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Editorial by **SERGIO ARZENI**

Welcome to this first issue of *CFE Insight*, a journal published on a regular basis by the Centre for Entrepreneurship, SMEs and Local Development (CFE). The Centre was created by the OECD Secretary-General in July 2004 in recognition of the need to take an integrated approach to foster entrepreneurship and the growth and competitiveness of SMEs; to stimulate endogenous development so that cities and regions can optimise their local assets and competitive advantage and to ensure that tourism policies are an integral part of the job creation and economic development process. The Centre thus provides for better policy coordination, adaptation to local needs and the participation of business and the civil society in the orientation of policy measures.

This first issue focuses on key policy areas of the three OECD bodies served by the CFE: the Working Party on SMEs and Entrepreneurship, the Tourism Committee and the LEED Directing Committee (Programme for Local Employment and Economic Development).

- At the 2nd OECD Ministerial Conference on SMEs held in Istanbul, Turkey in June 2004, Ministers recognised in the Istanbul Ministerial Declaration, "The need to improve access to financing for SMEs on reasonable terms .." Ministers encouraged the OECD to organise a thematic conference to seek more innovative solutions and

initiatives for facilitating SME access to financing, from creation to all stages of development. Marie-Florence Estimé, Deputy Director of the CFE, reports on the results of the global OECD conference, "**Better Financing for Entrepreneurship and SME Growth**" organised in response to this Ministerial recommendation. The conference, held in Brasilia last March, was organised in collaboration with the Brazilian Ministry of Development, Industry and Foreign Trade.

- A number of OECD countries face growth problems in tourism. Globalisation implies that, to remain competitive, OECD countries should be at the cutting edge of the development of new products and ideas in tourism. Alain Dupeyras, OECD Administrator in charge of the work of the Tourism Committee, discusses some of the national and industry practices currently enhancing innovation in tourism that have been highlighted in a recent OECD publication, "**Innovation and Growth in Tourism**".
- Combating poverty via integrated socio-economic measures has

always been high on the LEED Programme's policy agenda and, indeed, it has been highlighted by the new OECD Secretary General, Angel Gurría, as one of the key challenges currently facing OECD member countries. Antonella Noya, in charge of work on Social Inclusion, and I report on the results of the conference, "**Social Innovation in the 21st Century: A Dialogue**" that the LEED Programme co-organised with Mission Australia, the Australian Department of Families, Community Services and Indigenous Affairs and Macquarie Bank, which was held in the Hunter Valley, New South Wales, Australia last April. The conference brought together academics, experts, policy makers and practitioners around selected topics such as the impact of demographic change and globalisation on the world economy; welfare to work initiatives; CSR and smart business; and social entrepreneurs and social innovation.

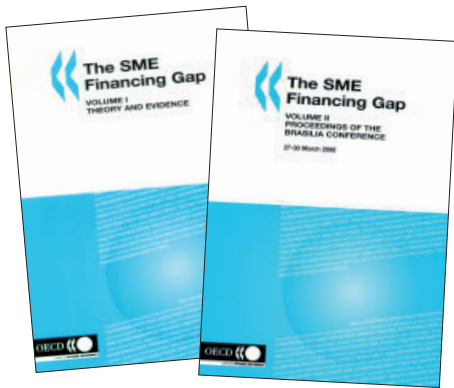
I hope you enjoy reading this first issue of *CFE Insight*. Please feel free to circulate it among your colleagues.

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# >>> Better Financing for More Entrepreneurship and Greater SME Growth

Interview with Marie-Florence Estimé



## What was the rationale for having the OECD Working Party on SMEs & Entrepreneurship examine the Financing Gap?

SMEs are the dominant form of business organisation in all countries, and create over half of jobs in most of them. SMEs and entrepreneurship are playing a growing role in innovation, growth and job creation. The OECD Working Party on SMEs and Entrepreneurship, which reports to the Committee on Industry, Innovation and Entrepreneurship, is the official body responsible for studying the nature and scope of issues and national and international policies with respect to SMEs (including micro-enterprises) and entrepreneurship. On the basis of in-depth analytical work and policy evaluation, the Working Party identifies best practices and makes pertinent recommendations to Member countries (and interested non-Member economies). These recommendations are aimed at helping decision-makers develop policies that can promote entrepreneurship, facilitate sustainable growth, competitive-

ness and skilled job creation, and help SMEs to meet the challenge of globalisation.

