

SME and Entrepreneurship Outlook



OECD SME and Entrepreneurship Outlook 2005



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Foreword

This 2005 edition of the OECD SME and Entrepreneurship Outlook was prepared by Marian Murphy under the direction of Marie-Florence Estimé, in the SME and Entrepreneurship Division, OECD Centre for Entrepreneurship, SMEs and Local Development.

Contributions to Chapter 3 were made by Robin van Ijperen, Netherlands (The Dutch Policy on Education for Entrepreneurship); InterAmerican Development Bank (Understanding Entrepreneurship in Latin America); Virginia Littlejohn, United States (Women's Entrepreneurship: An important issue for the global policy agenda); Kerstin Röhling and Thomas Multhaup, Germany (Innovative SMEs in Germany); Jonathan Potter, Local Economic and Employment Development Programme (LEED), OECD (Local Innovation Systems and SME Innovation Policy); The Small and Medium Enterprise Agency, Japan (Japan's Small and Medium Enterprises amid Ongoing Globalisation); Murielle Faverie, France (E-Business and SMEs in Six non-OECD Countries: South Africa, Brazil, Chile, China, India and Singapore).

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Preface

Small and medium-sized enterprises (SMEs) are predominant in our economies, including in terms of employment, but their full potential remains remarkably untapped. The OECD has played a leading role in remedying this situation, helping to put issues related to SMEs and entrepreneurship into the international public policy spotlight. Reflecting the high priority given by policy-makers worldwide to fostering entrepreneurship and SME development, the OECD established in July 2004, a dedicated centre of expertise on these issues: the Centre for Entrepreneurship, SMEs and Local Development.

A first OECD Ministerial conference on SMEs was held in Bologna, Italy in 2000. At that meeting, the *Bologna Charter on SME Policies*, the first major international SME policy document, was adopted by almost fifty OECD member and non-member economies. The Charter recognised that SMEs are a driving force for job and wealth creation and that a better international dialogue on small business development was needed. The Charter defined the OECD's role in fostering SME competitiveness and growth, including through the conduct of analytical studies and projects, as well as by assisting governments to help the SME sector through appropriate policy initiatives and by fostering international policy dialogue. Together, these activities are known as the *OECD Bologna Process on SME and Entrepreneurship policies*.

In 2004, a second OECD SME Ministerial Conference was held in Istanbul, Turkey. Centred on the theme "Promoting Innovative SMEs in a Global Economy", this 2nd Ministerial provided an opportunity to assess the impact on SMEs of new developments relating to globalisation. Representatives of 30 OECD countries and over 40 non-member economies exchanged views and assessed policy priorities for realising the potential contribution that SMEs, especially innovative ones, can make to better economic performance, notably in terms of increased employment and productivity. The *Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs* spells out the policies that governments should pursue in order to ensure a business environment conducive to entrepreneurship and enterprise creation and one in which innovative young firms have scope to expand rapidly. Ministers in Istanbul stressed the importance of an evaluation culture, i.e. the need to systematically review and evaluate programmes and support policies, to make them cost effective and well-targeted. To achieve this however, a better factual and analytical base for SME and entrepreneurship-related policy making needs to be developed.

The 2005 edition of the *OECD SME and Entrepreneurship Outlook* provides a comprehensive overview of recent trends in OECD economies and beyond, as well as recent policy initiatives taken to promote entrepreneurship and SME competitiveness. Based on the Istanbul Declaration, the 2005 Outlook makes policy recommendations in several

domains. This includes the need to ease regulatory and administrative burdens affecting entrepreneurial activity; the importance of facilitating SME access to financing, technology, innovation and international markets; and the need to promote women's entrepreneurship. These issues will remain at the heart of OECD work in the next few years, as evidenced by the two thematic global conferences planned to take place in 2006: the first, to be hosted by Brazil, will address SME financing issues; the second, to take place in Greece, will deal with the issue of facilitating SME access to international markets.

Thus, through the *OECD Bologna Process* on SME and Entrepreneurship policies, and carrying out the mandate given by the Istanbul Declaration, the OECD Working Party on SMEs and Entrepreneurship will continue to play an active role in tackling these issues.



Herwig Schlögl
Deputy Secretary-General, OECD

Executive Summary

Since the last edition of the *OECD SME Outlook* (2002), SMEs and entrepreneurship have continued to be a key source of dynamism, innovation and flexibility.

It is worth recalling that SMEs account for over 95% of manufacturing enterprises and an even higher share in many service industries in OECD countries. Also, in most economies SMEs generate two-thirds of private sector employment and are the principal creator of jobs. In recent years, SME numbers appear to have grown at a faster rate than the overall enterprise population boosting the SME employment share. Although women represent a minority of those who are self-employed, women-owned SMEs have shown vibrant growth in a number of countries, notably in the United States and Canada. New firms, by their nature being innovative, SMEs have lent a special impetus to overall innovation. This wave of innovation has benefited from rising internationalisation. In addition to exporting and importing activity, SMEs have opted more and more for cross-border strategic alliances, mergers and acquisitions and inter firm networking and collaboration.

High firm entry rates have been recorded in dynamic services sectors, such as business services or ICT-related industries, health and age-related services, in OECD countries. However, many new enterprises do not survive for long, approximately 20% of them exiting in the first year of existence and almost as many more leaving the market during the second year. Mature new entrepreneurs are found to be better endowed in terms of skills, experience and capital to meet the challenges presented by entrepreneurial activity. In European countries, entrepreneurial dynamism is less pronounced than that of the United States where successful entrant firms appear to enjoy much stronger employment expansion in the initial years than in Europe. In Japan, firm exits exceed firm entries, continuing their recent trend. In Latin America, entrepreneurial activity is largely associated with family business, limiting firm expansion and internationalisation. In contrast, East Asian entrepreneurs have greater access to external finance networks and more extensive role models, allowing new firms to expand more rapidly.

Given rising internationalisation, continued innovation is critical for sustaining competitiveness. Among SMEs, new technology-based firms have shown their capability to renew technology, to make technological breakthroughs, thereby putting competitive pressure on large firms. Indeed, between 30 and 60% of SMEs in manufacturing are found to be innovative. SMEs conduct a growing share of R&D albeit still lagging behind large firms. The share of R&D performed by SMEs is generally greater in small economies than in large ones. Small firms tend to be more innovative in knowledge-intensive services such as business services and financial intermediation. In their efforts to innovate, SMEs have increasingly relied on networks, clusters and partnerships which provide access to information, know-how and new technologies. In this regard, ICTs and e-business applications can offer SMEs a wide range of benefits in terms of efficiency and market access,

reducing the costs and increasing the speed and reliability of transactions. Nevertheless, while ICT connectivity (PCs and Internet) is widespread in businesses of all sizes, small businesses are slower than large ones to adopt new ICTs and e-business applications, the principal reasons being their perceived lack of applicability and uncertain profitability. Reaping the full fruits of innovative activity however, requires adequate protection of intellectual property (IP). In this domain, SMEs lack a good working understanding of the IP rights system and consequently under exploit current forms of IP protection.

During the period under review, a range of new policy initiatives have been taken, their principal objective being to enhance the dynamism and competitiveness of the SME sector. It is noteworthy that a number of these measures have been in line with the recommendations of the *Bologna Charter on SME Policies*, adopted by almost 50 countries at the 1st OECD SME Ministerial Conference in Bologna in 2000. Prominent among these measures has been the easing of product market regulations across the OECD, as well as progress in removing administrative barriers to entrepreneurship. Reform of employment protection legislation has been less pronounced. At the same time, certain practices have spread across OECD countries: regulatory impact analysis, including small impact statements; consultation mechanisms; plain language drafting, etc. Administrative simplification is increasingly facilitated by ICTs, Web portals and online one-stop-shops. Remarkable results have been achieved in some countries, *e.g.*, in Australia, over 70% of all business registrations are now undertaken online. France and the Slovak Republic figure prominently among the countries taking measures to reduce procedures, time and cost involved in starting a business. Hungary and New Zealand are counted among countries which implement programmes to ease tax compliance burdens on enterprises. Business transfer and succession is another area attracting increased policy attention from, among others, the European Union. Overall, the least restrictive OECD countries in 2003 were found to be the United Kingdom, Canada, Ireland and Norway.

Governments have given increasing attention to education and training for entrepreneurship. There is no single model for teaching entrepreneurship in education and training: Should young people learn how to start their own business? Or should they be taught willingness to change behaviour and take risks? The United States tends to favour the former approach while Sweden prefers the second one. The United Kingdom uses both approaches. Entrepreneurship education at university level is particularly advanced in the United States where it has now spread to non-business disciplines. The entrepreneurial model of Stanford University, for example, is viewed by many as the main driver of Silicon Valley. One of the goals of the European Charter for Small Enterprises, adopted in 2000, is to teach business and entrepreneurship at all school levels and to develop training schemes for managers. Some major initiatives have also been taken for fostering women's entrepreneurship, such as Germany's creation of a dedicated agency in 2003; the United Kingdom's 2004 Strategic Framework for Women's Enterprise, and New Zealand's 2004 Action Plan for New Zealand Women.

To reduce the high risk profile of SMEs, policies have also been directed at easing SME access to financing. Prominent among recent policy measures have been: the establishment of second tier markets; the relaxation of restrictions governing the investment of pension funds in venture capital funds; increased support for Business Angel Networks; and continued strong support for SME debt financing through loans and loan guarantees. In France, the *Prêt à la création d'emploi* was launched in 2000, a loan instrument aiming at facilitating small scale business creation projects. Germany recently

brought all such loan products together into a uniform “entrepreneur loan”. A number of countries including Canada, Germany, United Kingdom, and Israel are using the tax system as an instrument to improve SME financing.

In parallel, the past few years have seen stepped up efforts to strengthen the knowledge and innovation base of SMEs, partly through support of SMEs’ research and development activity. A number of countries including Australia, Hungary, Italy, Portugal and Switzerland award two thirds or more of their total R&D support to SMEs. At least half of OECD governments apply tax subsidies for R&D in small firms. In support of SME innovation and technology acquisition, governments have also been encouraging SME participation in networks, public-private partnerships, and clusters, contributing to, *inter alia*, growing SME internationalisation. SMEs are increasingly encouraged to take part in global value chains (*e.g.* France and Japan). Japan’s SME Agency operates a corporate matchmaking service, registering in a common Internet database candidate Japanese and overseas SMEs. Most OECD governments have programmes that offer market research services, as well as assistance with standards and quality issues. Spain’s *External Promotion Initiative Plan*, based on a rigorous analysis of export potential, has enabled a growing number of SMEs to internationalise their operations.

The importance of entrepreneurship and SME innovation for fostering growth in a globalised, knowledge-based economy was stressed by the 2nd OECD Ministerial Conference on SMEs which took place in Istanbul in June 2004 and its outcome, the *Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs*. Also, on this occasion and for the first time, Ministers and representatives of OECD and non member economies recognised the need for more evidence-based policy making in this area. Ministers made a strong plea for the creation of a robust and internationally comparable statistical base on SMEs and Entrepreneurship and mandated the OECD to implement an Action Plan to this end. Better statistics and indicators will improve policy design and effectiveness, underpin policy assessment and contribute to the spread of an evaluation culture.

While re-affirming the need for pursuing policy dialogue and cooperation among OECD countries and with non member economies, Ministers drew attention to a number of issues and invited the OECD to undertake activities to advance progress in the following areas, *inter alia*:

- Improving SME access to financing, so that SMEs can have access to appropriately structured risk capital at all stages of their development. *In response, the OECD will prepare a major international conference on this topic, to be hosted by Brazil in 2006.*
- Identifying ways to remove barriers to SME access to global markets. *The OECD will undertake, jointly with APEC (Asia Pacific Economic Cooperation), a study to identify ways of removing these barriers, the results of which will be presented at an international conference hosted by Greece in 2006.*
- Enabling a better understanding of global value chains and the way in which SMEs can benefit from them. *To this end, the OECD is undertaking a study jointly with UNCTAD and other partners.*
- Disseminating work carried out on best practices for the evaluation of SME policies and programmes by working with member and interested non member economies and international organisations. *To this end the OECD is developing and will test a handbook of best practices for the evaluation of SME policies and programmes.*

- Disseminating work carried out on best practices with regard to the development of Women's Entrepreneurship and sharing the leading edge experience acquired by the Organisation in this domain.

PART I

SMEs and Entrepreneurship: An Overview

PART I

Chapter 1

The Role of SMEs and Entrepreneurship in OECD Economies

SMEs and entrepreneurship continue to be a key source of dynamism, innovation and flexibility. They account for over 95% of enterprises, generate two-thirds of employment and are the main source of new jobs. Entrepreneurial activity is especially dynamic in knowledge-based services. Women's entrepreneurship has recently shown vibrant growth. SMEs increasingly engage in cross-border alliances and inter-firm collaboration. SMEs are particularly innovative in knowledge-intensive services, new technology-based firms, showing their capability to renew technology. SMEs increasingly rely on networks, clusters and partnerships for accessing information and new technologies. ICTs and e-business applications present a growing range of benefits to SMEs. To reap the full fruits of innovative activity, SMEs need to use effectively the intellectual property rights system.

1. Introduction

The OECD SME Outlook, a biennial publication, was first published in June 2000 on the occasion of the 1st OECD Conference of Ministers responsible for SMEs, held in Bologna, Italy. The second edition was published in 2002. The preparation of this third edition, renamed to become “The OECD SME and Entrepreneurship Outlook”, to take account of the increased attention being paid by policymakers to the crucial role of entrepreneurship for OECD economies, was postponed by one year due to preparations for the 2nd OECD Conference of Ministers responsible for SMEs held in Istanbul, Turkey 3-5 June 2004.

The *raison d'être* of the OECD SME and Entrepreneurship Outlook is to monitor policies and programmes affecting and targeting SMEs and entrepreneurship and to provide a broad overview of trends and policy developments for policymakers. The publication is also intended to be a showcase and instrument for the diffusion of the work and activities of the OECD's Working Party on SMEs and Entrepreneurship, served by the SME and Entrepreneurship Division of the newly created OECD Centre for Entrepreneurship, SMEs and Local Development.¹ The present edition benefits in particular from the set of reports and inputs prepared for the 2nd OECD SME Ministerial Conference.

OECD member countries provided individual country reports on recent trends and policy developments, for inclusion in Part II of the publication. This third edition while focusing on developments in the period 2002-2004, also reports, as relevant, earlier policy initiatives, findings of relevant recent OECD and non-OECD studies, and reflects the outcomes of the Istanbul Ministerial Conference, in particular the adoption by Ministers and representatives of governments of 72 economies of the *Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs*.

2. SMEs and entrepreneurship in the economy

SMEs and entrepreneurship are now recognised world-wide to be a key source of dynamism, innovation and flexibility in advanced industrialised countries, as well as in emerging and developing economies. They are responsible for most net job creation in OECD countries and make important contributions to innovation, productivity and economic growth.

SMEs constitute the dominant form of business organisation in all countries world-wide, accounting for over 95% and up to 99% of the business population depending on the country. In 2003, 99.8% of enterprises in the enlarged EU were SMEs (< 250 employees). Small enterprises (< 50 employees) make up at least 95% of manufacturing enterprises in most economies. Small firms constitute 99% of manufacturing enterprises in Italy at the higher end of the scale and close to 80% at the lower end for the United States, Ireland and the Slovak Republic. Manufacturing enterprises that employ 100 or more employees make up only between 1% and 4% of all manufacturing enterprises in OECD countries with the exception of Slovak Republic, Ireland and the United States, where their shares are respectively, 10%, 9% and 7%.

Box 1.1. Defining SMEs

There is no single agreed definition of an SME. A variety of definitions are applied among OECD countries, and employee numbers are not the sole defining criterion. SMEs are generally considered to be non-subsidary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are mostly considered to be firms with fewer than 50 employees while micro-enterprises have at most ten, or in some cases, five employees.

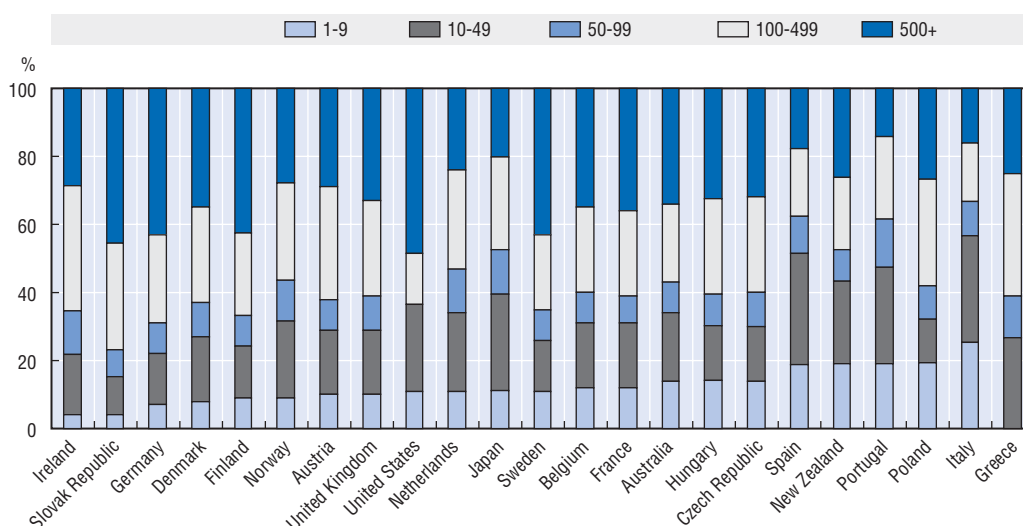
Financial assets are also used to define SMEs. In the European Union, a new definition came into force on 1 January 2005 applying to all Community acts and funding programmes as well as in the field of State aid where SMEs can be granted higher intensity of national and regional aid than large companies. The new definition provides for an increase in the financial ceilings: the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively. In addition to satisfying the criteria for the number of staff and one of the two financial thresholds, an SME must be independent; to this end, the new definition distinguishes between *autonomous enterprises*, *partner enterprises* and *linked enterprises*. Finally, the new definition, introducing precise financial thresholds for micro-enterprises, thus recognises the essential role of the latter in the economy.

The approach taken by the OECD, and in particular by the Centre for Entrepreneurship, SMEs and Local Development, and its two pillars – the Local Economic and Employment Development (LEED) Programme and the Secretariat of the Working Party on SMEs and Entrepreneurship – is to work with both the national, regional and Community definitions and to attempt to achieve some degree of international comparability. In particular, for the purposes of this publication and for reasons of comparability and data availability, figures and tables, including those in the *Statistical Annex* are presented using two size classification systems: i) fewer than 9, 10-49, 50-99, 100-499, 500+; and ii) fewer than 9, 10-49, 50-249, 250+. Exceptions to these two classifications are detailed in the *Statistical Annex*.

SMEs represent an even higher share of the total in some service industries. Although major gaps exist in relation to services data by size class, it is, nevertheless, possible to quantify the role of SMEs in a number of service industries. For example, micro-enterprises (< 10 employees) represent, for many OECD countries, more than 90% of enterprises in the activities of *computer services and related activities* and *renting of machinery and equipment*. Likewise, micro-firms account for a large share of enterprises in the activity *hotels and restaurants* and in *research and development*. Indeed, small enterprises (< 50 employees) make up 99% of enterprises in many of these activities while the share of medium-sized enterprises accounts for only a fraction of a percentage point in many cases (See *Statistical Annex*).

Overall, SME numbers appear to be growing more significantly in some countries. Sweden, Austria, New Zealand and Spain are among countries displaying strong growth rates in SME numbers in recent years.

Figure 1.1. **Distribution of employment in the manufacturing sector, by firm size, 2001**

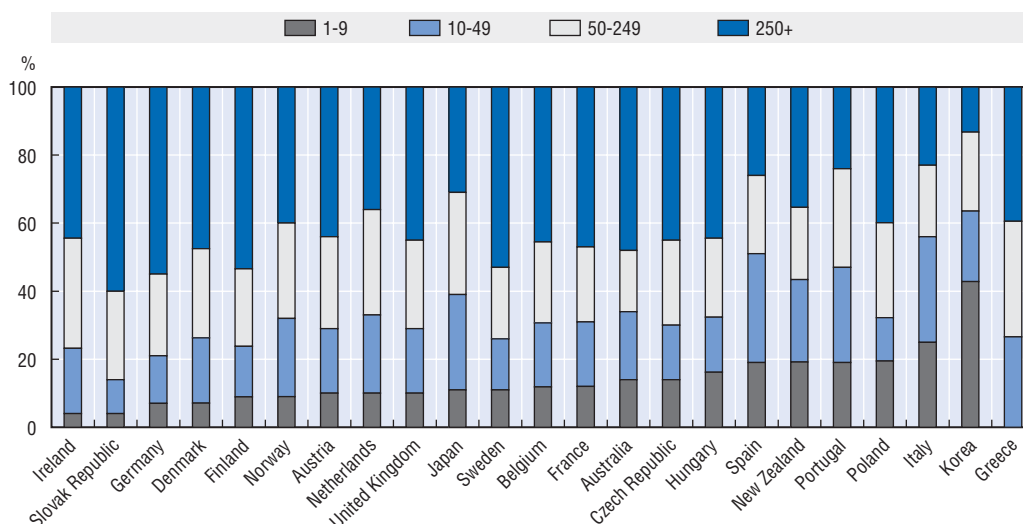


Note: 2001 or nearest year available; Australia: 0-9, 10-49, 50-200, 200+; Japan: 4-9; Poland: salaried employees only; Korea: (salaried employees only) 1-19; 20-49; 50-299; 300+; Greece: 1-9 not available.

Source: OECD, Statistics on Enterprises by Size Class (SEC) database, 2005. For Korea, the source used is: Korea National Statistical Office (data refer to end-2002).

StatLink: <http://dx.doi.org/10.1787/065146473166>

Figure 1.2. **Distribution of employment in the manufacturing sector, by firm size, 2002**

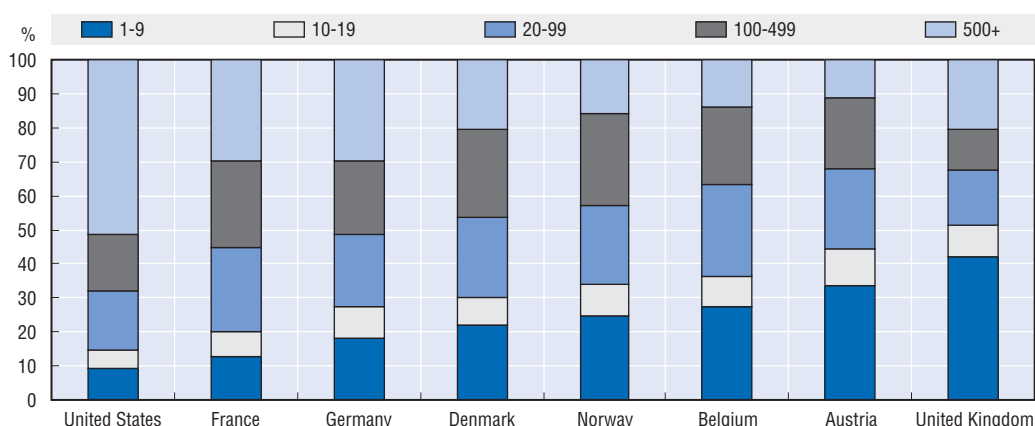


Note: 2002 or nearest year available; Australia: 0-9, 10-49, 50-200, 200+; Poland: salaried employees only; Japan: 4-9; United States: 10-99 (employment includes all sectors of activity); Greece: 1-9 not available.

Source: OECD, Statistics on Enterprises by Size Class (SEC) database, 2005.

StatLink: <http://dx.doi.org/10.1787/675373810306>

Figure 1.3. **Distribution of employment by firm size in computer services and related activities, 2001**

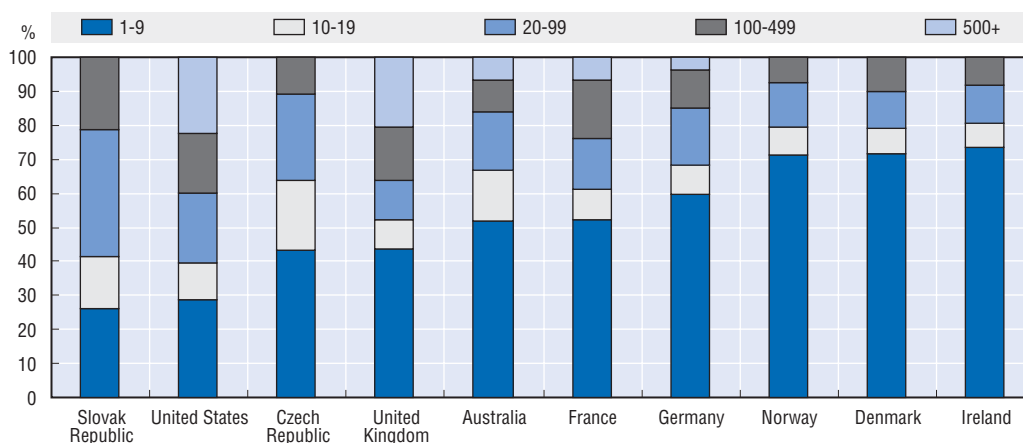


Note: 2001 or nearest year available; Norway: 2000 data; United-States: 0-9.

Source: OECD, Statistics on Enterprises by Size Class (SEC) database, 2005.

