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DEP Policy Brief No 4

Author: Aziz Šunje

Sarajevo Graduate School of Business (SGSB)

THE ROLE OF GOVERNMENT IN SUPPORTING ENTREPRENEURSHIP AND SMEs

Small and Medium-sized Enterprises (SMEs) in market economies are the engine of economic development. Owing to their private ownership, entrepreneurial spirit, their flexibility and adaptability as well as their potential to react to challenges and changing environments, SMEs contribute to sustainable growth and employment generation in a significant manner.

SMEs have strategic importance (see Annex 1) for each national economy due a wide range of reasons. Logically, the government shows such an interest in supporting entrepreneurship and SMEs. There is no simpler way to create new job positions, increasing GDP and rising standard of population than supporting entrepreneurship and encouraging and supporting people who dare to start their own business. Every surviving and successful business means new jobs and growth of GDP.

Unfortunately, Bosnia and Herzegovina has very small number of SMEs, and very low rate of entrepreneurship (Figure 1). There is no clearly confirmed determinant of small business, although criteria of business classification to micro (up to 10 employees), small and medium business promoted by EU becomes increasingly accepted. Undoubtedly, unfavorable business environment is one of the reasons due to which SMEs are undeveloped, although there is no real reason to deprive SMEs of governmental support and assistance.

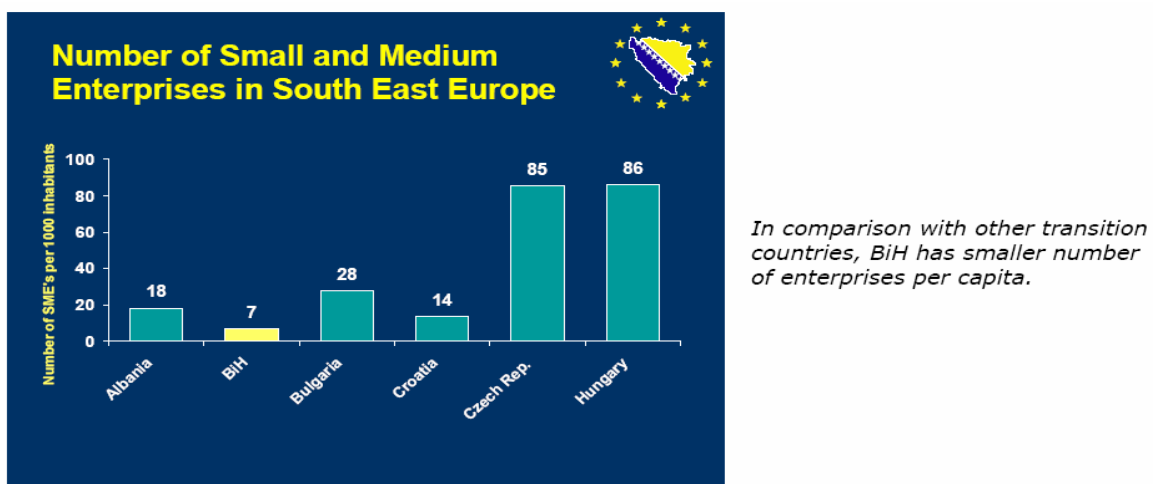


Figure 1: Number of SMEs in SEE (www.eppu.ba)

Success of the microcredit sector in BiH (see Annex 2) which, *de facto*, boils down to provision of financial support through micro-credits is the best evidence that people in BiH have entrepreneurship potential and that with small support they can successfully manage micro and small businesses. Accordingly, establishment of an appropriate support to

entrepreneurship and small business by governments should be one of the key priorities. The fact is that BIH Medium Term Development Strategy (PRSP (2004-2007) in part III.1 (III.1. Enhancing the business environment for domestic and foreign investment and supporting entrepreneurship) as one of the goals defines 1.1. Promoting entrepreneurship and more rapid private sector development, but without appropriate operationalization and without clear description of the role and position of government and governmental institutions in obtaining this goal.

Therefore, designing a comprehensive, coherent and consistent approach of Council of Ministers and entity governments to entrepreneurship and SMEs in the form of government support strategy to entrepreneurship and SMEs is an absolute priority. A comprehensive government approach to entrepreneurship and SMEs would provide for a full coordination of activities of numerous governmental institutions (chambers of commerce, employment bureaus, etc.) and NGOs dealing with entrepreneurship and SMEs.

