier that is hard or even very hard to overcome. Adequate production capacities do not represent the internal barrier that is hard to deal with (except for the 3 micro SME)



Fig. 1.4.3. Internal barriers for internationalisation for SMEs (Vzhodna Slovenija, SL)

Among the **external barriers** the ability to overcome strong local competitors is most challenging (61% of respondents do see it as hard or even very hard to overcome), followed

by ensuring investments for internationalization (55%), obtaining reliable foreign representation (50%), finding strategic information to locate/analyse markets (49%) and ability to contact potential overseas customers (46%). For 63% of the respondents the collaboration with the supporting bodies does not represent an external barrier that would be hard to overcome (for 13% is even irrelevant). However, the 42% of respondents rated the obtaining of home government support as hard or even very hard, 41% as easy and not so hard and for 17% it is irrelevant. Excessive transportation costs do represent the external barrier that is hard or even very hard to be dealt with for 44% and is irrelevant for 17% of respondents. Relations with local suppliers is challenging for 43% and IPR protection for 41% of respondents.

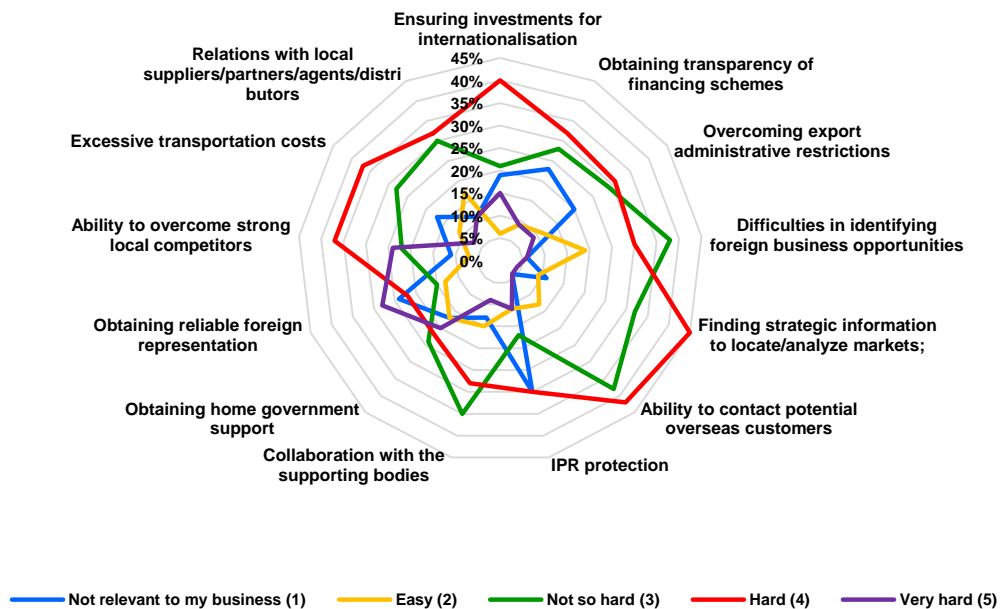


Fig. 1.4.4 External barriers for internationalisation for SMEs (Vzhodna Slovenija, SL)

The most **used financial tool** for internationalisation were grants to support any stage of the internationalisation activity (61%), grants for recruitment of advisors, researchers, accountants (52%) and funding to attend international trade events and exhibitions (46%). Tax incentives (41%), financing short-term exports (35%), insurance solutions and risk management (20%) and loans (20%), pre- and post-shipment financing (15%), credit guarantee scheme (15%) were used less. 13% of SME did not use any of the financial instruments for their internationalisation activities.

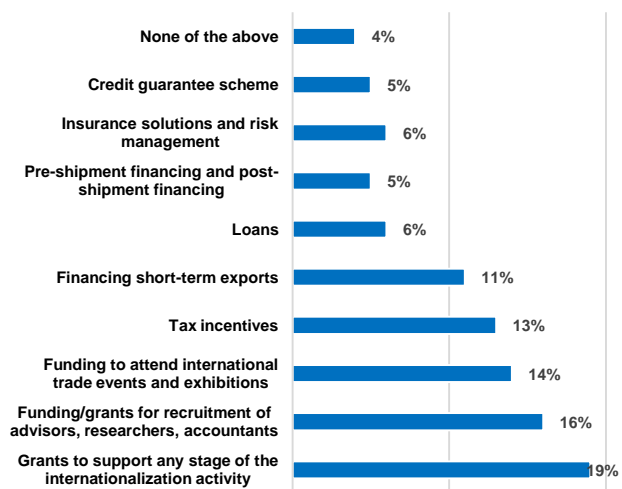


Fig. 1.4.5. Financial tools used (Vzhodna Slovenija, SL)

Consultancy support (61%), **market research support** (57%) and **export/internationalisation observatory facilities** (41%) are the most appropriate for SME and/or useful internationalisation support infrastructure and services. Only 9% - 13% of SME consider the business parks, incubators, science parks as useful in their internationalisation endeavors as mostly they do not target internationalisation activities as isolated ones but as horizontal activities among R&D&T activities.

46% of SME did not use any of the information provisions offered in supportive environment. 26% used info regarding the administrative rules and regulations and 22% analysis reports on foreign market and additional 15% partner search services. Trade missions, business forums and other promo events as well export promo activities including marketing were used by 13% of SME. 7% used market intelligence services and 4% one-stop customer service.

35% of SME did not participate in any public programmes co-funded by the ESIF, 27% in programmes for improving regional and local environment for SME, 22% in HR investment programmes (ESF), 16% in programmes for entrepreneurship development, innovations, competitiveness of SME, 8% in programmes for encouraging entrepreneurial spirit, 8% used support for the creation of new products and services and 5% participated in programmes for interregional and transregional collaboration. None of them participated in programs for development and application of new business models for SME or in capacity programmes.

Above 50% of SMEs are not aware of or have basic info or even if well informed have no participation in EU instruments supporting the internationalisation. Erasmus for young entrepreneurs (11%) and Horizon 2020 Programme (9%) are two instruments with the highest involvement of SME in their constant use.

However, the participants rated the EU structural funds, national public funds with average of 3 (on the scale 1 to 5), regional public funds with 2.8 and local public funds with 2.9. Their suggestions for improving the work of the public funds provided were short: lean administration, transparency and higher info flow.

1.5. Measured offered for SMEs internationalisation support

Stakeholders, participating in the interviews represent governmental, regional and local administration, university, chambers, business support organisation, investment and trade agency, internationalisation agent (SME) and Slovenian Tourism Board. According to the Slovenian internationalisation policy not all listed stakeholders match, mostly due to the national character of the policy and absence of specific measures for the NUTS II or even NUTS III level.

69% of regional as well as national service providers for internationalisation provide training and educational activities and 63% of them are focused on SME internationalisation. 80% of them support with their services exporting, 53% FDI and 40% importing, technological partnership, setting up subcontractors.

Among the financial support services for internationalisation, the grants for recruitment of advisors, researchers, accountants as well as funding to attend international trade events

and exhibitions; represent 44% and are prevailing. 33% are providing grants for any stage of internationalisation activities, 22% provide pre-shipment financing and post-shipment financing, loans and credit guarantee scheme, 11% are financing short-term exports, insurance solutions, and risk management.

Market research support (93%) and consultancy support (86%) are prevailing among the non-financial services offered. 29% of stakeholders do provide export/internationalisation observatory facilities and 21% services for start-ups as well as IPR support.

Among the services for developing human resources and managerial capacity the training on internationalisation and new market entry strategy is provided by 73% of stakeholders and export forums by 64%. Export coaching course, export academies are provided by 45% of them, training on smart mobility market trends and opportunities and country-focused training are provided by 36%, language and cultural training by 18% and international technology transfer by 9%.

77% of stakeholders are providing export promotional activities/marketing and 69% information about administrative rules and regulations, trade missions, business forums and other promo events. 62% are providing partner search services, 54% market intelligence services and 46% regularly update analysis reports on foreign markets and 23% one-stop customer services. Only one stakeholder is providing trade centre's abroad. According to the stakeholders the mostly used services by SME are within financial ones (pre-shipment and post-shipment financing; financing short-term exports and loans), within SME support infrastructure, and

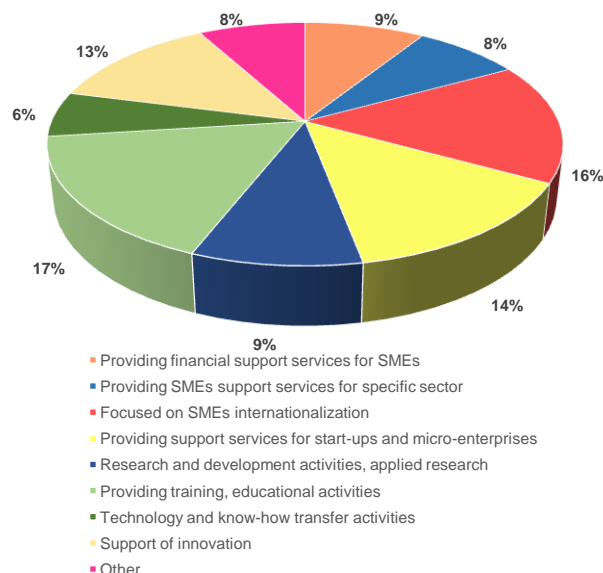


Fig. 1.5.1. Types of services provided (Vzhodna Slovenija, SL)

non-financial services (consultancy support, market research support and start-ups services), services for developing human resources/managerial capacity (export forums, training on internationalisation and new market entry strategy and country focused training and export academies) and under the information provision services (export promotional activities/marketing; trade missions, business forums and info about administrative rules and regulations).

Over 50% of stakeholders see the networking and intensive collaboration with national and foreign providers of internationalisation services, high quality of internationalisation support services offered to SME as well as minimal time of providing services as the main advantages of their institutions in providing support services for SME's internationalisation. ¾ of the stakeholders organise events (conferences, seminars, workshops) and 69% visit them on the spot. In order to be efficient, they closely collaborate with private consultants (63%) as

well as regularly update internet portal (56%). They are less active in publication and dissemination of info as well as in advertising.

Most of the stakeholders claim that they do not have the capacity to cover a large range of services and that they do not have the capacity to deal with big number of SME although their services are not too complicated nor do they have qualified experts/consultants. They do estimate that the SMEs are interested in collaboration. To be more effective the stakeholders suggested introduction of integrated services in support of internationalisation by the one-stop-shop approach as well as better collaboration between institutions, better on-line distribution of information for international joint events and funding opportunities as well as individual approach to each company.

According to the stakeholders the SME gained new experience and as a result started internationalisation activity (88%). They also realised contacts with foreign partners (81%) and received actual economic and foreign market information as well as improved the competences about administrative rules and regulations (63%).

Table 1.5.1. Internationalization support services provided by organizations considered to be the most used ones by the SMEs /arranged by the level of using of the services/

1 st	Financial support services for internationalization	Pre-shipment financing and post-shipment financing
		Financing short-term exports
		Loans
2 nd	SME support infrastructure and other non-financial services	Consultancy support
		Market research support
		Services tailored for start-ups, incubating services
3 rd	Services for developing human resources/managerial capacity	Export forums
		Training on internationalization and new market entry strategy
		Country focused training and Export academies
4 th	Information provision services	Export promotional activities/marketing
		Trade missions, business forums and other promotional events
		Information about administrative rules and regulations

According to the participants in the interview, the public support helped SME in their internationalisation in terms of time, variety of activities as well as gaining additional insights into the markets. However, only 6% of them rated that without public support the SME would not be able to go international. From public funds, the most important ones are EU cohesion funds as well as national funds, whereas the regional and local funds represent a much lesser role in internationalisation of SME.

Stakeholders suggested the improvement of collaboration between SME and SME support service providers for internationalisation in summary: cooperation between different stakeholders should be enhanced to prepare the whole range of services (known as one-stop-shop) that would cover all phases of internationalisation of SME. Instead of just info provision, the services in support of SME should be included in one-stop-shop.

1.6. Identified gaps between policy instruments and SMEs needs

Although the local and regional level is focused on the cross-border cooperation (not only due to the businesses performed by SMEs but also due to the brain drain, challenges of daily migrations and taxation policy) the services beyond the internal market of the EU are not provided. As already noted in other studies, the regional and local players are focused on start-ups as well as on FDI.

Recommendations for stakeholders

1. National stakeholder group for internationalisation should be set-up and meet regularly to monitor and steer the implementation of the public funds for internationalisation;
2. The national agency for internationalisation should have its offices abroad, especially in priority markets (outside EU);
3. The policy instruments should be elaborated according to the markets (internal EU market and beyond the EU);
4. The internationalisation measures should be aligned to the needs of SME and shall stimulate those sectors that have the growth potential (prioritisation of only one sector, namely wood, is according to the main exporting sectors not enough);
5. The internationalisation measures should differentiate beneficiaries according to their internationalisation maturity (and different needs);
6. Financial institutions should be clearly involved in all steps of internationalisation policy (design, implementation, evaluation);
7. The public calls should be aligned to the strategy as well as Action plans for internationalisation; the links should be revealed in the call itself;
8. The implementation of the Act on balanced regional development, especially in setting up the Regional stakeholder group for internationalisation should be respected (also beyond the INTRA project);
9. The national as well as regional stakeholders should be profiled according to the services provided (there should be clear avoidance of duplication of services);

Recommendations for measures to overcome internal barriers

10. Shortage of working capital to finance export: Providing more companies with access to working capital through schemes of the SID Bank and Slovene Enterprise Fund (SEF). Companies still suffer from the credit crunch as particularly small businesses and certain groups of companies have very limited access to quick financing of ongoing operations. Strengthening microloans would enable access to sources of financing working capital. For the internationalisation a special pot should be set up.
11. Lack of managerial time to deal with internationalisation and shortage of HR for export activities: A special measure should be put in place to enable SME to acquire/employ staff for internationalisation/export activities (co-financing of the working place). Other regions such as Extremadura have more than 20 years of experience in implementation of such measures.

Recommendations for measure to overcome external barriers

12. Ability to overcome strong local competitors: call for competition research; strategy for improvement; alignment of the processes/production/management.

13. Obtaining reliable foreign representation: the network of business representations (at least in targeted new markets) should be set up by SPIRIT and financed by the government;
14. Finding strategic information to locate/analyse markets: the one-stop-shop should cover the lack of strategic information and information concerning specific markets as well as the products/goods & services;
15. Ability to contact overseas customers: training (communication, negotiation) shall be conducted for specific markets, including webinars, on-line assistance, etc.;
16. IPR Protection: targeted call (e.g. justification to be closely linked with the requirements of the market);
17. Transportation costs: call for design, packaging, co-financing of transportation costs.

Recommendations for first internationalisation activities

18. Foreign representation: availability of the services provided by the Ministry of Foreign Affairs should be promoted; in addition, the business support in foreign countries should be provided by SPIRIT offices;
19. Web-sites accustomed to foreign customers: call for e-marketing abroad;
20. Scouting for funding opportunities: one-stop-shop should provide all relevant info, where, by whom, under which conditions, etc.;
21. Joint communication and promotion services: call for cooperation between micro/small companies in going abroad;
22. Distribution channels: list of distributors should be available by the one-stop-shop;
23. Organisation of networking and B2B activities in foreign country: ongoing call, giving the priority to micro and small companies that were not subsidized before.

1.7. SWOT analysis

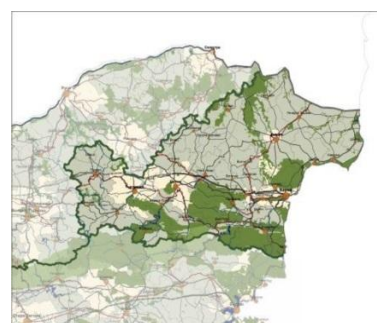
STRENGTHS	WEAKNESS
<p>1) National level</p> <ul style="list-style-type: none"> - Council for internationalisation set up. - Contacts between national institutions established. 	<p>1) National level:</p> <ul style="list-style-type: none"> - The roles and responsibilities are defined only for the ministry and national agency for internationalisation (SPIRIT). - The budget planning (national), yearly contracts between the ministry and SPIRIT (impacts the implementation). - Cooperation modus between different institutions is not in place (the Council for internationalisation met only once since the establishment 2 years ago). - Cooperation platform (inter alia one-stop-shop) is missing.

<p>2) Regional Level:</p> <ul style="list-style-type: none"> - Act on regional development foresees the internationalisation as one of the core priorities on regional level. - Regional stakeholders do cooperate. 	<p>2) Regional Level:</p> <ul style="list-style-type: none"> - The Act on regional development is not systematically implemented, the Regional Development Council has no major role in strategy setting/facilitating the communication between the institutions, involved in internationalisation. - Cooperation between regional stakeholders is linked solely to the projects/programmes aimed at internationalisation.
OPPORTUNITIES	THREATS
<p>1) National level</p> <ul style="list-style-type: none"> - Set-up of one-stop-shop for internationalisation, serving as communication platform between the stakeholders and foremost as services for the SMEs in all phases of their internationalisation with the detailed implementation programme that will enable monitoring of the performed activities/obtained results. - Specialisation of institutions (division of roles and services provided to SME). - Allocation of resources for regional presence of national institutions. <p>2) Regional Level:</p> <ul style="list-style-type: none"> - Inclusion into one-stop-shop. - Set-up of regional strategic board for internationalisation (agreed programme). 	<p>1) National level:</p> <ul style="list-style-type: none"> - Outsourcing of the internationalisation to the third parties (foreseen in one-stop-shop project of the ministry) will need agreement of all governmental parts involved in the internationalisation, including the agency, other ministries with branch offices abroad. <p>2) Regional level:</p> <ul style="list-style-type: none"> - Due to the lack of sources the model should be lean.

II. NORTH-EAST REGION, BULGARIA

2.1. Portrait of the North-East Region

The North-East Region (NUTS II) is divided according to the Regional Development Act and in accordance with the requirements of the common classification of the territorial units for statistical purposes applied in the European Union for the purposes of planning, programming, management, resource provision, monitoring and evaluation of regional development. The area is not an administrative-territorial unit. Its territorial coverage includes 4 districts and 35 municipalities.



The North-East Region (NER) occupies 14,487 km² or 13.05% of the country's territory. It covers the northern part of the Bulgarian Black Sea Coast, part of the Eastern part of Stara Planina, part of Ludogorie and Dobrudja. The broad outpouring of Danube and Black Sea is of strategic importance for the country and the development of the region. Its natural and climate conditions are extremely favorable to the development of agriculture. NER is the country's richest in arable land with high natural fertility, which is the basis for the development of intensive agriculture.

Till 12.04.2017, the number of the **population** in the region is 941 860 d. - 13.2% of the total population of the country. The average population density in NER is 66.1 people per km² and is slightly higher than the average for the country (65.6 people per sq km). Over the last 5 years it has been gradually decreasing. Of all areas, a significant decline is not observed only in Varna. There is a trend towards depopulation of smaller settlements, which is a consequence of the lower levels of payment and the overall lack of work

Table 2.1. Main indicators of the NER

	2011	2012	2013	2014	2015
Unemployment rate (%)	15,4	18,2	16,8	12,6	10,3
GDP per capita, BGN	8936	9329	9366	9795	10 193
GDP of NER, in million BGN.	8615	8953	8954	9327	9655
Economic growth (%)	9	4	0,1	4,2	3,5

The most developed in the NER is the **service sector**, followed by **industry**. Key for NER are **trade and tourism**. The structure of the industry is varied. It is determined by the production of mineral raw materials, the food and beverage industry, the chemical industry and the transport machinery. Of particular importance to the economy of the region is the maritime industry which includes shipping, port management, shipbuilding and ship repair,

marine resources, maritime science and education, as well as all activities and services covering the maritime business.

The most innovative for NER are the maritime industry, agriculture, transport, tourism, information technology and the chemical industry. The most important barriers to innovation are lack of funding and lack of information.

The export of goods and services has a crucial role to play in restoring Bulgarian economy after the 2008-2010 crisis. Significant is the change that has been achieved in the volume of Bulgarian exports during the period from mid 2008 to the end of 2016. The difference is substantial - 39%, with exports being particularly important for this growth. It grew with an impressive 60.1% over the same period. At the national level, there is a tendency to increase exports, with exports of goods worth 44,949.5 million leva in 2015, which is 4% more than in the previous year. In Bulgaria, industrial production is usually part of the supply chains of major European exporters, with Germany in the first place. In its analysis in the autumn of 2016, the Bulgarian Industrial Association states that the export restructuring is largely related to the EU economy and exports. This is also evident from the statistics - if ten years ago, the main destination of goods such as machinery and parts was Turkey, now only three EU countries are in the top three. Exports to EU countries grew by 7.9%, with main trading partners being Germany, Italy, Romania, Greece, France and Belgium. At the same time, there is a drop in exports to third countries of 2.5%.