StatLink: <http://dx.doi.org/10.1787/071436113280>

Figure 1.4. **Distribution of employment by firm size in real estate activities, 2001**

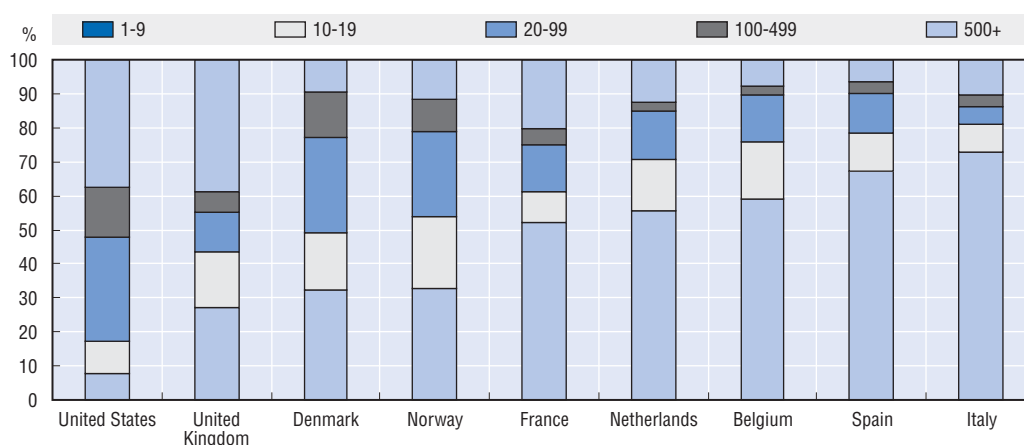


Note: 2001 or nearest year available; Australia 0-9; United States: 0-9.

Source: OECD, Statistics on Enterprises by Size Class (SEC) database, 2005

StatLink: <http://dx.doi.org/10.1787/806246484674>

SMEs account for a large (Figures 1.1 to 1.5) and growing share of employment in many OECD countries, and SMEs are recognised to be a principal creator of jobs: In the Europe-25 economies, 23 million SMEs (< 250 employees) provide employment for 66% of the private sector. Evidence of their growing share in employment is well illustrated in the case of Austria, where SME employment grew by 8.1% between 1995 and 2003. The share of SME employment in Australia's business sector has been rising since the early 1980s, and evidence suggests that SMEs contributed between 63% and 78% of net employment growth during the 1990s there (Hall, 2002). SMEs (< 250) account for a large share of manufacturing employment in many OECD countries, e.g. 75% and more in Italy, Portugal and Spain. Small enterprises (< 50 employees) too account for a substantial share of manufacturing employment; over 50% in Italy and Spain although significantly less in some countries, e.g. 15% in the Slovak Republic, and 22% in Germany and in Ireland.

Figure 1.5. **Distribution of employment by firm size in restaurants, bars and canteens, 2001**

Note: 2001 or nearest year available; United-States: 0-9.

Source: OECD, Statistics on Enterprises by Size Class (SEC) database, 2005.

StatLink: <http://dx.doi.org/10.1787/724360530280>

Box 1.2. **SME trends in the tourism industry**

SMEs (< 250 employees), notably micro and small enterprises, constitute the bulk of the tourism industry (here tourism includes only hotels, travel agencies and tour operators). Since 1998, on average, the number of SMEs in tourism is continuing to increase in the OECD area, reflecting the dynamics of the tourism economy. Micro-enterprises are largely predominant. For hotels, micro-enterprises represent between 65 and 98% of the total, except for Switzerland (39%) and for Greece (18%). For travel agencies (including tour operators), the figures are even more remarkable: micro-enterprises represent between 83% and 97% of the total. In France, one of the major worldwide tourism destinations, SMEs represent 99.9% of tourism enterprises, of which 92.1% are micro-enterprises (< 9 employees). Research on the competitiveness of tourism SMEs in France indicates a relative fragility of these enterprises for operating on a global tourism market. They have, for example, difficulties in being referenced (included in the offer) of the large distributors. As a result, they tend to operate mainly in niche markets. In employment terms, the situation is more balanced as larger enterprises play a more important role (see Statistical Annex).

The role of SMEs in employment terms is also significant with shares varying from 47 to 97% for hotels and from 54 to 89% for travel agencies (including tour operators). There is rather little information available about the profitability of tourism enterprises. However, initial research conducted by the OECD shows that there is no clear evidence that smaller tourism enterprises are less profitable; in fact some anecdotal information indicates that the participation of tourism SMEs in total profit has tended to increase in recent years. For example, in Denmark, hotels and restaurants organised as single proprietorships manage better and maintain higher profit margins. In Poland, small tourism enterprises (< 50 employees) have recorded the highest increase in their share of the total profit (+15.1% for the period 2000-2002) in comparison to medium tourism enterprises (+8.6%) while larger enterprises (> 250 employees) have registered a significant decrease (-9.3%) during the same period.

SMEs generate a substantial share of manufacturing output and generate over 50% of value added for a number of OECD countries, notably in Italy, Portugal, Spain, Japan, New Zealand and Norway. SMEs contribute 57% of value added in the Europe-25 economies on average. Although data are scarce, it is to be expected that the SME share in investment is also substantial, such as in Sweden where SMEs accounted for 66% of net investments in 2001.

In service activities, SMEs account for a very large share of employment in many activities. There are some exceptions, however, such as in the hotels and restaurant activity: for example, in the United States enterprises with 100 or more employees account for 56% of the total in this category, and in the United Kingdom, firms with more than 250 employees account for 40% of employment. In the research and development activity, large firms also make up a sizeable share of employment, and firms employing more than 500 account for fifty per cent and more of employment for a number of countries, including Germany, Netherlands, United Kingdom, and United States (Figures 1.3 to 1.5).

Entrepreneurial activity: a vital economic force in all economies

Entry, exit and survival of firms

New enterprises emerge and disappear in substantial numbers on a continuous basis in all economies. Data for nine European countries show that between 12% and 19% of all non-agricultural firms enter or exit the market every year. Enterprise entry rates are closely correlated with exit rates, and approximately equal numbers of firms exit the market as those that enter. This general pattern combining high rates of entry and exit occurring simultaneously is found across all economic sectors. Overall, the cross-country variation of entry and exit rates, (i.e. the number of new or exiting enterprises in relation to all active firms) is rather modest and a similar degree of firm churning is found in Europe and in the United States.

The European Union is characterised by a certain entrepreneurial gap. The latest edition of the Flash Eurobarometer survey on entrepreneurship finds that only 4% of Europeans were involved in setting up a business in the past three years, yet almost half of Europeans say that they would prefer to be self-employed. Differences between European countries do exist, however. For example, some countries such as the Netherlands and Austria experience relatively low entry and low exit rates. Concerning the net growth in the stock of enterprise numbers the rate has tended to be positive for many countries, and was 4.3% in the Netherlands, 3.3% in Germany, and 3.1% in United Kingdom in 1999 (the latest year for which data are available). In contrast, Japan experienced a drop of 2.1% and Belgium a decline of 0.6% in that year.² Figure 1.11 shows the reversal in trends for start-ups and closures in Japan during the period 1975-2001. Overall, entry rates in OECD countries are higher in dynamic services sectors, such as business services, or ICT-related industries, health and age-related services, than in more mature industries, in manufacturing for example (Figures 1.6 and 1.10). One country example showing different entry and exit rates by industry in Germany is illustrated in Figure 1.12.

Once firms survive the initial years, prospects improve, and many surviving firms are found to generally grow in size over time in all countries for which data are available (Figure 1.9). However, only a small share go on to become fast-growth firms. Furthermore, it should be borne in mind that the average SME workforce size is quite small – estimated to be 6 for European Union economies. In Spain, employment in new firms that had started up in 1998 increased from an initial average of 2.1 persons in 1998 to 3.2 persons in 2000.

Box 1.3. Defining entrepreneurship

Entrepreneurship has typically been referred to as an action, process, or activity, in which creativity, risk-taking and innovation play a significant role. Substantial entrepreneurial behaviour can occur among existing entrepreneurs and existing firms, including longer established firms, and the systematisation of innovation and commercialisation within existing firms. The recent Green Paper on Entrepreneurship in Europe by the European Commission defines it as follows: “Entrepreneurship is the mindset and process to create and develop economic activity by building risk-taking, creativity and/or innovation with sound management, within a new or an existing organisation”. Despite the definitional differences, it is commonly agreed that entrepreneurship is a driving force behind SMEs.

The OECD too has addressed the issue of entrepreneurship from a number of angles, including from the local economic development perspective, emphasising the role of entrepreneurship and self-employment for local economic development (OECD, 1998a, 2003a) and in the context of the Growth Study and its follow-up, and on the occasion of the 2nd OECD SME Ministerial Conference held in 2004.

The accumulated body of work on entrepreneurship and SMEs to date indicates the existence of a rationale for both entrepreneurship policy and for an SME policy. The OECD takes the approach that entrepreneurship policy cannot substitute for SME policy but needs to be seen in the wider context of SME policy, as without sound entrepreneurship policies, there cannot be strong SMEs. Neither can SME policy substitute for entrepreneurship policy. The two policies are complementary and should be carried out together, as part of the same continuum – from the would-be or aspiring entrepreneurs to the large firms. Therefore, entrepreneurship policy and SME policies need to be viewed as a continuum, encompassing the pre-start-up, start-up, growth and expansion stages of the enterprise (OECD, 2004a). Furthermore, the approach taken considers entrepreneurship policy as directed more towards individuals (isolated or in teams) and considers SME policy as concerning firms *per se*, and geared to creating and growing these businesses.

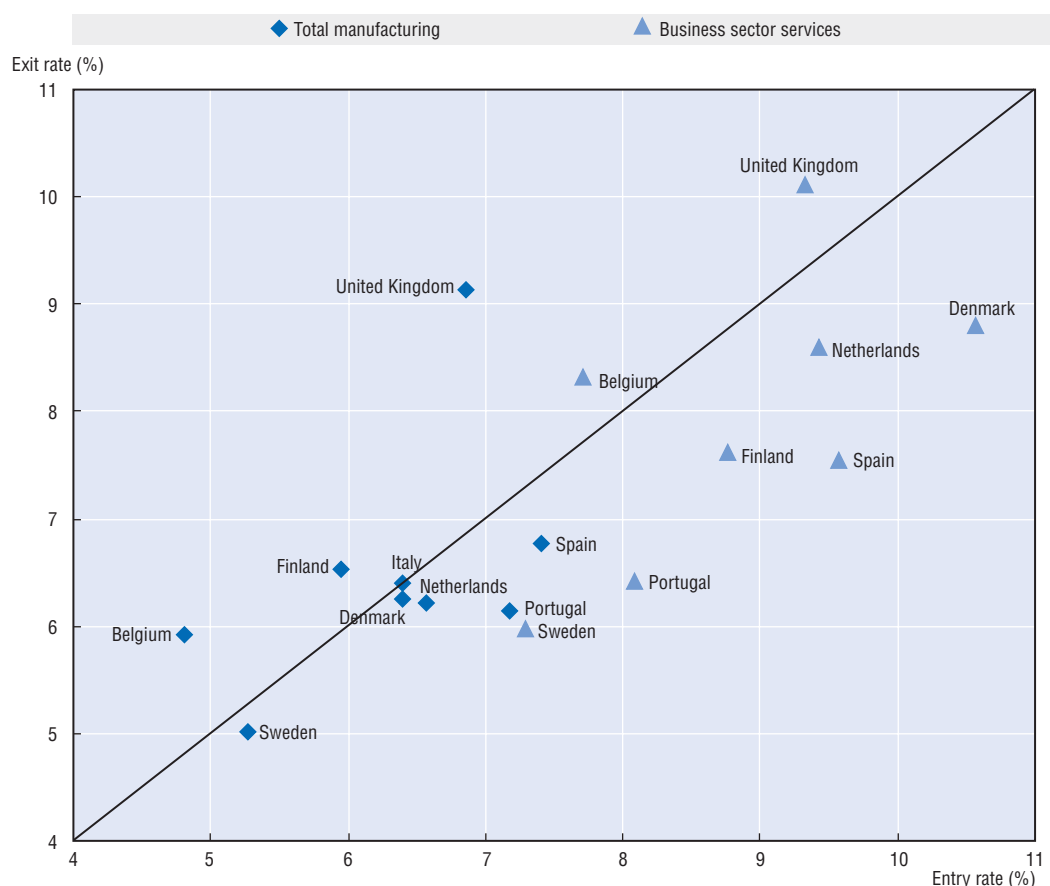
Various research projects underway or recently undertaken in relation to the topic of entrepreneurship, adopt differing definitions for entrepreneurship policy: For example, the research project *Entrepreneurship Policy for the Future*, led by Lundström and Stevenson (2001, 2002) defines entrepreneurship policy as “aimed at the pre-start, the start-up and post start-up phases of the entrepreneurial process; designed and delivered to address the areas of motivation, opportunity and skill; and with the primary objective of encouraging more people in the population to consider entrepreneurship as an option, to move into the nascent stage of taking the steps to get started and then to proceed into the infancy and early stages of a business.”

Source: OECD (2004a): *Fostering Entrepreneurship and Firm Creation as a Driver of Growth in a Global Economy*, www.oecd.org/cfe/sme.

However, many new enterprises do not survive for long, approximately 20% of new entrants exiting during their first year of existence and nearly as many more not surviving beyond the second year. It should be borne in mind that firm exit is not necessarily synonymous with failure as exits can occur for other reasons, such as when the firm founder closes the business for personal reasons, or when the firm is merged with or becomes part of another firm. Country differences exist concerning firm survival. Two

Figure 1.6. **Entry and exit rates in the manufacturing and business services sectors**

Average rate over 1997 and 2000



Source: Eurostat, June 2003.

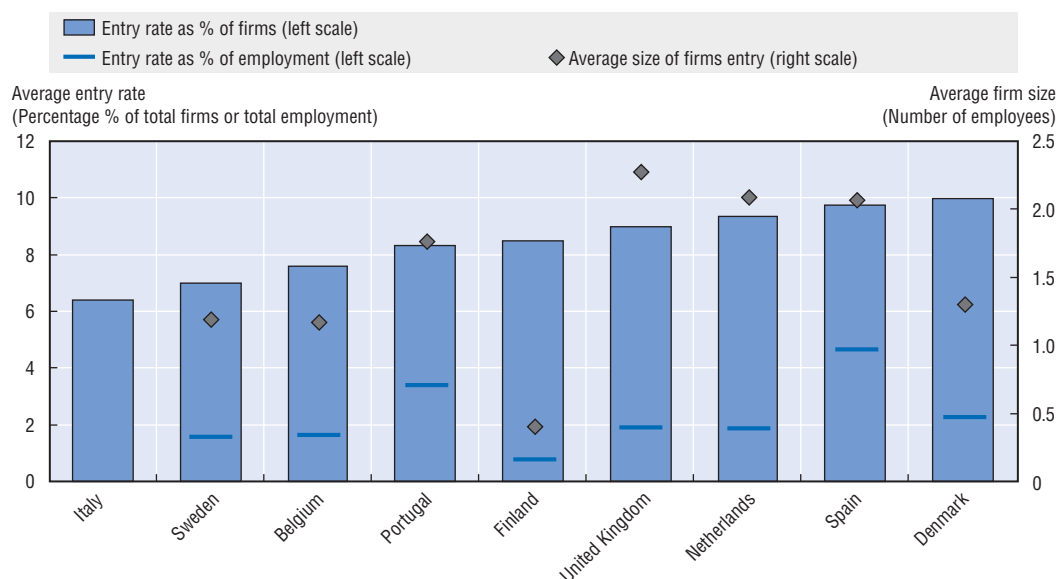
StatLink: <http://dx.doi.org/10.1787/541116825812>

EU countries can be cited in this respect: Austria has a relatively low self-employment rate but a relatively high survival rate of its newly established businesses (83% of start-ups survive after three years, and 72% after five years³); and the Netherlands, with lower entry and exit rates relative to the European average, but having high survival rates attributed to better preparation before the start-up phase (Ministry of Economic Affairs, 2002): four years after their start-up, 60% of Dutch firms are still in operation, compared to 44% in Denmark and 50% in the United States.

The entrepreneur's age can be a determinant of enterprise survival. Entrepreneurship is particularly challenging for many young persons starting up, because of their lack of human capital and relevant experience. Persons over thirty-five years of age entering self employment are likely to have greater survival chances (Scott, 1995), while a new entrepreneur, if aged fifty or older in France, INSEE has found, stands a two-thirds chance of surviving for three years and just 50% if aged less than twenty-five. In view of the increasing "greying" of OECD populations, attention is being given to entrepreneurship of economically active older people, which appears to be on the increase in some countries. For example, persons over 50 years of age represented 8% of new entrepreneurs in the Netherlands in the nineties, and ten years later, their share had increased to 16%. Table 1.1

Figure 1.7. Firm entry rates, job creation and average size of new firms in total non-farm industry

Average rate over 1997 and 2000



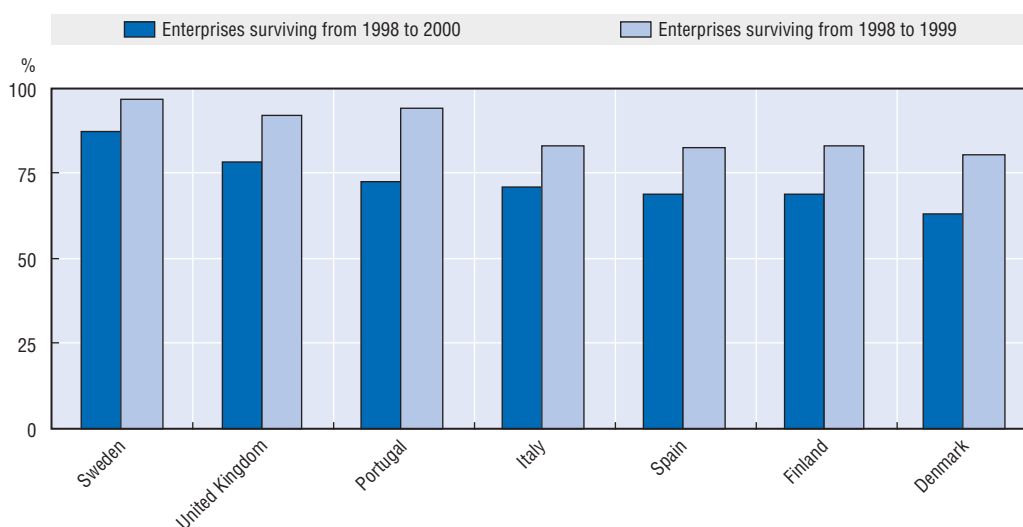
Note: Denmark, Finland, and Netherlands data on persons expressed as full-time equivalents.

Source: OECD Science, Technology and Industry Scoreboard based on Eurostat statistics, 2003.

StatLink: <http://dx.doi.org/10.1787/536454780234>

Figure 1.8. Enterprise survival rates

Percentage of 1998 entries



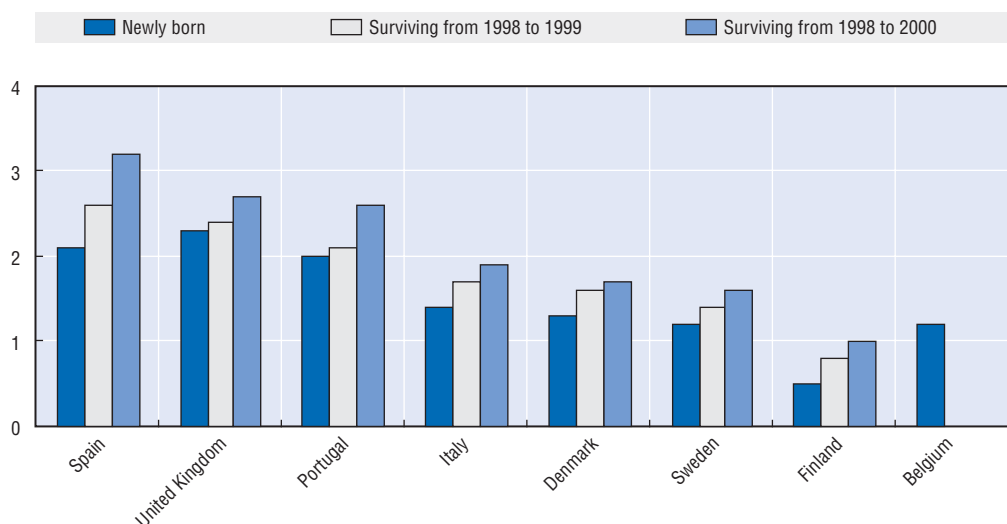
Source: OECD Science, Technology and Industry Scoreboard (2003).

StatLink: <http://dx.doi.org/10.1787/636034158052>

compares for the Netherlands, the characteristics of new entrepreneurs over 50 years of age with those of the average new entrepreneur, showing that the older new entrepreneur is better endowed in terms of skills, experience, capital and other sources of income.

Figure 1.9. **Average size of firms born in 1998**

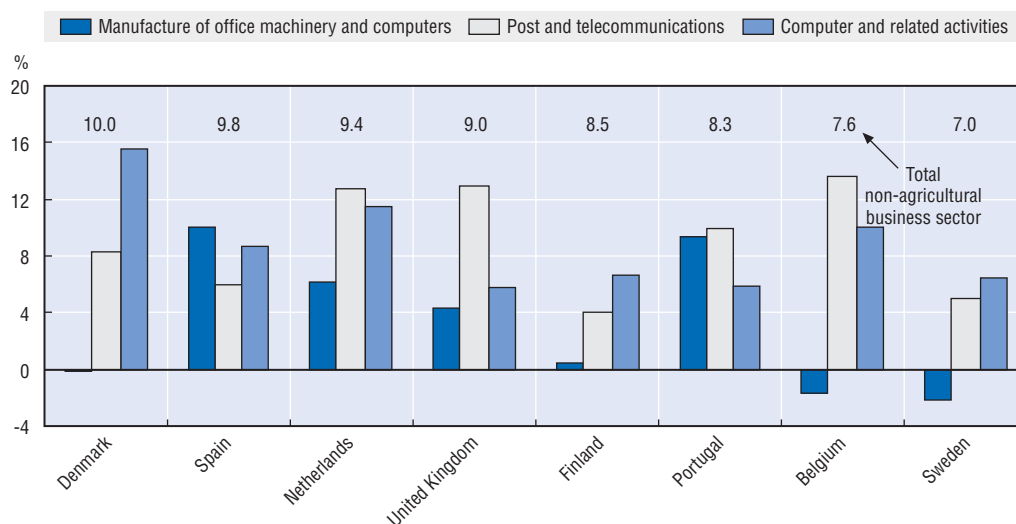
Average number of employees



Note: Data on persons employed for Denmark and Finland are expressed in full-time equivalents.

Source: OECD Science, Technology and Industry Scoreboard (2003).

StatLink: <http://dx.doi.org/10.1787/552744430346>

Figure 1.10. **Net entry in ICT industries**

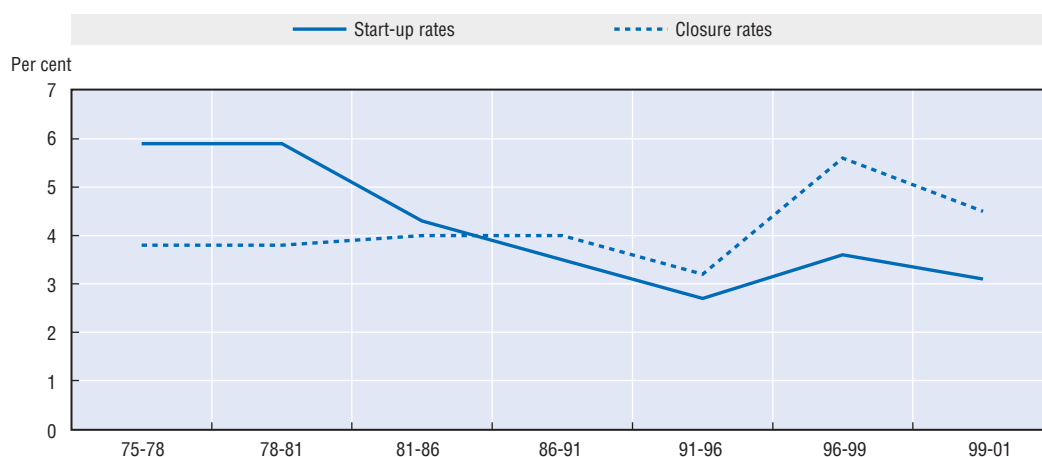
Source: OECD Science, Technology and Industry Scoreboard (2003).

StatLink: <http://dx.doi.org/10.1787/643410541078>

The source and strength of job creation varies depending on the business environment. Successful entrant firms in the United States appear to enjoy much stronger employment expansion than European entrants in the initial years allowing them to reach a higher average size. In Europe, from about 1990 to 2001, micro enterprises (< 10 employees) were the only significant contributors to net job creation, and made a net positive contribution only from about 1997 onwards.⁴ Entrepreneurial activity by

Figure 1.11. **Japan: start-up and closure rates since the mid-seventies**

Non-primary industries, annual average



Source: Japan Small and Medium Enterprise Corporation (JASMEC), 2004.