The first OECD Ministerial Conference on SMEs, held in Bologna in June 2000, marked the beginning of a process of international policy dialogue and co-operation aimed at strengthening the competitiveness of SMEs in the knowledge-based global economy and led to the adoption of the Bologna Charter. This frame of reference facilitated the launching of what we call the *OECD Bologna Process on SME & Entrepreneurship Policies*. The second OECD Ministerial on SMEs, held in Istanbul in June 2004, made it possible to evaluate the impact on SMEs of recent developments in globalisation, and also to consider the urgent measures required to support innovative SMEs, which are vectors for growth. Whether the aim is to improve the information available to entrepreneurs and SMEs, to increase their participation in research networks, to support the emergence of clusters of innovative enterprises, to facilitate SMEs' access to international markets or to facilitate the adoption and wider use of complex information and communication technologies and the adoption of e-commerce by small companies, *key issues are at stake*. There is also a genuine need to prepare an inventory of best practices and to make SMEs more aware of intellectual property issues. Steps must also be taken to promote women's entrepreneurship, which remains less frequent, and to listen to women entrepreneurs.

## What are the key issues?

It is essential to make it easier for entrepreneurs and SMEs to have access to affordable financing. Whether it be credit or investment capital, in particular venture capital, gaining access represents a real obstacle course for SMEs. This is due to the lack of interest on the part of investors and the lack of familiarity with mechanisms on the part of entrepreneurs. The problem is not only a lack of funds, but the need to mobilise intermediaries (often locally based) whose role is to evaluate and monitor companies and those who provide them with support.

The economic and administrative environment is a key determinant of SME financing. The costs generated by excessive bureaucracy weaken SMEs. To achieve greater simplification, SMEs must be involved in the actual process of formulating the policies that concern them. It is in the initial stages that SMEs encounter the greatest number of difficulties, which means that assistance must be focused on the start-up stage. To promote financing, efforts must be made to mobilise business angels and venture capital companies able to provide equity capital to entrepreneurs.

To develop the principle of risk-sharing, governments must provide support in the start-up phase and help mobilise private financing. Entrepreneurs must also be given relevant information on possible financing options available through targeted

programmes. The important thing is that SMEs know at each stage of their development which tool is adapted to their specific needs. Better use of local networks and the trust that can grow from relations forged are key factors in access to financing. Similarly, locally-based structures such as innovation clusters, business incubators and development agencies promote these closer relations.

### **How can these difficulties be overcome?**

Principles for action were adopted at the *Brasilia Global Conference on the financing of SMEs and entrepreneurship* held in March 2006. These principles

highlight challenges and sensitive areas and recommend good practices that can help governments and the various stakeholders (*the financial community, the business sector*) to promote better financing for entrepreneurship and SME growth. Very briefly, with regard to credit financing, a number of initiatives are proposed. The first concerns guarantees and is aimed at establishing healthy competition between banking systems, enhancing guarantee funds and keeping fees and guarantee schemes affordable. It is also important to encourage small enterprises to record, measure and disclose their intangible assets so that they can be valued more reliably by capital markets and investors. With

regard to venture capital, steps must be taken to make SMEs more aware of the value of equity financing, to facilitate their access to institutional capital, to prevent discrimination and to use public schemes to enhance skills and act as catalysts for the provision of private funding. The barriers to cross-border investment capital markets must be reduced.