2.2. Internationalisation environment

Since Bulgaria joined the EU in 2007, state policies are almost entirely outlined in strategic documents developed on a request of the European Commission. The European Structural Funds through national operational programs become the main and almost unique source of governmental initiatives and become a key factor for the growth of the national economy. A significant number of policy measures in support of SMEs have been adopted in 2014 and the first quarter of 2015. They include e-Justice and e-government strategies, a new Public Procurement Act and a Better Regulation Program (including the Impact Assessment and Impact Assessment Guidelines)

- Promoting of innovation and internationalization in Bulgarian enterprises is based on the following **national strategic documents**:
- National Development Program: Bulgaria 2020 (NDP Bulgaria 2020) - along with the national growth decisions taken in the context of the Europe 2020 strategy.
- National Strategy for Promotion of Small and Medium-Sized Enterprises 2014-2020, setting objectives in five priority areas - entrepreneurship, access to finance, skills and innovation, environment and internationalization.
- Innovation Strategy for Intelligent Specialization of the Republic of Bulgaria until 2020.

Through the **Innovation Strategy for Smart Specialization 2014-2020 (RIS3)**, Bulgaria declares its vision for policy change and overcoming the existing socio-economic challenges:

- low labor productivity;

- low share of high-tech production;
- demographic crisis - prevention of brain drain, attracting successful Bulgarians and youth entrepreneurship;
- providing a better and healthier lifestyle.

The strategic objective of the RIS3 is by 2020 to move from the group of "timid innovators" to the group of "moderate innovators". In practice, this change will be realized through an effective policy of promoting of:

- innovation, research and development of human capital;
- investments in high-tech areas where Bulgaria has traditions, specialists and it is successful competitor on the international market;
- export oriented industries.

The strategic goal will be realized through the achievement of two operational objectives:

Objective 1: Focus on investment to develop innovation potential in the identified thematic areas (to create and develop new technologies leading to competitive advantages and increasing the added value of national products and services)

Objective 2: Support for accelerated technology absorption, methods, etc. enhancing resource efficiency and ICT implementation in the enterprises across the industry.

Measures for the implementation of RIS are mainly foreseen in the Operational Programs "Innovation and Competitiveness 2014-2020" (OPIC) and "Science and Education for Smart Growth 2014-2020" and the part that remains at the expense of the state budget included in the budget of the Ministry of Economy for the respective year.

The most important for enterprises is the main national tool for encouraging innovation - OPIC. The OPIC envisages a number of procedures and financial measures to increase the productivity, efficiency and innovation of Bulgarian enterprises. The program aims to overcome the following weaknesses and challenges:

- Low innovation rates as a result of insufficient cooperation with science and universities, small volume and inefficient investment in R & D and innovation;
- Difficult access to sources of financing and weak investment activity;
- Low level of internationalisation (95% of SMEs are characterized by a low level of internationalisation and the country ranks 27th in the EU);
- Insufficient entrepreneurial culture, activity and skills for effective management of the innovation and marketing;
- Deteriorated export structure (mainly based on exports of commodities and commodities with relatively low added value);
- High resource and especially energy intensity of production, low level of application of new technologies - the Bulgarian economy is the most resource intensive and energy intensive (per unit of output) among the EU economies.

Measures to promote internationalisation are foreseen in Priority Axis 2: "Entrepreneurship and Growth Capacity for SMEs", Specific Objective 2.2. "Increasing the Productivity and Export Potential of Bulgarian SMEs". The indicative group of activities is: "Support for activities and provision of services for direct business development and export orientation for SMEs".

Another program that also supports the internationalisation of SMEs is the **SME Initiative** endorsed by the European Commission at the end of 2015 for ERDF support under the Investment for Growth and Jobs Objective. It aims to improve access to debt financing for SMEs in Bulgaria. The SME initiative program complements OPIC in the area of access to finance for SMEs.

At the local level, the main strategic document for the promotion of innovation and development of SMEs is the Municipal Development Plan of Varna Municipality 2014-2020 (MDP Varna 2014-2020). MDP Varna 2014-2020 is the main strategic document for the socio-economic policy of the municipality which sets medium-term objectives and priorities for integrated and sustainable local development, guides the main actions of the municipal administration and is bound by the annual budgets of the municipality. MDP Varna 2014-2020 was prepared in compliance with the main strategic development documents: Europe 2020 Strategy, NDP BG 2020, National Regional Development Strategy 2012-2022, Regional Development Plan for the Northeast Region 2014-2020, Regional Strategy for Development of Varna Region 2014-2020 and documents for strategic spatial planning and regional development: National Concept for Spatial Development for the Period 2013-2025, General Plan of Varna Municipality, Integrated Urban Recovery and Development Plan - Varna. The overall objective of the Plan is to achieve integrated sustainable development and raise the standard of living through effective use of own resources and expanding EU partnership.

The measures supporting the internationalisation of SMEs on the territory of the Municipality of Varna, which are part of the MDP Varna 2014-2020, are included under: Priority Area 1 "Economic Growth", Strategic Objective 1 "Achieving smart economic growth by providing a favorable environment for entrepreneurship, the quality of education and research, according to the requirements of the economy, the introduction of innovation and the promotion of investment. ", Priority 1.1. "Stimulating entrepreneurship based on the knowledge economy.",

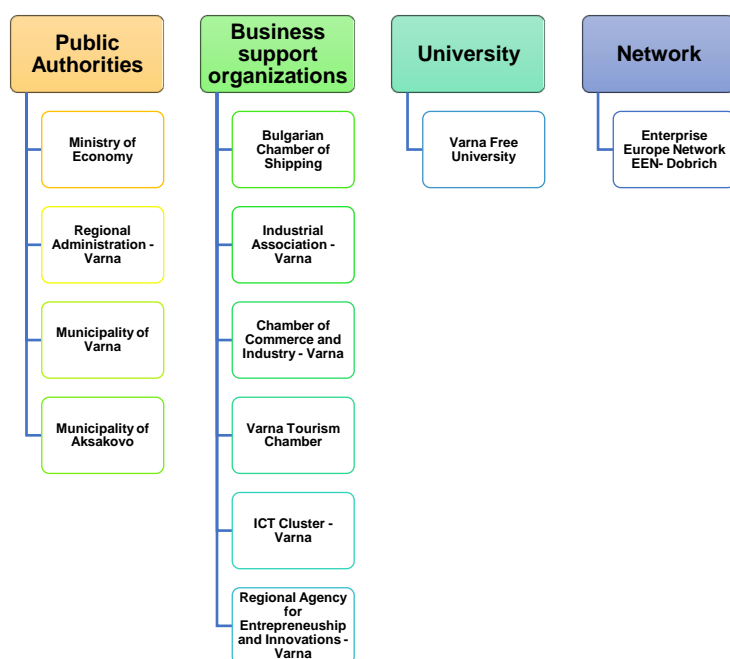
- Specific objective 1.1. Increasing the viability and competitiveness of SMEs.
 - Measure 1.1.1. Stimulating entrepreneurial culture and attitude of civil society.
 - Measure 1.1.2. Supporting entrepreneurship to create new jobs and start up businesses.
 - Measure 1.1.3. Supporting the development of social, women and youth entrepreneurship.
 - Measure 1.1.4. Support for the creation of a municipal start-up and venture capital fund to support start-up innovative SMEs.
- Specific objective 1.2. Support for the development of priority sectors of Varna Municipality, building and development of clusters.
 - Measure 1.2.1. Providing a favorable environment for building and developing clusters.
 - Measure 1.2.2. Encouraging inter-company cooperation and support for the creation of business networks and other ways of developing the economy.
 - Measure 1.2.3. Development of programs to support the development of the local economy with priority of the maritime industry and absorption of the resources of the Black Sea, tourism, environmental protection and climate

change, renewable energy sources and energy efficiency, information and communication technologies and others.

The specific tool to support internationalisation at municipal level is to carry out surveys and select good practices in the field of enhancing the export potential of SMEs and supporting their internationalization, as a result of which will be proposed inclusion projects for implementation in the Implementation Program of the priorities and measures set out in the municipal plan of the Municipality of Varna.

2.3. Main national and regional stakeholders

The main stakeholders identified to improve internationalisation policies are:



The Ministry of Economy of the Republic of Bulgaria has the responsibility to implement the policies and to regulate the economy of the country on the basis of the European principles and to coordinate the activities of the other institutions in this direction. The main priority is to create the necessary conditions for stable economic growth in the Republic of Bulgaria. The ministry aims to create a less bureaucratic, investment-friendly environment with simple and transparent business procedures and effective management for the benefit of entrepreneurs. Effective foreign economic cooperation is another essential part of its policies. The main directorates involved in shaping and implementing internationalisation policies are the Directorate “Economic Promotion Policies” and the General Directorate “European Funds for Competitiveness”.

The Directorate "Economic Promotion Policies" implements a number of activities to develop, implement and control policy tools to promote economic development, investment and internationalization of SMEs, including by participating in the development and control of the implementation of operational programs funded by EU funds; preparing concrete proposals for improving the business environment and dropping and/or alleviating existing regulatory regimes; fulfilling the function of a secretariat responsible for the implementation of RIS3.

GD "European Funds for Competitiveness" is the Managing Authority of OPIC and SME Initiative; it organizes and coordinates the activities related to the fulfillment of the commitments of the Ministry provided for in the European and national legislation for the implementation of the Cohesion Policy; it coordinates the work of the Thematic Task Force for the preparation of the new Operational Program and performs the functions of a Secretariat to it under the existing legal acts.

The Regional Administration - Varna represents the executive in the region and ensures the correspondence between the national and local interests in the implementation of the regional policy. The District Governor implements the state policy in the field, coordinates the work of the executive authorities and their administrations on the territory of the district and their interaction with the local authorities; ensures the correspondence between national and local interests, organizes the development and implementation of regional strategies and programs for regional development, interacts with the local self-government and the local administration; coordinates and controls the activities of the territorial units of the ministries and of the other administrative structures, which provide administrative services on the territory of the district; coordinate and supervise the implementation of the acts and actions of the heads of the territorial units of the central administration of the executive power in the territory of the district; conducts the international contacts of the region at the regional level.

Varna Municipality and **Aksakovo Municipality** are representatives of the local authorities in the stakeholder group, which develop, coordinate and control activities for implementing local policies to promote the internationalisation of SMEs.

The business-supported organizations involved in the stakeholder group aim to stimulate international trade and investment, promote the exchange and representation of members' interests at local and international level, and assist public institutions in developing regulatory and strategic instruments for SME development, as in the key sectors for the region: maritime business, tourism, ICT, and the identified priority sectors in RIS3. They include:

- nationally represented organization - **Bulgarian Chamber of Shipping**.
- regional structures of nationally represented organizations – **Industrial Association - Varna** as a regional structure of the Bulgarian Industrial Association; **The Chamber of Commerce and Industry – Varna** and **the Chamber of Commerce and Industry - Dobrich** as regional structures of the Bulgarian Chamber of Commerce and Industry;
- regional organizations - **Varna Tourism Chamber**, **ICT Cluster - Varna** and **Regional Agency for Entrepreneurship and Innovation - Varna**.

2.4. Barriers and drivers to SMEs internationalisation

In the frames of the conducted survey the largest share of respondents are micro-enterprises (71%), followed by small (25%) and medium-sized companies (4%). According to the economic sector - the largest shares are companies from "Information and Communication Technologies", "Industrial manufacturing", "Construction / Engineering sectors" and "Trade".

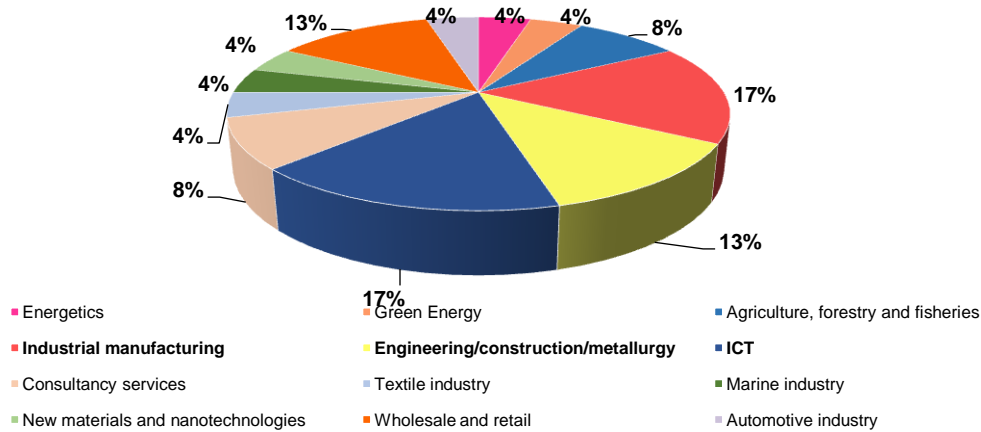


Fig. 2.4.1. Economic sector distribution (North-East Region, BG)

Important indicators for determining the level of internationalisation of SMEs are their innovativeness and competitiveness levels. There is a dependency found: as much innovative and competitive is one enterprise, as easier and faster is for it to enter on the international markets.

Results show that the competitive advantages of 71% from the surveyed companies are due to the presence of high-qualified staff in the company, 67% due to the production of high quality products or services, 42% say - it is due to applied effective marketing and wide range of products or services.

More than 50% of the surveyed companies indicate that the main factors that provide high level of competitiveness are: improving the quality of products and services, expanding activities on international markets and the introduction of new technologies.

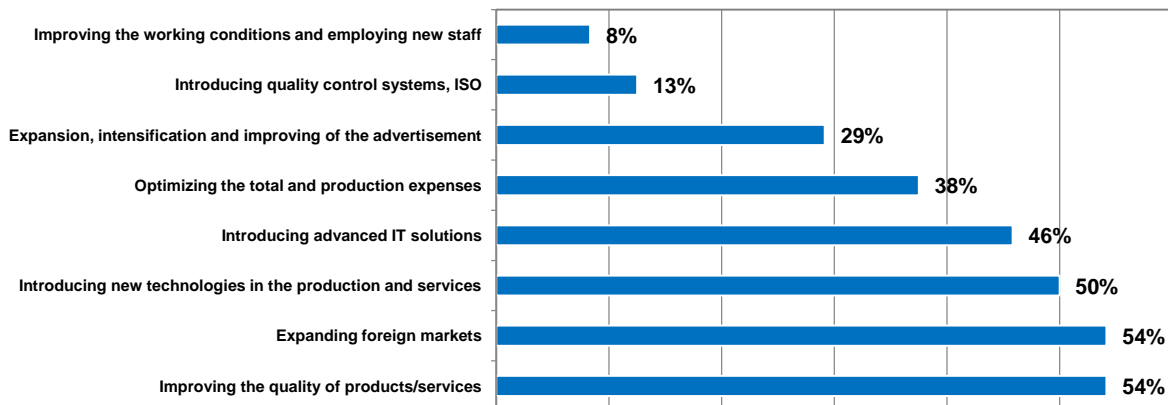


Fig.2.4.2 Factors, influencing competitiveness of SMEs (North-East Region, BG)

Most of the respondents (71%) consider that they have highly qualified staff, which is one of their most important competitive advantage. However, in fact, this staff does not have specific skills, needed to expand the company activities outside the national market. Half of

the respondents determine their stage of internationalisation as “exploring”, while approximately a quarter are either in “early phase” or “expanding”.

The benefits of internationalisation for SMEs stem not only from the export, but also from all types of international activity. Import, for example, can improve effectiveness by providing access to new technologies and competencies. The technological partnership, the other forms of cooperation between SMEs and the direct foreign investments are also picking up speed (relocating production or outsourcing). In any of the cases, the companies are mainly seeking a high competitive advantage. The access to technologies and cheap or easier-to-obtain resources are as important to them as the access to other markets.

While private and public international markets offer considerable opportunities for the European companies, SMEs face specific external barriers that hinder their expansion on the world market, with the main barriers being: difficulties in reaching potential clients, necessity for internationalisation investments and transparent financial schemes for internationalisation, and last but not least, access to strategic information for the desired market (fig. 2.4.3).

SMEs usually have lack of the necessary working capital and managerial time enough to deal with internationalization. There is a shortage of human resources for export activities and adequate production capacity (fig. 2.4.4).

The size of the companies is not related with the identified internal barriers, except for the cases of lack of qualified staff and achieving of adequate production capacity. It is clear that for the small companies is much harder to overcome them than for bigger ones.

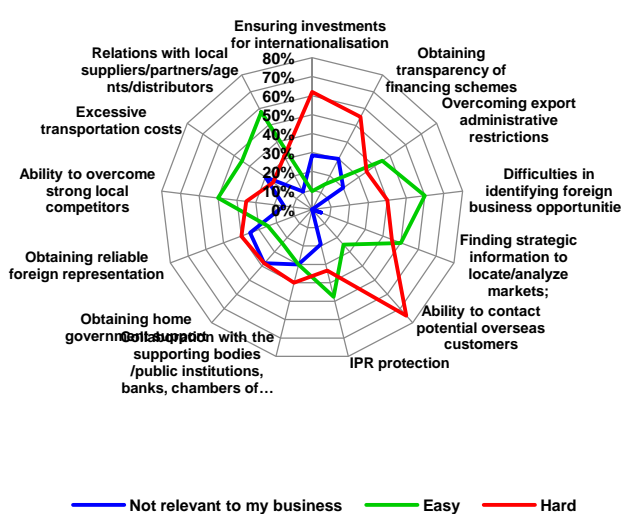


Fig. 2.4.3 External barriers for internationalisation (North-East Region, BG)

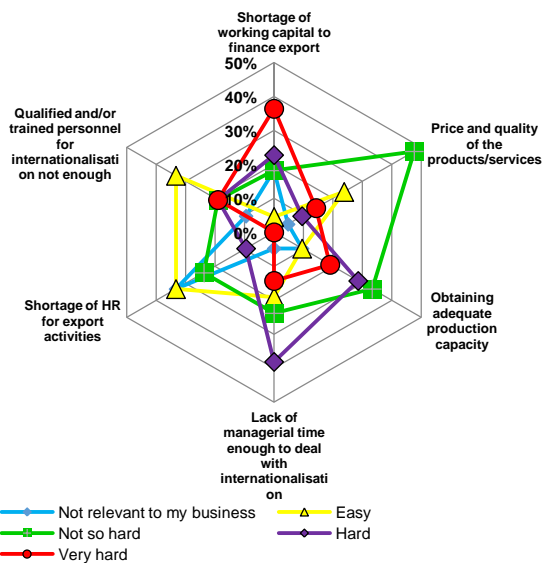


Fig. 2.4.4. Internal barriers for internationalisation (North-East Region, BG)

The size of the SME is an important factor for their willingness and ability for internationalisation. The bigger the company the more likely is to internationalise its activities – 37% from the micro, 80% of the small and 100% of the medium-sized enterprises say that they are in a starting or development phase of internationalisation of their business.

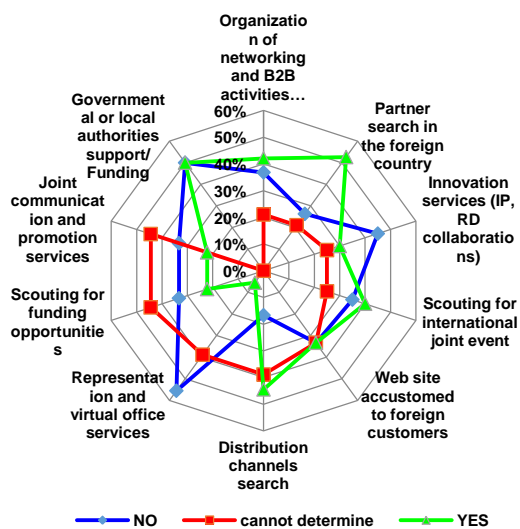


Fig. 2.4.5. Activities, supporting first steps of internationalisation (North-East Region, BG)

The most important activities that assisted companies with their first steps on the international markets are related with partner search in the foreign country and distribution channels search.

Besides grants, the companies declared that significant financial contribution for their internationalisation brings usage of loan, including ones with preferential interest rate. Having in mind the difficulties in securing guarantees – credit guarantee schemes are also helpful.

Non-financial support also has significant impact on the opportunities for internationalisation of the companies, with the most useful being: consultancy services (50% of the respondents), market research support (46%) and services, provided by business parks, technological centers and incubators (42%).

Although one of the main internal barriers to business development on international markets is the lack of qualified staff in internationalisation activities, the majority of the respondents (54%) have not benefited from services for increasing staff or managerial capacity. 38% of the respondents used services for staff foreign language competences increase and barely 13% - trainings on internationalisation and new market entry strategy. It is noticed that the size of the company plays role in frequency in benefitting from the staff training opportunities – 100% of mid-sized, 67% of small-sized and 36% of the micro – enterprises.

To summarize, the successful internationalisation depends mainly on the support for capacity building in the SMEs, including partner search and participation in international events, access to trainings and consultancy services.

The main programmes and instruments supporting the internationalisation of SMEs need to attract as much enterprises as possible. There are available numerous business centers, information desks, websites, data bases and other services, managed or assisted by the European Commission which are designed for supporting of SMEs internationalisation. Additionally, there are a wide range of support services for entering of the enterprises on markets, in or outside of EU, offered by private and public service providers, who have a strong expertise in the field. The improvement of the cooperation between the companies and these organizations and instruments will be achieved by conducting regular and appropriate information campaigns.