StatLink: <http://dx.doi.org/10.1787/353841837212>Table 1.1. **Characteristics of older new entrepreneurs (persons aged 50 or over) in the Netherlands (in per cent)**

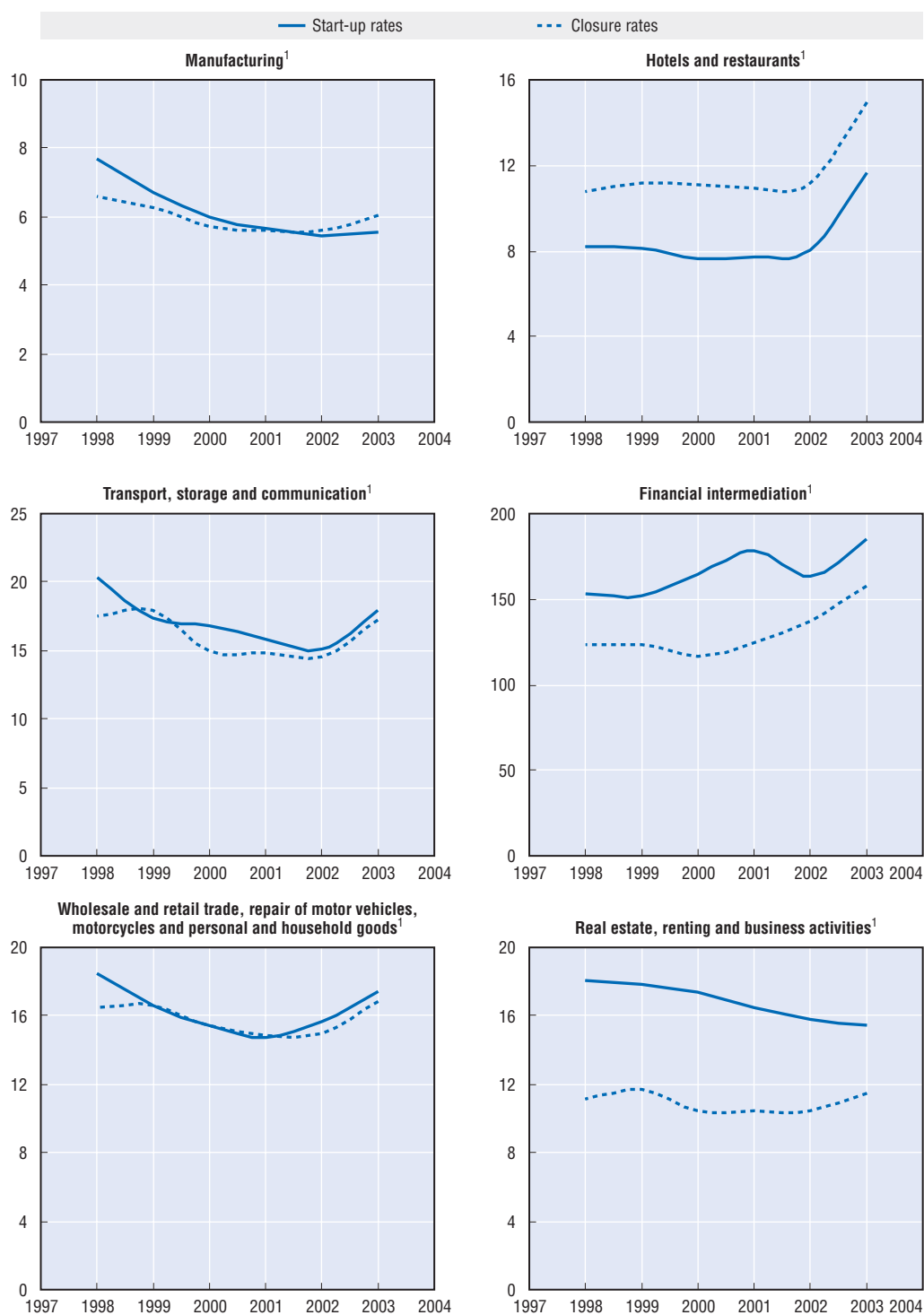
	New enterprises started by people over 50 years of age	New enterprises, overall
Gender: male	86	68
High skills: university/higher vocational qualification	55	45
Less likely to have been an employee in the past	61	72
Likely to work full time in the company	48	43
Dependent on earnings from company, either entirely or partially	33	42
Put their own money into working capital	83	70

Source: Action for Entrepreneurs, Entrepreneurship Policy in the Netherlands, Ministry for Economic Affairs, 2004.

population strata or groups shows significant country and regional variations. A recent IDB study finds that people from lower and middle classes in East Asia were twice as heavily involved in entrepreneurial activity as their counterparts in Latin America (IDB, 2002).

Firm entry rates are found to be significantly correlated with output and employment growth across services sectors, while the relationship is much less clear-cut in manufacturing according to an OECD study (Brandt, 2004b). Output and employment growth can be expected to be higher in younger industries as new firms enter and incumbents expand in an attempt to seize unexploited business and technological opportunities.

A positive relationship between the level of entrepreneurial activity (proxied by start-up rates) and overall firm productivity for seven of ten OECD countries analysed (OECD, 2001d), has been observed notably in high tech industries where new firms tend to play an important role. Scarpetta et al., (2002) show that firm entry and exit help increase aggregate productivity growth by shifting resources from old and less productive firms to

Figure 1.12. **Germany: start up and closure rates in different industries, 1998-2003**

Note: ISIC REV3.1 CODE: Manufacturing: D15-D37; Wholesale: G; Hotels and restaurants: H55; Transport storage and communication: I; Real estate, renting and business activities: K.

1. Number of enterprise start-ups (for start-up rate) or closure (for closure rates) in relation to the number of enterprises of the previous year.

Source: IFM Bonn.

StatLink: <http://dx.doi.org/10.1787/824764121438>

new and more productive ones. Similarly, a Canadian study shows that because new firms tend to be much more productive than existing firms, net entry contributes significantly to aggregate productivity growth (Baldwin and Gu, 2003). An OECD study (Brandt, 2004b) finds, using data for nine European countries, that firm entry has a positive effect on labour and total factor productivity growth, particularly so for service industries.

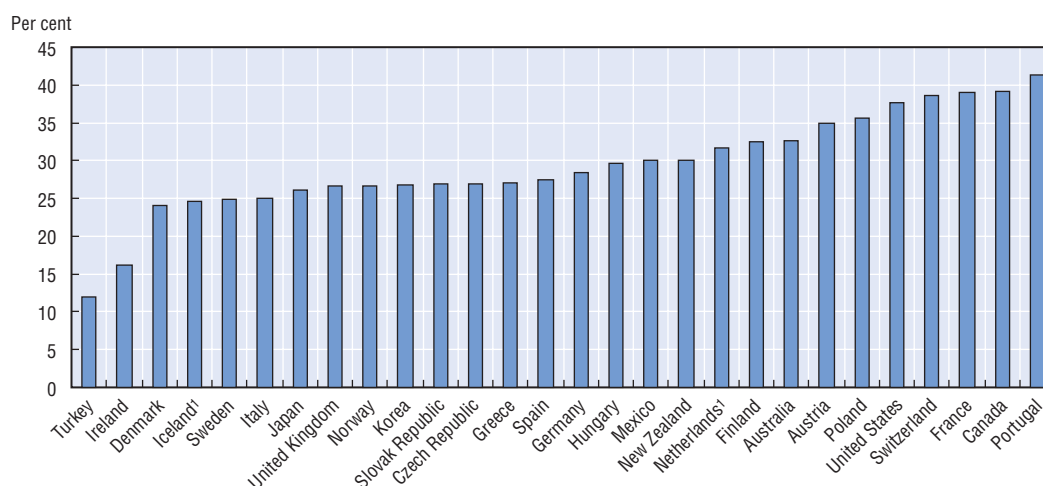
The capacity of entrepreneurship to alleviate poverty and offer social opportunities has been brought to the fore, in particular the potential of “social entrepreneurship”⁵ to increase employment opportunities and empower disadvantaged and under-represented groups. Local factors are crucial and recent growth in entrepreneurial activity in some target population groups (e.g. youth, ethnic minorities) is often closely linked to local communities. The share of certain minority populations engaging in entrepreneurship is often relatively high with respect to the national average, pointing to possible sets of positive influences (such as supportive business networks).

Women’s entrepreneurship: an important untapped reservoir for employment

Women represent a minority of those who are self-employed, start new firms, or are small business owner-managers. During the last decade, women’s entrepreneurship has gained growing attention as an important untapped source of economic growth. The number of small firms women are able to create (including firms with growth prospects) and their capacity to create new jobs for themselves and others is increasingly acknowledged, as is their potential to provide society with different perspectives and approaches to management, organisation and business issues (OECD, 2004b). While their economic contribution is widely acknowledged to be substantial and growing, it has not yet been quantified, partly because of the scarcity of the relevant statistics and indicators, but also because women’s entrepreneurship has historically received little attention from society and from the social sciences. The issue of women’s entrepreneurship is necessarily about women’s position in society as well as the role of entrepreneurship in the same society, as women also need to clear traditional hurdles (such as gendering of entrepreneurship, lack of role models, weak social status, access to finance). In some countries, women may also experience cultural and legal obstacles in regard to holding property and entering into contracts.

Women tend to start and manage firms in industries different to those chosen by men. Activities chosen by women include retail, education and other service industries while they are less present in industries where a formal education in science and technology is required.

Substantial variation is found between economies with regard to the percentage share of women among the self-employed. The lowest shares of self-employed women are observed in Turkey (12%) followed by Ireland (16%), and the highest in (Portugal 41%) in 2003 (Figure 1.13). Canada, France, Switzerland and the United States have high rates, their respective shares ranging between 37.6% and 39.2%. In total, there were approximately 20 million self-employed women in OECD countries in 2003.⁶ Women-owned businesses represent an important part of the business population, for example, accounting for 36% of all firms in Korea in 2001, 28.5% of businesses in Germany, 12% of SMEs in the UK, and 20% of French firms with 10 or more employees.

Figure 1.13. **Share of women self-employed in total self-employment in 2003**

1. 2002 data.

Source: OECD Labour Force Statistics, 2004.

StatLink: <http://dx.doi.org/10.1787/583375548524>

Few studies have attempted to quantify the economic impact of women's entrepreneurship

With the exception of Germany and the United States, the economic impact of women's entrepreneurship for most OECD member countries has not been estimated. In the United States recent analyses from the Census Bureau estimate that women-owned and managed firms represent 28% of the 23 million firms (amounting to 6.4 million) and provide employment for 9.2 million people, corresponding to 9% of all employed in the private sector. These firms are growing in number at twice the rate of all businesses (23% versus 9% between 1997 and 2004). Further, employment in these women-owned businesses increased by 39% compared to 12% nationally, and revenues rose by 46%, compared to 34% among all privately-held firms between 1997 and 2004. There are a total of 1.066 million women-owned businesses in Germany. Both the rate of women entrepreneurs and their economic impact is quite similar in both the United States and Germany. According to an OECD study (OECD, 2004b), using United States employment ratios relating to women's entrepreneurship, European self-employed women would have been generating employment for around 20 million people in 2000.

In Canada, the Prime Minister's Task Force on Women Entrepreneurs (2003) found that between 1981 and 2001 the number of women entrepreneurs in Canada increased by 208%, compared with a 38% increase for their male counterparts. However, average annual sales for women-owned firms were found to be significantly lower, averaging in 2000 slightly less than half of the sales of firms owned by men. In Sweden, differences are observed between men and women in relation to the entry size of their firms: women have on average 0.6 full time employees and men have on average 1.7 full time employees, although the difference observed between women-owned businesses and men-owned businesses appears to be diminishing.

3. The regulatory framework and SMEs

Regulatory and administrative burdens can dampen entrepreneurial activity and SME development

Excessively stringent regulations affecting product and labour markets have a negative impact on both firm entry and productivity as they hinder firms from shifting resources to new and productive uses, innovate and adopt new technologies (Scarpetta et al., 2002). Recent World Bank studies also report that cumbersome entry regulation is associated with less private investment, higher consumer prices, greater administrative corruption, and a larger informal economy (World Bank, 2003, 2004).

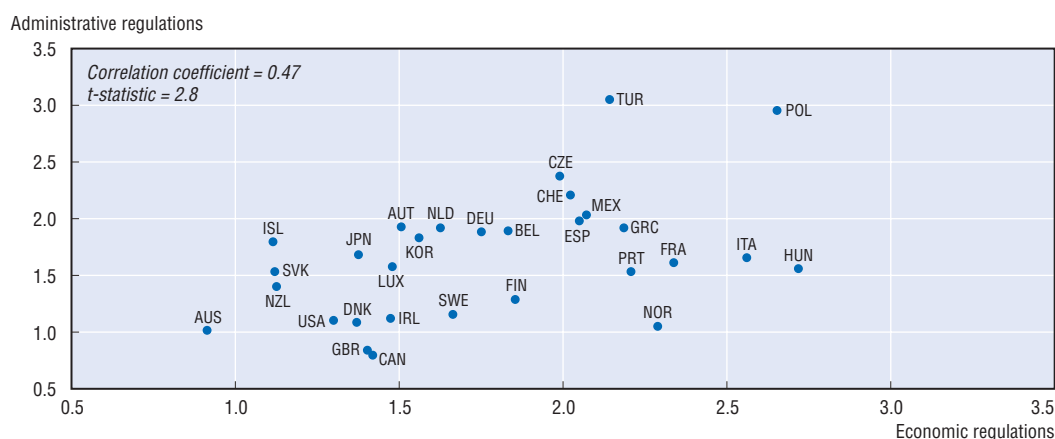
A recent OECD study (2005a) which examines trends in product market regulation in OECD countries, suggests that regulatory impediments to competition have been declining in all OECD countries in recent years (Box 1.4). Overall, across OECD countries, product market regulation has tended to become more conducive to competition since 1998. Moreover, the findings suggest that regulation has tended to become more homogeneous across the OECD as countries with relatively restrictive policies have tended to move toward the regulatory environment of the liberalised economies. In particular, in 2003 the group of EU countries displayed stronger convergence towards lower barriers to product market competition than did other OECD member countries, thought to reflect efforts to implement the single market programme.

The OECD study also found that those countries which in 1998 had restrictive economic regulations also tended to impose burdensome administrative procedures on business enterprises (Figure 1.14).

Box 1.4. The OECD regulation database and PMR indicator

Most of the regulatory information summarised in the OECD Economics Department's Product Market regulation (PMR) indicators was collected via a questionnaire sent to OECD countries. The questionnaire was last issued in 2003 and enjoyed a very high response rate (92%), collecting 805 data points for each country on general and sectoral regulatory policies as well as some aspects of industry structure. The data collected reflect regulations in place of the end of 2003. With the PMR system, economic and administrative regulations are classified into two main areas – inward and outward oriented policies – depending on whether regulations are directed at domestic or foreign operators. In turn inward-oriented policies are subdivided into measures aimed at establishing various forms of state control on economic activities and provisions resulting in impediments to entrepreneurial activity, while outward oriented policies distinguish explicit barriers to trade and investment (tariffs or foreign ownership restrictions) from other barriers to international exchanges (regulatory hindrances). Of particular interest to the SME and entrepreneurship-related issues, the “Barriers to entrepreneurship” indicator includes obstacles to competition (e.g. legal limitations on the number of competitors), administrative burdens (e.g. burdens on start-ups) and administrative opacities (e.g. the complexity of the licences and permits system).

Source: OECD, 2005a.

Figure 1.14. **Administrative and economic regulations, 2003**

Note: Administrative regulation includes reporting, information and application procedures, and the burdens of business start-ups, implied by both economy-wide and sector-level requirements. Economic regulation includes all other domestic regulatory provisions affecting private governance and product market competition (such as state control and legal barriers to entry in competitive markets). The scale of the indicators is 0-6 from least to most restrictive.

Source: Economics Department, OECD, 2005.

StatLink: <http://dx.doi.org/10.1787/578522402845>

Administrative compliance costs, firm size and sectoral dimensions

Administrative compliance costs can be an important barrier to entrepreneurship and business development and thus constitute a burden for enterprises, particularly SMEs. A recent OECD survey-based study estimated administrative compliance costs to represent around 4% of Business Sector GDP for the countries surveyed, and showed that regulatory costs have an increasingly disproportionate impact on smaller companies. Evidence suggests that a threshold exists at around 20 employees after which costs per employee stabilised. This is further illustrated by the number of requests made to government authorities. While SME businesses asked for an average of eight authorisations or decisions per year, micro or small businesses were found to make approximately four times the number of requests per employee that medium-sized SMEs make and eight times the number made by large SMEs. The Australian Small Business Deregulation Taskforce commissioned a national survey which estimated the time spent on average by small businesses on administration and compliance activities (estimated at 16 hours per week).

Administrative compliance costs can vary by sector. Professional services (business services) and services with environmental impact (such as transport and public infrastructure companies) were found to incur higher annual costs per employee than the manufacturing sector. A large share of administrative compliance costs is spent on complying with tax and employment regulations, while the amount spent complying with environmental regulations, although growing rapidly, tends to be lower (OECD, 2001b, 2003c).

SMEs appear to be more critical of their contacts with government offices to obtain decisions than they are of their contacts to obtain information, and complain of both the lack of consistency and lack of predictability of decisions, and the accountability of the administrative agency. When surveyed, SMEs are, in particular, more critical of the quality of tax and employment regulations than of the quality of environmental regulations and

consider tax and employment regulations to be insufficiently flexible, making it difficult to achieve their objectives (OECD, 2003c).

Regulatory and administrative barriers to entrepreneurship

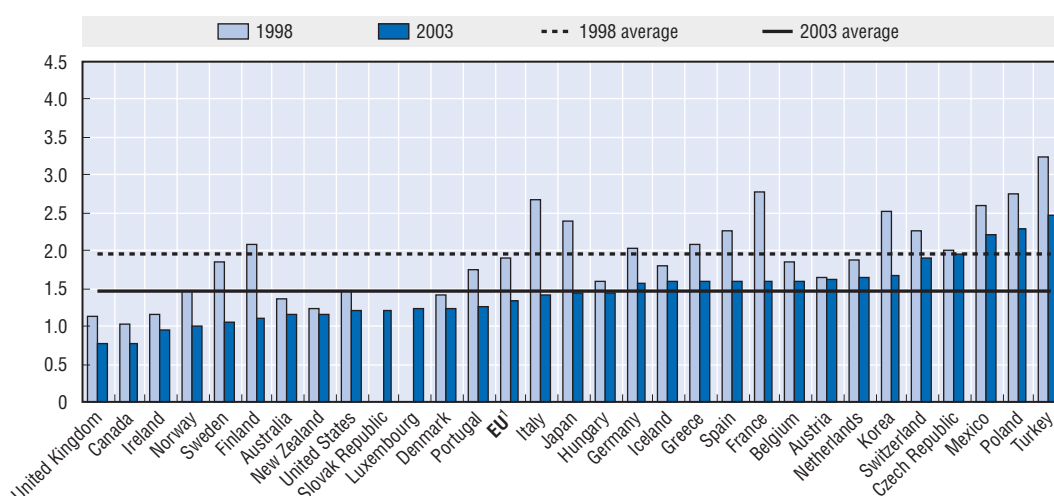
Progress made in removing administrative barriers to entrepreneurship⁷ during 1998-2003 was found to be less than progress made in other areas (OECD, 2005a) and was not so significant in areas such as: removing legal barriers to new entry in product markets sheltered from competition (e.g. several non-manufacturing industries); and the simplification of administrative procedures and reductions of burdens on business start-ups. The exception was a significant improvement in licence and permit systems due to more widespread use of one-stop shops and to a lesser extent because of the application of the "silence is consent" rule" (OECD, 2005a).

This recent OECD research classifies countries into three groups: *relatively "restrictive" countries*; *relatively "liberal" countries*; and *"middle of the road" countries* with regard to product market regulation. Concerning the elimination of institutional barriers to entrepreneurship, the study finds the following: significant reforms were made by the first group especially with regard to reductions in administrative burdens on start-up firms and removal of legal barriers to entry in some sectors; small incremental improvements in administrative burdens on business start-ups and concerning simplification of rules and procedures were made by the second group; and rather disparate results among the third group, some countries making significant progress to the licence and permit systems and improved government communication and some others making progress through lowering administrative burdens.

The World Bank finds that entry regulations were the business regulations most frequently reformed in 2003. Relatively few procedures are required nowadays for starting a business in a number of countries (e.g. Australia, Canada and New Zealand). No costs are associated with start-up in many countries such as Denmark, New Zealand, United States and Sweden. No capital requirement at start-up is required in a number of countries, including Australia, Canada, France and the United States. The World Bank adjudged France to have been the top reformer in 2003 for having enacted legislation for encouraging entrepreneurship through, *inter alia*, online business registration, abolition of minimum capital requirements and reductions in the procedures, time and cost involved in starting a business. The Slovak Republic, Belgium, Finland, Norway, Poland, Portugal and Spain also figured among the top reformers in 2003 (World Bank, 2004). The following average reductions were made by the top ten reforming countries: 26% in start-up procedures, 41% in the time required; 56% in costs involved; and 8% in the minimum capital requirement (*details of recent policy developments are included in the next chapter*).

Figure 1.15 shows, for OECD countries, an indicator for barriers to entrepreneurship, on a scale (0-6) from least to most restrictive for the years 1998 and 2003. In 1998, the least restrictive OECD economies were found to be Canada, United Kingdom, Ireland and New Zealand and the four most restrictive Turkey, France, Poland and Italy. By 2003, the four least restrictive were United Kingdom, Canada, Ireland and Norway, while the four most restrictive were Turkey, Poland, Mexico and the Czech Republic.

In its *Doing Business in 2005: Removing Obstacles to Growth*, the World Bank classifies the top twenty economies for ease of doing business. The indicator is based on an average of seven indicators in order to benchmark the regulatory cost of doing business in

Figure 1.15. **Regulation in 1998 and 2003: Barriers to Entrepreneurship**

Note: Data are sorted by 2003 values; the scale of the indicators is 0-6 from least to most restrictive.

1. EU15 (simple average).

Source: Economics Department, OECD, 2005.

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Table 1.2. **Top 20 economies ranked for ease of doing business**

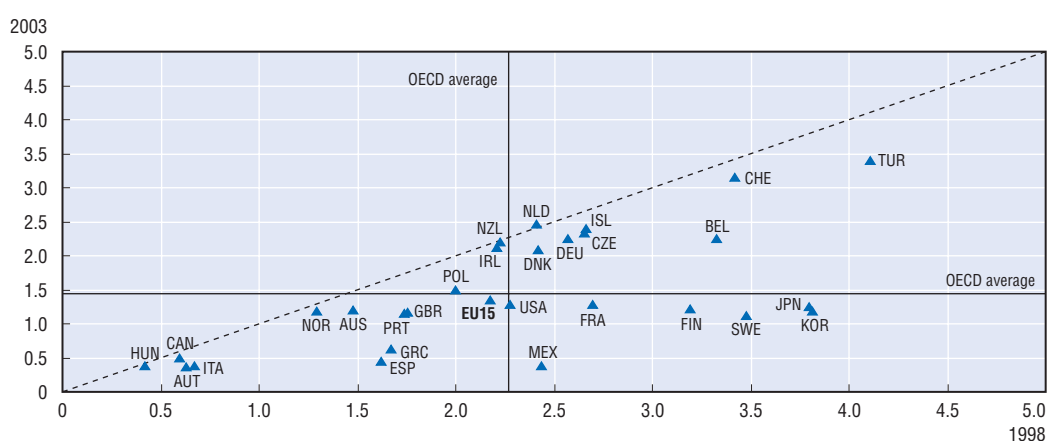
Rank	Country	Rank	Country
1	New Zealand	11	Switzerland
2	United States	12	Denmark
3	Singapore	13	Netherlands
4	Hong Kong, China	14	Finland
5	Australia	15	Ireland
6	Norway	16	Belgium
7	United Kingdom	17	Lithuania
8	Canada	18	Slovak Republic
9	Sweden	19	Botswana
10	Japan	20	Thailand

Note: The ease of doing business is a simple average of the country's ranking in each of the seven areas of business regulation and property rights protection measured in Doing Business in 2005.

Source: World Bank, 2004.

145 economies (World Bank, 2005). Table 1.2 presents the top 20 economies ranked for ease of doing business. Overall, English speaking countries are highly ranked, consistent with OECD findings. Less advanced economies regulate business more than developed economies do and although some countries are making efforts to catch up, the gap between the two groups remains wide (World Bank (2003, 2004). It takes, on average, 6 procedures, 27 days and 8% of annual income per capita to start a business in OECD countries – and 11 procedures, 59 days and 122% of income per capita to do so in less developed countries.

Figure 1.16 plots for OECD countries on a scale 0-6, for 1998 and 2003, an indicator of the complexity of administrative procedures which summarises the complexity of government communication of rules and procedures as well as licences and permit systems (OECD, 2005a).

Figure 1.16. **Complexity of administrative procedures**^{1, 2}

1. EU15, excl. Luxembourg.

2. Concerns complexity of government communication of rules and procedures as well as of licences and permit systems.

Source: OECD, Economics Department, 2005.

StatLink: <http://dx.doi.org/10.1787/505812143158>

Employment Regulations

Employment regulations governing the individual employment contract have implications for firm entry and exit and for firm expansion. Overly rigid employment regulations can limit job creation, reduce workforce flexibility, constrain R&D investment and investment in technology, and lead to smaller firm size, leaving economies of scale unexploited. All of these effects can dampen productivity growth. OECD studies (2005a, 2004q) find that, in OECD countries, employment protection legislation (EPL) has changed relatively little, compared with product market regulations, in recent years, and this is particularly the case for workers with permanent contracts. However, a positive relationship is found between product and labour market reforms in OECD countries with the former often preceding the latter (Brandt *et al.*, 2004) and a positive relationship between EPL and product market regulation across OECD countries.

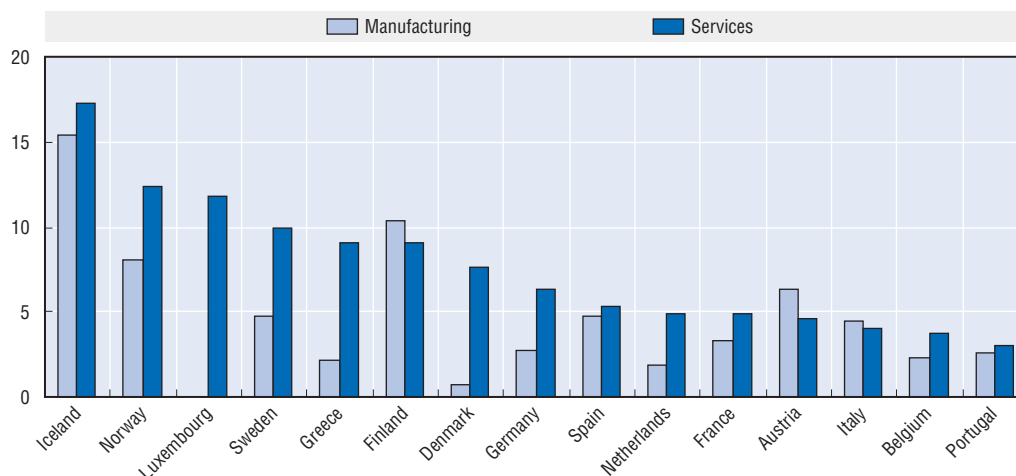
As with start-up regulations, employment regulations tend to be more flexible in developed countries. Countries with the least rigid labour regulation include the United States, Canada, New Zealand and Slovak Republic. With regard to hiring regulations, Israel, Slovak Republic, Australia, Denmark and the United States are among those with least rigid regulations; countries with least rigid firing regulations include Canada and Japan; and countries with the least rigid regulations concerning working hours include Canada, New Zealand and the United States. Countries with relatively rigid regulations concerning working hours include Greece, Spain and Portugal (World Bank, 2004).