With no pretension of defining the role of government in supporting entrepreneurship and SMEs, we believe that apart from designing a comprehensive entrepreneurship and SMEs strategy, the development of national SME support institutions and networks is one of key condition for success. There are no doubts that **governments should create different types of support institutions**¹:

- (i) to provide information on regulations, standards, taxation, customs duties, marketing issues;
- (ii) to advise on business planning, marketing and accountancy, quality control and assurance;
- (iii) to create **incubator units** providing the space and infrastructure **for business beginners** and innovative companies, and helping them to solve technological problems, and to search for know-how and promote innovation; and
- (iv) to help in looking for partners.

In order to stimulate entrepreneurship and improve the business environment for small enterprises in European Union the Heads of State or Government and the European Commission have decided to work on the ten lines for action² (see Annex 3). On our way of Bosnia and Herzegovina to European Union these 10 lines can represent a basic platform for creation of the overall strategy of governmental support to SMEs.

1 <http://www.unece.org/indust/sme/ece-sme.htm>

2 For more details look at http://ec.europa.eu/enterprise/enterprise_policy/charter/index_en.htm

Annex 1

Strategic importance of SMEs

Parallel with ownership reform and privatization, the number of SMEs is increasing. The strategic importance of SMEs is today acknowledged around the world for the following reasons:

- small and medium-sized enterprises are contributing to employment growth at a higher rate than larger firms. In the EU economy about 99.9 per cent of the enterprises are SMEs of which 93 per cent are micro enterprises. In 1992, there were 15.7 million SMEs in the private non-primary (i.e. non-farming) sector of the Community;
- the private sector and in particular SMEs form the backbone of a market economy and for the transition economies in the long-term might provide most of the employment (as is the case in the EU countries). A World Bank sector policy paper shows that their labour intensity is from 4-10 times higher for small enterprises;
- support for SMEs will help the restructuring of large enterprises by streamlining manufacturing complexes as units with no direct relation to the primary activity are sold off separately. And through this process the efficiency of the remaining enterprise might be increased as well;
- they curb the monopoly of the large enterprises and offer them complementary services and absorb the fluctuation of a modern economy;
- through inter-enterprise cooperation, they raise the level of skills with their flexible and innovative nature. Thus SMEs can generate important benefits in terms of creating a skilled industrial base and industries, and developing a well-prepared service sector capable of contributing to GDP through higher value-added;
- a characteristic of small industrial enterprises is that they produce predominantly for the domestic market, drawing in general on national resources;
- the structural shift from the former large state-owned enterprises to smaller and private SMEs will increase the number of owners, a group that represents greater responsibility and commitment than in the former centrally planned economies;
- an increased number of SMEs will bring more flexibility to society and the economy and might facilitate technological innovation, as well as provide significant opportunities for the development of new ideas and skills;
- SMEs use and develop predominantly domestic technologies and skills;
- new business development is a key factor for the success of regional reconversion where conventional heavy industries will have to be phased out or be reconstructed (especially in the field of metallurgy, coalmining, heavy military equipment, etc.).

<http://www.unece.org/indust/sme/ece-sme.htm>

Annex 2

The Microcredit Sector in Bosnia and Herzegovina 1996-2005

The microcredit sector in Bosnia and Herzegovina had a significant role during the post-war period in poverty reduction and support to the small and medium entrepreneurship development among socially endangered population that does not have a possibility to get financial resources from traditional banks. In general, microfinance is a new field in finance sector in the world and is being considered as one of the greatest innovations that emerged at the end of the last century. Since 1996, our country has been lucky to encounter the development of this type of poverty combat and entrepreneurship development based on market principles through the state Local Initiatives Project (LIP) supported by the World Bank and through the support of the international non-governmental organizations.

The results achieved in the past nine years included Bosnia and Herzegovina among the countries with the highest development level in this domain of financial offer, which is often being mixed up with traditional banking. The main difference is that the banks serve the wealthiest clients with credit history and collateral, while the microfinance i.e. microcredit organizations serve the clients who do not have collateral and have low income or no income whatsoever.