Among the different funding sources, the most accessible programs for internationalization are those provided by the European Structural and Investment Funds, as they are tailored to the goals and needs of the regional enterprises and their priorities for development

2.5. Measured offered for SMEs internationalisation support

A primary data is collected through a poll conducted on the effectiveness of the measures proposed by the stakeholders for internationalisation support among:

- public administration;
- regional and local authorities;
- commercial and other branch chambers;
- organizations and networks, supporting business;
- universities.

More than half of the surveyed organizations (56%) have a regional territorial coverage, 22% - local and 22% - national.

The training and educational activities are the most performed by the members of the Regional Stakeholder Group, followed by start-up support, innovation and technology transfer and know-how transfer. The share of activities targeting the internationalisation of SMEs, which should be significant among the surveyed organizations, is well below the average. Supported models of internationalisation by the organizations fully correspond to the profile of the main developed international activity pointed out by the surveyed companies – export, import, technology transfer and partner search in foreign countries, due to good cooperation with regional SMEs and understanding of their needs. Therefore, the main financial incentives to develop internationalisation that organizations offer to companies are grants for participation in international exhibitions and fairs.

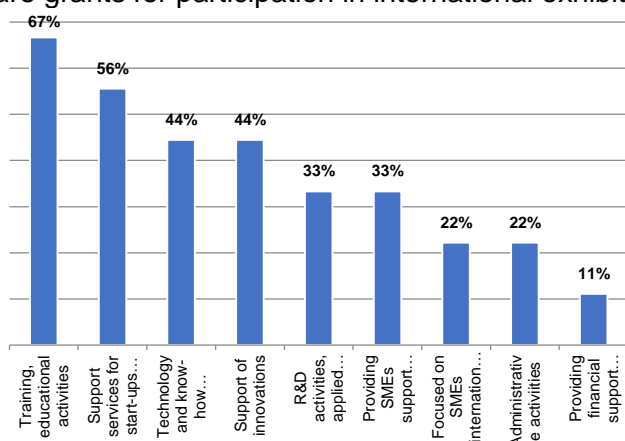


Fig. 2.5.1. Types of support activity (North-East Region, BG)

The trainings provided are focused on internationalisation and strategies for entering new markets, export oriented courses and export forums, followed by foreign-language trainings.

The main advantages of the organizations surveyed in providing supportive internationalisation services are the high quality and minimal time of providing services, as well as the use of a one-stop-shop approach and networking.

In order to increase the effectiveness of the provided support services, it is necessary to improve cooperation between the institutions and to obtain more solid support from central and local authorities both through the creation of adequate financial instruments and through specific instruments to promote internationalisation, financing for specialized consultancy activities.

2.6. Identified gaps between policy instruments and SMEs needs

The main **national policy instrument** for promoting innovation is OP "Innovation and Competitiveness 2014-2020" (**OPIC**). OPIC envisages a number of procedures and financial measures to increase the productivity, efficiency and innovation of Bulgarian enterprises. Measures to promote internationalisation are included in Priority Axis 2: "Entrepreneurship and Growth Capacity for SMEs", Specific Objective 2.2. "Increasing the Productivity and Export Potential of Bulgarian SMEs", indicative group of activities: "Support for activities and provision of services for the direct benefit of the business development and export orientation of SMEs".

Under Specific Objective 2.2, direct support is provided to companies to develop export activities by financing activities to develop SME management and growth, promoting the use of information and communication services. The increase in management capacity is related to the introduction and certification of management systems, compliance of products with the requirements of international markets, presentation to potential investors and participation in capital markets abroad. Support is targeted to SMEs that are on the market for a minimum of 3 years and have a minimum amount of net sales revenue for the last 3 years of minimum BGN 210 000.

The purpose of the SME Enhancing Manufacturing Capacity Procedure is directly related to the specific objective of Investment Priority 2.2 "SME Growth Capacity" for increasing production capacity and enhancing the export potential of Bulgarian SMEs. Improving the market presence of Bulgarian SMEs is done by supporting the introduction of technologies for improving the production process, achieving higher productivity, reducing production costs and optimizing the production chain, respectively increasing the added value and actively involving at all stages of the Value Added Chain. Support is targeted to SMEs that are on the market for at least 3 years and have a minimum amount of net sales revenue of BGN 175 thousand including export earnings.

The cluster development process in Bulgaria encourages business co-operation and clustering as a tool for increasing national competitiveness and establishing a market-oriented and internationally open business environment. Voluntary clustering enables the application of new production solutions and the development of their potential, which leads to increased productivity and added value, access to markets, and hence increases the competitiveness of the participating companies and expands their export capacity. The development of international markets is done through support for organizational and administrative strengthening of clusters, activities for attracting new members, development of cluster marketing and participation of clusters in international exhibitions and fairs.

Within the same Specific Objective 2.2. the entry and development of Bulgarian enterprises is supported by the activities of the Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA). BSMEPA is an institution that coordinates and implements state policy to promote the development and internationalisation of Bulgarian SMEs and is the only directly responsible structure for the provision of institutional support to Bulgarian enterprises.

The Agency provides an opportunity to improve the export advantages and sustainable positioning on the foreign markets of the Bulgarian business by providing institutional, logistical and financial support to SMEs and branch organizations for their participation in the events organized by BSMEPA - trade missions abroad, business meetings, business forums and contact exchanges with foreign companies in Bulgaria. This type of support is for companies with high export potential, well-established on the market and with well-developed export positions and looking for opportunities to expand their exports by entering new markets.

In addition, the Agency creates conditions for sustainable development and successful integration of Bulgarian enterprises on European and international markets by providing support for participation in international trade fairs and conferences abroad and in Bulgaria by providing logistical support. This type of support is a priority for companies with active export activity on at least two foreign markets.

Last, but not least, OPIC provides the opportunity to develop and improve the export potential of the companies through the creation of a digital platform developed by BSMEPA. The platform provides a full range of international business services, connecting with potential investors and providing information and advice for European and external markets. The platform will provide a centralized digital information base that will increase the efficiency and preparedness of Bulgarian SMEs to enter foreign markets.

Contrary to expectations, this kind of support is not intended to be provided also under OP Human Resources Development 2014 - 2020, as the procedures announced so far are mainly aimed at providing training in professions and key competences (digital and language skills) and employment of long-term unemployed ("Flexible employment opportunities and training in enterprises with variable activity intensity"), inclusion in training to acquire or enhance professional qualifications and / or to acquire key competencies 2 "Communication in foreign languages" or 4 key competence "Digital competence" of employees under labor contract with medium or low level of education ("Vouchers for employees").

Another policy instrument for promoting innovation and development of local SMEs is provided in the main local strategic document **Municipal Development Plan of the Municipality of Varna 2014-2020 (MDP)**. The MDP includes a number of measures to support business development, and in particular the internationalisation of SMEs. It is of utmost importance to create a municipal start-up and venture capital fund to support start-up innovative SMEs, and this fund has not yet been set up.

It could be concluded that the available public support measures for internationalisation are mainly targeted at SMEs with already developed export potential. There are no such measures to offer support to raise staff qualifications to acquire specific knowledge and skills to develop internationalisation and to address the problem of lack of working capital which are among the main internal barriers identified by the regional SMEs surveyed. Measures that offer opportunities for regional start-ups as well as micro- and small-scale start-ups - exploration or development to overcome external and internal barriers to internationalisation are assessed as insufficient.

2.7. SWOT analysis

STRENGTHS	WEAKNESS
<p>3) SMEs:</p> <ul style="list-style-type: none"> - availability of qualified staff; - production of high quality products/ services; - conducting effective marketing; - a wide range of products/ services; - presence and usage of new technologies; - existence of an internationalisation strategy; - Experience in international markets; - high level of technological readiness of the main products; - a desire to access new, faster-growing markets; - a desire to access new technologies and know-how; - availability of own website; - Experience with Structural Funds support; - cooperation with commerce, branch organizations and business support organizations. 	<p>3) SMEs:</p> <ul style="list-style-type: none"> - survival oriented management. Shortage of time to develop internationalisation activities; - lack of qualified staff on internationalisation; - low level of internationalisation; - Insufficient use of alternative forms of international activity; - insufficient investment and working capital. Low usage of venture capital and other forms of funding; - low level of cooperation with financial institutions, universities and public administration; - difficulties with finding potential customers; - lack of knowledge of European support programs for internationalization and European support instruments; - Insufficient staff training.
<p>4) Organizations and institutions:</p> <ul style="list-style-type: none"> - Good territorial coverage at local, regional and national level; - the availability of skilled staff focused on internationalisation and strategies for entering new markets, export-oriented courses and export forums; - Developing support activities for start-ups, innovation, technology transfer and know-how; - supporting different models of internationalization; - providing support for participation in international exhibitions and fairs; - providing information services for partner search, administrative regulations, and organizing international events; - a good level of cooperation between industry, trade chambers and business support organizations with regional SMEs; - providing high-quality internationalization services; - offering one-stop services; - offering networking opportunities; - participation in European programs to improve the level of internationalization of business 	<p>4) Organizations and institutions:</p> <ul style="list-style-type: none"> - Inefficient information campaigns to promote various EU schemes and tools to support internationalisation. - a small share of specialized internationalisation activities; - lack of opportunities to expand the range of services offered by the branch organizations; - shortage of qualified experts in the state administration, - Insufficient cooperation between institutions (public and private); - weak support or lack of support from the state administration; - lack of funding for business support organizations to provide consultancy support and training, with priority to micro and small enterprises in the start-up or initial phase of internationalisation development.
<p>5) Measures for support:</p> <ul style="list-style-type: none"> - improved conditions for obtaining debt financing; - ability for partners search abroad and distribution channels ; - networking opportunities, B2B meetings, fairs and exhibitions in other countries; - opportunity to provide consultations, supporting market researches ; - providing services through incubators, technology 	<p>5) Measures for support:</p> <ul style="list-style-type: none"> - lack of funding from the Structural Funds for BSOs to provide specialized internationalisation services. - lack of support measures to increase the skills of staff to acquire specific knowledge and skills; - lack of support measures to overcome the problem of working capital to develop internationalisation ;

centers and technology parks; - an opportunity to develop the management capacity and growth of SMEs; - an increasing range of electronic services and a specialized digital platform.	- insufficient support measures for start-up companies ; - insufficient measures to support micro and small businesses that are in an early stage of development or a phase of an internationalisation study; - Insufficient measures to develop different forms of international SME activity
OPPORTUNITIES	THREATS
- Using the potential and territorial coverage of commerce, industry and other BSOs to provide specialized services to overcome barriers to internationalization. - expanding the scope of public support; - awareness raisin of SMEs for opportunities offered for support on European level; - offering integrated services to support one-stop-shop for internationalisation; - improving cooperation between private and public sector institutions in supporting SMEs; - improving the digitalisation of companies in the region; - creating a local fund for innovatinv start-ups.	- aging population, emigration of young and skilled people, increasing the shortage of people with vocational qualifications and skills. - insufficient funding from the state, the districts and the municipalities; - fast and successfull development of other countries and regions - our competitors.

The future efforts should be directed to widening the scope of public support through:

- business awareness raising activities on various support options - not only through operational programs and national funds, but also through different European initiatives and instruments;
- activities to enhance the on-line presence of SMEs and stimulate the digitisation of business;
- Providing an opportunity to increase the qualification of the staff in the field of internationalisation of the business;
- launching of measures for funding of business support organizations (branch chambers, non-profit organizations, etc.) to provide thailored consulting and training to SMEs for the development of internationalisation;
- development of measures to support not only the export activity of the companies, but also the other models of internationalisation;
- Launching of a municipal fund to finance innovative Start-ups.

III. EXTREMADURA REGION, SPAIN

3.1. Portrait of the Extremadura Region

Extremadura is placed in the South-west of Spain. This region covers 41,635 km², the most of it vast surfaces with not so high elevations at the north and south, making it the 5th largest of the Spanish Autonomous Communities. Extremadura is one of the 17 Regions that compose the Spanish state. It is divided into 2 Provinces: Cáceres and Badajoz, being Mérida its regional capital. In Extremadura over one million of inhabitants live in 41,635 km². The population density is 26 inhabitants/km² that is almost five times smaller than the average density in Europe (116.8 inhabitants/km²).



Most of Extremadura's population lives in small towns of less than 5,000 inhabitants. Only one town has a population over 100,000 people (Badajoz city - 150,000 inhabitants).

According to data published by the National Institute of Statistics (INE), during the year 2016 the economic activity in the region grew by 2%, one tenth less than the record reached in 2015. The regional GDP per capita presents an increase with respect to 2015 of 3.1% and reach the 16,369 euros. It should be noted that this growth is above that of the EU-28 (coming EU-27), which stood at 1.9%.

This growth was favored due to the domestic demand, supported by low interest rates, as well as an increase in available income, thanks in part to the slight improvement in the labor market. Also the fact that oil prices remain low served as an economic boost.

In the opposite direction behaved the exports that in 2016 decreased with respect to the previous year, although it seems more a punctual behavior since with the data of beginning 2017 seems to have recovered its dynamism.

By economic sectors, through the data provided by regional research, it can be observed that their behavior is very different. Thus the best performance comes from the **service sector**, followed by **construction**, which is growing for the second consecutive year, and seems to be reactivated despite the decline experienced by public works. On the other hand, **agriculture and industry sectors** are showing drop in 2016 and worsening in relation to the previous year.

If comparing the commercial relations of Extremadura with the rest of Spain and abroad in 2016 we observe that it has balances of opposite signs: a negative balance of 2,401 million euros in interregional trade, as a result of exports of 2,677 million euros and imports of 5,078 million euros; and a positive balance in international trade, amounting to 610 million euros, as a difference of 1,681 million euros' exports and of 1,071 million imports.

Of the 64,347 companies in the Autonomous Community of Extremadura, 64,328 are SMEs (0 to 249 employees), which represents 99.97% of the total companies in this Region. The 96.73% are micro-enterprises (0 to 9 employees), of which 54.30% are companies without employees. The number of large companies is well below the national average: 0.03% versus 0.12%.

Total SMEs	64.328
Micro	96,6%
Small	3%
Medium	0,4%

Table 3.1.1. Structure of SMEs in the region by size

The 49.36% of Extremadura companies are active in the “other services” sector, 30.07% in commerce, 13.14% in construction and the remaining 7.4% in the industry. The biggest difference in relation to Spain can be found in the "other services" sector. In this section of the sectoral distribution, the figure of Extremadura Region is 7.7 points lower than the national average.

Regarding the Annual Report of Extremadura’s Economic Situation elaborated by the General Secretariat of Economy and Commerce, in 2016 Extremadura exports stood at 1,681.4 million euros, with a year-on-year decrease of 2.2%. On the import side, they grew by 2.6% year-on-year to € 1,701.4 million.

In 2016, more than half of Extremadura's sales abroad are coming from the **food sector**, where they fell by 5.5% with respect to the previous year, followed by **semi-manufactures** which, after a year-on-year decline of 1.0%, represent 20.3% of total exports. Sales of **capital goods** (4.1% of total exports), as well as **energy products** (-47.2% year-on-year) and **automotive sector** (-0.3%) decreased by 13.9% year-on-year, which together account for almost 10% of total exports. On the other hand, sales of raw materials increased (25.1%) accounting for 5.6% of total exports, consumer goods (10.9%) and consumer durables (7.0%), which together account for almost fifteen percent of the total.

The lowest comparative magnitude of foreign trade in the regional economy is evident in the “openness index”. With regard to the whole of the Spanish economy, the small share of foreign trade in the Extremadura’s economy is explained by the small weight of the manufacturing industry, especially capital goods and automobiles, which are the main products of international trade. Likewise, the smaller size of Extremadura companies in the different industrial branches limits their capacity and propensity to export.

However, there remain essential aspects, mainly employment and its quality, which need to intensify its improvement. In this sense, the actions related to SMEs internationalisation represent a challenge of special importance for the Region.

At the end of 2016 Extremadura's economy practically kept its growth constant, linking two continuous years of growth, a fact that had not occurred since the years before the crisis (2007-2008).

As for exports in 2016 they fell compared to the previous year, although it seems more a specific behaviour, since with the data from the beginning of 2017 it seems to have recovered the dynamism. It should be noted that this growth is above the EU-28.

3.2. Internationalisation environment

Since the beginning of the new century, commitment to stimulate the regional business network has become one of the Regional Government of Extremadura's main initiatives. One of the main action lines is directed to internationalisation processes in order to reach new markets and improve innovation as a competitive factor. In this framework, regional SMEs have at their disposal several tools that support them in different stages during their process to go abroad.

Most of the instruments available at regional level are managed by the Department of Commercialisation and Internationalisation of Extremadura Avante, which is a public company of the Regional Government of Extremadura, whose objective is to provide services to the regional companies in the different phases of their development, so that they can be more competitive, boosting the industrial and business development of the region.

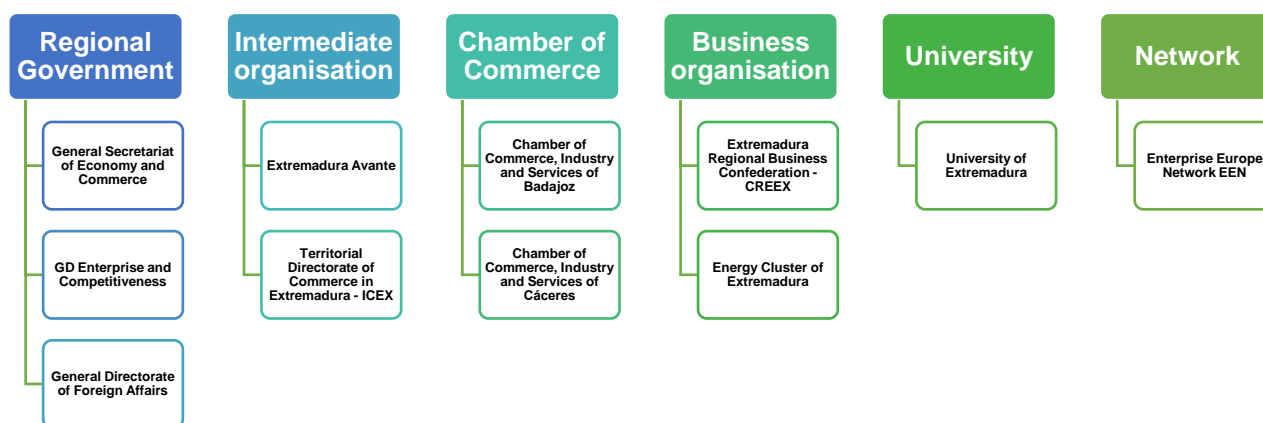
Other organisations as the Chamber of Commerce also provide support to SMEs at regional level, in coordination with the public bodies

Table 3.2.1. Tools and instruments managed by public bodies (Extremadura Region, ES)

TOOLS / INSTRUMENTS		Policy Alignment
2002	PIMEX and FORMACOEX	Directly from the Regional Government, reflected in Extremadura general budgets year after year
2004	CONSOLIDATION PLAN IN INTERNATIONAL MARKETS	Directly from the Regional Government, reflected in Extremadura general budgets year after year
2008	PROMOTIONAL BRANDS: "Alimentos de Extremadura"	ERDF Operational Program of Extremadura 2014-2020, Axis 3, Investment priority 3.d)
2014	ORDER 31/2014: AIDS ADDRESSED TO THE INTERNATIONALISATION OF THE EXTREMADURA ECONOMIC ACTIVITY*	Directly from the Regional Government, reflected in Extremadura general budgets year after year
2015	TRANSVERSAL SERVICES FOR INTERNATIONALISATION: <ul style="list-style-type: none"> • Extremadura Exports • i-Export • Promotional actions abroad • Commercial Delegations 	ERDF Operational Program of Extremadura 2014-2020, Axis 3, Investment priority 3.d)
2016	EXPORT CONSORTIUMS	ERDF Operational Program of Extremadura 2014-2020, Axis 3, Investment priority 3.d)
	INTERNATIONAL PUBLIC TENDER PROGRAMME	ERDF Operational Program of Extremadura 2014-2020, Axis 3, Investment priority 3.d)

3.3. Main national and regional stakeholders

The regional agents related to the internationalisation support policies in the region of Extremadura: public administration, organisations/agencies, SMEs representatives and academia.



The **Regional Government of Extremadura**, through the Regional Ministry of Economy and Infrastructures is in charge of the design, development and implementation of the policies that address the business fabric of the region. Inside this Ministry, specifically the General Secretariat of Economy and Commerce is in charge of the design and implementation of the internationalisation policies for regional enterprises. The executing agency of most of these policies is Extremadura Avante.

Other units of the Regional Government, such as the General Directorate of Enterprise and Competitiveness and the General Directorate of Foreign Affairs, also work towards the support of internationalisation at different levels.

Extremadura Avante is a public company of the Regional Government of Extremadura whose objective is to provide services and financial aid to Extremadura companies, in the different phases of their development, so that they can be more competitive, boosting the industrial and business development of the region. It offers different services such as information, consulting and training and also different financial tools addressed specifically to the internationalisation process in the SMEs. Some of these are coordinated with the instruments from the Chambers of Commerce, so that they are complementary.