At the Brasilia Conference, the OECD was strongly encouraged to continue the highly relevant activities of its Working Party on SMEs and Entrepreneurship and its Committee on Financial Markets in these fields. ■



## **Entrepreneurship - <<<<** **a Key Source** **of Innovation in Tourism**

*Interview with Alain Dupeyras*

### **Innovation in the field of tourism is not well known. How do you see the current situation?**

It is true that innovation in tourism is a fairly recent and underappreciated development. Internet reservations, low cost transport and hotel chains are some of the most spectacular examples of this growing trend towards innovation over recent years. At a time of growing competition because of the cost competitiveness of new destinations and the expansion of means of transport, traditional tourists must keep well informed, think carefully and plan ahead. Most of the advances are currently being incorpo-

rated through innovation in gradual steps. Mass tourism, such as “sun and sea” products, is rapidly changing and being enriched with complementary products such as wellness, cultural and nature tourism. The sector is shifting towards what is known as the “experience economy”.

### **What is the role of the OECD's Tourism Committee?**

Our work consists of helping governments and all professionals think about how to develop new policies and strategies to meet these challenges. These policies and strategies must address the resources that foster inno-

vation and be focused on the niche mechanisms that promote entrepreneurship and the development of new business models. To promote the innovation process, the implementation of well-targeted measures must be combined with efforts to establish an effective entrepreneurial culture. This process must not only be focused on improving the existing situation but also on promoting niche activities.

### **What form does this entrepreneurship take?**

Tourism is a sector that suffers from the “cost disease”. Its productivity and profitability are below average.

Consequently, innovation is not simply a matter of developing products or concepts, but also of finding new ways to organise business. We can mention many examples of clusters of creative entrepreneurs, often locally based, who develop “self-service” innovations on Internet, for example, facilitating not only direct communication between customers and providers, but also the organisation of business. In Australia, we can mention the case of SMEs in Queensland that grouped together to make the “Great Barrier Reef” a tourism destination. The quality of the initiatives is the key to success.

### *You were speaking of experience-based tourism?*

Ireland, for example, promotes this concept of “tourism experience” to attract customers. Ireland’s performance in the field of tourism is explained not only by the attractiveness of its culture, but also by coherent marketing campaigns, effective products and public-private partnerships. Tourism service providers become, in a sense, managers of memorable

experiences. They develop packages that enable tourists to experience “atmosphere”.

### *In terms of content, what are the innovations that best reflect this concern for quality? Are there models? Trends?*

In the cultural field, we can mention the hundred-year-old firm of Swarovski specialising in the production of crystal objects that has added a cultural dimension to its activities by opening up to visitors a fascinating attraction devoted to crystal called “Crystal Worlds”. It is the most visited site in Austria after Schönbrunn Palace in Vienna. Medically-based wellness tourism is a very strong trend. Tourism centres have been created around health-related themes, such as the “Sea, Sand and Surgery” park in the Netherlands.

### *What impact is sustainable development having among these many innovations?*

Sustainable development is a prime concern of the tourism sector. It is

difficult to implement in a complex sector that has many branches (transport, accommodations, entertainment, travel agencies, tour operators, catering) and many stakeholders (national, regional and local governments, the private sector, tourists). Tourism can generate both positive and negative impacts with regard to sustainable development. Tourism is strongly affected by changes in the environment such as climate change, which is causing certain destinations to redesign their offerings. For example, as alpine regions see their snowfall levels drop, they diversify and offer year-round services. Some resorts also develop snowmaking systems that have an impact on water resources. Another aspect is the concern over the rise in sea level that will require some destinations (islands) to find solutions. Governments have a role to play by providing incentives and acting as co-producers to develop and promote sustainable development. France is currently conducting a unique international initiative devoted to the sustainable development of tourism. ■

## >>> **Reconciling Economic and Social goals**

*Comment by Sergio Arzeni*

**R**econciling economic and social goals is an issue that numerous governments are currently grappling with. Growth and a return to full employment are not enough if at the same time inequality is worsening and there are deepening pockets of poverty and exclusion.

Everybody agrees that innovation and social capital are two factors that go

together. This is a challenge that the LEED Programme has made a priority since the creation of the Forum on Social Innovations in April 2000 witness the numerous meetings and publications initiated by our team and witness also the fact that 11 organisations from 6 different countries have joined in the project.