4. Innovation and technology

Innovation is recognised as an essential component of the economic growth process. It is typically broadly defined as the development, deployment and economic utilisation of new products, processes and services (OECD, 2001a). Innovation can take many forms, it can be technological or non-technological in nature and can concern inputs, process or outputs of business operations and relations. As world economies become more integrated

Figure 1.17. **Share of new firms in the population of innovative firms in manufacturing and services, 1998-2000**

Newly established firms as % of innovative firms



Source: OECD based on Eurostat, CIS3 survey, 2004.

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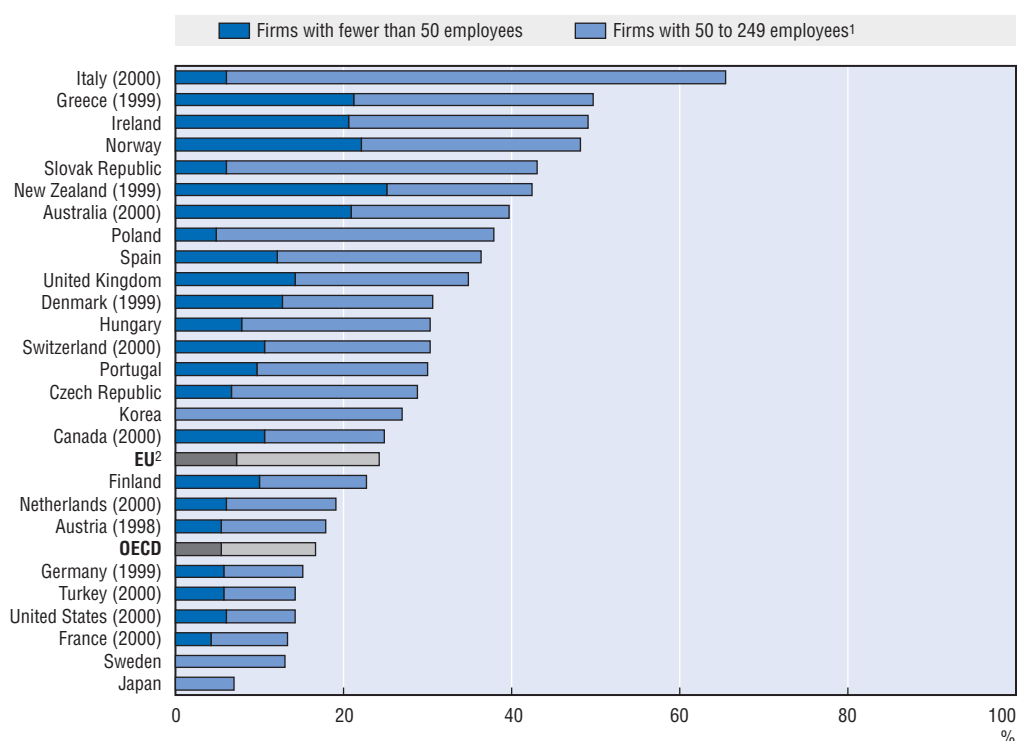
and interdependent, the ability of entrepreneurs and firms to seize upon global business opportunities by commercialising new products and processes faster than their competitors is critical in raising the economic wealth of a nation. Both SMEs and large firms play an important role in countries' innovative performance.

Business innovation depends above all on the firm's ability to create, acquire and manage knowledge. As firm renewal is generally more intense in services than in manufacturing, it is not surprising that innovation surveys find that new firms account for a larger share of innovative firms (in particular, business services and ICT-related industries) in the service sector compared to manufacturing (Figure 1.17).

The diverse population of SMEs includes a subgroup comprising a number of dynamic, innovative, and growth-oriented SMEs, in particular *new technology-based firms* (NTBFs) having the capability to renew technology, to make technological breakthroughs and to put competitive pressure on large firms, forcing them in turn to innovate to maintain their competitiveness. On the basis of firms having introduced at least one new or improved product or process on the market, about 30-60% of SMEs in the manufacturing sector in the OECD can be characterised as innovative (OECD, 2001a). In some OECD countries such as in Belgium, Ireland, Italy, Portugal and the United Kingdom, small manufacturing firms are almost as innovative as large firms. Similarly in services, small firms in some OECD countries, for example in Portugal, Switzerland and the United Kingdom, are equally innovative as large firms (OECD, 2004m).

Business R&D by size class of firms

SMEs conduct a growing share of R&D, although they still lag behind large firms in most OECD countries (Figure 1.18). SMEs account for the bulk of business R&D in Italy (65%), Greece and Ireland (50%) and Norway (48%). Japan has the lowest share among OECD countries, with only 7% compared to the OECD average of 17% (OECD, 2004m). Firms with fewer than 50 employees account for a significant share of business R&D (around one-fifth)

Figure 1.18. **Share of business R&D by size classes of firms, 2001**

1. For Netherlands and Norway, 50 to 199 employees, for New Zealand, 50 to 99 employees instead of 50 to 249 employees. For Japan and Korea, fewer than 299 employees.

2. EU = EU15 countries.

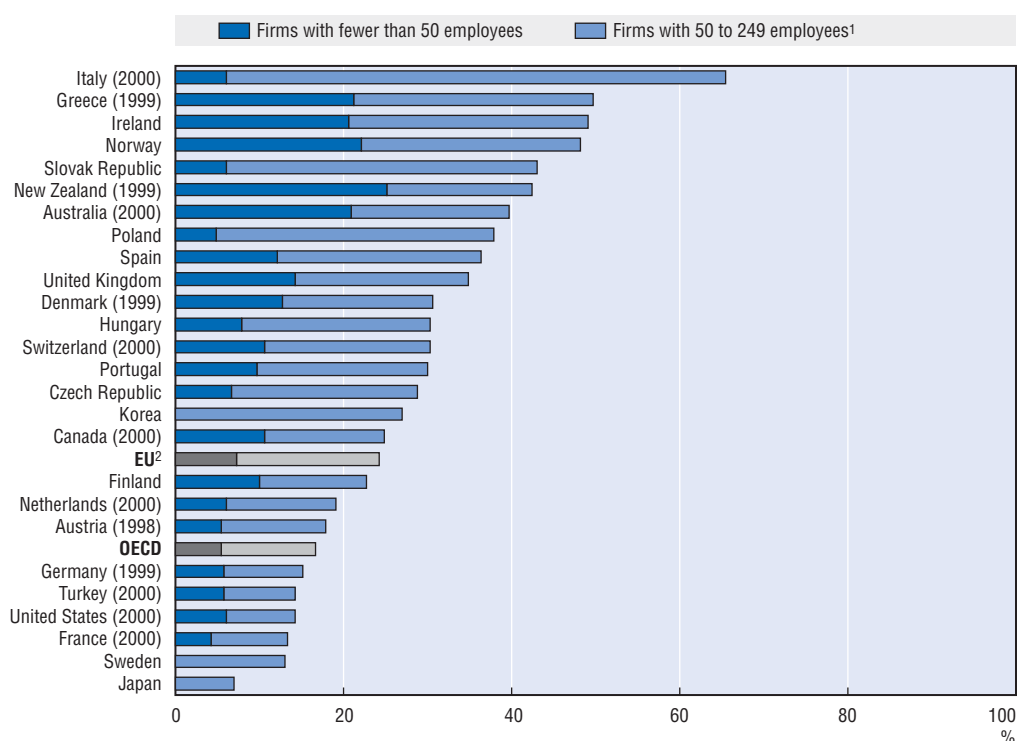
Source: OECD, *STI Scoreboard*, 2003.

StatLink: <http://dx.doi.org/10.1787/131144612576>

in New Zealand, Norway, Greece, Australia and Ireland. In OECD countries the share of R&D performed by SMEs is generally greater in smaller economies than in larger ones (Sweden is an exception).

Significant differences exist among OECD countries in terms of government financing of business R&D by size class (Figure 1.19). In Australia, Portugal, Switzerland, Hungary and Italy, SMEs receive two-thirds or more of government-financed R&D. In Australia, more than half of government-financed R&D goes to firms with fewer than 50 employees. In France, the United States, Germany and the United Kingdom, and in some smaller countries as well as Turkey, government-financed business R&D is mainly directed to large firms. SMEs also act as an interface between university research and industrial innovation and NTBFs play a crucial role in radical innovation and the commercialisation of R&D done in research laboratories (OECD, 2004m).

SMEs that are disposed to innovate and adopt new technologies face a range of challenges and problems. SMEs need access to external sources of information, knowledge, know-how and technologies, in order to build their own innovative capacity. SMEs need to access the needed knowledge and expertise either directly or through multi-layered innovation networks that link the most research-intensive and/or innovative firms to others at regional, national and global levels. Public/private partnerships (PP/Ps) for research have an important role to play in support of SME success in many technological

Figure 1.19. **Share of government-financed R&D by size classes of firms, 2001**

1. For Netherlands and Norway, 50 to 199 employees, for New Zealand, 50 to 99 employees instead of 50 to 249 employees. For Japan and Korea, fewer than 299 employees.

2. EU = EU15 countries.

Source: OECD, STI Scoreboard, 2003.

StatLink: <http://dx.doi.org/10.1787/857277757202>

fields. Table 1.3 shows the absolute and percentage share of French SME participation in the financing of 13 public/private research networks in 2001, by sector, and relative to other participants (OECD, 2004d). Geographically-concentrated clusters of innovative firms constitute another critical node in innovation networks. Private and social returns on private and public investments associated with clusters can be high, reflecting the possibilities offered by clusters for information flow, for provision of tangible and intangible infrastructures for innovation, and for coping with market failures.

SMEs tend to be more innovative in knowledge-intensive services

Services are increasingly knowledge-based and innovative. Although, overall, services are less likely to be innovative than manufacturing firms,⁸ some services sector firms, especially those in financial intermediation and business services, are displaying above-average levels of innovation (OECD 2004m). Between 1998 and 2000, the share of service-sector firms reporting that they were innovative (i.e. that they had introduced an innovation during the period) ranged from more than 55% in Germany to about 25% in Spain.

In the Third Community Innovation Survey (CIS3), in 2004, some 75% of large firms reported that they were innovative, compared to less than 40% of small firms, the widest gaps in innovative density between large and small firms recorded for larger European economies – Germany, France, Italy and Spain – where the gaps tended to exceed

Table 1.3. **Share of SMEs in the financing of 13 French public/private research networks, 2001**

Millions of EUR, %

Type of recipient	Life sciences ¹		Energy, transport, environment, natural resources ²		Information and communication technologies ³		Space and aeronautics		Total	
	EUR	%	EUR	%	EUR	%	EUR	%	EUR	%
SMEs ⁴	11.39	43	4.34	25	7.34	19	1.78	35	24.84	29
Large firms ⁵	0.37	1	1.71	10	6.76	18	0.11	2	8.95	10
Public research labs	11.15	42	6.60	38	12.55	33	1.38	27	31.67	36
Higher education	1.43	5	2.62	15	7.08	19	0.75	15	11.88	14
Engineering schools	0.93	3	0.83	5	2.88	8	0.60	12	5.25	6
Others	1.39	5	1.32	8	1.09	3	0.46	9	4.27	5
Total	26.65	100	17.43	100	37.69	100	5.09	100	86.86	100

1. RNTS, GenHomme, Génoplante, RARE.

2. PREDIT, Pile à combustible, Matériaux, Génie civil, Eau et environnement, Pollution accidentelle.

3. RNRT, RNTL, RMNT.

4. Enterprises with fewer than 500 employees.

5. Enterprises with more than 500 employees.

Source: French Ministry of Research.

30 percentage points. In smaller, Nordic countries the gaps were 20 percentage points or less. Large service-sector firms appear to be considerably more innovative than small firms (< 50 employees) and medium-sized firms (50-249). Other studies find the relationship between firm size and innovation to be weaker in services than in manufacturing, suggesting that economies of scale may be less important in the service sector. Small firms tend to be more innovative in knowledge-intensive services such as business services and financial intermediation and less innovative in the relatively large wholesale and retail trade and transport and communications sectors (Figure 1.20). There is evidence that small firms in the computer services sector (a sub-element of business services) are as likely to innovate as large firms in that sector (European Commission, 2004).

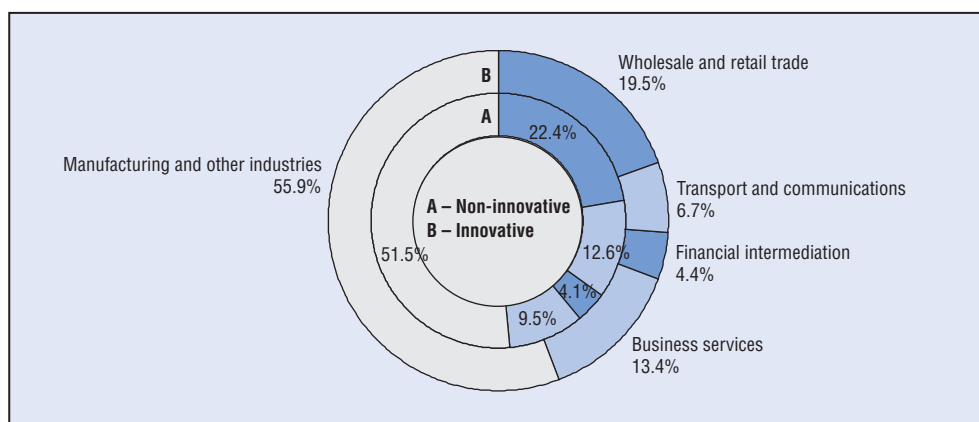
The general economic environment in which they operate also influences the innovativeness of new firms. Results of the CIS3 show that countries with higher overall levels of innovation tended to have higher levels of innovation among new firms that need to be even more innovative to compete and to be able to integrate into the supply chains of established and often larger firms.

SMEs and the intellectual property system

The protection of intellectual property (IP) is a serious issue for SMEs, as it is for large firms, as within the SME population enormous potential exists, in particular in new technology-based firms, for developing new and innovative products and services. To manage their intellectual assets effectively, entrepreneurs, SMEs, inventors, researchers, and business consultants need to have a good working understanding of the intellectual property system. Clearly, SMEs are at a disadvantage *vis-à-vis* larger firms when it comes to commanding or accessing resources in addressing such issues. The 2004 CIS3 survey reveals considerable differences in the use of IP protection by firms of different sizes. SMEs (< 250 employees) are considerably less likely to employ each of the various forms of IP protection than are larger services firms (Figure 1.21). Unsurprisingly, small firms

Figure 1.20. **Breakdown of small firms¹ by sector, innovative versus non-innovative firms, 1998-2000**

As a % of all small innovative/non-innovative firms

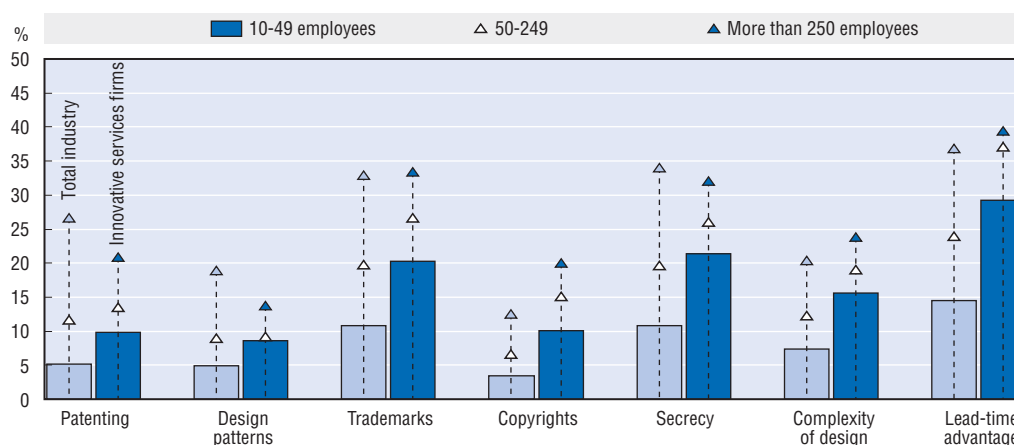


1. Firms employing between 10 and 49 persons.

Source: OECD (2004m) based on data from Eurostat, CIS3 Survey, 2004.

StatLink: <http://dx.doi.org/10.1787/618258877104>

Figure 1.21. **Use of IP protection by firm size**



Source: OECD (2005b) based on Eurostat, SIS Survey 2004.

StatLink: <http://dx.doi.org/10.1787/260326283373>

(10-49 employees) are even less inclined to have recourse to IP protection forms. While recognising the need for further analysis to confirm these results, the study's findings do suggest that small, innovative service firms (including start-ups) do make efforts to actively protect their competitive advantage, where possible, through IP protection.

5. SME access to international markets

SMEs are, in general, under-represented in world trade, although there is increasing evidence of their internationalisation. For many SMEs, especially those with high growth potential, gaining access to international markets is a strategic instrument for sustaining their competitiveness and growing their enterprises. According to Austrade Research, most of the expansion in the Australian exporter community derives from SMEs in emerging

industries. Besides exports and imports, other instruments for SME internationalisation are cross-border strategic alliances, mergers and acquisitions and inter-firm networking, all of which have seen a rapid development in recent years. The ENSR Enterprise Survey⁹ of SMEs in 19 European countries in 2003 confirms that SMEs have nowadays a differentiated approach to internationalisation where some SMEs try to optimise their competitiveness by exploiting new business opportunities in the value chain, encompassing trade, cross-border clustering, cross-border collaboration, alliances or subsidiaries, branches and joint ventures abroad. During the past decade or so, technological advances in ICTs, and in particular, the Internet, have facilitated information flows and made it easier for SMEs to participate in the international economy. Another form of SME internationalisation is *indirect exporting*, e.g. when the enterprise supplies a market abroad via an intermediary domestic company, such as through a wholesale company.

A number of factors can positively influence SME internationalisation efforts. These factors include: ICTs and increased managerial awareness and education; greater internationalisation of large firms and service providers; participation in clusters and networks; and reduced language barriers. A small domestic market can also be a driver for SME internationalisation.

Motives for SMEs to internationalise

Participating in international markets can offer a range of opportunities to firms e.g., new niche markets; possibilities to exploit economies of scale, scope, volume and technological advantages; and possibilities to lower costs and access finance. The internationalised SME has the possibility to meet partners for technological cooperation and enter new value chains via partners and acting as suppliers. Several different motives can be identified for the internationalisation on SMEs indicating a diversified approach to internationalisation (European Commission, 2004):

- Access to know-how and technology.
- High production costs on the domestic market.
- Access to new and larger markets for products/services.
- Strict laws and regulations on the domestic market.
- Additional production capacity.
- Access to capital.
- Access to labour.

Barriers to internationalisation

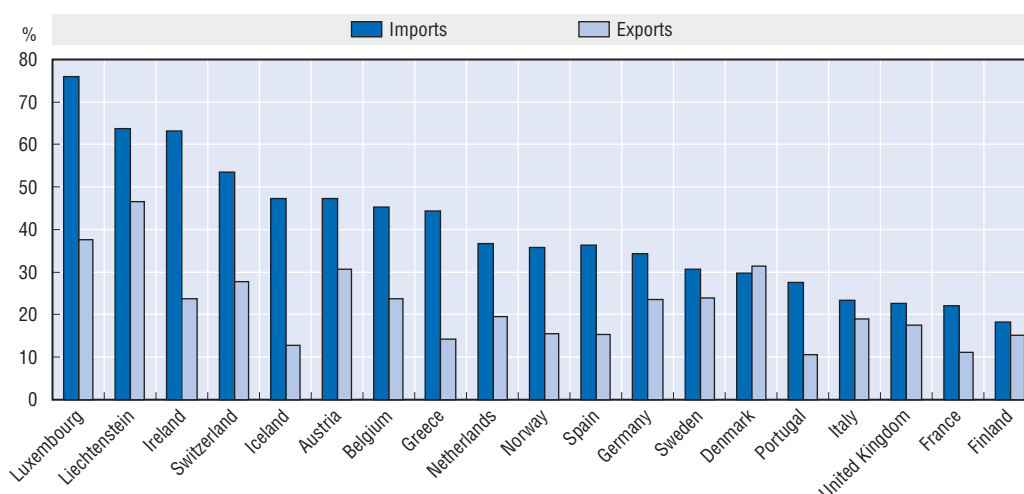
SMEs face barriers to their internationalisation giving rise to policy issues *which are discussed in the next chapter*. The most frequently cited barrier is the high cost of the internationalisation process (ENSR). Such costs include those associated with doing market analysis abroad, purchasing legal consulting services, translation of documents, adaptation of products to foreign markets, travel expenses, in addition to the higher business and financial risk incurred. External barriers include: existing laws and regulations; product standards; intellectual property rights protection; lack of capital or finance; lack of support and/or advice; cultural and language differences; and lack of information.

Recent trends in SME internationalisation

Overall, SMEs are estimated to contribute between 25% and 35% of world manufactured exports. Approximately one-fifth of manufacturing SMEs in OECD countries draw between 10% and 40% of their turnover from cross-border activities. The SME share in total US exports averaged about 30% in recent years. In Japan, the SME share (< 300 employees) in total manufacturing exports was close to 50% throughout the nineties, while in Korea, SME (< 300 employees) exports varied between one third and two fifths of total exports during that time.

With regard to European Union country trade, the ENSR survey results confirm that neighbouring countries still constitute the easiest and most frequent business partners. For Europe-19¹⁰ countries, importing is the most frequent form of SME internationalisation followed by exporting. Figure 1.22 shows for European countries the total share of SMEs that have a foreign supplier and the total share of SMEs that have exports (categories in this figure are not mutually exclusive, since they cover all SMEs with either exports or a foreign supplier). As mentioned, a small domestic market can incite SMEs to internationalise earlier than its counterparts with larger domestic markets. It is clear that SMEs in small countries tend to have more foreign suppliers than SMEs in large countries. SMEs in Central European countries with many directly neighbouring countries were also found to import more. Among large European countries, Germany has the strongest export-orientation of SMEs.

Figure 1.22. **Percentage share of European SMEs with a foreign supplier (imports) or exports, 2003**

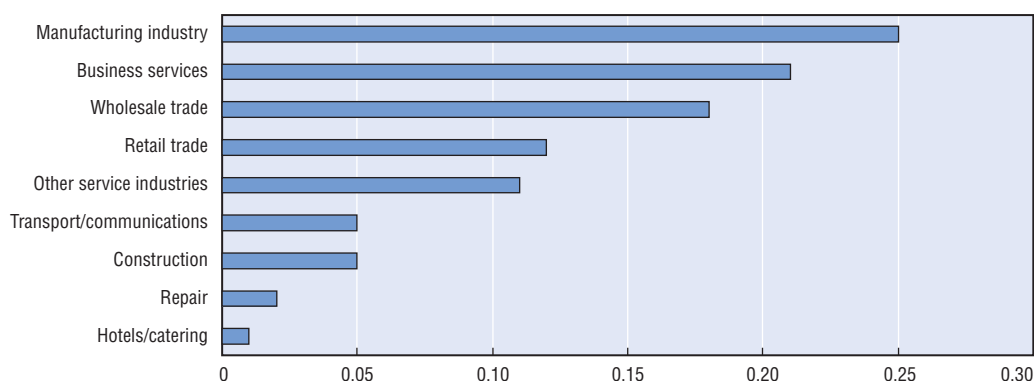


Source: Internationalisation of SMEs, Observatory of European SMEs, 2003, No. 4, European Network for SME Research (ENSR), carried out on behalf of the Enterprise Directorate-General of the European Commission, 2004.

StatLink: <http://dx.doi.org/10.1787/187358330008>

Around 12% of exporting European SMEs export more than three quarters of their output, while almost half of them export 10% or less. Only 3% of SMEs engage in cooperation or collaboration with a foreign firm as their most important partner, while a further 6% of SMEs have important partners both domestically and abroad. More European SME exporters were engaged in industry (22%) than in services (14%) in 2002 (Figure 1.23). In the United States, 70% of exporting SMEs were outside the manufacturing sector.

Figure 1.23. **Percentage share of European SMEs that export by industry, Europe-19, 2002**



Note: Europe-19: Europe-15, Norway, Iceland, Liechtenstein, Switzerland.

Source: ENSR Survey 2002 (for the Observatory of European SMEs) of 7 669 SMEs in 19 European countries (weighted data).

StatLink: <http://dx.doi.org/10.1787/227537704544>

Research suggests that SMEs contribute less than 30% of exports, on average, in APEC economies (Hall, 2002). A recent UNCTAD report¹¹ indicates that SME exporters in certain Asian countries (e.g. China, Chinese Taipei) account for significant shares in total exports and for lower shares in Latin American economies (e.g. Brazil, Costa Rica, Peru).

Size class effects within SMEs

Enterprise size appears to influence the possibilities and/or choice to internationalise. Internationally active SMEs tend to be larger than the average-sized SME. Up to two-thirds of micro-enterprises (< 10 employees) are not internationalised, compared to one third of medium-sized enterprises. Most European SME exports and international investment originate with firms having more than 50 or 100 employees (ENSR). However, in the United States, while exports by SMEs (< 500 employees) have been growing, two-thirds of exporting firms in 1998 had fewer than 20 employees. Differences are found to be even larger between enterprise size classes when more complex forms of internationalisation are involved, such as establishing subsidiaries or branches abroad, undertaking joint ventures or combining more than one type of internationalisation activity (ENSR). A notable finding is that once exporting gets underway, the smaller enterprise will on average export with almost the same intensity as the larger enterprise.

