

What Kind of Business Ventures Should the European Union Funding Target in Central and Eastern Europe

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Abstract

European Union financing through the different financing mechanisms and programs of the European Union can present a competitive advantage for business start-ups. More specifically, European Union financing can help bring to the world and the markets projects which would have not otherwise seen the light by simply relying on markets, due to unavailable or insufficient financing for incipient businesses.

The area of Central and Eastern Europe by comparison to Western Europe can be generally seen as a more fertile ground for business start-ups because the markets are less crowded by experienced or technologically driven businesses. Legislation, traditions, ways of doing business are also different and heterogeneous. As such, the area can be seen from a macroeconomic point of view as strategically important for business start-ups in the European Union and the European Union can be a differentiating financing partner for the incipient businesses in the area. As such, a symbiosis between the two can be found if the European Union financing programs can either discover, triage and invest into businesses which are either socially beneficial or economically and financially profitable in the long term.

This paper aims to explore what kinds of businesses European Union funding can target and arguments why these options are economically viable.

Keywords: *European Union financing, Central and Western Europe business start-ups, social profit*

JEL classification: F00, F02, F19, F21, H00.

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1. Introduction

This paper aims to address the issue of what the European Union can do for the development of small businesses. More specifically, it wants to address what sectors of business activity, the European Union can finance in Central and Eastern Europe in order to drive sustainable business development.

When discussing funding for different sectors, there are key sectors of investment that the European Union may prioritize for fields relating to new technologies, security or others. However, most of these operations are run by large companies and are not covered in this paper. This paper focuses on funding that can be granted to small businesses and if possible, find concrete areas for these business financing. Also, while some authors (such as Sabina Fati, 2002), make a

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clear distinction between countries of the Visegrad group and South-Eastern Europe, this article takes the area of Central and Eastern Europe as a whole for its objectives. While the European Union funding has had impacts, especially in institutional and educational programs such as “The actor of my future” (Canea Gabriela, 2013), this paper wishes to emphasize the role that can be had in the funding of small and medium enterprises. Some authors such as (Păun Cristian, 2015) warn caution when European financing is applied to groups of countries because of their diversity, however I believe that a targeted approach for certain fields can have its merits.

There is a discrepancy between venture capital available in the European Union compared to the United States for example. This was revealed in a study conducted by the European Commission, which attempted to find the global positioning of the European Union, with strengths and weaknesses as well as centers of excellence (The European Commission, retrieved 2022). When discussing the availability of finances to businesses in the European Union, an important discussion must be made in relation to member states. Since every business started in the European Union is considered a product of its own country of origin and not the European Union, there is a wide disparity between European member states on the funds available, with the most being available in the more developed countries, which have either private banking initiatives to fund incipient business or government projects. As such, larger countries such as France and Germany, for example, with both an older history of better organized government institutions, as well as working markets and longer history of businesses and capitalism, are more fertile grounds to start new businesses than, for example, smaller, Central and Eastern European Countries.

The Central and Eastern European countries still face a large disparity in terms of institutional framework, with fewer businesses, more unclear and cumbersome legislation as well fewer personnel prepared to start businesses and train employees, compared to the Western counterparts.

Western Europe, having been for a longer time a center for business has, however, in this sense a possible disadvantage in terms of competition and a crowding of businesses targeting the same groups of customers.

European Union funding of small businesses, however, is a game changer in many ways, especially in countries where the funding is not otherwise available and can determine the difference between businesses seeing the light or not; or in cases where other types of funding such as bank loans are too expensive or state-sponsored programs provide many bureaucratic difficulties in accessing the funds.

The European Union funding mechanism is complex and done through a variety of different programs. The most notable for the purpose of this paper are non-reimbursable funds granted directly through institutions to small business founders such as the Start-up Nation program in Romania (Start-up Nation, retrieved 2022).

This paper will not analyze this program, its recipients or benefits and will not focus on the organization of this kind of program and its rules and inner

workings. Instead, the paper wishes to create a possible guiding objective for the future, irrespective of the mechanism used for the funding, the purpose being the financing of business.

2. What kind of activities to fund

The world of small businesses is very diverse and much more heterogeneous than that of large businesses. Conversely, there is usually not necessarily a direction for the field, a clear list of companies activating and also change in the field is very different and difficult to quantify since there is no clear leader and direction is only loosely set in the way of national or international legislation. However, the advantage of the small business is that it is much more creative, much more flexible, not tied to a brand or a long-term business plan created by a central vision.

Small businesses also do not have the backing of large financial reserves or direction from headquarters as is the case of many large companies, leaving them much more independent as well as facing more business threats to their direct business continuity.