Created in 1973 the **University of Extremadura** (UEX) is the main public university in the region with campuses in Cáceres, Badajoz, Mérida and Plasencia.

The **Chambers of Commerce** were created in 1886 for the representation, promotion and defense/protection of the general interest of commerce and industry.

CREEX (Regional Business Confederation in Extremadura) was established in 1985 to create a common representation instrument for the business network in the region. Nowadays over one hundred business associations participate in the Confederation through one of its three member organisations: COEBA in Badajoz and FEP and FEC in Cáceres.

ICEX España Exportación e Inversiones is a national public business entity whose mission is to promote the internationalisation of Spanish companies to contribute to their competitiveness, as well as to attract foreign investments to Spain. It provides its services through a network of 31 Provincial and Territorial Directorates of Commerce in Spain and almost 100 Economic and Commercial Offices abroad. It also has 28 Business Centers abroad, which offer Spanish companies temporary infrastructure as incubators of internationalisation. ICEX Directorate of Commerce in Extremadura supports the internationalisation of regional companies and entrepreneurs by the implementation of the state policy for external commercial promotion and the promotion of the investments of the regional companies.

The **Energy Cluster** is a business association (NPO) established in 2008 by the Regional Government of Extremadura with the mission to promote the integration, creation and strengthening of the institutions and businesses that participate in the value chain of the energy sector by cooperation and business innovation. The participation of the business fabric in the Cluster has passed from 26 to over 80 members. It has a Department for Internationalisation and Funding Search.

The **Enterprise European Network** (EEN) is formed by nodes across the European countries and even further, over 600 member institutions in more than 60 countries and with 3.000 professionals. Some of their activities are to facilitate the contact among enterprises from different countries for business collaboration, technological offer and demand, technology transfer projects and search of partners for the development of European R&D projects.

3.4. Barriers and drivers to SMEs internationalisation

Almost 63% of the answers came from micro-enterprises and over 33% from small enterprises, which reflects the business reality in Extremadura. All defined sectors were represented, but Food and Beverages/Agrifood and ICT/Software and Consultancy Services had the higher percentage. This also confirms the strongest business sector in the region, which is Agrifood.

In order to explore the level of competitiveness of the regional companies, they were asked to look at themselves in comparison with the competitive companies in their sector.

On this regard, most of the companies consider the high quality of their product or service as the most important competitive advantage. Over half of them also add as a competitive factor the high qualification of the personnel and the low expenses for ensuring the activity of the company. Just a minority considered that custom development, effective marketing and trade mark of products or services are key factors of competitiveness

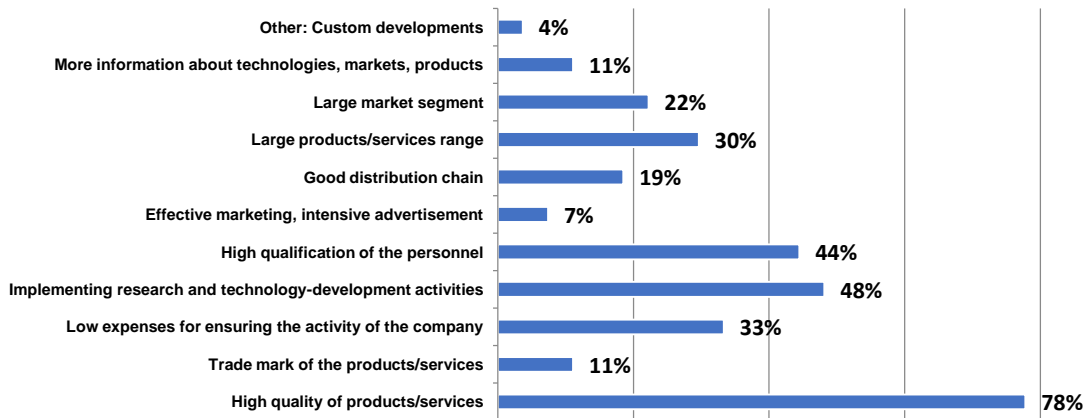


Fig.3.4.1 Factors, influencing competitiveness of SMEs (Extremadura Region, ES)

Regarding the strategic approach of SMEs to internationalisation, 64% of the companies that answer the questionnaire indicate that they have a definite strategy to access new markets. 90% of the SMEs that answered the questionnaire go international in order to reach new fast-growing markets as one of their main reason. Another strong reason stated by SMEs is to expand competitiveness by accessing to new technologies and know-how. When asked if the qualification of the management and the personnel of the SME is adequate to develop international activities, almost 70% of the SMEs have stated tat they have qualified staff. With regard to the collaboration between SMEs and support institutions, the regional administration, mainly Extremadura Avante, and the Chamber of Commerce are the most required institutions for internationalisation support.

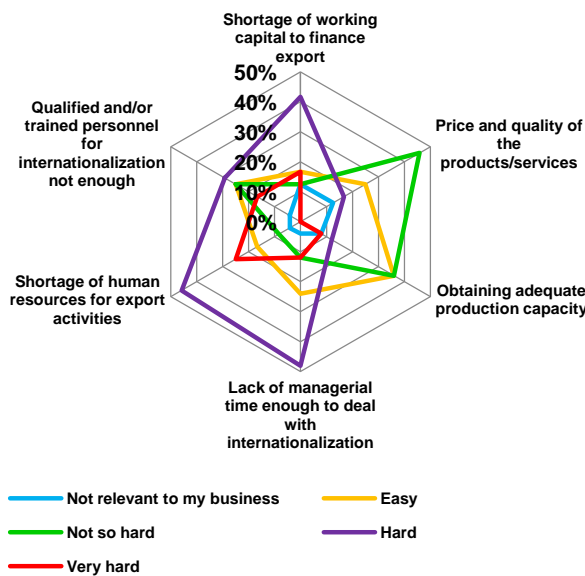


Fig. 3.4.2. Internal barriers for internationalisation (Extremadura Region, ES)

When analysing the **internal barriers**, the hardest obstacles for most SMEs are the shortage of human resources for export activities and the lack of managerial time to deal with internationalisation activities. Both barriers are linked with previous results of the questionnaire: most regional SMEs are very small, that can affect not only the availability of qualified staff for internationalisation activities but also the availability of time to perform those activities.

When analysing the **external barriers**, the hardest difficulty identified by the SMEs is to obtain home government assistance or incentives, what might be explained by the complexity of the administrative processes for companies with limited human resources and time.

Moreover, obtaining reliable foreign representation, the difficulty to ensure investments for internationalisation, or establishing relations with local partners follow closely as important external barriers faced by SMEs.

According to the SMEs, the most **valuable services that supported their first steps** on new international markets are: the adaptation of the web site for foreign customers and scouting services for international joint events. Other well valued services are innovation services and partner search in the foreign countries.

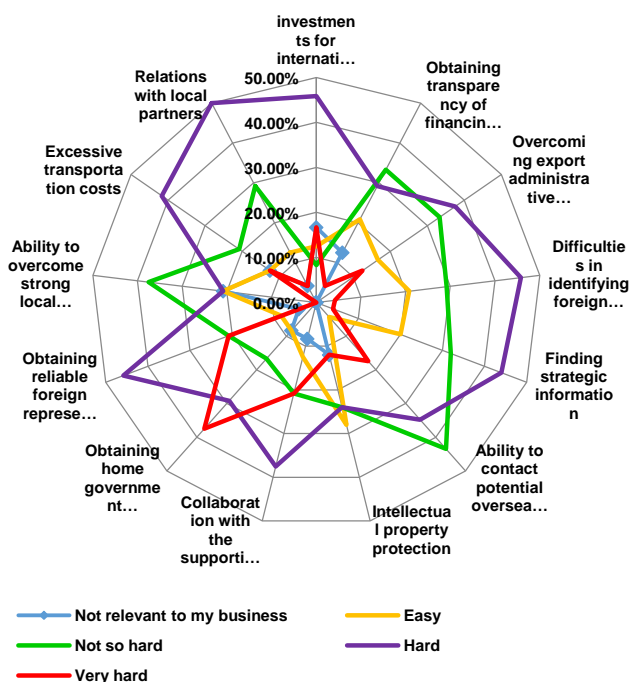


Fig. 3.4.3 External barriers for internationalisation (Extremadura Region, ES)

Regarding the **financial tools used by regional SMEs**, grants at any stage of the internationalisation activity and funding to attend international trade events and exhibitions are the most used. Along the same lines, SMEs consider consultancy and market research support as the most useful internationalisation support. In relation with the availability of qualified staff, which is one of the main internal barriers detected, training on internationalisation and new market entry strategy is the service with the highest demand. Specific training for internationalisation activities seems to be one of the most important support instruments for the companies in Extremadura.

3.5. Measured offered for SMEs internationalisation support

In order to have an overview of the regional ecosystem for internationalisation, the regional stakeholders were asked about the support services they offer.

All the stakeholders support exporting and importing activities at regional level, which are the most demanded by the SMEs. Other support is given in relation to foreign direct investment, technological partnership, etc., although mainly by public entities.

About the type of financial support services, half of the entities provide grants to support any stage of the internationalisation activity, which is very important not only for first steps stages, but also for consolidating the presence of the SMEs in foreign markets. The same occurs with funding to attend international trade events and exhibitions and for recruitment of

advisors, researchers, accountants as qualified staff is a need especially for micro enterprises.

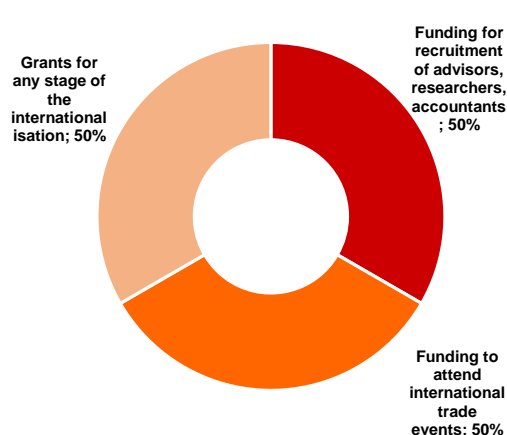


Fig. 3.5.1. Financial support services for internationalisation (Extremadura Region, ES)



Fig. 3.5.2. HR/managerial services for internationalisation support (Extremadura Region, ES)

In Extremadura SMEs can also find support on the development of human resources and/or managerial capacity through activities such as training on internationalisation and new market entry strategies, on market trends and opportunities or language and cultural training. These instruments increase the qualification of the staff involved in internationalisation activities.

The most used communication channels to provide information to customers or SMEs are an up-dated Internet portal and the organisation of events, although they also use other instruments. The communication strategy could be improved by using other ways of providing information.

Finally, as a result of the support, SMEs achieve different results. The more significant are that managers of SMEs improved their attitude to internationalisation because of trainings, courses, mentoring sessions, etc. and that when SMEs receive financial support, this directly helps their internationalisation.

However stakeholders still identified some aspects to be improved, mainly focused on:

- a better on-line distribution of the information provided to the SMEs;
- individual-oriented approach to attend specific needs or demands of the SMEs,
- and continuing working on a one-stop shop approach to deliver integrated services to SMEs.

3.6. SWOT analysis

STRENGTHS	WEAKNESS
<p>1)SMEs:</p> <ul style="list-style-type: none"> - High quality of products, mostly in the agri-food sector. - Existence of internationalisation strategies. - Experience in foreign markets. 	<p>1)SMEs</p> <ul style="list-style-type: none"> - Shortage of Human Resources for export activities. - Lack of managerial time to deal with internationalisation. - High number of micro SMEs. - Lack of ICT tools for e-commerce.
<p>2)Stakeholders/ instruments:</p> <ul style="list-style-type: none"> - Existence of a regional policy for the internationalisation of SMEs. - Cooperation among stakeholders. - Highly qualified staff providing services and advice to SMEs. - ERDF for internationalisation activities at least until 2023. 	<p>2)Stakeholders/ instruments:</p> <ul style="list-style-type: none"> - Huge amount of information might confuse users. - Administrative burden for SMEs. - Lack of instruments for specific sectors.
OPPORTUNITIES	THREATS
<p>1)SMEs:</p> <ul style="list-style-type: none"> - Wide range of instruments to support internationalisation. - Availability of specific training for human resources. - Emerging niche markets of High Quality and/or /Gourmet products. - Closeness to our main export/import market (Portugal). - Use of ICTs tools for opening new markets. <p>2)Stakeholders/ instruments:</p> <ul style="list-style-type: none"> - Improvement of the one-stop shop concept. - R&D infrastructures available at regional level. - Development of tools oriented to the needs of specific sectors. 	<p>1)SMEs:</p> <ul style="list-style-type: none"> - Lack of skilled people. - High dependence on public funds. - Existence of companies with similar products or services. - Existence of companies with more innovative products or services. - Deficient freight transport infrastructures that limit the access to foreign markets. <p>2)Stakeholders/ instruments:</p> <ul style="list-style-type: none"> - Cut-off European public funds. - Shortage of the business network at regional level. - Economic changes or crisis at global level.

Based on the analysis done in order to elaborate the State of Affairs of the Internationalisation Support in Extremadura region, several aspects may be highlighted:

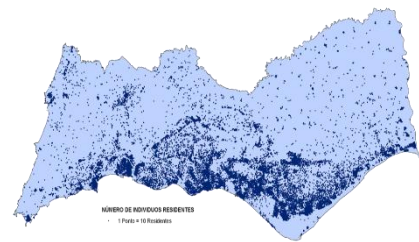
- Extremadura is a region with a **limited business network** based on micro and small SMEs, a low population density and a large territory, with an economy strongly linked to the tertiary sector and an industrial sector mainly related to the agri-food industry.
- As Extremadura is a border region with Portugal, this **proximity** offers our companies an opportunity as a starting point for their internationalisation activities.
- Regional SMEs have a wide range of **support** instruments provided by the Regional Government and other stakeholders for internationalisation activities.
- The Government of Extremadura also provide to the SMEs **R&D** services that might complement the internationalisation tools, helping SMEs to be more competitive in foreign markets.

- The **RIS3 strategy** of Extremadura has identified five main economic areas but public internationalisation support instruments are not specifically oriented towards them, which could be an important boost for the regional SMEs' potential of these sectors.
- Although there are several **cluster associations** in the region, none of them offer specific internationalisation services for members or joint actions in foreign markets, with the exception of the Energy Cluster.
- The **coordination** among regional stakeholders in order to design and program their support instruments facilitate the complementarities among institutions and avoid unnecessary duplicities. This is important as the range of instruments becomes wider.
- The lack of managerial time to deal with internationalisation can be a barrier, but an **internationalisation strategy** can become a useful tool for micro SMEs to optimise the efforts. Several instruments are offered at regional level, such as consultancy services to help managers to design better strategy for their products or services and an instrument to hire an internationalisation expert, instruments that can overcome the needs of SMEs.
- The University of Extremadura (Master in Research in Economy, Management and International Commerce) and the Regional Ministry of Education (Vocational Training of Higher Education in International Commerce) provide official degrees on International Commerce. However most SMEs still have the difficulties to find **qualified staff** to develop the activities to access new markets. On this regards, SMEs can access to several regional instruments for specific training, such as Formacoex and Transversal Services provided by Extremadura Avante.
- It is important to increase the **use of ICTs** in the internationalisation process of the regional SMEs, starting with a multilingual website (ie. Spanish-English-Portuguese) with e-commerce options as initial steps to access foreign markets.
- Although the range of internationalisation tools is wide and covers the main needs of the regional companies **customized tools** for each sector may be considered as an aspect to be improved. The introduction of new financing tools as **Venture capital** formula could also be an improvement in the regional support system for internationalisation.

IV. ALGARVE REGION, PORTUGAL

4.1. Portrait of the Algarve Region

The Algarve is the southernmost region of Portugal and occupies 4996 Km² (about 5% of the total national territory). Its total perimeter is 584 km. The region has a resident population of 444.390 inhabitants (about 4% of the resident population of the country). 52% of the total population of the Algarve region live in 5% of the territory, from which 70% live in urban areas.



Geographically, the Algarve region is located south of the Alentejo region, is bathed to the south and west by the Atlantic Ocean, forming part of the Mediterranean basin, and to the east by the Guadiana River that marks the border with Spain. Faro is the capital of the region that is divided into 16 municipalities (Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, São Brás de Alportel, Silves, Tavira, Vila do Bispo and Vila Real de Santo António). Internally, the region is subdivided into two zones, each with 8 municipalities: to the east “Barlavento” and to the west “Sotavento”. Having in consideration that Portugal does not present regional subdivisions, the regional autonomy is non-existent (exception made for the islands of Madeira and the Azores) and the Algarve is dependent from the national government.

Algarve is characterised by an economic structure constituted mostly by small and micro enterprises. The **most important economic sector** in the Algarve is the tertiary sector (**trade and services**), a result of the region's **main economic activity - tourism**. This subsector of activity assumes such importance in the Algarve that it represents, directly and indirectly, 87% of regional GDP. It should be noted that the Algarve receives about 5 million tourists per year.

The business sector and some activities in particular, strongly resented the unfavorable economic and financial situation over several years. Between 2008 and 2014, the number of companies headquartered in the region decreased by 14.5%, and last year was 57,817 companies. In 2014 construction ceased to be the second activity with the largest number of companies, falling to the 5th position, with almost 5 thousand companies than in 2008. "Wholesale and retail and repair of vehicles and motorcycles" lost 3,1 thousand companies, but remained at the summit position. These activities were the ones that registered the biggest break, both absolute and relative. Almost 82% of the companies that disappeared during this period belonged to these two economic activities.

Personnel employed in Algarve-based companies decreased by 21.1% between 2008 and 2015. This figure was well above the 12.9% registered in the country and corresponded to a loss of more than 36 thousand jobs in the region. In the same period, the average wealth created by each worker, reflected in the apparent productivity of work in the companies, kept amounts close to 22 000 euros, in the case of the country. Among all the Portuguese NUTS

II regions, the Algarve recorded the lowest amounts, 14 000 euros, 13% less than in the base year of the analysis, which led to an increase in the disparity compared to the national average of almost 10 % points.

In the context of economic activities, it is still important to make a brief evaluation of some indicators associated with international trade in goods, although the contribution of exports of goods to the Algarve economy is small. There has been an increase in the intensity of exports in the region. The contribution of exports of goods to GDP increased from 1.7% in 2007 to 1.9% in 2015. Although there are slight fluctuations in this period, there is a trend of increasing export intensity.

On the other hand, the rate of import coverage by exports has also increased continuously and steeply. In 2007, it was 43%, in 2010 it grew to 53% and in 2015 it reached 63%. However, the region continues to present one of the least favorable ratios among the various Portuguese NUTS II, a situation that would certainly be different if the “services” sub-sector was included in the equation.

The proportion of exports of high-tech goods, although modest, has also improved favorably, contrary to what has been observed at the national level. In 2007 it represented 2.9% of regional exports of goods and in 2015 it represented 4.5%. In the country, the importance of this type of goods in total exports of goods fell from 6.8% to 3.8%.

The great majority of the exports of the operators based in the Algarve went to the European Union, in particular Spain, which received 43% of the total regional exports of goods in 2014.

In the case of imports, the growth slowed down from 2007 to 2014, even though it was registered three consecutive years in which the variation was negative. By 2015, the data point to a much more intense increase in imports.

Among the different factors that negatively influenced business activity were the conditionalities on access to credit imposed by banking institutions, as a result of the increase in bad loans and difficulties in obtaining financing in foreign markets, which led to a lack of liquidity, which would have happened in the pre-crisis phase.

4.2. Internationalisation environment

The **Regional Operational Program CRESC Algarve 2020** highlights the instruments that intend to provide direct support to the internationalization of companies based in Algarve. Through the Axis 2 aimed at support internationalization and business competitiveness and qualified entrepreneurship, the ROP has the goals of:

- Encourage qualified entrepreneurship as a tool for promoting innovation, and diversification of the regional production base;
- Increase competitiveness and external awareness of products, and companies of regional the sectors identified in the Smart Specialisation Strategy (RIS3), to promote internationalization and export.

- Improve the competitiveness of enterprises and stimulate business investment, particularly in the context of the sectors identified in the Smart Specialisation Strategy (RIS3).

To achieve these goals, companies have available specific calls to internationalization activities (participation in trade fairs abroad, business missions), qualification (marketing investments, modernization and other) and innovation (investment in productive areas associated with the innovation of the product/service).