Foreign direct investment and collaborative approaches

Foreign direct investment (FDI) is a vehicle for SME internationalisation, although for most countries, only a fraction (1-4% of European-19 SMEs) have established subsidiaries abroad. In Denmark, Iceland and Switzerland, all of which are small, open economies, SMEs having subsidiaries abroad exceed 6% of the total SME population. The SME share in FDI has been evolving rapidly in some countries. For example, the share of Korean SMEs' foreign investment abroad rose from 16.0% in 2000 to 20.6% in 2001 and 37.6% in 2002 (*Small and Medium Business Administration*, Korea, 2004). Findings of a recent survey of Japanese SMEs show that when faced with business challenges, approximately two-thirds of SMEs that wished to expand or develop new markets and about two-thirds of companies that seek to reduce the costs of materials, were taking action *both* domestically *and* with

regard to FDI or were intending to take FDI only. Among European SMEs with subsidiaries or branches abroad or involved in more than one form of internationalisation, 32% of them engage in formal and 51% in non-formal cooperation, formal cooperation taking the form of alliances and networks – frequently with larger enterprises or multinational enterprises. Alliances are becoming increasingly important as international competition drives specialisation, and the trend for larger companies to increasingly outsource activities.

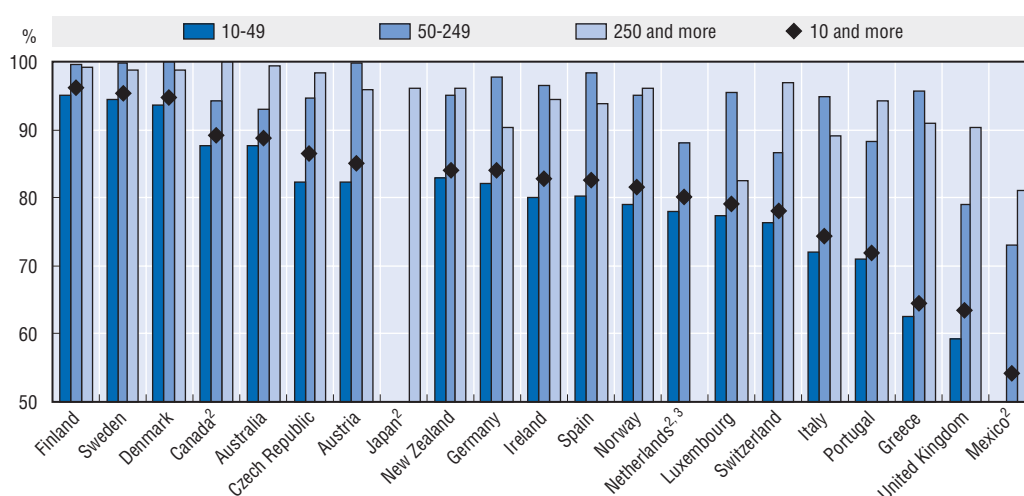
Internationalisation is found to have significantly greater effect on the competitiveness of medium-sized enterprises than either micro or small enterprises (ENSR). The competitive effect varies with the form of internationalisation, international collaboration (alliances, networks and informal cooperation) having a greater estimated impact than international sales on SME competitiveness.

Evidence concerning FDI by Japanese SMEs finds that the actual outcomes in terms of their two principal objectives for undertaking foreign investment (cost reductions, and expansion and development of new overseas markets) fell short of expectations, as only about one-third of the firms succeeded in expanding and developing new markets. On the other hand, expectations concerning other goals, such as sourcing manpower and new materials, were exceeded. Decisions to withdraw from the market by Japanese firms were taken largely because of falling sales, problems experienced with host country partners, or changes in the local business environment. Inward FDI can also offer possibilities of internationalisation to SMEs, in particular through opportunities to engage in (indirect) exporting activity. Global corporations which account for most of world FDI and world merchandise trade, according to recent research estimates (Dembinski, 2003a, 2003b) are in reality quite complex structures whose value chains may involve a large number of SMEs. Significant advantages conferred on local SMEs in their role as subcontractors and suppliers to global firms established locally, can be observed on several fronts: in terms of upgrading of business and organisation models; managerial and technological upgrading; skill acquisitions; and innovative capacity.

6. ICTs, E-business and SMEs

Information and communication technology (ICT) connectivity (PCs and Internet) is widespread in businesses of all sizes, although small businesses are slower than large ones to adopt new ICTs (Figure 1.24). Expectations of higher profits and turnover drive SME adoption and use of ICTs. ICTs and e-business applications can confer a range of benefits spanning intra- and inter-firm business processes and transactions. These applications can improve information and knowledge management inside the firm, reduce transaction costs and increase the speed and reliability of transactions for both business-to-business (B2B) and business-to-consumer (B2C) transactions. They are also effective tools for improving external communications and quality of services for established and new customers (OECD, 2004e).

The principal reasons for SMEs not adopting ICTs are reported to be their lack of applicability and the lack of incentive to change business models in a situation of uncertain profitability. Other generic barriers curtailing ICT adoption by SMEs relate to trust and transaction security, intellectual property rights (IPR) concerns, human and technological resources and capability, productivity and competitiveness. Beyond a certain level of connectivity (PC, Internet access, on-line information or marketing), not all SMEs

Figure 1.24. **Internet penetration by size class, 2001 or latest available year**¹

1. In European countries, only enterprises in the business sector, but excluding NACE activity E, F and J are included (see Annex A for NACE classification details). The data source is Eurostat's Community Survey on enterprise use of ICT. In Australia: all employing businesses included, excepting businesses in general government, agriculture, forestry and fishing, government administration and defence, education, private households employing staff and religious organisations. Canada: includes industrial sector. Japan: excludes agriculture, forestry, fisheries and mining. New Zealand: excludes electricity, gas and water supply, and includes only enterprises with turnover > NZD 30 000. Switzerland: includes industry, construction and service sectors.
2. Canada, 50-299 and 300+ employees; Japan, 100+; Netherlands, 50-199. Switzerland, < 5; 5-49 employees, Mexico, < 20; 21-100; 101-250; 251-1000.
3. Internet and other computer-mediated networks.

Source: OECD, (2004e).

StatLink: <http://dx.doi.org/10.1787/674463515416>

will necessarily “catch up” with large firms, simply because e-commerce may not yield adequate profits and SMEs will prefer to stay with traditional business processes.

Rapid growth in businesses' purchases and sales over the Internet has yet to happen. E-commerce transactions, while increasing, still account for a relatively small share of total commerce. On-line transactions by SMEs are mainly Business to Business (B2B) and domestic, rather than Business to Consumer (B2C) or cross-border. A number of countries have started to measure the value of Internet and electronic sales and estimates for total Internet sales are found to amount to between 0.3% and 3.8% of total sales. Electronic sales, i.e. sales over any kind of computer-mediated network, reach 10% or more of sales in Austria, Sweden, Finland and Ireland. In the US retail sector, the share of electronic sales in total sales grew by 70% between the fourth quarter of 2000 and the fourth quarter of 2002. Large firms use the Internet more than small firms to sell goods and services. As many as two-thirds or more of large enterprises in Australia, Canada, Denmark, Sweden and Finland buy goods or services via the Internet. In Denmark, where e-commerce is widespread, one-fifth of enterprises with 10-49 employees made sales over the Internet as did more than one-third of enterprises with 250 or more employees.

Notes

1. www.oecd.org/cfe.
2. Source: Ministries van Economische Zaken (2001), *Ondernemerschapsmonitor*, summer 2001 (Entrepreneurship Monitor, Den Haag).
3. Source: OECD Economic Surveys, Austria, 1999.
4. Europe-19 economies: European Economic Area and Switzerland; European Commission/Observatory of European SMEs (2002a).
5. Enterprises belonging to the social entrepreneurship sector – generally called social enterprises (OECD, 1999; OECD, 2003f) – come in a variety of forms including employee owned business, credit unions, co-operatives, social cooperatives development trusts, social firms, intermediate labour market organisations, community business. One of the main features of social entrepreneurship is the creation of social value and expectation in terms of social return on investments.
6. Source: OECD Labour Force Statistics (2004).
7. Other non-institutional barriers to entrepreneurship, such as lack of financing, insurance, etc., are not addressed in this section.
8. Innovative firms are a sub-population of firms that have generated and/or implemented new products/processes. Innovative density refers to the share of innovative firms in the total population of firms (OECD, 2004m).
9. Internationalisation of SMEs, Observatory of European SMEs, 2003, No. 4, European Network for SME Research (ENSR), carried out on behalf of the Enterprise Directorate-General of the European Commission.
10. Europe-19 comprises EU15, Norway, Iceland, Liechtenstein and Switzerland.
11. UNCTAD paper “Improving the competitiveness of SMEs through enhancing productive capacity”, report by the UNCTAD Secretariat, Addendum (TB/B/COM3/51/Add.1).

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PART I

Chapter 2

Policy Issues and Recent Policy Developments Concerning SMEs and Entrepreneurship

A range of new policy initiatives have been implemented in recent years to enhance SME dynamism and competitiveness. Prominent among these were measures to ease product market regulations and administrative barriers to entrepreneurship. ICTs, Web portals and online one-stop-shops are facilitating administrative simplification. Increasing attention is given to education and training for entrepreneurship, and a number of major initiatives in favour of women's entrepreneurship have been taken. High priority is attached to easing SME access to financing, and to strengthening the knowledge and innovation base of SMEs. SMEs are increasingly encouraged to internationalise their operations. The importance of entrepreneurship and innovation for SMEs for fostering growth in a globalised, knowledge-based economy was highlighted by the 2nd OECD Ministerial Conference on SMEs in Istanbul in June 2004 and in its outcome the Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs.

1. Introduction

The 2nd OECD SME Ministerial Conference held in Istanbul on 3-5 June 2004 offered an opportunity to deepen analysis of the main themes of the *Bologna Charter for SME Policies* (adopted in 2000 by almost fifty governments): *e.g.* globalisation, innovation, financing, clusters and partnerships, e-business, regulatory framework and administrative simplification, partnerships for development, entrepreneurship, women's entrepreneurship, etc. and to consider policy options and priorities in greater depth. In particular, the 2nd SME Conference provided Ministers with the opportunity to:

- Assess the impact on SMEs of new developments relating to globalisation, four years after the Bologna conference.
- Further increase the understanding of issues and policies related to entrepreneurship, SME competitiveness and growth in the global economy.
- Identify best practices and develop policy recommendations.
- Strengthen the SME-related policy dialogue and co-operation among OECD and non-OECD economies and among international organisations and institutions working in this field.
- Agree on policy initiatives through which entrepreneurial activity can be enhanced and SME competitiveness and globalisation be facilitated.

Moreover, Ministers received the policy recommendations emerging from a Business Symposium, held 3 June, and debated these recommendations in a joint session with senior business representatives and experts. The Conference conclusions arising from the Ministerial Workshop deliberations, the plenary sessions as well as discussions during the high-level SME Statistics Workshop, were presented in the policy document adopted by Ministers and representatives of 72 economies, the *Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs*.

OECD governments share a common goal to promote long-term sustainable growth and improve the living standards of the population. Essential to attaining this goal is a stable macroeconomic framework based on sound fiscal and monetary policies, and complemented by structural policies that determine the overall economic framework in which the business sector operates. Governments need to provide a business environment which is conducive for firm creation and SME development, and that includes the implementation of policies that impact on labour markets, tax design, competition, financial markets and bankruptcy laws. This also includes Corporate Social Responsibility (CRS) recognised by OECD to be a core business value and strategy, integrated into all aspects of the company's operations from research and development to purchasing, production and supply. EU enterprise policy, aiming to improve the business environment and the development and growth of SMEs, has in the European Charter for Small Enterprises, a key instrument of political encouragement and follow-up for the implementation of the strategy to strengthen European competitiveness which was

initiated in Lisbon in 2000. In 2002, OECD and the EBRD launched the Enterprise Policy Performance Assessments (EPPAs) directed at improving the investment climate in South East Europe, building extensive synergies with the European Charter for Small Enterprises. In 2003, the OECD's Trento Centre was established by the Local Economic and Employment Development Programme, to strengthen local development capacities in the Central, East and South East European region (see Box 2.1).

2. Easing regulatory and administrative burdens

OECD Governments are seeking to create business-friendly regulatory environments

Significant progress has been made in most OECD countries in recent years to create a more business friendly regulatory environment. OECD governments are working on improving legal, financial and regulatory frameworks, cutting through red tape and reporting requirements, improving flexibility, including in labour markets, and applying ICT-driven instruments such as e-government and web portals. Simultaneously, the European Union plays a significant role in the coordination of the EU member States' policies towards SMEs, although much of the policy environment is determined under the sole competence of the EU member States. The intervention of the European Union helps its member States to improve their performance, promotes good practices, and to a certain extent, provides direct support, e.g. through the intervention of the structural funds or the financial instruments. During 2002-03 in the United States, Presidential Executive Orders gave a renewed impetus to agencies to give proper consideration and comply with the 1996 Regulatory Flexibility Act which established and enforced written procedures and policies with regard to regulation effects on small businesses. In fiscal year 2003 alone, the US Small Business Administration's Office of Advocacy recorded more than USD 6.3 billion in regulatory costs savings and more than USD 5.7 billion in recurring annual savings to small business as a result of these regulatory flexibility efforts of federal agencies.

Certain tools and practices have become widely adopted across OECD countries: regulatory impact analysis, including small business impact statements, consultation mechanisms, sunset clauses, plain-language drafting, compliance assistance, "tiering" of regulations, targeted compliance cost surveys, one-stop shops, and special guidance material for SMEs. Specialised agencies and organisational units have been created in some countries to oversee such programmes. As highlighted in Chapter 1, entry regulations were the business regulations mostly frequently reformed in 2003 and a number of OECD countries (including Slovak Republic, Belgium, Finland, Norway, Poland, Portugal and Spain) were found by the World Bank to be among the best reformers, with France considered to have been the top reformer for legislation enacted in 2003 aiming to facilitate entrepreneurial activity (World Bank, 2004).

Government efforts at administrative simplification can be classified into four organisational approaches: i) *Single Purpose Entities* – agencies or units with a specific administrative simplification task as its sole objective; ii) *Administrative Simplification Agencies*; iii) *Regulatory Reform Agencies* which have administrative simplification policies included in their broader mandate; and iv) *External Committees* comprising mostly non-governmental representatives (academia, business organisations, etc.) designed to co-ordinate and implement administrative simplification.

Examples of recent initiatives taken by OECD governments include the creation of the United Kingdom's *Small Business Service* (SBS) as an example of a permanent government

Box 2.1. OECD in Central, East and South East Europe

Building capacity for local development in Central, East and South East Europe

The efforts being made by the Central, East and South East European countries to encourage endogenous entrepreneurship and SME development, tackle unemployment, retain talents, foster participative and representative democracy and reduce the scope of the informal economy, place increased responsibility on local governments. The OECD Centre for Local Development based in Trento, Italy is addressing this need to strengthen local development capacities in the region (www.trento.oecd.org). The Trento Centre, created in 2003 by the OECD in co-operation with the Italian Government and the Autonomous Province of Trentino, draws on the longstanding commitment of the OECD Local Economic and Employment Development Programme (LEED) to provide assistance in the design, implementation and assessment of local development strategies and on its expertise in three fields of work: decentralisation, partnerships and local governance; entrepreneurship and the social economy.

The activities of the Trento Centre are structured around three inter-related axes of work:

- research and analysis;
- capacity building for local development;
- networking and information dissemination.

The Trento Centre expands the scope of the LEED Programme's cross-country comparative studies to the countries of Central, East and South East Europe assessing the quality of their policies and programmes in light of international experiences and providing a set of policy recommendations to strengthen an integrated approach to local development. The following studies are being carried out by the Centre in 2004-2005:

- local integration of migrants into the labour market;
- foreign direct investment and local development;
- integrating employment skills and economic development;
- evaluating local development programme and policies.

In order to strengthen the capacities of local institutions in designing and implementing local development strategies, the Trento Centre also conducts a series of capacity building seminars for local development practitioners and policy makers in three main fields: entrepreneurship and SME development, local governance and social inclusion.

A Local Development Network of experts, researchers and policy makers jointly managed by the Trento Centre and the Central European Initiative serves as a vehicle to disseminate the lessons learnt from activities of the Centre and to monitor and identify the capacity building priorities in the target region.

Supporting enterprise policy performance in South East Europe

SMEs need an environment that facilitates and enables business start-up, does not hamper them with excessive and costly regulations, and facilitates access to finance and business services. In this respect there is an urgent need in South East Europe (SEE) to design and implement an effective enterprise policy, as the level of private investment still lags behind that of advanced countries.

In 2002 the OECD and the EBRD launched the Enterprise Policy Performance Assessments (EPPAs) in the framework of the OECD Investment Compact, a programme directed at improving the investment climate in South East Europe. The EPPAs cover all the countries of South East Europe (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYR

Box 2.1. OECD in Central, East and South East Europe (cont.)

Macedonia, Moldova, Romania, Serbia and Montenegro), assessing the quality of the government policy for the SME sector and providing recommendations for action. Nine EPPA reports, one for each of the SEE countries, with Serbia and Montenegro being assessed separately, and a Regional SEE Assessment Report were published by the OECD Investment Compact in 2003 and disseminated throughout the SEE Region.

In 2004 the OECD Investment Compact and the EBRD, in co-operation with the European Commission, conducted a new series of policy performance assessments, applying the same methodology as the 2003 reports. All nine country reports have been updated and completed and are in the process of being published, while a series of EPPA presentations is being conducted throughout the Region. The published EPPA reports are available from the OECD Investment Compact's Web site: www.investmentcompact.org.

The EPPAs are based on insights from entrepreneurs and SME owners, collected through focus group discussions and interviews, contributions from SME experts, policy makers, representatives of the associations of private enterprises, international and bilateral organisations dealing with SME issues, combined with the experience and judgement of OECD and EBRD experts. Over 450 entrepreneurs and 250 experts and policy makers from the SEE Region contributed to the 2004 EPPAs.

The EPPAs cover seven policy dimensions, at the core of enterprise policy:

- institutional framework for SMEs policy;
- rule of law and regulatory framework;
- tax policy for small business;
- financial instruments for new and small companies;
- business consulting services for new and small enterprises;
- business incubators;
- entrepreneurship, vocational education and access to technologies

Extensive synergies have been developed between the EPPA and the European Charter for Small Enterprises. The EPPAs provide regular and "reality check" monitoring of the implementation of the best practices contained in the European Charter for Small Enterprises, complementing the government report on the European Charter implementation. In addition the EPPAs provide a set of policy recommendations and priority actions to the government and small business community in those policy dimensions covered by the European Charter, so helping governments to adjust their policies, in line with the practical experience expressed by the small business sector, and to identify relevant policy targets for the European Charter process.

unit safeguarding SME concerns in the regulatory process. Examples of *ad hoc* committees as a vehicle for once-off reform are: Australia's Small Business Deregulation Taskforce; the Inter-Ministerial Taskforce in the Netherlands, created to address administrative burdens and improve efficiency through ICT tools; Norway's *Simplification Forum*; and Switzerland's *SME Forum* which brings together business representatives and government in efforts to reduce administrative burdens. In 2004, the Government of the Czech Republic established the Business Development Environment Council. It is clear, nevertheless, that administrative simplification efforts by governments can be accomplished without the need to have dedicated bodies dealing with the issue.

Through *ex ante* and *ex post* approaches

Both *ex ante* approaches and *ex post* approaches are widely used by most governments. *Ex ante* approaches aim to improve the quality of new regulations and legislative proposals, ensuring that the burden on enterprises, especially SMEs, will not be disproportionate. *Ex post* approaches involve simplifying and communicating existing regulations, assisting SMEs in meeting their compliance requirements, and amending and simplifying those requirements. The use of Regulatory Impact Analyses (RIAs) as an *ex ante* tool (although they can also be used in *ex post* approaches) is now widespread among OECD countries. Conducting impact assessments of legislative proposals is also one of the key priorities of the European Commission and is being done more and more systematically. In the United States, there is a growing practice by States to adopt “regulatory flexibility” laws for small businesses. The Australian State governments have their own regulatory impact assessment processes. Other *ex ante* tools include *sunsetting* of regulation, setting time-limits and plain-language drafting. Korea is one of the few countries using *sunsetting* systematically. Setting time limits on governments’ case-handling time can lead to reduced administrative costs and puts a strong onus on authorities to deliver; also the use of “silence is consent” or “silence is denial” rules can be effective for ensuring timely resolutions to requests.

Consultation mechanisms are a widely used feature of government initiatives, usually combined with impact statements and the institutional approach, so as to ensure adequate representation of the views of small business (e.g. Finland, Ireland, Norway, and United Kingdom are among countries using such consultation mechanisms). *Special regulatory provisions for SMEs*: scaling and calibrating administrative regulations is another approach to alleviate disproportionate compliance burdens through “tiering” of regulations. For example, in Australia all new employees under the federal system have an initial three month qualifying period during which an unfair dismissal claim cannot be made. Additionally, a greater scope of the measures should imply diminished abuse of the unfair dismissal system, such as large settlement payments being extracted from small businesses in spurious applications. The United Kingdom’s “Think Small First” initiative provides some flexible exemptions to certain legislative provisions for small businesses; and in the United States, the Environment Protection Agency has tiered 50 different regulations based either on firm size or the amount of pollution released. Positive discrimination of SMEs is also used but, like tiering, can provide SMEs with disincentives to grow beyond a certain size.

The review of existing regulations is an area which is probably the least developed of the regulatory policy agenda in OECD countries. OECD finds that review activity remains too infrequent, too limited and with substantial discretion being left with the regulatory agency conducting the review.

And facilitated by information technology mechanisms

Administrative simplification is increasingly facilitated by information technology mechanisms, such as Web-portals and on-line *one-stop shops*, delivering substantial savings in time and costs for users by providing seamless, integrated and easily accessible points of contact. In the United States, the Department of Labor (DOL) has developed 18 “E-law Advisors”, Web-based expert systems that enterprises and the public can consult in order to better understand and comply with DOL regulations. In the United Kingdom, the SBS is developing an Electronic Regulation Service as part of its National Information and Advice

Centre. An online business start-up is available in Switzerland since 2004. In Turkey, KOSGEB (the Small and Medium Industry Organisation) has been active in improving information networks such as the Small and Medium Enterprises Common Information Network Project (KOBINET), Internet Contact Points, and a single data base with information on SMEs, shared between all public entities.

Several countries actively provide compliance assistance to SMEs in the form of guidelines and other materials. This is the case in the United States, where agencies are legally bound to assist small businesses in this way for meeting their compliance obligations. The United Kingdom's SBS provides best practice advice to regulators for producing guidance, such as the pamphlet *How to Get the Message across – Guidance on Legislation that Affects Small Businesses*. Ensuring that there is an adequate notice period before new legal and regulatory measures come into effect is also practised. In 2000, the United Kingdom's SBS published the *Guidelines on Implementation Periods – Timing of the Issue of Guidance to Business on Compliance with New Legislation* which recommended a minimum 12-week preparation period before a regulation comes into force.

Governments are setting ambitious targets and some efforts are showing impressive results

Through accelerated company registration

Many countries have set ambitious targets and some have already achieved remarkable results. Among those, following the European Commission's initiative on benchmarking the administration of business start-ups,¹ many of the EU member States have undertaken new measures. For example, accelerating and simplifying company registration is one area where important advances have been made. In Australia over 70% of all Australian Business Number (ABN) registrations are now undertaken online. Austria laid the foundations for electronic company registration in 2002 and in 2004 Norwegian enterprises have been enabled to do all of their reporting electronically. France, in 2003, launched the implementation of a set of regulatory measures applying to entrepreneurs and firm creation, acquisition and transfer, and the first results attest to the success of such measures and their contribution to increased numbers of start-ups. Japan's 2002 *Law to Facilitate the Creation of New Businesses* has the aim to double the rate of start-ups by 2007. In Spain the *Nueva Empresa* (New Enterprise) project in application since 2003 with greatly streamlined procedures makes it possible to set up a company in 48 hours. The Slovak Republic has implemented important reforms, making it possible to register a company within 5 working days. Through Germany's "Pro Mittelstand" and since December 2004, business registration in Germany takes no longer than one month. By 2007, Germany will have reduced the time needed for registration to a few working days. In New Zealand, significant progress has been made for reducing compliance costs, as more than 80% of the 131 proposals agreed by government in December 2001 had already been implemented in the following eighteen months. The Dutch government set a target in 2004 to reduce administrative burdens by 25% by 2007, and current proposals underway already account for an 18% reduction.

And improved labour market flexibility and taxation measures

Several countries are taking measures to improve labour market flexibility. The Slovak Republic adopted a flexible labour code in 2003. In Australia, all new employees under the federal system have an initial three month qualifying period during which an unfair dismissal claim cannot be made. France simplified employment regimes for small

businesses within the framework of its initiative to reduce bureaucracy launched in 2003. Germany modernised the workplace ordinance. Italy recently introduced provisions into its regulatory framework for intermittent labour (upon call), job-sharing, and accessory labour.

Taxation measures have also been applied and the tax compliance burden eased by a number of countries. In some cases, special provisions were introduced for SMEs. For example, Italy has taken steps to simplify and reduce the tax burden through a comprehensive tax reform package. France has introduced exemptions and more favourable tax arrangements applying to small businesses and start-ups. Hungary introduced a simplified tax registration system (EVA) and New Zealand has an ongoing tax simplification programme the first results of which show the programme to be clearly having real impact.

Smoother business transfer and bankruptcy processes

Business transfer and succession is given particular attention by some countries, as well as by the European Union.² Austria has taken measures to facilitate business transfer and succession. The French government too accords high priority to this issue and is planning to propose draft legislation in 2005 to address these issues. Insolvency and bankruptcy issues have been getting considerable attention in some countries, such as Italy and Portugal. Portugal introduced a new Insolvency Code in 2004 aimed at reducing time and legal complexities relating to insolvency processes, while incorporating the principle of “a fresh start” for the insolvent entrepreneur, once certain conditions have been met. Italian proposals for simplifying the examination procedures are currently under discussion in Parliament, and propose giving higher guarantees to creditors and safeguarding employment.

However, governments need to better understand the size of administrative burdens

Governments rarely have a detailed understanding either of the total administrative burdens or of the cost-efficiency of the administrative simplification tools applied. Some OECD countries have employed survey-based methods to this end. In Belgium, a 2000 survey of enterprises' views of administrative regulations and administrative burdens showed entrepreneurs' preferences as follows in order of priority: i) improve the quality of regulations; ii) make public services more user-friendly; iii) develop IT mechanisms; and iv) introduce one-stop shops. In the Netherlands, the MISTRAL methodology has been replaced by the Standard Cost Model (SCM) to measure administrative burdens. A project to measure the administrative burdens of VAT regulations, involving also the participation of Denmark, Norway and Sweden has been completed. A number of other OECD countries are now planning to use the SCM to measure administrative burdens. OECD is currently developing a project to develop a consistent methodology based on the SCM to undertake inter country comparisons of administrative burdens.