I will argue that, unlike large, international corporations that can uproot and use some of the same people, technology and working strategies in new markets, or slightly adapt existing product offerings to suit new markets; small businesses are much more regionally locked and need to focus much more on specific, local advantages, that they can harness and in which they can have a competitive advantage. Some of these factors can be geographical, cultural, or can include the identification of a specific niche of customers to serve or the identification of a specific niche of tastes to serve for a certain time.

As such, when lumping together the loose group of businesses in Central and Eastern Europe, I am aware that in reality, these businesses are very dependent on their country of origin and even their region of origin for their characteristics, but this is a loose feature that can be attributed to them having in common.

Another dissimilarity that small businesses have in common with large businesses is the fields that they can be reasonably expected to cover. While certain fields which serve the general society such as the generation of large scale electricity, can be met only by large players, small businesses are the ones that supply individual, physical person customers in fulfilling more personalized and diverse needs most of the time and also filling in gaps left by the bigger players in other fields.

In 2014, a study concluded that the European Union citizens were on average 1.2 times richer than in 2004 but 1.5 times more indebted. At the same time, a shift was observed by the authors in investments which have a high impact on personal wealth accumulation but low impact on economic long term growth such as real estate. The phenomenon of the great rebalancing between West and East (where other countries have been growing faster than the West in the past

decades) represents an opportunity in terms of higher exports to these countries where the middle classes are growing (F.Nicoli and F.Zuleeg, 2014).

3. Main fields to fund

The following sectors will be argued in this article to have a good potential for long term investment in Central and Eastern Europe based on 3 criteria. First of all, they are fields which currently offer returns and are underserved. Secondly, they are based on regional, specific, absolute economic advantages. Thirdly, they have a potential for growth in the future (represented by higher sales, more costumers bringing in higher spending), with the possibility of long-term sustainability.

4. Tourism

The tourist sector is underserved in Central and especially the Eastern European Union. While some areas are focused on concentrated geographical tourism such as local mountains, beaches or historical landmarks, there are many others which are currently not served or underserved. These are usually natural zones of beauty or sites with important historical presences that have not been properly organized and marketed. For the latter, the possibility of virtual tours is also possible, in the context of many activities being opened by Internet connectivity. However, the main focus of the activity can be on the physical tourism whenever possible in order to provide a distinct, unique experience for customers.

5. Beverages

This sector has, in recent years, seen high competition in the realm of small and medium enterprises. Specifically, there is a high competition between producers to have their products admitted on the shelves of large supermarkets operating in larger cities. These sort of collaborations can form a kind of oligopoly so I do not recommend this route for starting smart businesses. Instead, small-scale success can be achieved when combined with the above-mentioned point of tourism. An additive effect can be done when locally unique tourism can be combined with locally or at least nationally unique beverages and flavors, the focus here being on regional specialization instead of the route of going to achieve a higher market share, which would eliminate the value of a local product and make it generic.

6. Consulting firms

As large businesses become more and more focused on collaborating, performing work, or otherwise collaborating with other large businesses or in cases

where large businesses serve a very well defined slice of the market for personal clients, small firms can tap the market of personal consulting or consulting for small businesses. Areas that can be touched include Internet and technology, fiscal matters, legal matters, marketing, innovation, or any other specific goals, which requires small teams and flexibility for shorter-term projects than what large companies usually take.

7. Business support firms

This area can be very interesting and exciting for the future in terms of business to business-based activities. In the context of larger companies growing in Western Europe and low chances of similar ventures being possible in Central and Eastern Europe due to issues such as already established markets, patents, insufficient resources; the area of Central and Eastern Europe can pioneer new types of small to, at most, medium-sized businesses in the form of business support firms. While overlapping to a small degree with the consulting firms mentioned previously, this kind of business activity can be exclusively business to business oriented, with the focus on smaller teams of more flexible professionals which can do activities such as: filling in work gaps for their larger collaborators, providing short-term employee replacement, providing project outsourcing, technical support or other types of activities which do not require a large number of employee manpower. The distinct advantage that Central and Eastern Europe has in this sector and why I argue that it is the prime candidate for these kind of collaborations with Western Europe; resides in already established collaborations, compatibility of laws, affordable labor costs, cultural similarities as well as a well-educated pool of potential employees; resulting in an overall well rounded and affordable labor pool.

Taken from a global perspective, while there are also other outsourcing destinations available in the world, when the magnifying glass is closer to the issue, we can observe that there are distinct niches which can be served. For example, while a large call center company might be willing to recruit a large number of employees and other regions might be more attractive in terms of the number of available manpower and the costs, requiring specific skills for specific business conducted in Europe, with European laws, culture and framework, requires educated and experienced professionals that can directly address specific issues.