Through the ROP CRESCE Algarve 2020, the region **three specific financial instruments to foster internationalisation of companies** were available:

<p>Incentive System to Internationalisation</p>	<p>Targeted to SMEs based in the Algarve that can apply alone or in consortium (at least 10 companies). The ultimate objective - to strengthen the competitiveness of enterprises, to promote increased exports of high technology products and to encourage a highest integration of SMEs into international value chains, recognizing their importance in creating more jobs and more wealth. The typology of projects - knowledge of external markets; presence on the web through the digital economy; international development and promotion of trademarks; prospecting and presence in international markets; international marketing; introduction of a new method of organization in commercial practices or external relations; and specific certifications for external markets.</p>
<p>Internationalisation Vouchers (simplified projects)</p>	<p>A specific instrument to support the development and application of new business models for SMEs. It provides support to internationalization through simplified internationalisation projects aimed at promoting business diagnostics, identifying internationalization opportunities at the level of products/services and associated markets and appropriate marketing strategies, namely by enabling evolution in the value chain, including technical assistance to enable the immediate implementation of marketing decisions and initial exploration activities in external markets.</p>
<p>Support Incentives to Collective Actions - Internationalisation</p>	<p>It is complementary to the upstream and downstream of the incentive system that is directly oriented to companies and aims to boost their results and create or improve the surrounding conditions. The target - non-business entities, presenting individual projects or in consortium, with a maximum funding rate of 80%, in order to contribute to the improvement of the availability of collective or public goods capable of inducing drag effects on the economy. To support projects that integrate prospecting, knowledge and access to new markets, collaborative processes of internationalisation, knowledge sharing and training for internationalisation as well as integrated international promotion of goods and services.</p>

In order to provide technical support to exporting or potentially exporting companies, there are **10 Export Stores in Portugal**, part of the IAPMEI Agencies Network and in conjunction with aicep Portugal Global. Export Stores have as their main strategic objective the expansion of the national export base and are part of a policy of decentralization of support services, large urban centers, seeking a closer and attentive monitoring of the national business reality. In this relationship with the business fabric, companies can find information and technical clarifications about products and services to support the strategy of approach to international markets.

4.3. Main national and regional stakeholders

Entity Name	Scope	Type
CCDR Algarve	Regional	Regional Authority
ANJE Algarve	National with regional delegations	Business Association
NERA	Regional	Business Association
AMAL	Regional	Municipalities Association
University of Algarve	International	University
IAPMEI	National with regional delegations	Intermediate Organisation
Enterprise Europe Network	European with regional delegations	Intermediate Organisation
AICEP	National	Business organisation
Turismo do Algarve	Regional	Regional Entity
Ata	Regional	Business Association

The mission of **Regional Development and Coordinating Commission of the Algarve (CCDR Algarve)** is promoting environmental policies, city and land planning, regional development policies, promoting the coordinated actions of decentralized services at a regional level and providing technical support to local authorities and their associations. CCDR Algarve is also responsible for managing the European Structural and Investment Funds (ERDF and ESF) allocated to Portugal by the European Union, as well other financing instruments intended to promote regional development.

The **National Association of Young Entrepreneurs (ANJE Algarve)** is associating young Portuguese entrepreneurs, with a view to defending common interests and developing their professional activity, namely regarding training and information.

The main objective of the **Algarve Regional Business Association (NERA)** is the promotion and support of economic activities in the Algarve Region in the area of technology, research and development, economy, trade and industry.

AMAL is an association constituted by the 16 municipalities of the Algarve has as main mission to promote the development of municipalities and strengthen the joint identity of the

region, by strengthening the capacity to answer to common needs and increase inter-municipal cohesion.

The University of Algarve (UAlg) is the only public university in Algarve region and has 3 main roles: Education, Research and Knowledge Transfer. It is an important centre for cultural, scientific and technological development with strong regional, national and international ties. In the last three decades the University of Algarve has consolidated the link established with the regional business and with the public and private organisations, encouraging the transfer of knowledge and contributing to sustainable development with an impact across the community.

IAPMEI is a public institute which aims to promote competitiveness and business growth, ensure support for the design, implementation and evaluation of policies aimed at industrial activity, aiming at strengthening innovation, entrepreneurship and business investment in companies that carry out their activity in the areas under the Ministry of Economy, particularly small and medium-sized enterprises, with the exception of the tourism sector and the follow-up powers attributed to the Directorate-General for Economic Activities.

Aicep Portugal Global, E.P.E., is the Portuguese Agency for Investment and Foreign Trade, a business oriented public entity dedicated to the development of a competitive business environment. Through its Customer Managers, Export Stores and its external commercial network that, in articulation with the diplomatic and consular network, is present in about 80 markets. AICEP provides support and advice services on the best way of addressing foreign markets, identifying international business opportunities and accompanying the development of internationalisation processes of Portuguese companies, namely SMEs.

The **Algarve Tourism Association** is a private legal entity that takes the form of a non-profit association whose goal is promotion and dissemination of tourism in the Algarve and its regional products, in all its aspects, through the study, preparation and development of specific actions in external markets and the coordination between public and private regional entities, with a view to defining policies, objectives and strategies to promote Algarve tourism abroad.

4.4. Barriers and drivers to SMEs internationalisation

The survey is based on the questionnaires that UAlg has collected through the online questionnaires. The respondents were primarily micro businesses which are the 50% of all respondents, followed by small companies – 25% and 25% medium-sized companies. SMEs represent mainly tourism, food and beverages/agrifood sectors.

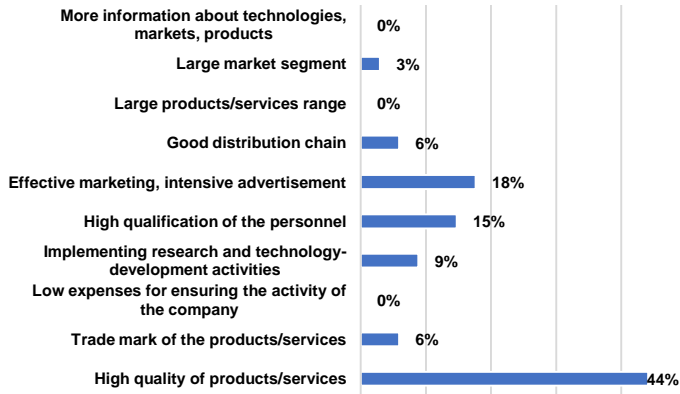


Fig.4.4.1. Most important factors, ensuring high competitiveness of SMEs (Algarve, PT)

When compared with other companies in the same sector, most of the companies consider that the high quality of products/service is the most important competitive advantage, followed by the effective marketing, intensive advertisement and the high qualification of the companies' personnel.

Implementation of research and technology-based development activities are considered as a competitive advantage

The public funds used by companies are mainly regional and the principal financial instrument used is grants, followed by loans. This data can be considered as an effect of the public funding distribution for internationalisation. As the Algarve is a convergence region, the companies from Algarve do not benefit from national funds, except in some specific sectors (as Sea or Tourism). In this sense, the most used funds for internationalisation is the one offered by the Regional Operational Program.

The SMEs face internal and external barriers for internationalisation. For **internal barriers**, companies highlight 3 main barriers: the lack of managerial time enough to deal with internationalisation, shortage of human resources for export activities and the need of more qualified and/or trained personnel for internationalisation.

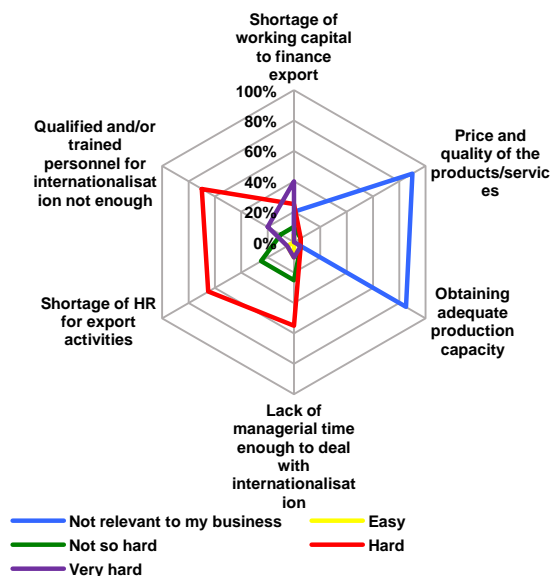


Fig. 4.4.2. Internal barriers for internationalisation (Algarve, PT)

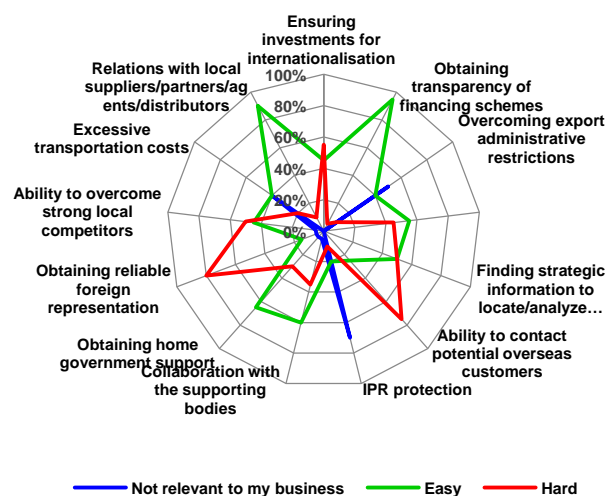


Fig. 4.4.3. External barriers for internationalisation (Algarve, PT)

These barriers are mostly connected with the fact that most of the companies are micro enterprises and very often they lack enough personnel to deal with all the companies'

domains. Considering the **external barriers**, the ability to contact potential overseas customers, obtaining reliable foreign representation and ensuring investments for internationalisation are the main barriers identified.

There are some supports crucial to foster the entrance in new markets. As **driving forces** for internationalisation, the companies inquired state that partner search in the foreign country, web site accustomed to foreign customers and scouting for funding opportunities are the crucial for internationalisation. Grants to support any stage of the internationalisation activity is the most used financial tool, followed by the funding to attend international trade events and exhibitions and funding/grants for recruitment of advisors, researchers, accountants. As stated before, the financial support is crucial to SMEs in the Algarve region.

The majority of SMEs have used trade missions, business forums and other promotional events to reach new markets and they are consensual in affirming the importance of regional funds.

4.5. Measured offered for SMEs internationalisation support

The questionnaire targeted to the Algarve stakeholders was answered by entities focused on SMEs internationalisation, majority of them having regional scope and focus of the services provided for SMEs are the support of innovations, providing training or educational activities and providing services support services for start-ups and microenterprises.

The stakeholders' support is focused in exporting services, followed by the support to foreign direct investments.



Fig. 4.5.1. Focus on services to internationalisation (Algarve, PT)

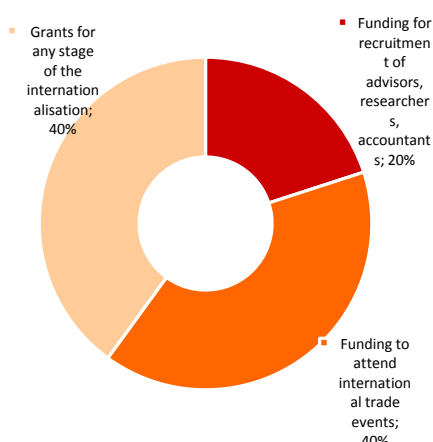


Fig. 4.5.2. Financial support services for internationalisation (Algarve, PT)

Financial support services offered are crucial to SMEs of the Algarve to reach new markets and reinforce their capacities to internationalisation activities. Stakeholders provide mainly grants to support any stage of the internationalisation activity, funding to attend international trade events and exhibitions and funding or grants for recruitment of advisors, researchers or accountants.

In regards to **non-financial support services** most of the stakeholders provide consultancy services, services tailored especially for start-ups and/or incubating services and market research.

Concerning the **services for developing human resources/managerial capacity**, export forums are the main service offered to companies.

When considering the **provision of information services**, partners search services, trade missions, business forums and other promotional events and the export promotional activities/marketing are the main supports offered to companies in the Algarve.

Stakeholders state that the main advantage of the services they provide is the actual and detailed information about technologies, markets, products, the integrated services and services tailored to individual SMEs demands (especially for start-ups and micro enterprises) and the large range of sector-specific services.

The most used communication channels to provide information to customers or companies are the organization of events and the internet portal updated regularly.

Stakeholders consider that different expectations of companies exist from the services providers regarding the available services. Maybe for these reason they are consensual in stating that the support could be improved by providing a better support by the public governments, promoting a better collaboration between the institutions (public or private) when providing SMEs support services for internationalisation. Enterprise Europe Network was the most mentioned EU instrument and the main fund used by SMEs is the regional fund.

4.6. SWOT analysis

STRENGTHS	WEAKNESS
<ul style="list-style-type: none"> - Existence of a regional policy for the internationalisation of SMEs. - Existence of funding available to internationalisation of SMEs. - SMEs focused in the quality of products/services. 	<ul style="list-style-type: none"> - Strong dependence on tourism sector. - Economic structure composed mainly by small and microenterprises. - Lack of training of SMEs. - Lack of time to deal with internationalisation. - Scarcity of human resources for internationalisation activities. - Reduced investment capacity. - Weak structure of market networks associated with regional producers.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> - Funding available to internationalisation. - Existence of instruments to support internationalisation. - Potential of tourism as a vehicle for external promotion of the region and regional products. - Available R&D support at regional level. - Existence of market for regional products and products of biological origin. - Existence of online tools for opening to new markets. 	<ul style="list-style-type: none"> - High dependence on public funds. - High dependence in the ROP instruments to internationalisation. - Lack of human resources for internationalisation activities. - Availability of specific training for human resources. - Competition from other markets.

Based on the INTRA methodology, a questionnaire survey and case study approach is best placed to provide deeper insights into the challenges faced by the SME. Within this framework, it is possible to highlight the following aspects:

- The proximity with the University of Algarve foster the emergence of new products and services and SMEs are focused in selling high quality products or services, which can increase SMEs in being more competitive in relation with international markets;
- Although several entities exist for supporting SME internationalisation with a broad range of tools, the internationalisation support to SMEs is still very incipient and can be improved in a tailored approach;
- The region lacks offers of specific training to improve internationalisation activities and to increase the success in foreign markets;
- SMEs develop internationalisation activities without a well-defined strategy;
- The lack of time to deal with internationalisation is mentioned as the main internal barrier when SMEs approach internationalisation;
- SMEs use online dissemination (website), but most of them do not sell online. Tourism and ICT sector are the main exceptions.
- The regional SMEs are very dependent on public funds to implement internationalisation actions, in particular the funding instruments available through Regional Operational Program.

V. WEST MIDLANDS REGION, UNITED KINGDOM

5.1. Portrait of the West Midlands Region

The West Midlands region (NUTS II) is one of the 9 regions in England. The region is considered a central Hub being centrally situated in England, it is very well connected by rail, road and air transportation. Most places in England are less than a couple of hours away and make the region very accessible.

The West Midlands region covers a total area of 13000 km² and has a population of 5.8Mio inhabitants (ONS 2016 estimation).

The region is quite geographically diverse including a combination of rural and urban areas. It is comprised of the United Kingdom second largest city, Birmingham. Its municipality includes the metropolitan districts of Wolverhampton, Dudley, Solihull, Sandwell and Walsall. This area is surrounded by the more rural counties of Warwickshire, Staffordshire, Herefordshire, and Shropshire, plus the metropolitan district of Coventry.



According to Office of National statistics in the UK (ONS), the West Midlands accounts for almost 10% of the UK population, making it a fairly large region. The region contributes for 3.6% of the UK Gross Value Added (GVA) with 14.8% produced by manufacturing which makes the West Midlands region the highest contributor in manufacturing out of all the UK regions.

Total SMEs	177 076
Micro	88 %
Small	10%
Medium	2%

Table 5.1.1. Structure of SMEs in the region by size

The West Midlands was the birth place of the Industry. The British are historically since the 18th century worldwide renowned for their creativity and invention. The area around Birmingham, which was called the Black Country due to the mining activities, has always played a significant role in the manufacturing industry.

This heritage is still significant in today's West Midland's economy. It is worth mentioning that the manufacturing sector has shifted towards high tech manufacturing, also called the **advanced manufacturing & engineering sector**. It includes the manufacture of computer, electronic and optical products, the manufacture of electrical equipment, the manufacture of machinery and equipment, the manufacture of motor vehicles, trailers and semi-trailers, and the manufacture of other transport equipment. This sector clearly plays an important role being a specialist sector in the region and accounts for 50% of the manufacturing jobs

The unemployment rate (age 16+) of 7% is very high compared to the rest of the UK which is at 4.9% (ONS 2016). It is worth mentioning that, the West Midlands region has a higher proportion of residents from an ethnic minority group with a very low employment rate. This would contribute to the higher unemployment rate of the region.

Another particularity of the West Midlands region is a larger difference between the workplace and the resident average weekly earnings. The workplace average weekly earnings refer to the average pay for full time employees in an area. The resident average weekly earnings refer to the earnings of people who live in an area. Therefore the larger difference, with the resident average earnings being higher than the workplace average earnings, means that people who works in the West Midlands tends to live outside of the region.

The West Midlands has a fairly strong and extensive research base in its universities, private institutions, commercial R&D and engineering facilities. However, this research base is smaller than in some other regions. The region has a relatively low investment in R&D compared to the UK average: the Gross Expenditure on Research and Development (GERD) as a share of GVA in 2014 was 1.68%, which was significantly below the UK average of 2.04%. The region had a higher Business Expenditure on Research and Development (BERD) than the UK average - 77% of GERD in the West Midlands compared to 64% in the UK as a whole (UK Office of National Statistics, 2013).

Most business in the region is not R&D driven; investment in R&D is low and has been falling in the recent past. Evidence suggests that the West Midlands also has one of the lowest proportions of 'innovation active' firms in England, although it performs much better on measured innovation outputs such as introduction of new products and processes.

The region is home to 10 universities including two research intensive institutions with strengths in science and technology fields: the Universities of Warwick, Coventry and Birmingham, which were ranked 11, 15 and 17 respectively in the UK in the 2016 Times Higher Education World University.

The key sectors in the local area are:

- Healthcare & Assistive Technology
- Advanced Manufacturing and Engineering
- Digital and Creative Industries/IT Services
- Logistics
- Culture and Tourism
- Business & Professional Services

According to the latest Regional Innovation Scoreboard results (2017), **West Midlands is ranked as an innovation leader**. The majority of the regions in the UK are ranked as innovation leaders. The West Midlands in the past years was ranked as an innovation follower in 2004, 2006, 2008 and 2011. It is worth to mention a strong performance increase of 17% between 2011 and 2017 to rank into the innovation leaders.

5.2. Internationalisation environment

The UK government has been very active in the promotion of SME Internationalisation, including both exporting and internationalisation. In addition there are a huge range of stakeholders that help provide vital information to SMEs considering internationalisation. These stakeholders play an important role in influencing attitudes and providing incentives to internationalise.

Moving on from the Brexit vote in 2016 there have been significant changes to many UK government departments in order to promote UK existing international trade whilst also growing new imports and exports. The department is responsible for driving the UK's place in the world and creating new opportunities for businesses.

The new Department for International Trade (DIT) has been tasked with developing trade and investment policy and promoting exports and investment around the world. Its main activities involve negotiation of trade deals and free trade agreements as well as providing the international support previously provided by UK trade and investment (UKTI).

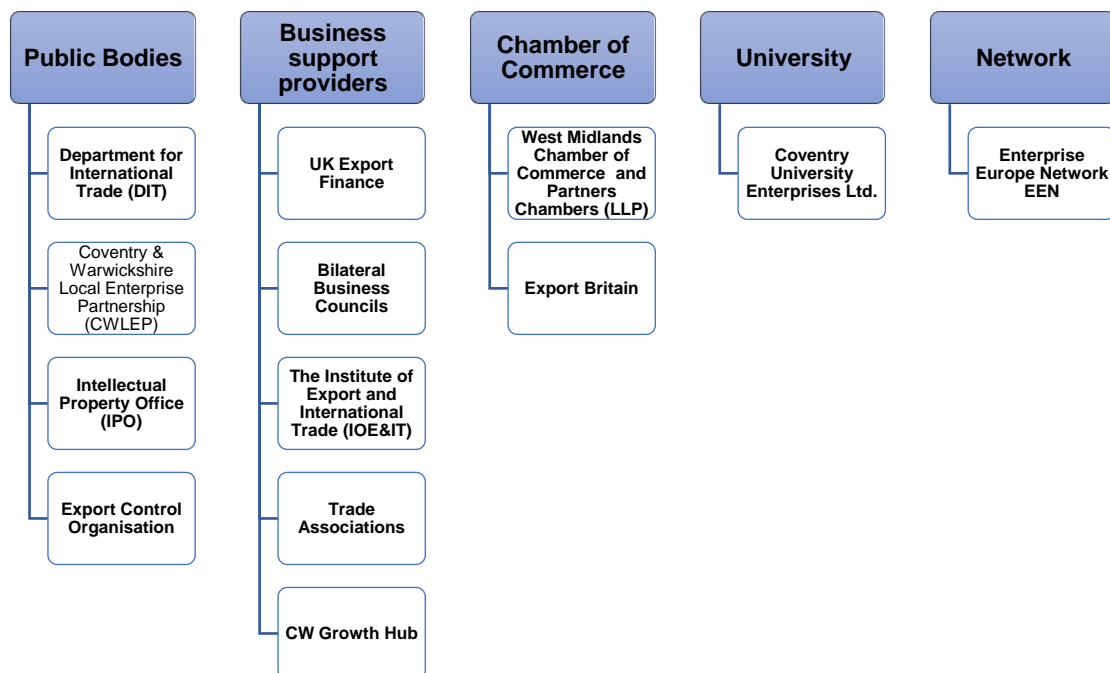
According to the Her Majesty Revenues and Customs (HMRC), which is the department in charge of collecting taxes in the UK, the total exports for the West Midlands region has been increasing for the last 3 years from the region of £26,500 to almost £30,000 in 2017. The highest country group of export was 43% that were directed to the EU. About the same percentage was equally exported to two country groups together: 22% towards North America and 22% towards Asia & Oceania.