Lessons emerging from OECD countries' experience

Experiences from OECD countries suggest that strategies to reduce administrative burdens – with a particular focus on SMEs – could include the following ten possible initiatives: i) institutionalise SME concerns by establishing permanent or *ad hoc* government units mandated to represent SME views in the regulatory process; ii) require regulatory agencies to prepare Small Business Impact Statements; iii) consult small business on regulation proposals; iv) scale and calibrate administrative regulations;

v) consider setting specific time-limits for administrative decision-making; vi) ensure plain-language drafting and specific compliance guidance for SMEs; vii) establish a central registry of administrative procedures and licences and initiate a comprehensive review (using RIAs) to determine how to reduce burdens; viii) build a system for measuring administrative burdens; ix) establish one-stop shops for regulatory information and transactions; and x) ensure that IT is widely available for SMEs to take advantage of e-government tools. Needless to say, special initiatives to reduce burdens and support regulatory compliance of SMEs should be balanced against other concerns (2003c).

Box 2.2. The Istanbul Ministerial Declaration on the need for appropriate regulatory frameworks

Ministers in Istanbul reaffirmed the need to support the development of the best set of policies that will foster the creation and rapid growth of innovative SMEs. This requires: “enabling regulatory frameworks, which are developed taking into account the needs of SMEs and facilitating their integration into the formal sector; tax systems that entail low compliance costs; the transparent and equitable application of rules and legislation; simple and transparent licence and permit systems; efficient bankruptcy laws and procedures; understandable and coherent product standards in world markets; clearly defined property rights; fair and reasonably priced dispute settlement procedures, and light, predictable administrative procedures.”

3. Fostering an entrepreneurial culture and firm creation

Education and training are governments’ preferred instruments for the promotion of entrepreneurship

Recent OECD and non-OECD studies conclude that education and training including life-long learning are key to increasing entrepreneurship. In spite of numerous initiatives undertaken by governments in recent years, studies point to a number of shortcomings and problems that call for increased government attention (OECD, 2004a, European Commission, 2002b). In particular it is suggested that there is a need to: i) integrate entrepreneurial subjects throughout the entire formal education systems, in a coherent and systematic way, promoting public and private partnerships between public educational and research institutions and the private sector, especially SMEs; ii) increase public funding devoted to education and research in entrepreneurship, especially for improving capacity in teacher training, and for developing *curricula* and programmes in entrepreneurship; iii) improve co-ordination between different government bodies involved in promoting entrepreneurship through education and training; and iv) develop indicators, compiling quantitative data and evaluate the measures undertaken. In addition there appears to be a low degree of acceptance (among all stakeholders) of the broader concept of education for entrepreneurial attitude and spirit compared with education and training for entrepreneurial (business) skills.

National and regional experiences can differ and gaps exist

One of the main goals of the *European Charter for Small Enterprises*, adopted in 2000, is to teach business and entrepreneurship at all school levels and to develop training schemes for managers. Since its adoption a number of initiatives have been taken, and three strategic goals were adopted for organising education and training systems around quality, access, and openness to the world. However, indications exist³ that the extent and pace of reforms will fall short of the goals. In particular, the level of take-up by Europeans of lifelong learning is low and the levels of failure at school and of social exclusion remain too high. Furthermore, the existing gap between Europe on the one hand and US and Japan on the other, in terms of investment in human resources and in relation to the level of private sector investment in higher education and continued training, risks widening further if the necessary steps are not taken now.

Box 2.3. The Istanbul Ministerial Declaration on the need to foster entrepreneurship, including women's entrepreneurship

Ministers, during the Istanbul SME Conference, debated how best entrepreneurship, including women's entrepreneurship, might be promoted through public policies and reaffirmed the need to support the best set of public policies that will foster the creation and rapid growth of innovative SMEs, in particular:

"Policies that contribute to mobilising human resources in order to promote entrepreneurship. This involves:

- Developing a culture that encourages entrepreneurship and recognises entrepreneurial success. The integration of entrepreneurship at all levels of the formal education system can facilitate this. Formal education should be complemented by learning-by-doing activities and other practical workshops. This objective requires paying particular attention to teacher training programmes.
- Promoting the diffusion of training programmes and lifelong learning opportunities by stimulating market provision of such services, and where the need exists, providing hands-on focused courses funded by the public sector.
- Promoting women's entrepreneurship through the elimination of barriers to enterprise creation and growth, such as impediments to the right to hold property or to sign contracts, where such impediments exist, and by taking into account at the design stage the impact of SME-related policies on women's entrepreneurship.
- Mobilising disadvantaged groups. One way to pursue this objective is to develop policies and programmes which provide business support services targeted to these groups and disseminate information to those wanting to start and grow a business."

There is no single model for teaching entrepreneurship in education and training

There is no single model identified as a benchmark for entrepreneurship education and training, and it is still not clear how entrepreneurship should best be introduced. Should young people learn how to start their own business or should they be taught willingness to change and take risks or other such personal characteristics associated with entrepreneurship? The United States which has a relatively long history in this field has tended to favour the first approach. Children are taught self-employment as an alternative

career as well as the positive effects of entrepreneurship. Other countries may tend to prefer the second approach, *e.g.* Sweden which launched a 3-year national programme for entrepreneurship in 2002 with the aim to improve the entrepreneurial climate, stimulate positive attitudes towards entrepreneurs and lead to an increase in enterprise start-ups. Finland too, has adopted this type of approach, aiming at developing an attitude of “intrapreneurship” involving flexibility, creativity, capability of taking risks and initiative. Finland’s *Entrepreneurship Project* gave rise to a new far-reaching curriculum, starting in 2004, requiring primary schools to incorporate entrepreneurship and including a thematic entity “*Participating Citizenship and Entrepreneurship*” for upper secondary schools. However, most OECD countries try a combination of both approaches. In the case of the United Kingdom, while there has been somewhat more focus in the past on how to start and “run” a company (*e.g.* through the Young Enterprise project) there is a growing realisation of the merits of the second model, and Enterprise Education pilots explore both approaches (see Box 2.4).

Box 2.4. UK Enterprise Education Programmes

In the UK a Five Year Strategy for Children and Learners is committed to establishing enterprise activity in the school curriculum in secondary schools and to forge closer links between schools and businesses. It also places work-related learning at the heart of education and a key element of the Government’s 14-19 Strategy. In responding to the 2002 Howard Davies Review of the Economy and Enterprise Education, Government funding of £60m per annum from September 2005 will support new focus on enterprise education. An Enterprise Education “entitlement” will provide all Key Stage 4 pupils (14-16) with the equivalent of five days’ enterprise activity (such as running a real, or realistic, business) which builds on existing work-related activities like work experience and business mentoring, and develops knowledge, skills and attitudes for enterprise capability and economic and business understanding.

In preparation for this programme the Department for Education and Skills has already established nearly 200 Enterprise Education Pathfinders comprising individual and clusters of secondary schools to test, through curriculum development projects and to generate national guidance for schools on effective methodologies.

Recently the Dutch government decided that henceforth, certain national targets, ambitions and indicators will be formulated with regard to entrepreneurship and that schools will be free to indicate *via* performance contracts their target, chosen together with their regional network, and how the target will be met. Starting in 2006, the Dutch Government will finance the establishment of incubators for schools in the vocational education sector in close cooperation with chambers of commerce. In higher education, incubators will be focused on high tech start-ups. Regional road shows geared to present good practices to schools are also being used. Austria has provided teaching materials for entrepreneurship education to all second level schools in 2004, and launched the *Initiative for teaching entrepreneurship* together with the *National Foundation for Teaching Entrepreneurship* in New York, to develop an entirely new programme for Austrian schools. *Spin-off centres (AplusBCentre)* are set up at almost all university locations and bundle

university facilities relevant for entrepreneurship, networking them with other players. Norway, in 2004, launched the *Strategy for entrepreneurship in education*, putting forward concrete measures which apply to all school levels. Recent educational reforms in Spain have sought to convey skills and capacities required for entrepreneurial activity to all school going children, so that all school-leavers will have benefited from a package of training. Since 2003, Hungary has incorporated economic and entrepreneurship skills into the curriculum in primary schools. Italy has recently introduced a regulation for a flexible school-work alternative schedule applying to some secondary level pupils and which can include the use of simulated enterprises.

Entrepreneurship education at the university level is particularly advanced in the United States where more than 1 500 colleges and universities offer some form of entrepreneurship training and where entrepreneurship education has spread to non-business disciplines. Training of the entrepreneurial spirit as well as initiatives to encourage young people to start entrepreneurial projects while in college and at university are undertaken. Two types of education in entrepreneurship are provided: i) an introduction to principles of entrepreneurship or small business; and ii) a focus on creating a business plan, often with advice from practitioners from outside the business school. Courses cover subjects such as: entrepreneurial finance, family business, high-technology business, franchising, mature business, and corporate entrepreneurship (i.e. intrapreneurship). Several studies show large positive effects of entrepreneurship programmes carried out in the United States. The entrepreneurial model of Stanford is viewed by many as the main driver of Silicon Valley, as firms with Stanford alumni or faculty founders for example generate more than 60% of Silicon Valley revenues.

With regard to “extra-mural” training and in support of skill development and management training, many countries have programmes for their support and provision. Japan attaches a high priority to supporting the development of business management skills for would-be entrepreneurs. In order to raise awareness in the general population of entrepreneurship, start-ups and business ventures, Japan has organised a national start-up and venture forum involving entrepreneurs and experts for a nationwide awareness raising campaign. Greatly expanded numbers (including at prefecture level) of start-up courses and seminars, together with chambers of commerce are envisaged. For the 2002 budget of Australia’s Small Business Assistance Program, AUD 36 million was allocated for a four year period to support skill development projects such as the Small Business Enterprise Culture Program, which provides funding to organisations that offer skills development and mentoring services for small business owners and managers. In Hungary, Local Business Centres provide access to essential information required for the establishment, operation, management and development of businesses, as well as personal consulting and advisory services.

The United Kingdom’s Department for Education and Skills and the Department for Trade and Industry are also supporting the National Council for Graduate Entrepreneurship. Building on existing good practice, the aims of the Council will be to raise the profile of entrepreneurship and starting a business as a career option within Higher Education Institutions (HEIs), including both universities and other higher education establishments, with the objective of increasing the number of students and graduates who give serious thought to this. It will therefore work with all interested parties to encourage and create an entrepreneurial culture amongst students and graduates.

Box 2.5. The Stanford model for entrepreneurship

Stanford University has a very close relationship with businesses. The engineering school is, for example, endowed with a Yahoo! Professor and a William Gates Computer Science Building. These formal relationships are important, but the informal relationships might be even more important. People go back and forth from academia to industry. Many faculty members have part-time jobs in industry and many industry people have part-time faculty appointments. Stanford also emphasises entrepreneurship skills in their courses. For example, in the High-Tech Entrepreneurship course, students discuss case studies of high-tech start-ups often with the founder/manager of the firm present in the class. In the industrial engineering class, students take three months of classes, three months of internship, and then three more months of classes.

However, the main force driving Stanford's unending production of start-ups is that so many people have started companies in the past that it seems normal for students to take what they have learned and make a company out of it.

Source: <http://corporate.stanford.edu/innovations/index.html>

Campaigns, prizes and special events can be effective for promoting entrepreneurship

Campaigns for the promotion of entrepreneurship are another instrument for stimulating entrepreneurial behaviour by OECD governments. The following three conditions are recommended. Campaigns should be: i) *visible*: changing attitudes and behaviour requires that campaigns be visible and involve, for example, high profile personalities, extensive media coverage, awards and events – examples include the United States President's *Small Business Person of the Year Award*, Canada's public-sponsored television shows on entrepreneurs aiming to influence attitudes; dedicated magazines to entrepreneur issues, etc.; ii) *empowered*: those behind the campaign need to be empowered by government to make the necessary changes – a conclusion of the Finnish Entrepreneurship Project, although involving many ministries, lacked a central authority, thereby mitigating its success; in contrast, the United Kingdom's Small Business Service having direct access to the Prime Minister may be cited; and iii) *regional*: since business start-up rates vary substantially across regions within a country, successful campaigns should also focus on regional aspects of entrepreneurship, and campaign designs need to be tailored to address regional-specific issues – e.g., the United Kingdom Road Shows, Finland's practice of bringing together on a monthly basis, policymakers and entrepreneurs and would-be entrepreneurs in connection with regional Entrepreneurship Fora. The United Kingdom's *Make Your Mark Start Talking Ideas* campaign is aimed at inspiring and encouraging 14 to 25-year-olds to be more enterprising. Run by *Enterprise Insight*, a coalition of business representative organisations and enterprise education/capacity-building bodies, with public support, its focal point is the UK's first Enterprise Week which took place in November 2004.

The need to promote entrepreneurship for social inclusion is moving up government agendas

The need to encourage more enterprise in minority, disadvantaged communities and under-represented groups is moving up government agendas due to evidence that new and

small firms are a major source of new job creation and income generation in national economies as a whole. The benefits of entrepreneurship may be particularly important in disadvantaged neighbourhoods because compared to large companies small businesses have fewer problems finding suitable premises and they provide more accessible employment to residents. In addition there appear to be unrecognised market opportunities and favourable factor conditions in these areas. Moreover, surveys indicate a strong motivation amongst people from minority and disadvantaged communities to start and run their own businesses in the social enterprise as well as the commercial enterprise sector. However, the full potential of entrepreneurship for social inclusion is far from being exploited because of a range of barriers in minority communities, distressed areas and other under-represented groups. These barriers include lack of finance, weak entrepreneurship attitudes and skills, obstacles to the growth of the social enterprise sector and interplay among a range of social and economic problems. OECD (2004p) examines a wide range of policy initiatives that aim to help tackle these barriers. The United Kingdom Government, for example, implements a number of programmes and schemes targeting such population groups. These initiatives include *Enterprise Areas* and *City Growth Strategies* and pilot initiatives such as *Business Brokers* and the *Phoenix Fund*. The United States is also active in this area with programmes to support specialist finance through *Community Development Financial Institutions*, to promote entrepreneurial role models through the *Inner City 100* initiative, and special zone programmes to promote both entrepreneurial growth and wider regeneration in distressed neighbourhoods including *Enterprise Zones*, *Empowerment Zones* and *Tax Increment Financing Zones*.

Governments should undertake a number of initiatives in support of women's entrepreneurship

As noted in Chapter 1, women's entrepreneurship is recognised to be a largely untapped reservoir for potential employment and economic growth and affected by market failures and impediments. Obstacles faced by women relate to opportunity identification and exploitation, and to resource acquisition. The scope for women to realise their potential as entrepreneurs depends also on both the status and role of women in society. For policymakers, the issue is compounded by the scarcity of data and indicators, as gender disaggregated statistics are extremely scarce.

A recent OECD report (OECD, 2004b) made a number of recommendations which were submitted for ministerial discussion during the Istanbul SME Conference. These recommendations suggested that governments should: i) increase the ability of women to participate in the labour force by ensuring the availability of affordable child care and equal treatment in the workplace; ii) listen to the voice of women entrepreneurs – the creation of government offices of women's business ownership being one way to facilitate this; iii) incorporate a women's entrepreneurial dimension in the elaboration of all SME-related policies – starting at the design stage; iv) promote the development of women entrepreneur networks; v) periodically evaluate the impact of SME-related policies; and vi) improve the factual and analytical underpinnings of the understanding of the role of women entrepreneurs in the economy. Beyond these recommendations for public sector initiatives, there is widespread recognition of the important role that can be played by women entrepreneur associations and networks.

Government initiatives during the recent 2-3 year period have used a variety of instruments and approaches. Some governments took major initiatives, for example: i) the

establishment in 2003 by Germany of a dedicated agency with Internet-based services for women's entrepreneurship; ii) the UK's 2004 Strategic Framework for Women's Enterprise, developed in partnership with public, private and third sector organisations, takes a collaborative long term approach and identifies key action priorities such as business support provision, access to finance, childcare and caring responsibilities, and transition from welfare to self-employment; iii) New Zealand published an *Action Plan for New Zealand Women* in 2004, putting a special focus on fostering entrepreneurship among Maori women; iv) the Swedish Government has been putting strong emphasis on the role of women entrepreneur networks and on consultation services as effective tools; and v) Spain and New Zealand, among other countries, provide special loan schemes targeted to women. Spain, through its Institute for Women's Issues (*Instituto de la Mujer*) implements management and training programmes, one of which offers 300 hours of general training of which 200 hours of individualised tutorials. Hungary will shortly launch special consulting and training programmes in support of women entrepreneurs, to be developed on the basis of successful initiatives tried in other countries.

4. Promoting access to financing

Financing SMEs (including innovative SMEs) and the role of venture capital

Access to financing is recognised to be a persistent obstacle to the survival and growth of SMEs including innovative SMEs (EC, 2002a). A recent OECD study (OECD, 2004c) showed that the high risk profile of innovative SMEs (limited market power, lack of management skills, high share of intangible assets, absence of adequate accounting track records, insufficient assets) results in the reluctance of traditional commercial banks and investors to provide them with financing services. Financial institutions and investors find it difficult to assess risk characteristics and default probabilities of such firms and because innovative activities are usually intangible, the assessment of their monetary values is particularly difficult. Innovation activity has therefore limited collateral value for obtaining a loan or equity.

Governments need to ensure that financial systems can operate efficiently

A favourable business climate conducive for people to engage in entrepreneurial activities is the most basic requirement for facilitating funding for SMEs. Governments need to ensure that financial systems can operate efficiently so that deserving firms can gain access to financing and that high quality investment opportunities are available to encourage active venture capital and private equity markets. A recent OECD study, the recommendations of which were debated by SME Ministers in Istanbul in June 2004, considers that policies to reduce financing gaps faced by innovative SMEs can be broadly framed into three areas: i) provide for the operation of *efficient financial markets* so that deserving innovative SMEs have access to reasonably priced credit; ii) *reduce uncertainty and risks* associated with financing innovative SMEs; and iii) *reduce information asymmetries between innovative SMEs and potential investors*, through mainly the development of an expert intermediary sector.

For *efficient financial markets*, the following is understood: i) the conditions for a viable equity market are in place; ii) investors are able to evaluate the assets that innovative SMEs create and develop; iii) the desirability of a common stock market in partnership with other countries; iv) a stable competitive banking industry exists; and v) there is a capacity to evaluate innovative SME credit worthiness. *Reducing uncertainty and risks* associated with financing innovative SMEs requires that public sector loan guarantee or equity guarantee

Box 2.6. The financing life cycle of the innovative SME

Each growth phase of the innovative firm is associated with financing requirements to be met by various sources (see Figure 2.1) showing the various stages of the financing lifecycle). These stages range from the initial start-up stage when *seed-financing* is required and when innovative firms rely more heavily on insider finance and start-up funds provided by relatives, friends and private investors. At the next stage, external funding sources are important and business angels may have a role to play to fill the financing gap. The following stage calls for institutional venture capital funds which is an important source of funding for new technology-based firms. Venture capital, an important link between innovation and finance, was estimated to account for about 8 per cent of US industrial innovations. One dollar of venture capital was found to be about three times as likely to lead to a patent than a dollar of R&D (Kortum and Lerner, 2000, in OECD, 2004c). Despite the cautionary steps taken by venture capitalists, the most likely outcome of a venture capital backed firm is still a failure, with only the best surviving, reflecting high risk, high return activities of small innovative firms (Lerner, 2002, in OECD, 2004c).

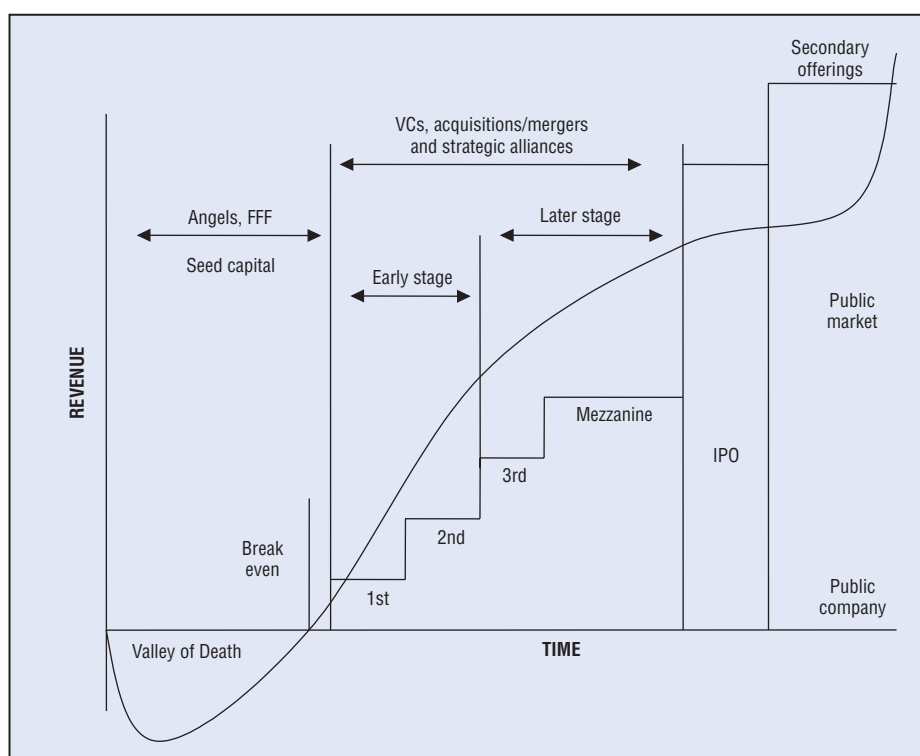
Approximately one-third of venture capital goes to firms in their early stages and two-thirds go to those in the expansion stage. In Finland, Ireland and Switzerland, about half is attributed to firms in early stages. High technology firms attract half of OECD venture capital investment, but disparities among countries are large. In Canada and Ireland, they receive more than 80% of total venture capital, but in Australia and Japan they account for less than a quarter. In the United States, they attract over half of venture capital, of which about half goes to the communications industry. In Canada and Ireland, investment has tended to focus on information technology firms, while in Central European countries and in Italy, communications firms attract most of the investment. In Denmark, health and biotechnology firms account for over 25% of total venture capital investment and in Canada and Hungary for almost 20% of the total.

Source: Cardullo, 1999.

programmes be managed effectively. Alleviating *informational asymmetries* between innovative SMEs and potential investors can be facilitated through support for business angel networks (BANs), improved transparency of corporate performance, increased access to global capital markets, helping SMEs prepare business plans and financial projections, and understanding financing options.

One of the main problems relates more to skills and expertise and less to a lack of funds

The OECD study (OECD, 2004c) sees the principal problem to be the lack of entrepreneurial, technical and managerial expertise for the providers of finance for evaluating and monitoring companies, and for engaging investors actively in the development of the firm, as well as the provision of management assistance to SMEs. Important policy implications emerge from the recent research: principally that simply providing money to innovative SMEs is unlikely to be successful; efficient stock markets may not be sufficient; and traditional tools of government policy – taxation, subsidies, regulation and creation of new government institutions – are unlikely to be appropriate. Instead, public financial support needs to focus on early stages and leveraging private financing. Regulations and supervisor arrangements designed to safeguard the soundness

Figure 2.1. **Financing lifecycle**

Source: Cardullo, 1999.

of financial systems can affect the provision of risk finance to SMEs and they should be designed to minimise these negative impacts. In this regard, it is considered that the impact of the Basel II agreement on innovative SMEs and on SMEs in general should be the object of further research and be kept under review. Moreover, better methods of recognising and measuring intangible assets should be sought to facilitate more accurate evaluation by financial markets of SMEs, particularly those with high growth potential.

Recent trends in policies

Governments apply a variety of financing support instruments geared to SMEs and entrepreneurship in function of the nature and stage of the business. Recent trends in policies are described below covering a number of areas, and selected examples of recent policy initiatives are cited.

Second tier markets strengthen the venture capital industry

The availability of a proper exit mechanism through an IPO is important for the size and strength of venture capital markets. For doing this, the NASDAQ has contributed to the strength of the US venture capital industry. The second-tier markets in Sweden also have played a major role in financing growth-oriented companies. Sweden's market capitalisation on Sweden's O-lists surpassed that of the US in 2002, partly attributable to tax reforms related to taxation on the ownership of unlisted stocks. In the United Kingdom, the recent launch of *techMARK*, a new index designed to include both existing technology businesses and new enterprises is expected to strengthen the venture capital industry.

Box 2.7. Evaluation of Australia's Innovation Investment Fund (IIF) in support of early-stage capital

The Innovation Investment Fund (IIF) programme, funded by the Australian Government, commenced in 1998 and is designed to increase the commercialisation of research and development by addressing capital and management constraints, and to assist in the development of a self-sustaining early stage technology based venture capital industry in Australia. The objectives of the programme are to support the provision of early stage capital (including seed, start-up and early expansion stages to new technology based firms), to facilitate the creation of a self-sustaining, early stage technology based venture capital market, to develop experienced early stage venture capital fund managers and to establish a revolving or self-funding programme.

An independent interim evaluation of the IIF programme undertaken in 2002 found that the programme significantly contributed to the development of the early stage venture capital industry in Australia. Public support for venture capital through the programme has been important in lifting the credibility of the sector. The evaluation report notes that the IIF programme has been associated with an increase in the number of early stage venture capital funds, particularly at the start up and early expansion stages of the industry. It is estimated that there were 100 more funds in 2002 than in 1998, and while there is a large number of small funds in this group, there are also a number of funds with substantial capital looking for larger deals. These funds are associated with investment and retail banks and have supported major investments in the communication sector.

The evaluation report notes that IIF fund managers have performed an important role as lead investors in the sector by bringing forward capital from entities that may not normally invest in early stage venture capital, and encouraging institutional investors to allocate more funds to early stage companies. These investors have indicated their willingness to support the sector provided that performance matches up to promises and expectations.