Working on social innovation and social enterprises provides an opportunity to explore broad areas of reflection and undertake schemes capable of coming up with answers to the major problems of our time: measures to combat exclusion (young people, the unemployed...), the entry into employment of the underprivileged (handicapped...), the integration of

new migrants, population ageing, the marginalisation of the working poor. This applies of course to all the OECD countries, but some lessons could be of use in the struggle to eradicate exclusion and poverty in non member countries.

The experience gained by social economy enterprises and the importance of the non profit sector must not be overlooked. Quite the contrary. Both voluntary work in associations and the development of business ethics are conducive to the spread of confidence and democracy. Once they play their role in the market economy to the full, these tools are the best guarantors of an economy based on knowledge – the long term therefore – rather than just on technological and financial criteria which are subject to the immediate consideration of profitability.

The instruments needed to restore confidence, honesty and hope do exist. They include savings mechanisms for the poor, the development

of corporate social responsibility, instances of civic participation, social capital in the informal economy or entrepreneurship initiatives under the leadership, for example, of co-operatives or local communities.

- Confidence! Unless there is joint participation and sharing, the economy remains shrouded in doubt and distrust. Social entrepreneurship can give credibility to a virtuous market economy.
- Honesty! Without a minimum degree of transparency, market rules become unintelligible for everyone. A code of ethics provides the opportunity for sustainable development.
- Hope! Unless the human capital, talents and wealth created by social innovation are properly harnessed, it is unlikely that lasting solutions will be found to the major problems of our time. Commitment on the part of citizens and social entrepreneurs is a guarantee of an enhanced democracy.

In concrete terms, the social innovation prism makes it possible to:

- identify and envisage new personal and community services;
- define new processes on the labour market, and also new competencies, new jobs and new forms of participation;
- respect the criteria of quality of life and quality of work;
- create new requirements and hence new markets.

This vast enterprise of social reconstruction, to which LEED Programme studies contribute, succeeds by building bridges and pooling efforts and resources; as well as through partnerships, solidarity between the private and public sector and between firms and associations, producers and consumers in a quest for cross-fertilisation.

Using exchanges of experience to observe and actively compare these challenges will provide the means to rebuild the concept of the general interest and thus lastingly reconcile the economy and society. ■



## Hunter Valley: <<< New Prospects for Social Innovation

The Forum organised by Mission Australia and Macquarie Bank on 28, 29 and 30 April 2006 in Hunter Valley, Australia, is an event in more ways than one.

Thanks to the dialogue that took place between participants from a number of countries (Australia, the United Kingdom, Sweden, Italy, Denmark,

France, New Zealand...) it was possible, on the basis of actual experience, to define the major role for change that social innovation can play in an increasingly complex world. What is involved is the globalisation of the challenges involved, characterised by demographic upheavals, population ageing, the integration of new migrants, the marginalisation of the working poor, the spread

of new forms of flexible working, and also all the questions raised by the need to integrate rapid growth countries such as China and India into world competition.

The various participants stressed the difficulty our societies have in averting difficulties and anticipating the growing problems encountered by vul-



nerable or disadvantaged people (those with disabilities, those who are psychologically at risk, native populations, young people with no training, the long term unemployed...). The dependency trap and the confusion that often exists between poverty and passivity are frequently encountered snares which catch the vulnerable or handicapped who need help; while giving assistance to those who are content to be irresponsible and rely on hand outs and charity, often dragging their own families into a situation of dependence.

The momentum provided by social innovation can provide solutions to these difficulties, witness the different experiences expounded on at the Forum (Mission Australia at Surry Hills and Hornsby, Cape York, Active Citizen Foundation in Italy...). But this is conditional on social innovation not remaining alone in its corner, treated like a cinderella among strategies for improving the socio economic situation of communities and individuals. There is a tendency to think that everything to do with innovation goes into the technology compartment and all that is linked to capital can be put with finance. Social innovation, on the other hand, allows different approaches to be crossed (venture phi-

lanthropy, eg. venture capital with a social purpose) with the object of improving the entrepreneurial capacities of social entrepreneurs who have business projects which also have social repercussions. These experiences show that capital and innovation basically equate with things human and social. Social innovation generates technical know how, productivity, wealth and entrepreneurial drive which deserve to be promoted at all levels of social life.