The following initiatives to support SMEs internationalisation under the CWLEP ESIF instrument were identified in the region (more details will be included in the good practice guide about each initiative):

- CWLEP
- CW Growth Hub
- CW Warwickshire Business Support
- International Trade Midlands
- E-commerce advisors
- SME international Grants & New to Expo and innovation centre
- Venture House Business Centre
- The intellectual Property Asset Management programme
- The West Midlands supply chain
- International Trade Midlands
- Global Growth
- Trade Missions
- SME international Growth Programme - inward Missions
- INTATRADE
- DIT Working with universities
- Communication and Culture adviser
- International trade adviser triage
- Regional partnerships

- Masterclasses and workshops.

5.3. Main national and regional stakeholders



The main Government department in charge of Internationalisation is the **Department for International Trade (DIT)**. They are the official vehicle for Internationalisation support and operate at national, regional and local level. They also work in collaboration with other agencies such as the chambers of commerce or the Local Enterprises Partnerships (LEPs) at regional and local level. Below is a non-exhaustive list of National and regional Stakeholders who play a part in supporting businesses and in particular SMEs to internationalise.

The **Coventry & Warwickshire Local Enterprise Partnership** is an alliance of private and public sector organisations (including Coventry City Council, Warwickshire County Council and Stratford on Avon District Council) working towards a common, shared purpose: to grow the local economy, attract new jobs and investment, and increase prosperity.

UK Export Finance is the UK's export credit agency. It helps UK exporters by providing insurance to exporters and guarantees to banks to share the risks of providing export finance.

The Institute of Export and International Trade is the professional membership body representing and supporting the interests of everyone involved in importing, exporting and international trade.

Growth Hub have been established to be the go to place for ‘Anything Business Support’; their role being to signpost businesses to all of the available support on offer and to help businesses navigate the sometimes complex business and financial support programmes available. It is one-stop-shop for business support in the Coventry and Warwickshire area, the Growth Hub provides a range of services to support the growth of any businesses in the region. Their role is also to sign-post to other agencies when they are not able to support directly. Through partnerships, they can support companies by giving advices on an export strategy or getting the information they need on markets or partners.

West Midlands Chambers of Commerce and its Partner Chambers of Commerce work closely with each of the regions LEPs providing connectivity and business intelligence through chambers members and the broader chamber businesses networks. They help advice on policy, strategy setting and also provide practical support though the organisation of collaborative activities and LEP events.

As a subsidiary of Coventry University, **Coventry University Enterprises Limited (CUE)** is a gateway to support for SMEs, offering independent advice, consultancy and access to finance for all types of business from start-ups to those looking to work internationally.

Operating regionally, nationally and internationally, CUE focuses on assisting SMEs with technology start-up, innovation, technology transfer and internationalisation. CUE also leads on the delivery of the **Enterprise Europe Network (EEN)** in the East and West Midlands forming part of an international business support network with centres in over 54 countries.

5.4. Barriers and drivers to SMEs internationalisation

The survey is based on the questionnaires that CUE has collected through the online questionnaires. The typology distribution dominates the micro businesses which are 50%, followed by small companies – 35% and 15% medium-sized companies: this was expected because that figure reflects the characteristic composition of West Midlands companies.

Most of the companies surveyed (70%) believe that the most important **competitive factors** are “accessing new foreign markets”. Half of the respondent thought that improving the quality of their products or services, optimising the cost of their production and improving or increasing their marketing was also quite significant to ensure their competitiveness. It could be that the responses demonstrated that their focus has already been on developing their products to the best price/quality/specification and therefore to be more competitive they needed to focus next on new foreign markets.

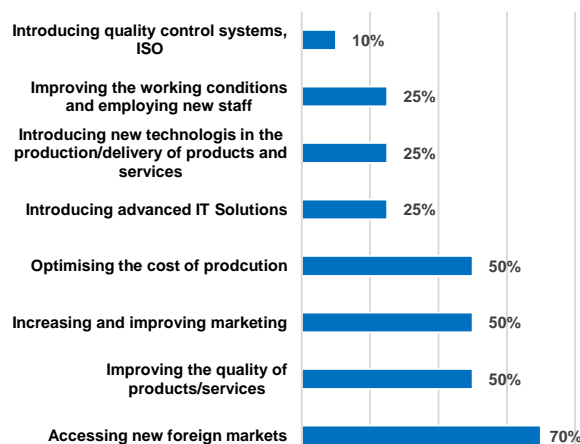


Fig.5.4.1. Most important factors, ensuring high competitiveness of SMEs (West Midlands, UK)

The biggest **barriers encountered internally** are linked to the shortage of working capital to finance export. The two other difficulties mentioned by the respondents were the lack of managerial time and the shortage of staff to specifically support internationalisation activities. It appears looking at these responses that being micro or very small companies, human resources and finances tend to be scarce and make internationalisation plans more difficult.

In terms of **external obstacles** met by the companies developing their international activities, it seems that obtaining reliable representation in a foreign market and the ability to overcome strong local competitors are the biggest barriers. It seems that they both relate to the knowledge of the new market they are intending to enter. A better knowledge of these markets including the industrial context and a trustful representative contact list should be able to decrease these uncertainties. On the contrary they think that the easiest tasks to deal with are the exports documentations requirements and the management with local suppliers or distributors.

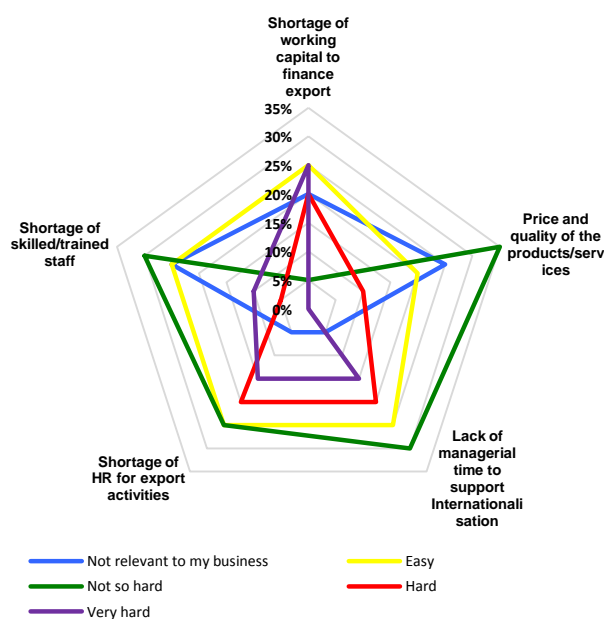


Fig. 5.4.2. Internal barriers for internationalisation (West Midlands, UK)

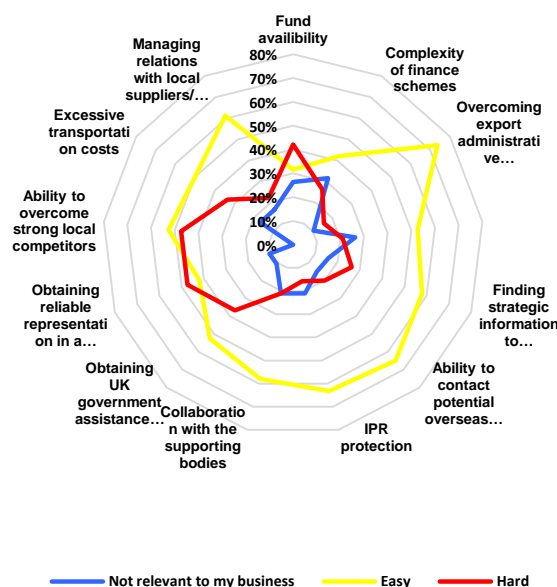


Fig. 5.4.3. External barriers for internationalisation (West Midlands, UK)

The opportunities for networking and business to business activities in overseas market were **the main support services SMEs have received or utilised for their first steps into international market**. The second service was directly connected to this with the opportunity to use partner search tool in overseas market. SMEs are placing a real importance in meeting the right partner in the new market. This would make sense and allow SMEs to gain quickly a local knowledge that a partner or networking would provide.

Funding is an important factor to support companies with their initial market research and in particular to fund their trade missions, attendance to exhibitions or fairs for example. This has been described as a first step in their internationalisation journey.

Even though most companies declared having an international strategy in place, it seems the conversion into real implementation is only due to their own knowledge and efforts. They have identified that in order to make their company competitive they need to access new markets but they seem to have difficulties finding the right person to talk to who can either inform them or act as a trusted representative in the market they are interested to penetrate.

They are motivated by the potential growth, the gain in market size and profit that internationalisation would mean. They can voice their desire and attempts to internationalise though they lack the confidence and the knowledge of how to do so. The insufficiency of information, their shortage of skills and experience in internationalisation, often means they don't address the right support agency.

5.5. Measured offered for SMEs internationalisation support

The stakeholders interviewed covered a large support portfolio for SMEs who want to internationalise. They tend to be complementary and support enterprises at different stages of their internationalisation journey. They also provide other types of assistance. It is clear that the main SMEs internationalisation support providers were very much agreeing to the results. Despite having interviewed stakeholders from different types of organisation, it was obvious that their aim is one: boosting regional growth by supporting SMEs become more competitive and internationalisation ready.

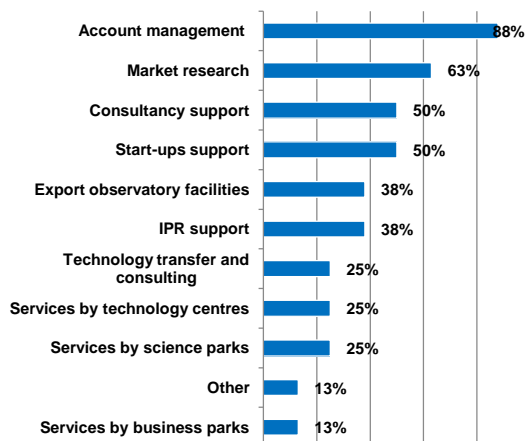


Fig. 5.5.1. Infrastructure and support services for internationalisation (West Midlands, UK)



Fig. 5.5.2. Information services for internationalisation support (West Midlands, UK)

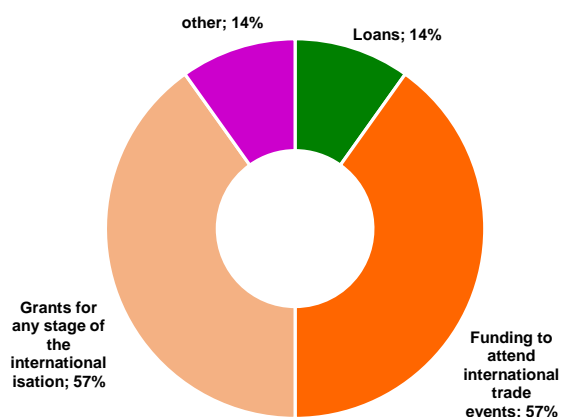


Fig. 5.5.3. Financial support services for internationalisation (West Midlands, UK)

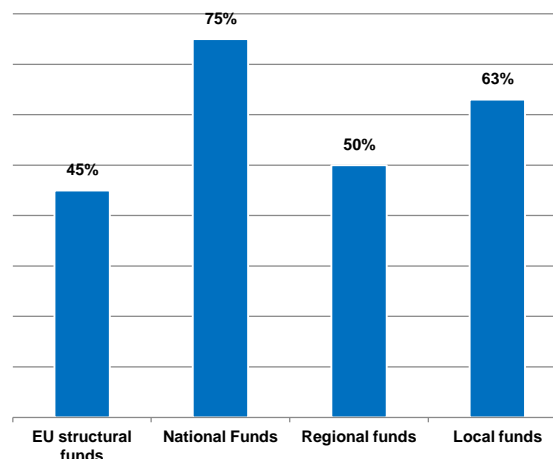


Fig. 5.5.4. Importance of public funds for internationalisation (West Midlands, UK)

The regions have sufficient support mechanisms, and provide adequate financial support to initiate companies' internationalisation first steps. The regional stakeholders are well aware that they need to work closely together to make sure that SMEs receive the most adequate support.

SMEs lack the time and staff to dedicate to learn the internationalisation process and rely on support providers to give them bespoke advices. It becomes difficult for support providers to satisfy the need to every SME despite the wish to do so.

Regional stakeholders have the expertise, capacity and knowledge to support SMEs, but it is not always easy for providers to reach every one of them.

More work needs to be done to simplify the information presented to SMEs but also to make internationalisation mainstream, the message in the region needs to be consistent as well as out there.

SMEs need to be supported along their customer journey, without feeling the administration burden, or feeling like they are sent from one agency to another. By working together, support providers will be able to give strategic advices with an appropriate initial diagnostic, customise the support according to the SMEs internationalisation experience and meet the expectations of companies.

5.6. SWOT analysis

STRENGTHS	WEAKNESS
<ul style="list-style-type: none"> - Exports form part of the governments drive to boost the national economy, aspiring to double the value of exports to £1 trillion a year by 2020 and getting 100,000 more companies to export. - DIT has been supporting enterprises and with a national strategy applied regionally the same support is available for all SMEs. - SMEs have access to several initiatives to support their readiness to export. 	<ul style="list-style-type: none"> - SMEs are restricted by the lack of capacity, time and resources to invest in exporting. - Potential loss of access to European countries. - SMEs do not feel rightly equipped and do not always dedicate the right resources to successfully export. - SMEs are not understanding the support available and how agencies are linked.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> - Huge opportunities in emerging markets such as Asia and the middle East in addition to opportunities following Brexit. - Government have opportunity to secure access to the Single Market – the government must ensure that SMEs have simple access to the single market. -Regional authorities are working together to deliver a consistent message across the region and improve the SMEs growth journey. 	<ul style="list-style-type: none"> - Potential vast changes to the UK export landscape due to the EU referendum, which calls for the UK to leave the EU. - Legislation will play an important role and could hinder future exports/imports for SMEs. - Regional SMEs are not always aware of the available opportunities.

The identification of top barriers to SME internationalisation challenges policy makers, managing authorities and stakeholders to intensify ongoing efforts at removing these resistant barriers, specifically limitations in finance and related resources, international contacts, and relevant managerial knowledge.

The lack of visibility for the SMEs of public sector support programs call for the improvement of the delivery framework. This typically requires different levels of ideas from stakeholders from the quadruple helix and centrally involves the target user and other key stakeholders.

Internationalisation support providers, in order to raise awareness and be more accessible by all, should have a good web presence. Easy and active links to accessible and relevant support programs such as UK government website should be included and cross referenced.

Overall, policy makers need to address the following questions, among others:

- Do we have the appropriate support measures to address the specific set of top barriers identified? If so, are the target SMEs sufficiently aware of them?
- How well does our support provision compare with European good practice?
- How responsive is this support provision to any observed local or sectoral aspects of the perceived barriers?
- Are they appropriately visible online?
- What do we know regarding target users' perceptions and expectations of our support provision?
- What about non-users' perceptions?

- What actions are needed to improve awareness and perceived usefulness of our support programs for SME internationalisation?

Based on the INTRA methodology, a questionnaire survey and case study approach is best placed to provide deeper insights into the challenges facing the international SME. The main focus of such future investigation should be on establishing how existing government provision is viewed by the intended beneficiaries and identifying key perceived gaps and required changes from the perspective of user SMEs. These insights could then allow for an analysis of the appropriateness and effectiveness of the relevant government internationalisation support programs on the long run.

Policy makers are able to learn from other regions and by having answered the questions above; they can develop a systematic improvement plan. The interregional learning from the INTRA project constitute the perfect platform for the exchange of knowledge and experiences but especially the part transfer of existing proven successful good practice to be implemented.

VI. ABRUZZO REGION, ITALY

6.1. Portrait of the Abruzzo Region

Abruzzo is an ordinary region of peninsular Italy located between the Adriatic Sea and the central Apennine, with L'Aquila as capital city. Although geographically Abruzzo is part of Central Italy, it is historically, culturally, economically and linguistically part of Southern Italy. It occupies an area of 10 831 km² and has a population of 1 320 245 inhabitants. The region is divided into four provinces: L'Aquila, Chieti, Pescara and Teramo, and in 305 municipalities Abruzzo borders the region of Marche to the north, Lazio to the west and south-west, Molise to the south-east, and the Adriatic Sea to the east.



Geographically, Abruzzo is located in Central Italy and Southern Italy, stretching from the heart of the Apennines to the Adriatic Sea, and includes mainly mountainous and wild land. The mountainous inland is occupied by a vast plateau including Gran Sasso, at 2,912 metres (9,554 ft) the highest peak of the Apennines, and Mount Majella 2,793 metres (9,163 ft). The Adriatic coastline is characterized by long sandy beaches to the north and pebbly beaches to the south.

Abruzzo is known as "**the greenest region in Europe**" as one third of its territory, the largest in Europe, is set aside as national parks and protected nature reserves: there are three national parks, (Parco nazionale d'Abruzzo, Lazio e Molise, Parco nazionale della Majella e il Parco nazionale del Gran Sasso e Monti della Laga), one regional park (Sirente – Velino), and 38 protected nature reserves, representing 36.3% of its total area, the highest in Europe. These ensure the survival of 75% of Europe's living species including rare species, such as the small wading dotterel, golden eagle, the Abruzzo (or Abruzzese) chamois, Apennine wolf, and Marsican brown bear. Abruzzo is also home to Calderone, Europe's southernmost glacier.

The industry has rapidly been developed, especially in the field of metal mechanics, **food, transport and ICT**. Other important industries include **chemical, furniture, handicrafts and textiles**. These companies count overall 71,000 employees, they are 1.911 and represent about 24% of the regional local manufacturing units operating in the sectors abovementioned, including artisan. 37.3% are located in the province of Teramo, 32.7% in Chieti, 17.6% in Pescara and 12.5% in L'Aquila.

From the point of view of distribution, by sector of economic activity, it is relevant the figure of metallurgy and metal products (23%), followed by food (16.8%), fashion (10.7%) and wood and furniture (7.1%). The marginal figure is the other sectors: exceeding 4% only machinery and equipment not classified in another place, construction materials, electronics and electrical equipment, rubber and plastic, paper and polygraphic paper, means of transport.

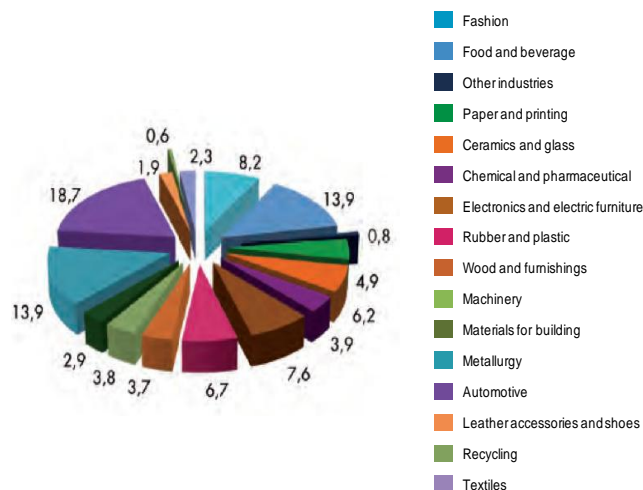


Fig.6.1.1. Distribution of employees for sector (%)
(Abruzzo Region, IT)

15.9% of companies carry out export activities. The province with the highest index of exporting companies is Chieti (1.1), followed by Teramo (1.03). The provinces of L'Aquila (0,98) and Pescara (0,77) represent values below the regional average. **The industry that has the largest number of exporting companies on the total is the chemical – pharmaceutical sector.** By considering also exports of services, the share of Abruzzo dramatically declined during the years of last crisis, reaching 0.4 percent of the total at national level, after having increased between 2000 and 2008.

The very low level of this indicator, much lower than the economic influence of the region, is particularly serious when it is considers that, exports of services, are completed in relevant part, from the expenses of foreign tourists in the region. It is therefore evident, that the wider untapped potential, of enhancing of the region's natural and cultural heritage, at international markets.

The delay of Abruzzo companies, in the field of productive internationalisation, clearly appears in the data on investments in foreign companies, which is low (0.6 percent).

On the other hand, Abruzzo appears instead to be moderately attractive as a setting for foreign multi-nationals. Its share of the total employees, in Italian companies with foreign participation, is by 2.2 percent in 2015, exceeding the economic weight of the region.

The importance of multi-nationals in the Abruzzo economy is crucial, in fact Abruzzo appears as the Italian region with the highest presence of multi-nationals in the manufacturing industry.