Information obtained during the evaluation indicated that the development of the sector has been concentrated in the start-up and early expansion stages. The evidence collected as part of the evaluation suggests that this part of the market is now relatively well served by fund managers that have entered the market over the last four years. However, the evaluation report notes that a gap still remains in funding for companies in the seed stage of development. The evaluation report notes that this part of the market is not well catered for, nor is it self-sustaining. The introduction of the Pre-Seed Fund Program in 2002 is an Australian Government initiative that may partially address this need.

Finally, the evaluation report suggests that if there are to be any future IIF rounds, or other such venture capital programmes developed, they should be targeted at the seed stage of the industry.

More countries are allowing pension funds to be invested in venture capital funds

The strength of the venture capital industry in the United States has been assisted by the availability of pension funds, its largest source of funds. Other countries (e.g. Denmark, Ireland, Japan and the United Kingdom) followed the United States by allowing pension funds to be invested in venture capital funds (VCFs). Yet investment regulations still apply in these countries and are mainly responsible for a relatively low share of institutional investment assets in private equity. Recent measures taken in the United Kingdom are

expected to lead to higher shares there. Canada's *Labour-Sponsored Venture Capital Corporations* (LSVCCs) have tended to crowd out private investment and hinder the development of private equity funds. The Canadian Government in its 2001 budget eliminated the 30% ownership limitation for *Qualified Limited Partnerships* to facilitate their use by tax-exempt and foreign investors in structuring their venture capital investments. Institutional investors play a far smaller role in Korea, Austria, Belgium, Portugal, Hungary and Greece. However, Korea recently amended regulations applying to the National Pension Scheme allowing investment in *limited partnership funds*, and lifted restrictions on foreign investment in venture-backed companies. Denmark's successive regulatory reforms have, however, had a disappointing effect on venture capital investments by financial institutions (OECD, 2003e). In order to fill the gap for venture capital volumes between EUR 1 and 5 million, several regional pilot funds were initiated for venture capital in Germany, under management of the state-owned KfW. Venture capital provisions are included in Hungary's 2003, multi-staged lending programme which was established by the government.

Governments are active in direct funding

The United States' New Markets Venture Capital (NMVC) was created in 2000 to help develop low-income geographic areas. The Small Business Administration does not license NMVC companies, but selects NMVC companies through a competitive selection process. The *Business Development Bank of Canada* (BDC) is focused on leveraging private sector funding by running equity and non-equity programmes (Baygan, 2003) and accounts for 2% of total capital managed in Canada. Regional venture capital funds have extended the amount of equity capital available to SMEs in the UK, and there are currently proposals in the UK to replicate the successful US Small Business Investment Companies (SBICs). The Korean Government relies mainly on direct funding and equity guarantees to strengthen the domestic venture capital industry (e.g. *Dasan Venture*; *Informationalisation Promotion Fund*; and *Technology Credit Guarantee Fund*), and its equity programmes protect investors fully through government guarantees. The German BTU-scheme is being replaced by a fund-of-fund investing in venture capital funds and a fund investing directly in small technology-oriented companies, both schemes co-investing together with private investors on commercial terms and no longer including partial loss guarantees for investors. Since March 2004, assistance with quasi-equity-capital funding is offered to SMEs in Germany (so-called "entrepreneurial capital") with over EUR 4.3 billion issued in its first nine months in operation. Italy intends to promote access to risk capital of new innovative enterprises and SMEs through public loans to banks and financial intermediaries, aimed at acquiring temporary and minority stocks. According to OECD studies, direct funding initiatives by governments to improve financing access by SMEs do not appear to be very effective in meeting objectives, the programmes typically lacking an appropriate incentive structure to carefully monitor the performance of the portfolio company.

Supporting Business Angel Networks (BANs) expands SME financing opportunities

Angel finance or informal equity is a major source of equity for financing innovative SMEs. In the United States, business angels networks (BANs) which developed spontaneously with little official assistance are estimated to undertake ten times as many deals as formal venture capital firms. The United Kingdom has one of the highest numbers of BANs among OECD countries, and the UK experience indicates that the public sector support for BANs is cost effective compared to other government support schemes. The

Canadian experience suggests that locally oriented BANs designed according to community size and industrial structure could be more effective than national efforts, and the evidence so far indicates that BANs cannot operate on a full cost recovery basis. The establishment of BANs requires either government or corporate sponsorships. International co-operation in business angel markets may provide further scope for sharing experience and knowledge as well as expanding investment opportunities. The consolidation of BANs in Italy in progress since 1999 is viewed to be particularly encouraging and 12 BANs are currently operational there, some of them having new operational structures built on the lines of Anglo-Saxon models. In 2003, Belgium created a new financing instrument for non-listed enterprises, the private *Pricaf* to encourage investors to invest up to EUR 250 000 without having to form a company while the Flemish provincial government in 2003 approved the fusion of five business angel networks. The Dutch Government also plans a new measure to promote BANs.

Government policies for improving SME debt financing remain pertinent

Most governments have loans and loan guarantee programmes directed to SMEs. In the past few years, a number of new financing initiatives were taken by OECD governments, some of which have already met with some success. France introduced a loan instrument which deserves mention: the PCE “*Prêt à la création d’emploi*”, launched in 2000, aimed at facilitating business creation, and targeting small projects (< EUR 45 000) provides loans in the EUR 3 000-8 000 range with a reimbursement period of 5 years, and offers a one-year grace period. Twenty five thousand projects availed of this programme since its launch. Germany has decided to bring together all previous loans for young entrepreneurs and SMEs into a uniform loan product called the “*entrepreneur loan*”. In the first nine months of 2004, loan approvals for about EUR 4.3 billion were issued. In Japan a range of SME loan facilities exist including: small unsecured loans for very small enterprises provided by Japan’s National Life Finance Corporation; the Shoko Chukin Bank, a full service financial institution with funding coming from the government and from SME cooperatives and other organisations; while the Japan Finance Corporation for SMEs supplies long-term low interest capital to SMEs for their business development. Among other OECD countries, the Czech Republic offers various special low interest rate loans for start ups.

In 2003, a multi-staged lending programme was launched by the Hungarian Government involving several credit institutions and other organisations. The stages involve: i) the Micro-Credit Program; ii) the Szechenyi Credit Program for working capital loans; iii) Midi Loan; and iv) Europe Loan, Credit Guarantee Corporation, venture capital provisions, and the Lanchid Factoring Program. In response to a report in September 2004 on the decreasing availability of small loan financing for SMEs the Dutch government is proposing to tackle the problem by: adapting the government guarantee scheme again after a first modification in 2003; raising the guarantee percentage for small loans (now two-thirds) up to a ceiling of EUR 100 000; and raising SME awareness about finance. Canada’s *Small Business Loans Act* (SBLA) programme was recently replaced by the Canada Small Business Finance (CSBF) programme in order to strengthen and streamline the programme administration, charge fees to offset the cost of claims and move the programme towards cost-recovery. Schemes to pool risks are also implemented in some countries such as Japan where a two-tier structure of credit supplementation for SMEs is applied, the Credit Guarantee Corporations providing financial institutions with credit guarantees on the repayment of SME loans.

The tax system as a financing instrument

A number of countries, including Canada, United Kingdom, Germany, and Israel use taxation as a policy tool to improve SME financing, and in particular to increase the supply of venture capital. Capital gains tax rates are an important policy instrument with respect to venture capital, and can affect both supply and demand terms. Capital gains tax rates vary widely across countries and include exemptions in some cases. Between 1998 and 2005, Germany reduced, in several steps, its capital gains tax rate from 51% to 42%, and according to new provisions, only one-half of capital gains is subject to income taxation, regardless of the form of shares (private or business assets, etc.) – as a result the effective tax rate for venture capital in Germany is under 25%. Israel's recent tax incentives exempt foreign investors from capital gains tax on investments in local form of shares venture capital funds and in high technology start-ups. While most tax systems in OECD and non-OECD countries are not neutral with respect to corporation financing decisions, the tax systems of Norway and New Zealand are based on the principle of fiscal neutrality between different sources of financing. Corporations generally have tax incentives to finance their projects with debt rather than with equity in most OECD countries exceptions including Australia, Denmark and Finland. These tax incentives to issue debt generally favour large and established firms with collateral and proven track records, whereas innovative SMEs face higher cost of financing investment projects by relying on equity financing. OECD research suggests that the tax system should avoid favouring debt finance over equity finance. Australia in 2002 introduced tax concessions designed to encourage new foreign investment into the Australian venture capital market and to further develop Australia's venture capital industry. A key element of the venture capital reform was to tax venture capital limited partnerships (VCLPs) and Australian venture capital fund of funds (AFOFs) as flow through vehicles. Under this new regime, certain tax exempt and other eligible foreign investors are exempt from Australian tax on their share of profits or gains in equity investments made by a VCLP or an AFOF, in Australian companies that satisfy eligibility criteria.

In conclusion, it should be noted that OECD studies find that considerable overlap, fragmentation and competition among managing agencies exist, and recommend the

Box 2.8. The Istanbul Ministerial Declaration on SME financing

In Istanbul, Ministers recognised “the need to improve access to financing for SMEs on reasonable terms. While SMEs’ financing requirements differ at each stage of their development, policies should aim to ensure that markets can provide financing for credit-worthy SMEs and that innovative SMEs with good growth prospects have access to appropriately structured risk capital at all stages of their development...”. There is need for further discussion and for continuing to seek and apply more innovative solutions, tools or initiatives for facilitating SME access to the financing needed for their growth. In the Istanbul Ministerial Declaration, Ministers commit to “assessing the effects of globalization on SMEs and in particular examine issues related to SME access to finance and to support for innovation” and invite the OECD to consider the organisation of a thematic conference the subject of which could be “focused on financing SMEs at all stages of their development, with a particular emphasis on innovative SMEs”.

incorporation of new objectives into existing programmes rather than systematically establishing new programmes (OECD, 2004d). Moreover, it is argued that programmes should have monitoring mechanisms and evaluations embedded in their frameworks, as well as having a sunset clause.

5. Policies for innovation and technology

Governments continue to support SMEs in strengthening their knowledge and technology base

The past few years have seen continuing efforts on the part of OECD governments to assist enterprises in strengthening their knowledge and technology base with a view to improving and sustaining their innovation performance.

Innovation-related programme packages announced recently include Australia's "*Backing Australia's ability – Building our future through science and innovation*", a AUD 5.3 billion science and innovation package planned for the period 2004-2007. Sweden's national strategy "*Innovative Sweden – a strategy for growth and renewal*", was launched in June 2004, with the aim to strengthen growth in enterprises and in the regions, having four priority areas: i) the knowledge base for innovation; ii) innovative trade and industry; iii) innovative public investment; and iv) innovative people – involving concrete actions to be developed by governmental commissions, and future strategy and actions to be determined by an Innovation Council. The "*Innovation Platform*" of the Netherlands, launched in 2003 involves various stakeholders, bringing together representatives of enterprise, science and government to focus on the stimulation of SME innovativeness. Germany's "*High-Tech Master Plan*" for SMEs is a comprehensive innovation initiative comprising a new support architecture built around R&D and innovation networks and targeting, in particular, young technology companies.

Through support for SME R&D expenditures

Governments support SME innovation and technology development and acquisition in a number of ways. One of them is through support for their R&D expenditures and undertakings, which is the object of many government programmes and measures, including tax incentives for R&D expenditures. All OECD governments apply special tax treatment such as immediate write-off of current R&D expenditures and some use various types of tax relief such as tax credits (11 countries in 2001) or allowances against taxable income (6 countries in 2001). Tax relief is increasingly used as a policy instrument in support of R&D conducted by the business enterprise sector, and 15 OECD countries applied tax subsidies for R&D in small firms in 2001. Tax relief can be "flat rate" in nature (e.g. on the amount of R&D, as in Canada) or "incremental" (taking account of the difference between current R&D and a past reference point, as in the United States). Certain countries (e.g. Spain) have both. Special provisions for small firms or start-ups are applied in ten countries, and these may take the form of higher rates or cash refunds (for firms not subject to tax). Italy, Spain and the Netherlands are the most generous for this type of support to small firms (OECD, 2003d).

And by encouraging SME participation in networks, partnerships and clusters

To build their own innovative capability, SMEs need to access external sources of information, knowledge, know-how and technologies. SMEs need to participate in networks, partnerships and cluster-based activities, as relevant, to access these resources.

Participation in networks is particularly important for the flow of tacit knowledge and for sharing other competencies crucial for their continued competitiveness. Governments can facilitate the establishment and functioning of these networks. One of the best ways to do this is through public/private partnerships for research and innovation. Another approach is to encourage geographically concentrated clusters of firms which transfer tacit knowledge, procure tangible and intangible infrastructures for innovation and help counter the shortcomings of scale and cope with market failure.

Five case studies carried out by the OECD suggest that policy emphasis should be placed on working through partnerships and networks to achieve outcomes that the market by itself will not allow (OECD, 2004d). Furthermore, it is suggested that such networking and partnership initiatives should also have an international dimension, and that national, regional and local initiatives should be integrated.

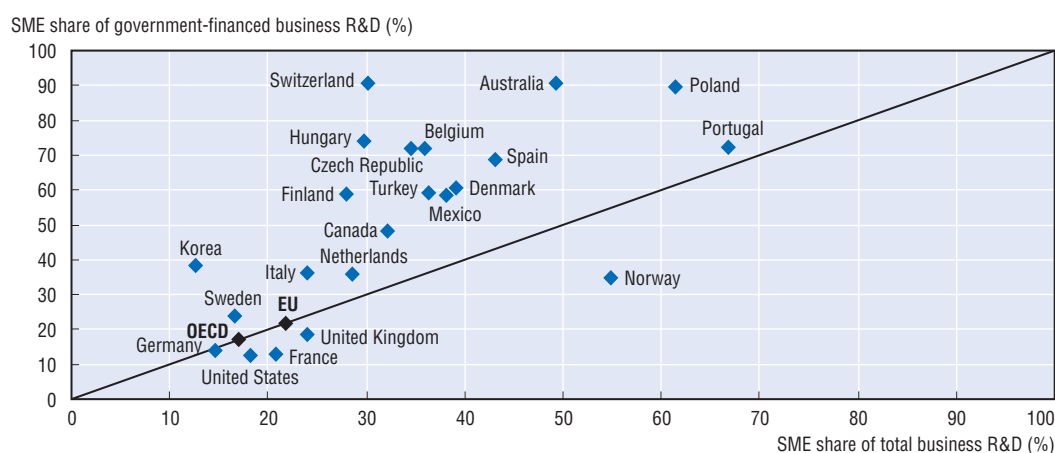
Various disincentives deter many SMEs from taking advantage of networking or other opportunities

However, various disincentives and obstacles (these may include a lack of motivation, an inability to identify and specify needs, a lack of certain competencies) deter most SMEs from taking full advantage of networking or other opportunities. OECD research suggests that governments need to take a more pro-active approach to: i) promote collaboration among SMEs involved in R&D-intensive innovation; ii) increase SME participation in public-private partnerships for research; and iii) close gaps within global innovation networks.

Government can facilitate SME participation in innovation networks and research partnerships

To facilitate SME participation in innovative networks, government initiatives may use more or less SME-specific targeted measures such as: raising awareness of networking opportunities and helping search for partners; organising, financing and operating networks; interfacing scientific and innovation networks through public-private partnerships (PP/Ps); and creating international linkages and building global networks (OECD, 2004d, 2004m). Many governments operate programmes, such as Internet Portal-based services, to improve SME access to information about networking opportunities. Examples are Canada's *Strategis* and *Innovation* portal, the *Manufacturing Extension Programme* of the United States, the United Kingdom's *Business Links*, Korea's *Inno-NET* Portal, Austria's *protec-Netplus*, Italy's *RIDITT* network. Several other countries also have programmes in favour of SME networking. Some policies include financial incentives, such as Germany's *Pro-Inno* which supports, *inter alia*, accelerating collaborative R&D among SMEs on a project basis. Hungary and New Zealand, among others, have included among their priorities, initiatives that foster the building of supportive SME networks.

Increased participation of SMEs in PP/Ps is essential for the stimulation of technological entrepreneurship, for gaining access to knowledge sources, and for linking science-based innovation networks to less R&D-intensive ones. As, traditionally, SMEs are not very present at the interface between science and innovation systems, an accentuated "revealed preference" of government-financed business R&D for small firms can be observed in many countries, and attenuates the "bias against SMEs" in others (Figure 2.2). France typifies the latter case as can be seen in Table 1.3 in Chapter 1. In the case of Australia, the guidelines for the latest selection round of Co-operative Research Centres (CRCs) stated that the government wished to see opportunities for SMEs to participate

Figure 2.2. **SME R&D versus government funding of SMEs, 2001**

Source: OECD, 2004m.

StatLink: <http://dx.doi.org/10.1787/806354104012>

enhanced. The Netherlands is also paying increased attention to the involvement of new and established SMEs in forming PP/P schemes. It also applies a new scheme for SMEs to receive innovation vouchers to be spent on public research, whether basic or applied.

SMEs can experience cultural barriers with scientific communities, for building formal partnerships when opportunities arise. OECD considers that governments can play a role through measures focusing on human resources. One example of good practice is the UK's *Business Fellowship* scheme through which mainstream academics become Business Fellows, and are enabled to spend part of their time advising companies on technical or research problems in response to the enterprise's needs. Regulation and incentives may be instruments for attracting more SMEs. The US's SBIR programmes requires participating SMEs to have cooperative relations with universities or laboratories while Sweden's VINST stimulates smaller high-tech companies to co-operate with researchers at universities and research institutes in the development of new products. In Denmark, a tax deduction on collaborative R&D has been introduced recently (OECD, 2004m).

Governments also need to pay attention to the geographic dimension of networks. A number of initiatives have been taken to close gaps within global innovation networks by interconnecting national and local hubs of technology transfer, linking national networks of SMEs with similar needs and complementary capabilities, building global networks of intermediary organisations, and coordinating national support programmes. Some of these initiatives, such as INSME (the *International Network for SMEs*) make special efforts to correct enduring geographical imbalances in co-operation networks, notably weak North-South and South-South relationships. (OECD, 2004d; OECD, 2004m)

SMEs need to understand the intellectual property rights (IPR) system and use it effectively

An intellectual property system unsuitable for SMEs can constitute a major barrier for a would-be globalising SME. Evidence from a number of OECD countries shows that SMEs are not always able to use the intellectual property system effectively and face obstacles such as lack of knowledge of the system, high costs and lack of adequate legal, business and technical support for developing a successful intellectual property strategy. Greater

effort is needed to ensure that intellectual property is adequately incorporated into the broader framework of support for entrepreneurs and SMEs, addressing important issues such as registration of rights, commercial exploitation, the use of patent databases, the valuation of intellectual property assets, and enforcement. Of particular importance is the development of cost-effective ways of resolving disputes.

There is a need for monitoring the environment to decide which measures need to be taken. Examples of recent new policy initiatives may be mentioned: In Germany, for example, information designed to meet SME needs is provided by more than 20 patent information centres and other innovation support agencies. A range of IPR-related information is also available through government online services. Moreover, the three major business associations in Germany undertook a successful initiative by founding in 1997 the Action Group of German Businesses against product piracy and counterfeiting (APM), which takes action for its members with respect to infringement of intellectual property rights. The Italian Patents Office and the Tagliacarne Institute, in cooperation with the Italian Confederation of Industries, and the European Social Fund, implemented the Master INSPRINT training schedule amounting to 1 520 hours articulated in three phases (classroom, project work and stage). Training in 2002 and 2003 included the training of experts in intellectual property and in its application to SMEs; and two manuals for using an industrial property protection tool were created by the participant SMEs. A new programme is to be introduced in 2005 in the Netherlands to stimulate research spin-off companies and the scheme will include incentives for an active IPR policy by public research.

Box 2.9. Key policy recommendations for fostering innovative SMEs through networks, partnerships, clusters and intellectual property rights systems, discussed by Ministers in Istanbul

Recent OECD studies made the following key recommendations for policymakers to consider for fostering innovation and technology acquisition by SMEs through partnerships, networks and cluster approaches:

- i) Improve SMEs' access to information about networking opportunities – to be achieved through co-operation among all stakeholders.
- ii) Increase the participation of SMEs in research networks and technology markets.
- iii) Support the emergence and maintenance of innovative clusters.
- iv) Identify and promote best practice policies which support company innovation through cluster development.
- v) Enhance SME awareness and knowledge of all elements of the intellectual property system (includes patents, trademarks, industrial designs, utility models, trade secrets, copyright and related rights, plant varieties and non-original databases).
- vi) Strengthen the integration of intellectual property issues in programmes and policy initiatives aimed at fostering innovation in SMEs.
- vii) Facilitate the use of the intellectual property system by promoting the development of cost-effective mechanisms for application and for the resolution of intellectual property disputes. These include opposition procedures, arbitration and mediation. Consider the development of the market for intellectual property insurance as a tool for reducing the costs of litigation for SMEs, identify existing barriers to this development and determine the scope and form of government intervention to remove them.

6. Facilitating SME access to international markets

Removing impediments could boost the numbers of internationalising SMEs

As discussed in Chapter 1, SMEs are under-represented in the global economy relative to their contribution to national and local economies. While the vast majority of SMEs (many of them micro-enterprises) may not be interested in moving beyond national (or indeed local markets), there are those with high growth potential who need to go global. A number of factors can have a positive impact for SME internationalisation efforts. These include ICTs and increased managerial awareness and education; greater internationalisation of large firms and service providers; clusters, networks, and reductions in language barriers. The international business environment is, for SMEs, generally less conducive than domestic business environments and SMEs usually encounter obstacles to their internationalisation.

Impediments to internationalisation include: accessing information about other markets; the need to deal with two or more sets of regulatory requirements; the high fixed costs of internationalising or building scale quickly; product standards; intellectual property rights protection; skills, as well as language issues. Globalised markets also mean heightened competition from foreign firms, threats to business and organisation models, and challenges to managerial and technological capability. Many impediments to SME internationalisation may originate at the level of the national economy, institutions, and general infrastructure – related to issues of competition policy, legislative and regulatory frameworks, telecommunications infrastructure, research and education policy.

Box 2.10. Recommendations presented for Ministerial discussion concerning the facilitation of SME access to international markets

A recent OECD background report (OECD, 2004g) prepared for the Istanbul SME Ministerial Conference discussion made the following key recommendations for governments on ways to facilitate SME access to international markets:

1. Seek through the WTO Round and other channels, to ease trade barriers.
2. Promote the role that foreign direct investment can play as a vehicle for SMEs to access international markets. In particular, the inclusion of local SMEs in the supply chains of multinational enterprises, and their resultant (indirect) involvement in exporting activity can lead to significant diffusion of technology and more efficient business models, thereby raising the international competitiveness of SMEs.
3. Encourage the smooth, cross-border growth of SMEs by reducing the need for internationally active SMEs to comply with multiple sets of rules or requirements. Important areas in this regard include standards, intellectual property rights, financial market regulations and other regulatory domains.
4. Facilitate access to the information SMEs need to operate internationally. Particularly important is information relating to tax, regulatory frameworks and requirements, advisory and support services for SMEs and dispute resolution procedures.
5. Enhance incentives for new public-private partnership initiatives that would help SMEs reach global markets for innovative products and access foreign sources of advanced technologies and knowledge. This involves broadening the scope for foreign participation in national programmes and linking national networks of SMEs with similar needs and complementary capabilities.

These challenges call for specific policy action. Reducing the high fixed costs and impediments associated with doing business internationally could lead to many more SMEs operating successfully beyond their national borders, in a more business-friendly, more integrated international economy. However, to date, very little research has been undertaken to identify and measure impediments to SME internationalisation. The OECD's Working Party on SMEs and Entrepreneurship was invited by Ministers in the Istanbul Declaration, to consider: "identifying ways in which *unnecessary barriers to SMEs' access to international markets* can be removed, in collaboration with interested countries and other relevant international organisations and fora" and is proposing to undertake, jointly with the APEC Small and Medium Enterprise Working Group (SMEWG), a study to this end.

Ongoing programmes and especially recently implemented initiatives reflect the concern and priority attached by OECD governments to the promotion of SME internationalisation. Export credit insurance continues to be provided widely as well as other traditional types of trade-related support such as assistance for participation in international fairs and trade missions. For example, the German *Active Worldwide* initiative with its ten-point programme has a special focus on SMEs (e.g. easier access to "Hermes" export credit guarantees, more intensive support provided by international chambers of commerce for SMEs that wish to invest in foreign countries and support to SMEs for participation in international fairs).

Increasingly, however, recent initiatives by some countries (e.g. France, Japan) encourage SMEs to link up with and engage in joint activities and ventures with overseas partners, and become part of international value chains. Japan's SME Agency operates a corporate matchmaking service offering the possibility to Japanese SMEs and to overseas SMEs to register with a common Internet database. Support measures involving customised market research intelligence, assistance with standards and quality issues, including testing are increasingly used – New Zealand, Spain, Sweden, Turkey are among countries providing this type of assistance. Spain's "*External Promotion Initiative Plan*" (PIPE 2000) has enabled a growing number of Spanish SMEs to internationalise their operations, based on a rigorous analysis of their export capacity. Italy recently increased its support to the area of enterprise internationalisation. In their support for clustering and networking, governments also contribute to equipping SMEs for the globalisation process as inter-firm networks, offering the prospect to small firms of greater specialisation and economies of scope and scale.

7. Promoting e-business adoption by SMEs

Business environments conducive to e-business and the adoption of complex information technology applications need to be encouraged

As mentioned in Chapter 1, small businesses have been slower than large firms to adopt information technology, reflecting for some, a perceived lack of applicability in sectors where SMEs are heavily represented, and for others, a lack of incentive to change business models until expected returns are significantly higher. The issue for governments now, in the OECD's view, is to move beyond policies that encourage basic connectivity and foster business environments that facilitate e-business and the use of more complex applications of information technology (OECD, 2004e). Austria's *Go International* programme can be cited as well as the Dutch Government's programme *The Netherlands Goes Digital* as examples. The Dutch programme, launched in 2002, was aimed at stimulating ICT and Internet use by SMEs. An evaluation conducted in 2003 showed that the programme had

achieved all of its 4-year goals in its first two years of operation: two-thirds of Dutch SMEs having Internet access and engaging in e-commerce through the Internet (mainly bank transactions). So it was decided to refocus the programme for the remainder of the period on subjects such as tracking and tracing, internationalisation and customer management. Likewise, Finland's most recent initiatives are oriented towards digital tools to cover e-logistics, various mobile services, e-accounting and e-invoicing.