- Where civil society is concerned, the resuscitation of social public life, made possible by voluntary involvement or under the foundation heading, is allowing social ties to be forged anew. Voluntary work is helping to increase people's confidence. The creation of new categories of ritual event other than those known to exist in sports clubs helps to generate social cohesion and participative democracy (public festivals, shows, major exhibitions, public holidays, etc...).
- For their part, general government has to set an example by encouraging officials to involve themselves in social innovation and also to rethink aid systems, the object being to set up a modern form of welfare

state – as a social regulator but not a purveyor of aid. Schools, too, can become breeding grounds by opening their doors wider to local life.

- As for businesses, if, as Adam Smith said, whatever is good for business is good for society, by the same token, whatever is good for society is good for business. The corporate world has to take more responsibility and give more encouragement to social innovation in forms which are most appropriate to that particular world (social responsibility, partnership with the not for profit sector). One of the main issues is whether to place more emphasis on developing public private links and the delegation of services to the private sector (for example, by privatising employment services for business. The advantage of developing these private but civic initiatives is to break with the clichés which would have it that the market economy is necessarily anti social.

A number of avenues for reflection were identified:

- Sharing work more equitably between those who are out of work and those who have too much – for example, by shifting the balance of the employment curve upstream for young people and downstream for older people.
- Offering “normal” jobs to disadvantaged or disabled people, instead of degrading jobs.
- Introducing universal standards of social and ethical responsibility (for example: ISO 26000 which is set for release in 2008).
- Defining acceptable flexibility, along the lines of the Scandinavian model in which the notion of flexibility is coupled with that of security.
- Relying on new technologies to give the most disadvantaged their chance by redesigning new, horizontal economic networks.

- Promoting exchanges of good practices and of accumulated know how.
- Fostering co operation between social innovation networks.
- Boosting social entrepreneurs on the economic competition market.

Some examples of social innovation initiatives:

- The dynamic of “social capital” and local relational networks, based as it

is on confidence, loyalty and shared values, is such as to encourage entrepreneurship and social enterprise.

- Social venture capital and IDA (Individual Development Accounts) experiences give responsibility to disadvantaged population categories.
- The provision of “social time” in firms, by allowing for periods of free

time (not necessarily productive) to encourage creativity and so promote innovation and social involvement.

- CSR (corporate social responsibility) enables firms to open up their strategic horizons to questions concerning sustainable development and fair trade. ■

## Spotlight on <<< Two Concrete Examples:

### The Active Citizenship Network



At a time notable for a lack of public resources, both tangible (such as money) and intangible (such as confidence), having citizens organized into different types of associations, groups and movements affords a fundamental opportunity to recognize and guarantee both new and old rights and requirements.

Having citizens organized in networks goes well beyond the traditional principle of freedom of association. Forming an association is not based on the idea of pursuing legitimate personal interests, but is entirely directed towards implementing and assessing general interest programmes and activities.

The phenomenon of civic participation in policy making is an example of social innovation which is of prime

importance – both in itself and because of the effect it has in building and strengthening social ties. However, because of its innovative nature, its recognition and use in institutions remains problematic.

The Active Citizenship Network ([www.activecitizenship.net](http://www.activecitizenship.net)) has existed in Europe since 2001. It was set up using experience gained in Italy via Cittadinanzattiva ([www.cittadinanzattiva.it](http://www.cittadinanzattiva.it)) and links some 70 active citizen organisations at national level in the European Union and in candidate countries.

By identifying and implementing research projects and joint initiatives conducted on the basis of a dialogue with the institutions involved, the network in question seeks to help build up active citizenship. The link between civic involvement in the public sphere and social innovation is best illustrated by initiatives such as the “European Charter of Patients’ Rights”, proclaimed in 2002, or the recent “European Charter of Active Citizenship”.

### The social role of virtual communities

The impact and potential of the Internet as regards youth culture provides an inexhaustible source of opportunities for business creation and also for mutual assistance between the younger generations faced with the problems of employment. The question is how to develop social innovation through these digital or virtual communities.