The loss sustained by Abruzzo exports during the crisis, reflects competitiveness problems, which have resulted in widespread declines in sectoral shares, with particularly strong decline in clothing (from 3 to 0.7 per cent of Italian exports), industry electronics (from 3.3 to 1.5 per cent), in the wood industry and paper (from 2.3 to 0.7 per cent), pharmaceutical (from 2.5 to 1.3 per cent). It is, therefore, a crisis that has affecting not only traditional products of local small business systems, which already had appeared in difficulty in previous years, but also other sectors characterized by a strong presence of externally controlled companies.

To this, a significant positive and noticeable effect of the sectoral export structure, which alone are reduced, by almost a quarter, the dimension of aggregate failure.

The sectors in which Abruzzi's exports were more specialized at the beginning of the period, and in particular automotive, electronics and pharmaceutical industries, have

increased their incidence on foreign demand for Italian products, supporting the aggregate share of the region.

6.2. Internationalisation environment

In 1995 Abruzzo Region established the joint stock company “Abruzzo Sviluppo” in order to:

- promote an entrepreneurial culture in the region,
- sustain territorial development projects,
- favor the internationalisation of the regional economic system,
- ensure a technical-operative support in the framework of economic valorisation and of the development of regional polices.

Furthermore, the Region has made available “Sprint Abruzzo”, regional helpdesk for the internationalisation, which operates in the Economic Development Department of Abruzzo Region. It is addressed to SMEs and economic stakeholders of the Region who want to look at foreign markets.

Sprint Abruzzo facilitates the access to information such as promotional, financial and of insurance ones, as well as tools and other activities to support businesses at International, communitarian, national and regional level.

Among the projects we can find “Abruzzo 2015” – *Call for projects of innovation and internationalisation of network’s contract in Abruzzo*. The call made available 3 million Euro. Specifically, in the field of internationalisation 19 projects have been funded.

Initiatives of the Abruzzo Region may be summarised with reference to the institution which made it:

- Regional Adimistration (publich authority);
- Abruzzo Sviluppo;
- Chamber of Commerce – Abruzzo Foreign Department;
- Chamber of Commerce of Chieti - CCIAA di Chieti;
- Chamber of Commerce of L’Aquila - CCIAA di L’Aquila;
- Chamber of Commerce of Pescara - CCIAA di Pescara;
- Innovation Poles.

The activities in the past programming period have not had the desired efficacy. The absence of institutional coordination between regional assessors, local authorities, agencies, instrumental organizations, chamber systems and trade associations, around shared projects and the lack of medium/long-term programming have produced isolated, temporary and fragmented results. Promotional initiatives have often been characterised by spot, extemporaneous interventions in which the active contacts, built relationships, and potentialities identified have not been the subject of new and subsequent system actions.

The division of initiatives has so far not allowed participating in missions or international initiatives for the joint promotion of the region from an economic, cultural and tourist point of view. The absence of a regional database useful for understanding the needs of businesses has not favored the creation of more targeted services.

The new methodological approach of the S3 and the Development Pact, to date, must still be materialised in concrete and applicable instruments. Lastly, it is important to point out an initiative by the Ministry of Economic Development, issued these days (November 2017), which has made 26 million Euro available to SMEs to develop their own internationalisation strategies. Vouchers may be used by applicant companies as a contribution to cover the costs of internationalisation services provided by companies registered on a specific MISE list. These services are:

- 1) Analysis and research on potential of specific markets.
- 2) Business Check-Up made by a Temporary Export Manager for identifying the most interesting foreign markets for the enterprise.
- 3) Business check-up made by a Temporary Export Manager with the aim of achieving an internationalisation project well-matched with the company's technical and economic potential.
- 4) Identification of potential industrial and commercial partners, support in the drafting of contracts and/or cooperation agreements and/or the creation of joint ventures.
- 5) Legal assistance in the provision of contracts and assistance with sanitary and customs regulations.
- 6) Identification of new potential customers.

The types of available vouchers for companies are the following:

- Voucher early stage: capital contribution of € 10,000.00, recognized under a service contract with a TEM company of at least € 13,000.00 (net of VAT);
- Voucher advanced stage: capital contribution of € 15,000.00, recognized under a service contract with a TEM company of at least € 25,000.00 (net of VAT). An additional contribution to the grant recipients of the advanced stage voucher of € 15,000.00 can be awarded.

6.3. Main national and regional stakeholders

Regional Administration	<ul style="list-style-type: none"> • responsible for the design and execution of Operational Programs on ERDF and ESF Funds through the activities of the Single Management Authority.
Abruzzo Sviluppo	<ul style="list-style-type: none"> • instrumental organization of the Abruzzo Region; in past programming periods it has been responsible for many activities relative to the internationalisation of regional SMEs
Chambers of Commerce of Industry, Crafts and Agriculture	<ul style="list-style-type: none"> • provide business support activities also for internationalisation, in particular by providing training activities
Confindustria Abruzzo	<ul style="list-style-type: none"> • performs representation activities and is often engaged in missions to develop links and agreements with the targeted foreign countries
University of L'Aquila; University of Chieti-Pescara; University of Teramo	<ul style="list-style-type: none"> • regional production world and directly engage in training and technology transfer activities for the competitiveness in order to address internationalisation processes.

6.4. Barriers and drivers to SMEs internationalisation

The typology distribution dominates the small businesses which are the absolute majority: this was quite expected because that figure reflects the characteristic composition of Abruzzo companies.

Most of the companies surveyed believe that the company's most important **competitive factors** are in the sphere of "quality": both in the improvement of the products/services offered and in the introduction of new technologies for the improvement of production. The expansion of the market to foreign countries is considered very important (45% of respondents), as the "social" aspects of the business are not perceived as decisive. In fact, the percentage (only 5%) of those who feel that improving working conditions can have positive results on improving competitiveness is very low.

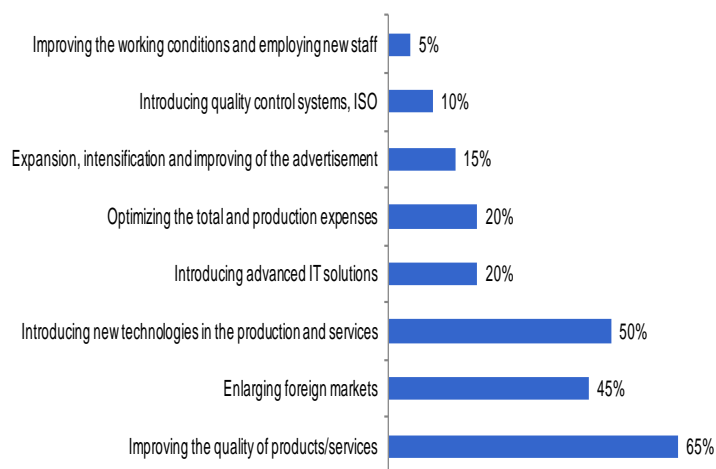


Fig.6.4.2. Most important factors, ensuring high competitiveness of SMEs (Abruzzo Region, IT)

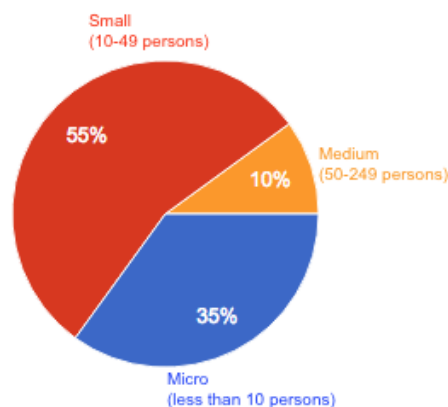


Fig.6.4.1. Type of SMEs (Abruzzo Region, IT)

Half of the surveyed companies have not used any public funds of any nature: this indicates the perception of an effective distance from policies at any level (European, national, regional, local) with respect to the business strategies.

Development policies are not seen as an effective tool to support the company.

Although only half of the companies claim to have a strategy for internationalisation, all believe that the degree of maturity of the internationalisation process is in a growth phase.

Another interesting onset is the fact that companies that have already developed internationalisation activities have collaborated mainly with the universities in this path.

As for the **internal barriers**, it is remarkable, that is:

- the main difficulty has been to finance internationalisation: the company's own funds are not currently being used to undertake internationalisation activities;
- human resources are not perceived as a particular problem;
- the price and quality of the products/services are considered adequate to deal with new markets;
- even getting adequate production capacity is not perceived as a crucial difficulty.

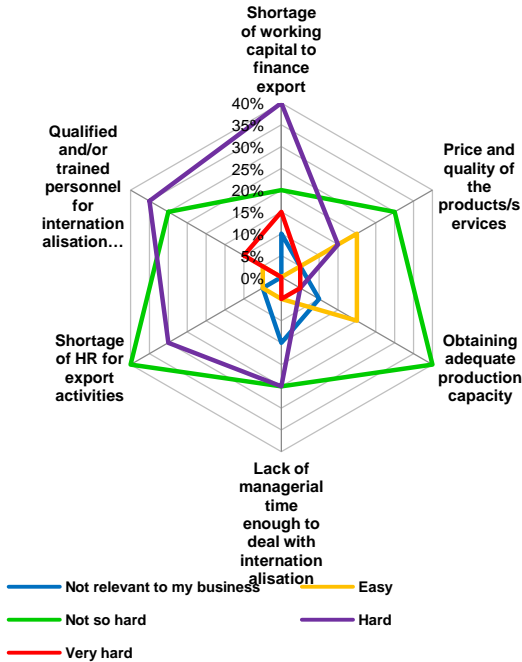


Fig. 6.4.3. Internal barriers for internationalisation (Abruzzo Region, IT)

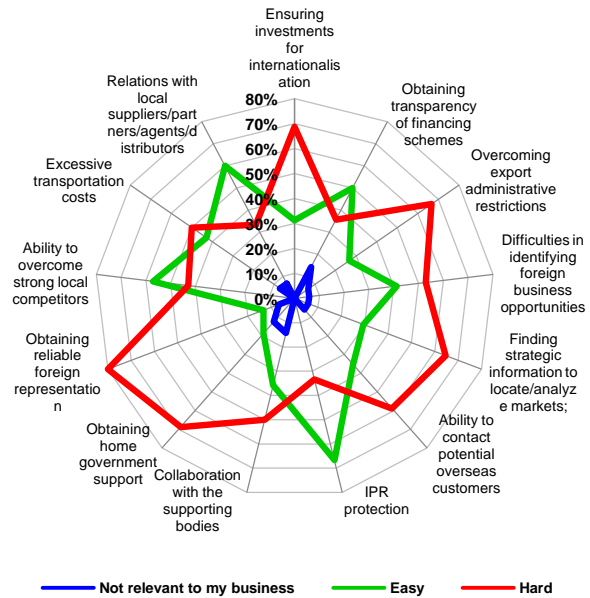


Fig. 6.4.4. External barriers for internationalisation (Abruzzo Region, IT)

As far as the **external difficulties** are concerned, the main points to consider are as follows:

- Main external complexity identified is to be able to obtain a reliable representation abroad; this is important because a very clear indication of a concrete need;
 - With respect to this element, one may hypothesise an interdependence with the lack of financial resources available since direct management of representation offices abroad can be very expensive and, second, this element may indicate that representation activities conducted by institutional entities are not perceived as sufficient;
- Financial difficulties are always relevant: it is perceived as difficult to find sources of funding dedicated to this; even in this case this element can be related to another: the perceived difficulty of finding support in their own government;
- All other barriers, though relevant, are not perceived as unsurpassible.

This analysis was also confirmed by subsequent sections of the survey, for example: the activity considered to be more important for internationalisation is the search for partners in the foreign country. In this context, it is important to point out the importance of innovation in R&D collaborations, which in some cases is considered more important than some basic services, such as the website for foreign forms or the search for channels of distribution. With regard to the instruments used in the internationalisation process, the responses to the survey reveal how frequently the various services/tools are not used:

- 62.5% did not use any type of financial instruments;
- 68.8% did not use any kind of human resources support;
- 75% did not use any kind of information services.

Companies have very low inclination to use European funds, especially in the context of internationalization, and they have a rough knowledge of existing initiatives. This low inclination may also depend on a observation of excessive slowness and difficulty in the access of procedures.

6.5. Measured offered for SMEs internationalisation support

The services provided in the field of internationalisation concern:

- 1) Facilitations of projects for internationalization by contract network in Abruzzo;
- 2) Financing advisory services at enterprises for:
 - a) drafting of international marketing plans,
 - b) searching for commercial or industrial partners,
 - c) legal, fiscal and contractual supporting in the internationalisation process;
 - d) for the brand realization.
- 3) International Networking,
- 4) Design and participation in b2b Fairs,
- 5) International patenting,
- 6) Technological services,
- 7) Certification schemes of systems and product

It appears in this case, that the strength of the offered services, is considered the direct collaboration with SMEs.

Given the different types of activities carried out by respondents to the survey, this issue can be considered as an attention related to the direct collaboration and listening to the needs expressed by regional SMEs.

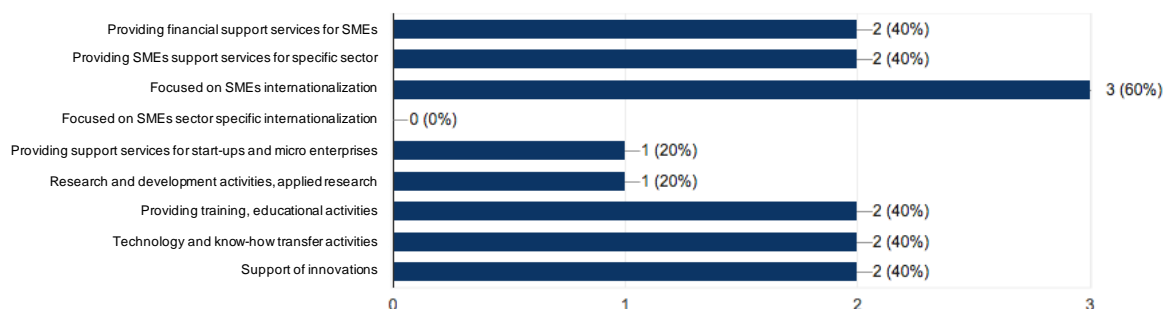


Fig. 6.5.1. Provided services to SMEs (Abruzzo Region, IT)

The results of the questionnaire submitted to the organizations have shown that the activities carried out within the supporting services to the organizations are several and concern the financial, non-financial and training fields.

The main expressed requirements concern:

- Improving the support by public administration;
- more proficient collaboration between the public Body and the involved institutions;
- the improvement of information services using ICT technologies;
- less bureaucracy.

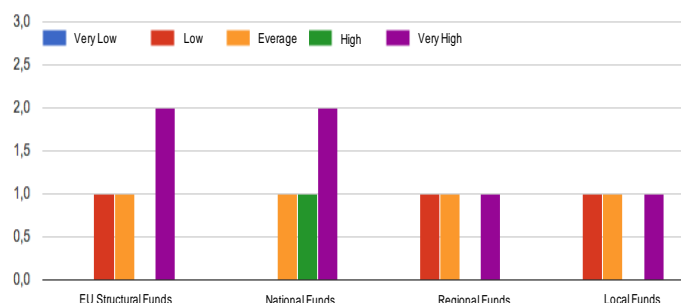


Fig. 6.5.2. Importance for SMEs internationalization by the public funds support provided (Abruzzo Region, IT)

6.6. SWOT analysis

STRENGTHS	WEAKNESS
<p>1)SMEs:</p> <ul style="list-style-type: none"> - Rich business world and consolidated foreign entrepreneurial relationship. - Large presence of multi-nationals in the manufacturing industry. - Regional exports are characterized by high sectoral specialization. - High quality export products. 	<p>1)SMEs</p> <ul style="list-style-type: none"> - Financial shortcomings for supporting investment for internationalization. - Lack of adequate knowledge of targeted market scenarios. - Poor knowledge and inclination towards the EU's facilitating tools.
<p>2)Organizations:</p> <ul style="list-style-type: none"> - Variety of provided services and existing supporting typology. 	<p>2)Organizations:</p> <ul style="list-style-type: none"> - Fewer collaboration between the various actors involved in support activities (Institutions, Entities, Service company).
OPPORTUNITIES	THREATS
<p>1)SMEs:</p> <ul style="list-style-type: none"> - Economic recovery can drive the investments for internationalisation. - Regional Smart Strategy Specialization focuses its efforts on areas already competitive in the export field that could be improved in the next future. - Multi-national companies established in the regional territory can drive the SMEs. <p>2)Stakeholders/ instruments:</p> <ul style="list-style-type: none"> - Some examples of action, launched by the Ministry of Economic Development, such as vouchers for internationalisation, may be an opportunity for the final beneficiary (SME) to have recourse to support services with a minor economic disadvantage. 	<p>1)SMEs:</p> <ul style="list-style-type: none"> - Uncertain and fragmented regional policy for the internationalisation of SMEs . - Lateness in the procedures related to regional policies for internationalisation supporting . <p>2)Stakeholders/ instruments:</p> <ul style="list-style-type: none"> - Lateness in the procedures related to regional policies for internationalisation supporting.

The regional environment in the field of internationalisation has been characterized, in the recent years, by a multitude of “on the spot” initiatives by different stakeholders, especially related to information and training.

The direct action of the Abruzzo region has been limited to a few initiatives: a regional office for internationalisation and a call for proposal for business networks.

From this point of view, Smart Strategy Specialization can be a step forward, since it focuses efforts also in the field of internationalisation in already competitive sectors in exports that can enhance their activities, by also attracting SMEs to its dependent industries.

However, this still requires a necessary improvement in the rapidity and effectiveness of policy execution procedures.

The most important aspects highlighted by the surveys are:

1. SMEs express a strong awareness of the importance of affirming themselves in international markets; such consciousness, in the economic crisis phase, becomes hardly in concrete and systematic investments and activities.
2. The main needs expressed by SMEs are the achievement of financial instruments and the detailed knowledge of the targeted foreign market; then maybe are considered less important (perhaps underestimated) the needs related to the implementation of suitable products for the new markets or to the improvement of the production process.
3. The facilitating tools provided directly and indirectly by the EU are, in the perception of SMEs, still unsuitable for two orders of reason: little knowledge of existing possibilities and excessive lateness and bureaucracy of procedures.
4. From the point of view of the organizations that develop supporting activities, even though all the different services and know-how are available at the regional level a primary requirement is the further integration of the activities and collaboration between the committed organizations.

Recommendations:

- Minimize the timing for launching of call for proposals at regional level for supporting SMEs in internationalisation processes.
- Reduce the bureaucratic complexity of access to facilities.
- Operating in continuous manner with actions already put in place such as:
 - involving different actors in supporting actions (One-Stop-Shop):
 - stimulating aggregation (partnership, network of enterprises) in internationalisation activities.
- Proceed rapidly in the direction of automating of provided public administration's services to increase the chances of interaction with SMEs.
- Provide further knowledge tools in relation to the initiatives promoted by the EU in every field and for internationalisation actions.

B. INTERREGIONAL ESTIMATION OF INTERNATIONALISATION NEEDS OF SMEs AND SUPPORTING MEASURES

VII. INTERNAL, EXTERNAL BARRIERS AND DRIVERS FOR SMEs INTERNATIONALISATION

7.1. Internal and external barriers for SMEs internationalisation

Despite the positive trends in facilitating internationalisation, many barriers still exist in front of the SMEs– internal as well as external. Firm size appears to be a factor - the smaller the company the higher barriers it faces.

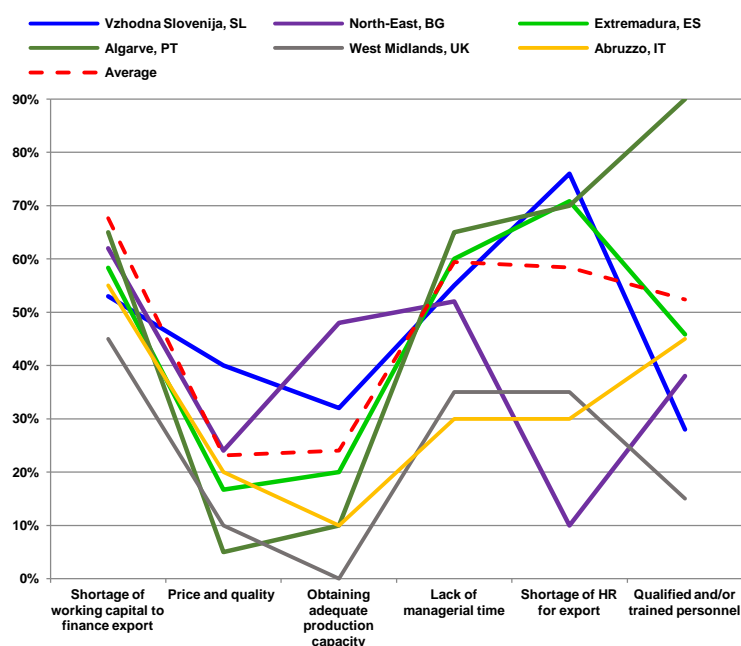


Fig. 7.1.1. The main internal barriers for SMEs internationalisation

The **main internal barriers** identified in the partners' regions are: shortage of working capital (56%), lack of managerial time to deal with internationalisation (50%), HR for export and qualified/ trained staff (49%).