In the period from 1996 until today a respectable number of microcredit organizations (12-14) operating in line with the best world experience in financial institutions management was established. Nine partner organizations within LIP have disbursed BAM 1.240 million as micro credits, with average loan amount of BAM 3.200, and in this way the number of disbursed loans up to June 30, 2005 was 380.000. However, the current situation with microcredit organizations is that they are serving app 130.000 active clients and are managing credit potential in the amount of BAM 300 millions. The latest research showed that each microcredit is directly or indirectly supporting 2.15 employees, and this is an enormous impact on the social security in terms of income generation by socially endangered population.

(<http://www.amfi.ba/>)

Annex 3

Annex III of the Conclusions of the Presidency of the Santa Maria Da Feira European Council of 19 and 20 June 2000.

SUMMARY

Small enterprises are the driving force for innovation and job creation in Europe. Their small size makes them very sensitive to changes in the industry and environment in which they operate. This is why emphasis was placed on the need to facilitate the development of small enterprises by the Heads of State or Government and the European Commission at the European Council in Feira (Portugal) on 19 and 20 June 2000.

The Heads of State or Government and the European Commission acknowledge the dynamic capacity of small enterprises, particularly when it comes to providing new services, creating jobs and fostering social and regional development. They also stress the importance of entrepreneurship and of not penalising some of the failures. They also agree on the strength of values such as knowledge, commitment and flexibility in the new economy.

In order to stimulate entrepreneurship and improve the business environment for small enterprises, the Heads of State or Government and the European Commission have decided to work on ten lines for action, i.e:

- **Education and training for entrepreneurship**

In order to nurture entrepreneurial spirit from an early age, there will be a need to impart knowledge about business, particularly at secondary and university levels, to encourage entrepreneurial initiatives by youngsters and to develop training programmes for small enterprises.

- **Cheaper and faster start-up**

Company start-ups will become cheaper and faster, particularly through the use of online registration.

- **Better legislation and regulation**

There will be a reduction in the negative impact of national bankruptcy laws and new regulations on small enterprises. It will be made easier for small enterprises to use administrative documents and they will not have to apply certain regulatory obligations.

- **Availability of skills**

Training institutions will deliver skills adapted to the needs of small enterprises and will provide lifelong training and consultancy.

- **Improving online access**

Public administrations will be urged to develop online services for their dealings with enterprises.

- **Getting more out of the single market**

The Member States and the European Commission will complete the single market so that enterprises can derive the maximum benefit from it. At the same time, national and Community competition rules will have to be vigorously applied.

- **Taxation and financial matters**

Tax systems will need to make life easier for enterprises. Access to finance (risk capital, structural funds) will need to be improved.

- **Strengthening the technological capacity of small enterprises**

Efforts will be made to promote new technologies, implement the Community patent and facilitate access to research programmes which are more focused on commercial applications. Inter-firm cooperation and cooperation with higher education institutions and research centres will be encouraged.

- **Successful e-business models and top-class small business support**

Enterprises will be encouraged to adopt best practices. Business support services will be developed.

- **Develop stronger, more effective representation of SMEs' interests at Union and national level**

Solutions aimed at representing small enterprises within the Member States and the European Union will be reviewed. National and Community policies will be better coordinated and evaluations will be carried out with a view to improving the performance of small enterprises. An annual report on the implementation of the Charter will appear in the spring of each year.

For the EU Member States, the implementation process was launched in the spring of 2000. The acceding and candidate countries have been involved in the process since the spring of 2002. Following the adoption of the Charter by the acceding and candidate countries in Maribor (Slovenia) on 23 April 2002, the process was also launched in other geographical areas. The Western Balkan countries (Albania, Bosnia-Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Montenegro) and Moldova adopted the Charter in Thessaloniki (Greece) in May 2003. That year, these countries embarked upon the first stage of the implementation process. The results will be presented in a separate Commission working document.

At their meeting in Rome in October 2003, the European Union's partners in the Mediterranean region (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria and Tunisia) agreed to launch a process to adopt a "Euro-Mediterranean Charter for Entrepreneurship", based on the model of the European Charter. This Euro-Mediterranean Charter should be adopted in 2004 and the European Commission will monitor its implementation.

http://ec.europa.eu/enterprise/enterprise_policy/charter/index_en.htm