However, the question is unresolved. The impact of the Internet does not necessarily destroy social ties or the authenticity of human relations prompting network individualism. It is also capable of fostering neighbourhood communication and bringing people closer together socially and geographically. Instead of disappearing, communities change. When the Mission Australia organisation asks young people what their best sources of help and advice are, they put friends first, then their parents and, not far behind, the Internet. They are twice as likely to visit an Internet site as an employment

agency or social worker, and this is even more the case for educational advisers. When seeking help, they much prefer the Internet to telephoning.

And this is the reason for the success of Reach Out which has helped 2 million people since the service develo-

ped by Inspire Foundation was launched in 1998. ■

## >>> CFE Events

# September-December 2006

### **Riga, Latvia 31, August-1-2 September**

*New Venture Creation and the Creative Trajectory: Entrepreneurship, Innovation and Creativity in Business.* Conference organised in collaboration with the Centre for Entrepreneurial Studies, University of Essex.

### **Melbourne, Australia, 25-27 September**

*Governments and Communities in Partnership: From Theory to Practice.* Conference organised in collaboration with the Centre for Public Policy.

### **Berlin and Halle, Germany, 27-28 September**

*Strengthening Entrepreneurship and Economic Development in Berlin and Halle.* Seminar organised in collaboration with the State Secretariat "Aufbau OST" and the States of Berlin and Saxony-Anhalt.

### **Zagreb, Croatia, 28-29 September**

*Emerging Models of Social Entrepreneurship: Possible Paths for Social Enterprise Development in Central East and South East Europe.* Seminar organised by the LEED Trento Centre for Local Development.

### **Trento, Italy, 23-27 October**

*Building Development Strategies for Cities and Regions.* Capacity building seminar organised by the LEED Trento Centre for Local Development.

### **Trento, Italy, 26-27 October**

*Trade Unions and Welfare Systems in Europe.* Seminar organised in co-operation with Fondazione Giulio Pastore, Rome.

### **Athens, Greece, 5-6 November**

*29th Session of the Working Party on SMEs and Entrepreneurship (WPSME).*

### **Athens, Greece, 6-8 November**

*Removing Barriers to SME Access to International Markets.* An OECD-APEC Global Conference organised by the OECD Working Party on SMEs and Entrepreneurship in collaboration with the APEC SME Working Group and the Greek Ministry of Development.

### **Leeds, United Kingdom, 9-10 November**

*Skills for Sustainable Communities.* Symposium organised in collaboration with the Department of Communities and Local Government.

### **Warsaw, Poland, 10 November**

*Regional and Local Development in Eastern Europe: Confronting Regional Diversity and Competitiveness.* Conference organised in collaboration with UNIDEA-UniCredit Foundation.

### **Caceres, Spain, 14-16 November**

*An Insight into Tourism Statistics.* Conference organised by the Tourism Committee in collaboration with the National Statistical Institute of Spain

(INE), the General Secretariat of Tourism of Spain and the Statistical Office of the European Communities (Eurostat).

### **Trento, Italy, 15-18 November**

*Reviewing OECD Experiences in the Social Enterprise Sector: Policy Insights for Central East and South East Europe.* Seminar organised by the OECD LEED Trento Centre for Local Development

### **Porto, Portugal, 20-21 November**

*78th Session of the Tourism Committee*  
**Porto, Portugal, 21-22 November**  
*Supporting the Development of Competitiveness of Tourist Destinations.* Conference organised by the Tourism Committee in collaboration with the State Secretariat for Tourism.

### **Tirana, Albania, 22-24 November**

*Women Entrepreneurship.* Conference organised in collaboration with CEI-EBRD (to be confirmed).

### **Bradford, United Kingdom, 28-29 November**

*49th Session of the Directing Committee of the Co-operative Action Programme on Local Economic and Employment Development.*

### **Istanbul, Turkey, 11-12 December**

*Fostering Women's Entrepreneurship in the MENA Region.* A workshop organised by the CFE to be held at the OECD Centre for Private Sector Development in Istanbul



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