The results show that SMEs from West Midlands and Abruzzo regions do not encounter any of these obstacles as an internal barrier as the rates are quite below the average ones. While for SMEs in Vzhodna Slovenija, Extremadura and Algarve regions, shortage of qualified HR for export activities and lack of managerial time to deal with internationalisation are assessed as very high internal barriers.

The internal barriers for regional SMEs in project partner regions seem to be more or less the same, but external ones vary due to the different internationalisation environment in which they operate.

The **main external barriers** for SMEs internationalisation identified are: obtaining reliable foreign representation (61%), ensuring of investments (55%), ability to contact potential customers (54%). Apart from that, SMEs from Vzhodna Slovenija region meet difficulties in ability to overcome the strong local competitors.

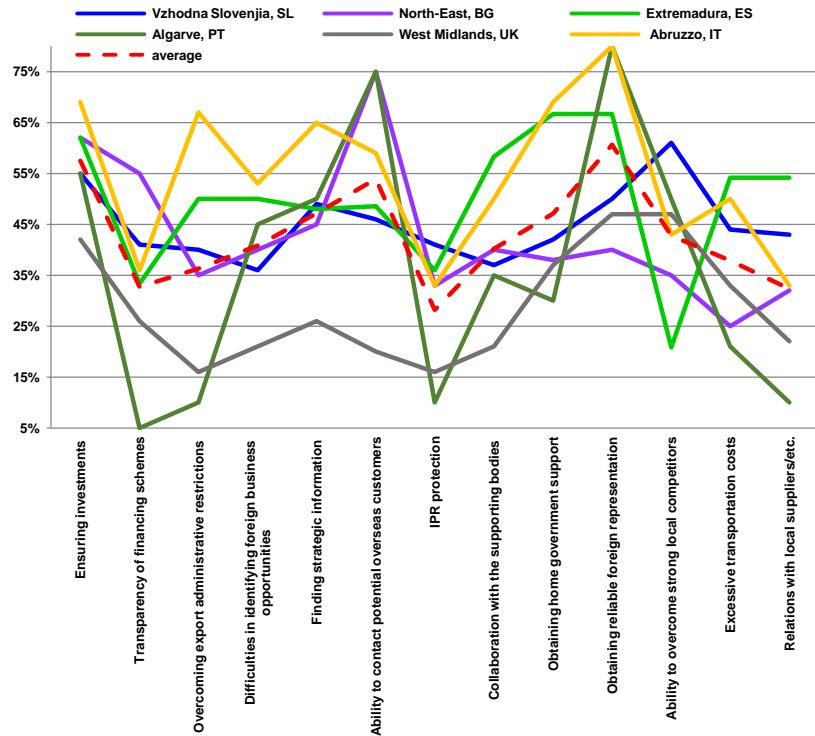


Fig. 7.1.2. The main external barriers for SMEs internationalisation

Companies from Abruzzo region face problems with export administrative restrictions and finding strategic information.

Contrary to the rest of the regions West Midlands SMEs declared that they don't see these obstacles as very high external barriers.

7.2. Drivers for SMEs internationalisation

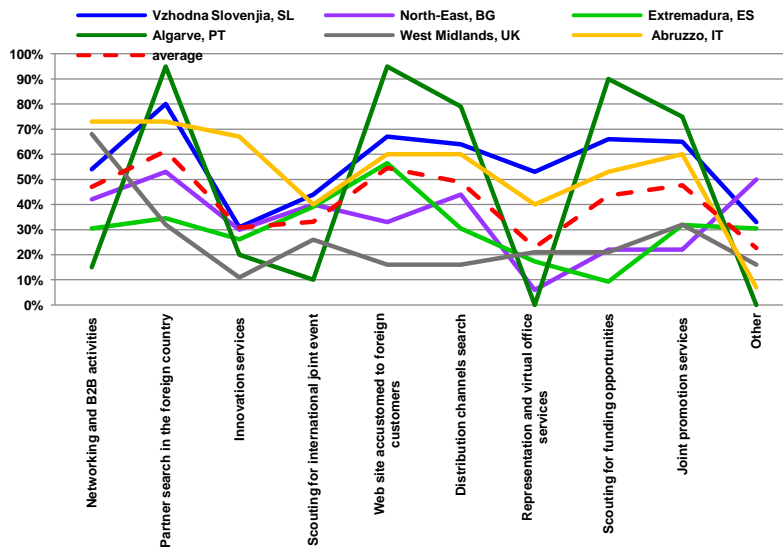


Fig. 7.2.1. Drivers: Services for support of 1st step for internationalisation

There are many factors which can support a company to go international. A set of several drivers for internationalisation are studied through the surveys. Each of them may take effect as a single factor, or in combination with one or more from the others. **The main identified drivers for the first steps for internationalisation** are: partner search (61%), web site accustomed to foreign customers (55%), joint promotion services (48%) and networking (47%).

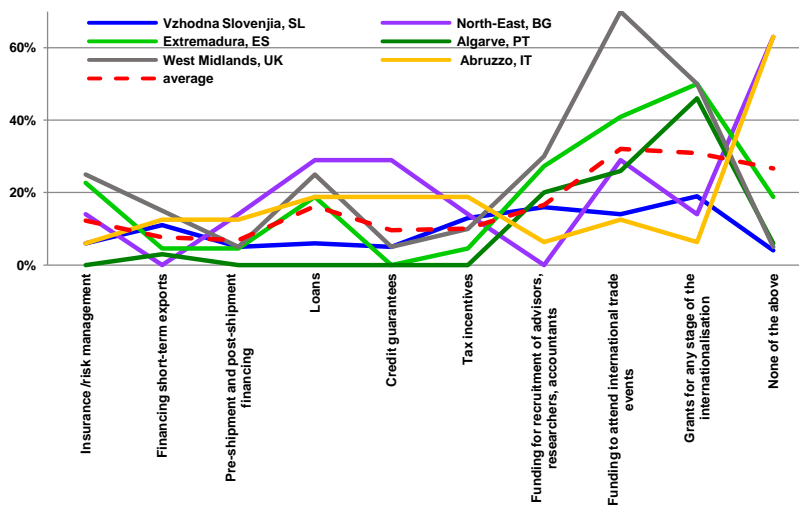


Fig. 7.2.2. Drivers: Financial Tools

The **main financial drivers** for internationalisation of SMEs in five of the regions are similar: funding for attending internationalisation trade events (32%), grants for any stage of internationalisation (31%), loans (17%).

West Midlands SMEs state that funding for attending international trade events is the main driver (70%), since 63% of the companies from North-East Region and Abruzzo Region say that none of the drivers would help their business to grow international.

VIII. SUPPORT MEASURES FOR SMEs INTERNATIONALISATION

Public support may provide a valuable contribution by addressing the problems perceived as the main barriers to internationalisation. In this context the available measures to support in the 6 project partners' regions are studied, including support infrastructure and non-financial support, financial tools, HR/ management capacity services, information support services and importance of public support to SMEs.

8.1. Support infrastructure and other non-financial support

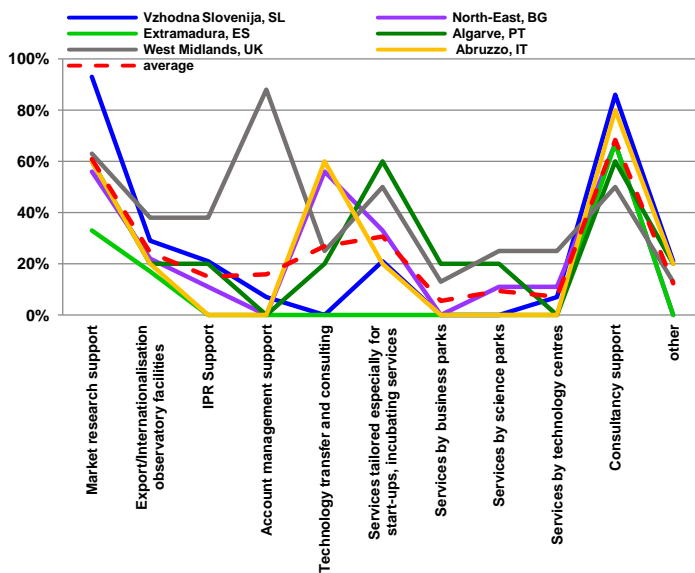


Fig. 8.1.1. Support measures: Infrastructure and non-financial support

The main non-financial services and support infrastructure provided to regional SMEs are reported to be: consultancy support (68%), market research support (61%) and services for start-ups (31%).

Vzhodna Slovenija SMEs are most likely to get market research support (93%) which is in line with their main external barrier - ability to overcome the strong local competitors.

SMEs in West Midlands mainly use an account management support (88%).

Besides consultancy support, SMEs from North-East Region and Abruzzo Region get support for technology transfer and technology consulting.

8.2. Financial tools

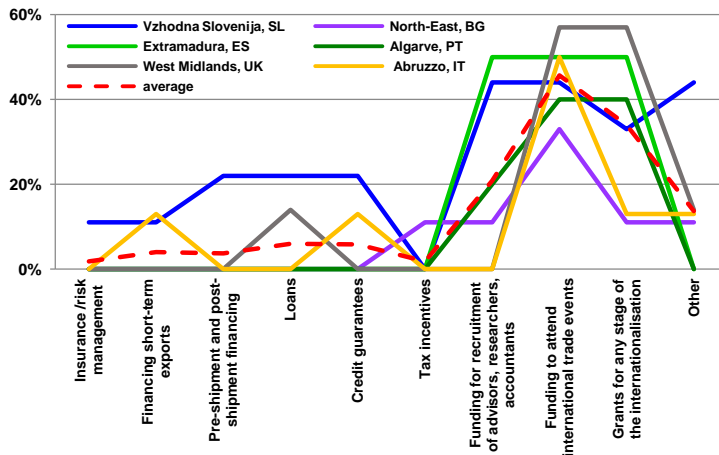


Fig. 8.2.1. Support measures: Financial tools

The next measures concern the financial tools with particular focus for supporting SMEs. The **main provided financial support measures** are in compliance with the main identified financial drivers for internationalisation - funding for attending internationalisation trade events (46%), grants for any stage of internationalisation (34%) and funding for requirument of advisers, reserchers, etc. (21%).

8.3. HR/ managerial support services

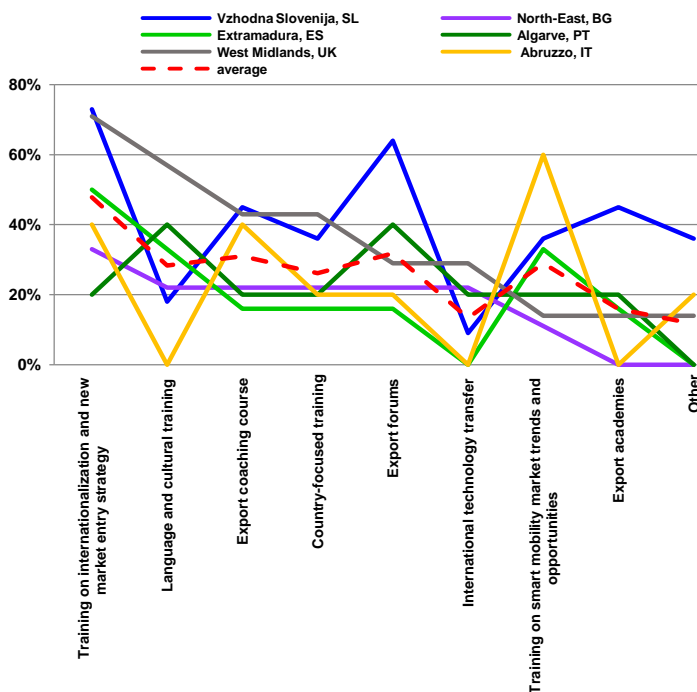


Fig. 8.3.1. Support measures: HR/ managerial capacity

According to the stakeholders, the **HR/managerial support services** that SMEs utilise most are training on internationalisation and new market entry strategy (48%), export forums (32%) and export coaching courses (31%).

Apart from that organizations from Algarve region provide mainly support in language and cultural training (40%).

Abruzzo regions' providers support mainly training on smart mobility, market trends and opportunities (60%).

Although SMEs from North-East region reported that one of the main internal barrier is lack of HR for export and qualified/ trained staff (48%), the level of provided support in this direction is not very high.

8.4. Information support services

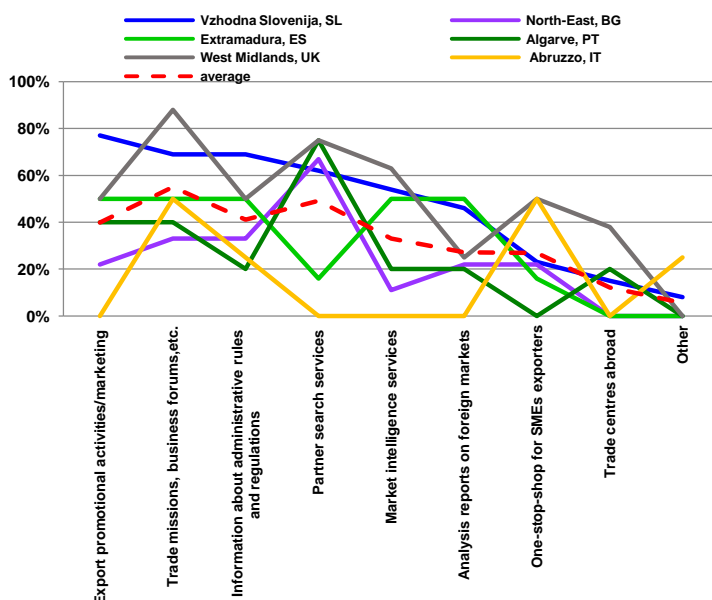


Fig. 8.4.1. Support measures: Information services

When speaking about **information support services** it is not a surprise that the most provided services are traditional ones - trade missions and business forums (55%), followed by partner search service (49%), information about administrative rules and regulations (41%) and export promotional activities/ marketing (40%).

One-stop-shop for SMEs exporters should be enhanced. Instead of just information provision, the whole range of services in support of SME should be included in the one-stop-shop.

Only stakeholders from Abruzzo and West Midlands regions reported a high level of providing such support (50%).

8.5. Importance of public support to SMEs

Public support may provide a valuable contribution by addressing those problems: obtaining reliable foreign representation, access to finance, access to potential customers, ensuring trained and high qualified staff to deal with internationalisation and overcoming the strong local competitors. Although there are already many programmes and initiatives to support SME internationalisation on EU level, they remain largely unknown: the percentage of SMEs that are aware of these possibilities is low in all project partners' regions. This highlights an issue in terms of EU initiatives visibility and that more effort should be placed into informing SMEs, making them aware of the support they can access and make sure they know how to find it.

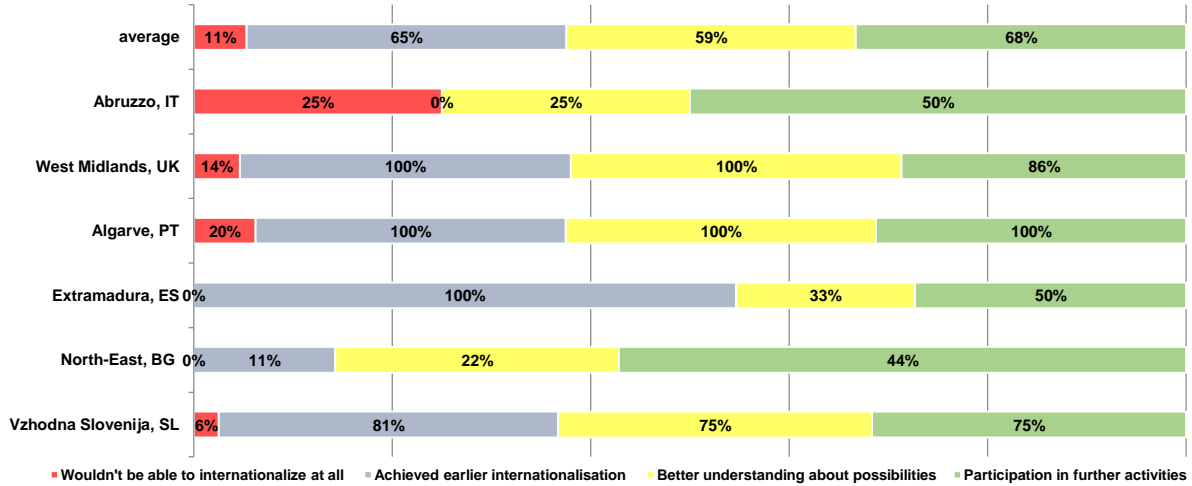


Fig. 8.5.1. Importance of public support to SMEs internationalisation

SMEs clearly appreciate the public support: 68% of those using public support measures provided by the support organizations/governments say that they helped them to engaged in additional internationalisation activities, 64% of them achieved earlier internationalisation than they would have done otherwise. Only 11% of SMEs say that without public support they wouldn't be able to internationalise at all. For SMEs from North-East and Extremadura regions this rate is 0%. This means that companies do not rely only on public support in their path to internationalisation.

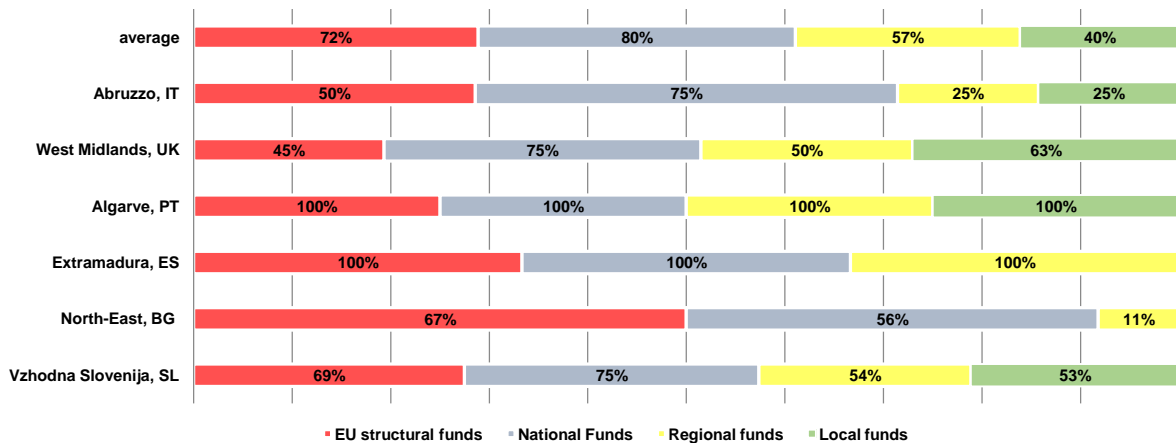


Fig. 8.5.2. Importance of public funds for SMEs internationalisation

Distribution of importance of public funds for SMEs internationalisation depends to a large extent on funding schemes applied in each involved region. Even though, the role of national funds (80%) and EU structural funds (72%) is highly appreciated by the interviewed organizations. Only for Extremadura and Algarve regions the importance of public funds from all available sources is equal (100%).

9. CONCLUSIONS

The identification of top barriers to SME internationalisation challenges policy makers, managing authorities and stakeholders to intensify ongoing efforts for removing these resistant barriers, specifically limitations in finance and related resources, international contacts and relevant managerial knowledge.

The lack of visibility for the SMEs of public sector support programs call for the improvement of the delivery framework. This typically requires different levels of ideas from stakeholders from the quadruple helix and centrally involves the target user and other key stakeholders.

Internationalisation support providers, in order to raise awareness and be more accessible by all, should have a good web presence.

Overall, policy makers need to address the following questions, among others:

- Do we have the appropriate support measures to address the specific set of top barriers identified? If so, are the target SMEs sufficiently aware of them?
- How well does our support provision compare with European good practice?
- How responsive is this support provision to any observed local or sectoral aspects of the perceived barriers?
- Are they appropriately visible online?
- What do we know regarding target users' perceptions and expectations of our support provision?
- What actions are needed to improve awareness and perceived usefulness of our support programs for SME internationalisation?

Based on the INTRA methodology, a questionnaire survey and case study approach is best placed to provide deeper insights into the challenges facing the international SME. The main focus of such future investigation should be on establishing how existing government provision is viewed by the intended beneficiaries and identifying key perceived gaps and required changes from the perspective of user SMEs. These insights could then allow for an analysis of the appropriateness and effectiveness of the relevant government internationalisation support programs on the long run. In order to increase the effectiveness of the provided support, it is necessary to be improved:

- 1) cooperation between the institutions;
- 2) support from central and local authorities both through creation of adequate financial instruments and through specific instruments to promote internationalisation;
- 3) on-line distribution of the information provided to the SMEs;
- 4) individual-oriented approach to attend specific needs or demands of the SMEs, and
- 5) one-stop shop approach to deliver integrated services to SMEs.

Policy makers are able to learn from other regions and by having answered the questions above; they can develop a systematic improvement plan. The interregional learning from the INTRA project constitute the perfect platform for the exchange of knowledge and experiences but especially the part transfer of existing proven successful good practice to be implemented.

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