For some of the mentioned types of businesses, it is hard to pinpoint an exact business that has done the type of activity but the allocation of funding should not be too strict since the reality in the field and the niches covered by small businesses usually represent uncharted territory and this is a characteristic of how small business is started and performed.

After the recovery from the initial phase of the 2020 Covid19 Pandemic in Q4 2020, business foundation in the European Union has been on a steadily rising path for the year 2021 (as can be seen in figures 1 and 2).

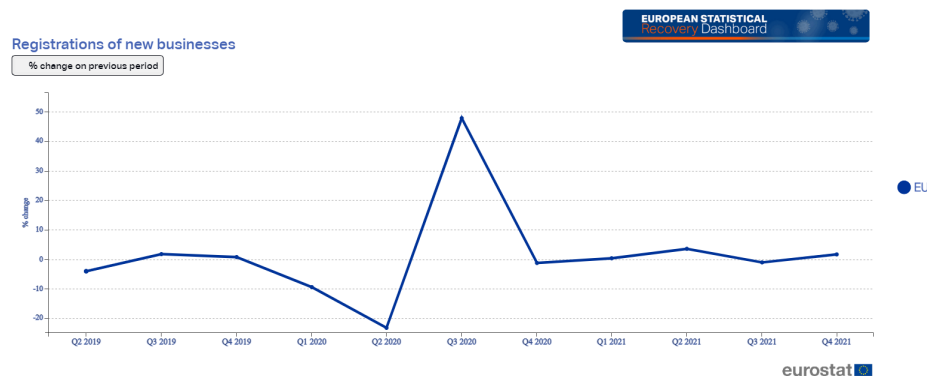


Figure 1. Registrations of new businesses in the European Union

Source: <https://ec.europa.eu/eurostat/cache/recovery-dashboard/>

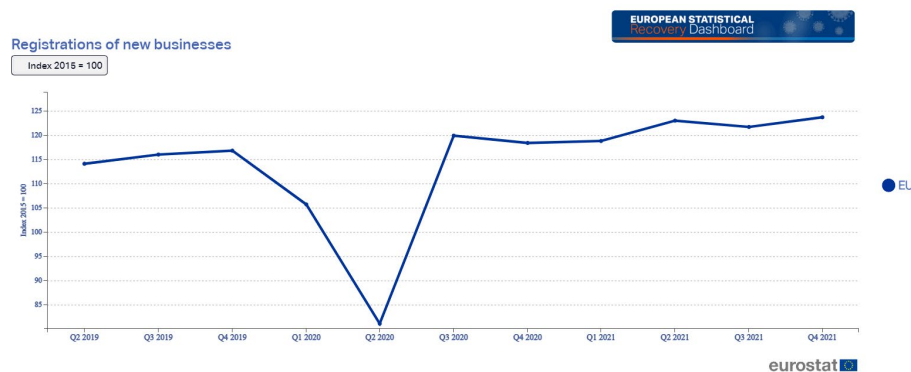


Figure 2. Registrations of new businesses in the European Union as compared to a base index of 100 from 2015

Source: <https://ec.europa.eu/eurostat/cache/recovery-dashboard/>

For the purpose of the objective of this paper, a quantitative exercise can be organized in the form of an approximation of business success. Presuming that a program similar to the Start-up Nation Program in Romanian based on a funding of the maximum which is usually granted of 200.000 lei (around 40.000 euros at the date of the writing of the article) (Start-up Nation, retrieved 2022) to a reasonable echelon of a total of 100.000 businesses (the yearly echelon for Romania is around 8000 so this number is realistic-cite here), the total funding necessary would be $200.000 \times 100.000 = 10.000.000.000$ or 10 billion euros. A large sum on its own, this is put in perspective with the most recent total budget approval for the European Union of 2022 for €169.5 billion in commitment appropriations and €170.6 billion in payment appropriations (European Parliament, retrieved 2022).

Assuming the most pessimistic outcome of around 10% of these businesses surviving for more than 5 years, this would still amount to $0.05 \times 100.000 = 5000$ successful small businesses per year created across the European Union.

8. Conclusion

This European Union can do more good to its member states and particularly assist in the economic development and social development (reducing inequality), by assisting small businesses in the form of reimbursable or non-reimbursable funds through its diverse programs. This article has highlighted the areas in which funding can be directed in order to help fields of activity which have the potential for sustainable business growth as well as social impacts can be targeted.

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