Rollout and use of quality infrastructure at affordable prices are crucial – broadband is key

Rollout and use of quality infrastructure at affordable prices are crucial. Broadband in particular is key to realising the potential benefits to SMEs of ICTs, and many OECD governments are aiming to have widely available broadband as soon as possible throughout their national territories. The development of broadband markets, efficient and innovative supply arrangements and effective use of broadband services require policies to do the following: promote effective competition and continued liberalisation in infrastructure, network services and applications across different technological platforms; encourage investment in new technological infrastructure, content and applications; and ensure neutrality across competing and developing technologies to encourage interoperability, innovation and expand choice. Public financial assistance to expand coverage for under-served groups and remote areas could complement private investment where appropriate, provided it does not pre-empt private sector initiative or inhibit competition. Digital products, information services and interaction with government in areas such as procurement, regulatory compliance and taxation offer SMEs important potential efficiency gains and marketing opportunities (OECD, 2000n).

For SMEs to take full advantage of e-business the regulatory infrastructure must be right

SMEs will be able to take full advantage of e-business only if the regulatory infrastructure is right throughout the system for trust, security, privacy and consumer protection. Essential are a culture of security to enhance trust in the use of ICT, effective enforcement of privacy and consumer protection, and combating cyber-crime and unsolicited electronic mail (spam). Some governments in their policy approach (e.g. Australia, United Kingdom) have focused much of their work in addressing SME e-business and e-commerce issues, on network and trust issues. Australian measures include a package "Internet security essentials for small business", which links to a hands-on interactive *Safety Net* online tutorial. Likewise, the Czech Government's *Electronic Commerce White Paper* which led to legislation in 2004, contains programmes and proposals to foster e-commerce, reinforcing the legal status of information society service providers and appointing clear rules for the dissemination of commercial communications. Other Czech measures concern electronic signatures, the institution of electronic brands and timestamps.

Skilled human resources and low cost on-line dispute resolutions are essential

Governments need to target programmes with a view to stimulating skill formation and specialised information. As small businesses cannot afford specialised staff, governments have a role to play in the provision of basic ICT skills in education. Together with education institutions, businesses, and individuals, they need to provide a framework

to encourage ICT skill formation at higher levels, in vocational training, and in ongoing lifelong learning. Strengthened cross-border co-operation between all stakeholders and development of rules with cross-border application are also necessary. Of particular relevance for small firms are low-cost on-line dispute resolution mechanisms among firms and between firms and consumers. It should be noted that the OECD's Working Party on SMEs and Entrepreneurship developed an education tool for SMEs to assist in resolving e-commerce disputes online⁴ entitled *Resolving E-Commerce Disputes On Line: Doing the right thing about consumer complaints and business complaints: Frequently Asked Questions for Small and Medium-sized Enterprises (SMEs)*. Where issues of dispute arise, the United Kingdom Government is of the view that Alternative Dispute Resolution schemes (e.g. ombudsmen, arbitration), including online schemes, may offer consumers low-cost, user-friendly alternatives to court action and contribute to consumer confidence in the field of electronic commerce.

The German Government assists 24 regional centres of expertise in e-commerce which dispense to SMEs a broad range of information, advice and training for making better use of the Internet. The PROZEUS-project aims to help upgrade the e-business competence of SMEs for their participation in global procurement and sales markets through integrated processes and standards and transfer know-how to interested companies. The *Multimedia Start-up Competition* is an incentive for turning innovative business ideas into reality in the multimedia sector, and the *German Internet Prize* seeks to encourage the creation of business models and has successfully tested best practice examples of innovative Internet solutions adopted by SMEs. Austria's *Telefit Roadshows* are jointly financed by chambers of commerce, government and private sponsors, provide information nationwide, and mainly to SMEs, relating to opportunities and risks of digital networking with customers, suppliers, and employees. ECAustria (previously the E-Commerce Initiative), operated in the framework of a public-private partnership, is an interactive information, service, and events platform to promote Internet-supported business processes in SMEs and was nominated in 2002 by the European Commission as an exemplary project. Israel has established an e-learning system which brings training to outlying and peripheral localities.

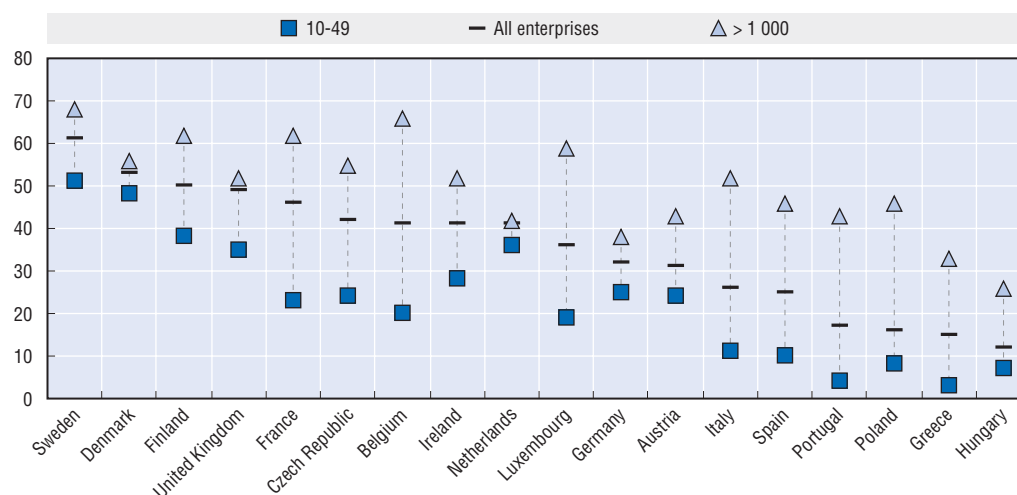
In Hungary, grant programmes are used to encourage the use and implementation of model e-marketplaces and portals, which combined with SME portals, are designed to assist SMEs in catching up with regard to information technology. The Act on Electronic Commerce came into effect in 2004, and a programme was launched to promote e-business among SMEs. The implementation of the *eHungary* programme – designed to set up the public network and Internet points is in progress. In Spain, the Local Business Centre Network was launched in 2001 to help create a critical mass of companies in different sectors to generate new B2B markets. The Network comprises 21 such centres in fifteen Autonomous Communities.

8. The promotion of skills development and management training

The lack of suitably trained human resources can be a significant impediment to innovation. In globalised markets characterised by continuous innovation and ever increasing competition, workers and management need to demonstrate versatility and adaptability and be capable of acquiring new competencies as the need arises. The shift to services occurring in OECD economies, the trend to outsourcing, and the high value added nature of many of the jobs being created in OECD countries, together with technological developments, contribute to increasing demand for highly skilled labour. SMEs are

Figure 2.3. Worker training by firm size, 1999

Participation rate of employee-sponsored continuous vocational training (CVT) by firm size in European countries, in per cent



Source: OECD Employment Outlook (2003).

StatLink: <http://dx.doi.org/10.1787/450540414628>

especially challenged in resource terms for investing in training and upskilling. Moreover, SMEs can be deterred from investing heavily in employee training lest other employers subsequently capture the training benefits by “poaching” the trained employee. This adds to the rationale for government intervention to support SME upskilling and training requirements. Figure 2.3 shows participation rates for employee training by firm size for European countries, the Nordic countries having the highest rates while Hungary, Greece, Poland and Portugal show the lowest participation rates. Current investigations are taking place to address the challenges those in leadership positions face in SME organisations across all business sectors in the United Kingdom. A study commissioned by the Sector Skills Development Agency investigated the leadership skills development needs of SME leaders and proposed a leadership development model. The challenges facing the SME organisations involved in the study were overwhelmingly concerned with leading change in their organisation.

Governments are increasingly aware of the importance of highly qualified and trained management and workers to meet business and SME needs, and they are promoting various approaches: through more flexibility in educational systems; by forging stronger links between the enterprise sector and the university and third level technological institutes; through lifelong learning programmes; the provision of consultancy and training services on-site or web-based; business feasibility assessments, and information services.

For example, Japan’s new SME support system aims to help SMEs solve the diverse array of management issues they face. Begun as an innovative concept bringing together SME analysts, tax accountants, certified public accountants, and other consultancy experts as well as direct support for solving specific management issues, personnel from the private and public sectors versed in SME management issues, SME Support Centres provide SMEs with “over the counter” consultation, on-site professional assistance, business feasibility assessments, information services and training programmes. Also in Japan, the Institute for

Small Business Management and Technology provides training for SME executives, management, technicians, and SME support personnel, on 9 campuses nation-wide.

In the Netherlands, the programme *Profijt van Mensen Kennis* administered by the Syntens organisation assists the entrepreneur in getting his/her *human resource management* policy professionalised. This is achieved through group and individual activities (training on the job, specialised meetings and customised advice for the manager) as well as clustering between enterprises to encourage joint innovation activities.

Spain's *Plan España.es*, implemented during 2004-05, aims to advance the information society and comprises a unified action area for SME infrastructure, services and training under the "Pyme.es" banner. The programme involves agreements reached with trade associations and large firms contracting business to SMEs in each sector. A United Kingdom initiative The Leadership and Management Programme for Small and Medium Enterprises encourages managing directors of enterprises with 20-250 employees to undertake personal development tailored to their needs, and offers up to GBP 1 000 funding support. The aim is to improve leadership and management in SMEs and thereby improve business performance. In addition, a feasibility report was commissioned into delivering an effective model for management and leadership development for the owners and managers of micro and small businesses (MSBs). The study pointed towards the possibility that a new approach to MSBs might prove more successful than more traditional methods as MSBs have a unique profile of needs and characteristics which means that any attempt to assist them must not only target their specific needs but also that it does so in full awareness of the unique motivational factors and styles of work of these types of companies.

9. Evaluation of SME policies and programmes

Systematic evaluation is an essential element of a well-designed SME policy framework

Policies and programmes geared to SMEs and entrepreneurship can involve considerable sums of public expenditure and evaluation is needed to enhance cost-effectiveness. Programme evaluation should be central to the policy process including its incorporation into the design stage of the programme. Clear policy objectives should be set when legislation is being framed in order to provide a basis for future evaluation. A budget for evaluation should be foreseen and the necessary data collection should commence as early as possible. Formulating an evaluation methodology is imperative. The process by which any programme changes are subsequently implemented is likely to vary depending on the scale and profile of the programme, and according to political processes. Nevertheless, the key purpose of conducting evaluations is that they render policies more efficient. In some countries, particularly for high profile and international programmes, it may be valuable that information stemming from the evaluation would enter the public domain. This is more likely to occur where "outsiders" have conducted the evaluation (OECD, 2004)).

To the extent possible and within available resources, evaluations should apply to all programmes

There is room for debate about the extent to which all programmes should be assessed with the same level of sophistication. A certain level of sophistication is desirable as simple approaches may tend to provide misleading answers, frequently over-estimating policy impact. The key argument in favour of a consistently high level of sophistication across

programmes is that this enables valid comparisons to be undertaken between one programme and another. The argument against it is that it is inappropriate, and not cost-effective, to have similar evaluation standards for programmes of widely differing scales. And clearly, poorer and less developed countries will face limits to what they can do.

Assessment teams should be independent but informed; evaluation should lead to policy modifications

A judgement remains to be reached about whether programmes should be evaluated by the government departments responsible for delivering them, by other organs of government or by external organisations. There are arguments favouring evaluators from each of these groups. The departments responsible for delivering the programme clearly have unique inside knowledge and understanding of the programme and may be more likely to engage the support of those delivering the programme. At least for major evaluations, their involvement is vital. On the other hand, there is the risk that their “independence” may be impaired through this closeness. One alternative is for evaluations to be conducted by a specialist part of government, independent of the programme delivery department, drawing on specialist evaluation skills, and being seen to be more independent. Their detailed knowledge of the programme will however be less. A third option is to engage specialist “outsiders” such as consultants or academics, also less clearly subject to “capture” and more likely to be specialists within their subject. The central disadvantage of the employment of outsiders is that if evaluation is viewed as one element in the *process* of policy improvement then this has to lead to discussion. That discussion risks being less engaging when it is led by outsiders who may be viewed as less informed. Evaluation should not be “the end of the line” but should, as appropriate, lead to policy modifications, whether they be changes to the programme objectives, or changes in programme implementation or delivery. In practice, the commitment of policymakers to evaluation and the extent to which it is undertaken systematically varies both between countries and between programmes within the same country. Regular evaluation is essential for identifying ways of improving those programmes that should be retained and to provide a basis for reallocating funds when programmes should not be retained.

Next steps

Developing and testing a handbook of best practices for programme evaluation

In the Istanbul Ministerial Declaration, Ministers invited the OECD to consider “Proactively disseminating the work it has carried out on best practices for the evaluation of SME policies and programmes, for example, by working with OECD members and interested non-member economies and organisations to develop and test a handbook of best practices for evaluation of SME policies and programmes”. The OECD’s Working Party on SMEs and Entrepreneurship is currently undertaking this task jointly with the LEED Programme in the frame of the OECD’s Centre for Entrepreneurship, SMEs and Local Development, in which they are partners.

**Box 2.11. Key policy recommendations
presented to the Istanbul Ministerial Conference arising from research
by the OECD's Working Party on SMEs and Entrepreneurship**

- **Apply the “C.O.T.E.” framework to SME policy:**
 - ❖ Clarity and Coherence of SME policies require a clear rationale for policy intervention and statement of purpose. The various parts of government interacting with SMEs to facilitate their development should ensure that their efforts are consistent and co-ordinated.
 - ❖ Objectives of SME policies should be clearly specified. Examples would include the creation of new firms, the growth of existing firms or promoting enterprise among target groups in the population.
 - ❖ Targets should be specified in measurable ways to facilitate evaluation of the extent to which objectives should have been achieved.
 - ❖ Evaluation of policy, which must be based on clear policy targets, should be the most important test of its effectiveness.
- **Develop an “evaluation culture”: by making evaluation of programmes central to the policy process.** Evaluation should not be simply undertaken as a historical accounting exercise, but should be used to inform current policy, the objectives and targets of which may be modified in the light of the results of evaluation.
- **Integrate the methodology of, and budget for, evaluation of programmes as part of the legislative process.** These should not be delayed until after the programme has been implemented.
- **Ensure that all, rather than merely some selected, programmes are subject to evaluation.**
- **Major evaluations should be undertaken with independent but informed assessors.** Nevertheless, the involvement of the programme teams, both policy makers and deliverers, is vital.
- **Evaluate all programmes using the most sophisticated techniques that are feasible taking into account the need to be cost-effective.** In practice, more approximate approaches will be necessary in assessing smaller programmes.

Source: OECD, 2004j.

10. Toward more systematic statistical measurement of SME behaviour

The empirical basis for SME policy formulation is poor

The empirical basis for sophisticated SME policy formulation remains poor which can penalise policy making in the area of SMEs and entrepreneurship. Major deficiencies are apparent in terms of international comparability which prevent meaningful high quality empirical analysis, notably cross-country comparative studies and longitudinal studies. Basic conceptual problems and cost considerations are at the root of the problem.

With the expectation of making progress on this issue, a special Workshop on SME Statistics was organised in the context of the Istanbul SME Ministerial Conference in June 2004, which addressed systemic and specific needs of both producers and users of statistical data on SMEs in order to make tangible and measurable improvements in a number of identified areas. The Statistical Workshop deliberations and recommendations

are reflected in the Istanbul Ministerial Declaration in which Ministers invite OECD to develop, on the basis of an *Action Plan*, a robust and comparable statistical base on which SME Policy can be developed.

The five statistical Key Policy Recommendations elaborated were:

- Promote international convergence of statistical concepts and processes.
- Foster greater international comparability of statistics.
- Develop an integrated business statistical register.
- Promote data linking to make better use of existing data and reduce correspondent burden on SMEs.
- Carry out policy-relevant empirical analysis to underpin evidence-based policymaking.

To assist in carrying out this mandate, the OECD created in March 2004 a virtual Task Force of Structural Business Statistics experts, the SBSNet. Furthermore, the OECD is exploring possibilities for a cooperation project with the Kauffman Foundation focusing on international data on entrepreneurship.

Notes

1. http://europa.eu.int/int/comm/enterprise/entrepreneurship/support_measures/start-ups/index.htm.
2. European Commission BEST project on the transfer of businesses: http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/index.htm.
3. [(Communication 11.11.2003 from the Commission – “Education and Training 2010: The success of the Lisbon Strategy hinges on urgent reforms” (draft joint interim report on the implementation of the detailed work programme on the follow-up of education and training systems in Europe)].
4. “Resolving E-Commerce Disputes On Line – Doing the right thing about consumer complaints and business disputes: Frequently asked questions for Small and Medium-sized enterprises (SMEs)”, downloadable from www.oecd.org/sti/smes.

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PART I

Chapter 3

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The Dutch Policy on Education for Entrepreneurship

by

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to the OECD Working Party on SMEs and Entrepreneurship

Introduction

Education for Entrepreneurship is a priority in most OECD countries, and with reason. As concluded by the OECD “entrepreneurship is being increasingly recognised as a crucial factor for economic growth and international competitiveness in a global economy, cultivating an entrepreneurship culture and fostering entrepreneurship values and spirit with a view to building an entrepreneurial society have become important issues on government agendas” (OECD, 2004).

Education and training have been recognised as the single most important means for achieving the objective of fostering entrepreneurship in societies. They can have considerable effect on the performance of entrepreneurs (Charney and Libecap, 2000), and secondly, are thought to have some longer term impacts on the level of entrepreneurial spirit and attitudes which are fundamental for an entrepreneurial population and society. Small firms employing entrepreneurship graduates were found to have greater sales and employment growth (Charney and Libecap, 2000). Furthermore, entrepreneurship graduates either founded or worked for high-technology firms in greater numbers than other business school alumni and were more involved in new product research and development. This is consistent with the conclusion that people match their business ambitions to their level of skills and knowledge (Reynolds, et al., 2001). In the United States, which has the longest tradition of entrepreneurship education, it took 30 years before entrepreneurship gained legitimacy in the academic community. Furthermore, entrepreneurship has become commonplace in compulsory education curricula in primary, secondary and tertiary level and there are plenty of initiatives to encourage young people to set up entrepreneurial projects while in college and at university.

It is clear that fostering entrepreneurship as a socio-economic institution is very different from what is required in designing and implementing other economic policies. Governments therefore are faced with a new long term challenge in this respect.

These ideas are relatively new to Europe. The European Commission has emphasised since 2000, the importance of education for entrepreneurship within the framework of the Lisbon strategy. It monitors on a yearly basis, the progress in this field via progress reports on the different themes of the European Charter for Small Enterprises. These reports show that in most European countries education at all levels continues to pay too little attention to entrepreneurship and lacks practical application. At the same time most EU countries

now have a policy commitment, in varying degrees, for promoting the teaching of entrepreneurship within the education system. In some countries this has been translated into concrete measures, such as the Dutch Action programme, *Education for Entrepreneurship*.

Stimulating an entrepreneurial culture: the Dutch case

By 1999 the Dutch Government had written its policy memorandum “The Entrepreneurial Society” (Netherlands Ministry of Economic Affairs, 1999). It acknowledged that the labour market had a growing demand for people to develop their autonomy, creativity, self-confidence, drive and talents. In short, qualities which are also needed for independent entrepreneurship that also have a positive effect on the productivity and innovative attitude of people. The economy needs both more entrepreneurial employees and more independent entrepreneurs.

In contrast, a European survey has shown that the entrepreneurial culture in the Netherlands is very poor. Although two in three Dutch adults consider starting a business to be a good career option, and many of them see opportunities in their region to start a business, only 5% start a business on their own – one of the lowest scores within the OECD (Bosma and Wennekers, 2004). The same conclusions were arrived at in the recent policy memorandum “Action for Entrepreneurs” (Ministry of Economic Affairs, 2003), namely that still 70% of the Dutch labour force had a preference for paid employment. As a result, the Netherlands has one of the lowest rates in Europe, where on average, only 45% of the labour force has thought seriously about starting a business, has actually started or acquired an enterprise. Furthermore, in the recent *Dutch Innovation Paper* (Ministry of Economic Affairs, 2003), it was concluded that innovative business activity is low because of a shortfall in entrepreneurial culture.

One way to influence this negative entrepreneurial culture is to dedicate more resources to entrepreneurship in education. Therefore it is crucial that school children and students are acquainted with entrepreneurial skills and enterprises as early as possible, preferably at primary school level, to learn about the possibilities of becoming an entrepreneur.

Education for entrepreneurship: the Dutch situation

Like most European countries, the education curriculum in the Netherlands offers little time to entrepreneurship at most stages and lacks practical application. In the Netherlands, 60 to 70% of starting entrepreneurs reported that their education did not contribute to acquiring an entrepreneurial spirit. In addition, only 9% of high school and university students had an ambition to start their own business within three years of completing their studies (Universum, 2001) – whereas 19% of students from the United States report this ambition. More attention to entrepreneurship may also make education more attractive and reduce the student dropout rate which is particularly high in secondary vocational education.

These are some of the reasons why the Ministry of Economic Affairs, in coordination with the Ministry of Education, launched in 2000, a specific programme on Education for Entrepreneurship and appointed a Commission with representatives from all education and business sectors. The objective of this Commission was to enhance commitment and support in the education and business community, to stimulate pilot projects and to define

Box 3.1. **The Young Enterprise Europe Programme (*jong ondernemen*)**

The programme started in 1990 with the aim of bringing young people in vocational and higher vocational education into contact with independent entrepreneurship via “learning through practice”. The programme’s popularity with students is attributed to its real life character. Groups of students set up an enterprise during their school year and manage this company under the supervision of a coach, in many cases a former entrepreneur. Other professionals involved include accountants and staff from the Tax Department. The students perform different roles (director, financial manager, staff manager, marketing director), and at the end of the school year a balance sheet is prepared, and shareholders are paid. It is also possible to continue the business beyond the school year. Starting a business, however, is not the main objective of the programme. The most important goal is that the participating students develop an entrepreneurial attitude and learn the different aspects and skills they would need as both employee and possible future entrepreneur.

the main barriers for stimulating entrepreneurship in education. Before this time, only very few programmes on education for entrepreneurship existed, *Young Enterprise Europe* being one of the few (see Box 3.1).

In the period 2000-03, with the help of a subsidy scheme, more than 130 projects were developed for all education sectors. As the ability to classify entrepreneurial skills is useful both for future entrepreneurs and employees, accordingly the Dutch Government used the broad EU-definition (European Commission, 2002) of entrepreneurship, consisting of two components: a broader concept of education for entrepreneurial attitudes and skills, which involves developing certain personal qualities and is not directly focused on the creation of new businesses; and a more specific concept of training on how to create a business.

The projects have shown that primary schools in general have begun by stimulating the more general entrepreneurial attitude and competences (like taking initiative and creativity). At the secondary and tertiary levels more specific skills for creating a business, like writing a business plan, financial management etc. are gradually being introduced. Furthermore, at the tertiary level, entrepreneurship is encouraged through commercialisation of public knowledge, for example via university spin offs.

An evaluation by the Commission on Education for Entrepreneurship concluded that these actions were a positive start. However, the ultimate goal of achieving a broad implementation of these entrepreneurship projects requires additional policy measures. The most important barriers to overcome for a broader dissemination of projects were:

- The culture of education, where the importance of entrepreneurship is often not seen or recognised. Entrepreneurship is, in most cases, not integrated into the curriculum or only treated as an extra-curricular activity, impacting a limited number of students.
- A lack of public resources, resulting in an underdeveloped infrastructure for promoting entrepreneurship in schools, as well as a lack of tailor-made and directly applicable teaching materials for entrepreneurship courses.
- The insufficient training of teachers in entrepreneurship.

Towards a Multi-annual Action Programme for Education for Entrepreneurship

After completing its tasks, the Commission was terminated and the new objective became to widen the diffusion and implementation of “good practices” for entrepreneurship to other schools. To achieve this new objective the previously mentioned barriers need to be tackled. This in turn requires a culture change by several of the parties concerned and a clear multi-annual policy framework for schools that wish to pay attention to entrepreneurship.

Mid 2004, the Ministry of Education and the Ministry of Economic Affairs defined several action lines in a joint Action Programme in Parliament. The emphasis was on vocational and higher education, as entrepreneurship features highly on these sectors’ agendas. At primary and secondary schools some good practices can be found, but these are still rare. Possible additional policy actions in these sectors will be studied in 2005.

The different action lines of the Action Programme on Education for Entrepreneurship 2004-07 are directed towards the schools, the teachers and the students. A joint Steering Committee of the Ministry of Education and the Ministry of Economic Affairs will coordinate and monitor these different action lines.

Organisation of regional road shows

To accomplish the objective of a broad dissemination and implementation of entrepreneurship projects, it is crucial to initially present the different “good practices” to school management, teachers and students. In this way, enthusiasm is generated for entrepreneurship and schools are shown how to implement these programmes. Furthermore, an initial network is established between the schools and (regional) businesses. In 2004/05 five regional road shows were organised around the main theme of education for entrepreneurship. Each road show can place additional emphasis on specific themes such as international entrepreneurship and education or entrepreneurship in technical education, as well as target groups such as women and ethnic entrepreneurs.

From objectives to performance contracts

To realise the distribution of “good practices”, there is a need for support from various institutional policy actions. In vocational and higher education, the Dutch Government has shifted its steering philosophy. Some national objectives and indicators have been formulated on entrepreneurship. Schools can indicate *via* yearly performance contracts the objectives they are pursuing, together with their regional (business) network, and how they will approach them – for example, by inserting entrepreneurship in their curriculum or by stimulating spin offs. Their performance will be monitored annually and in this way, schools can distinguish themselves from each other. Depending on the practical implementation and results of this new system, funding of schools may be linked to these performance contracts.

School as incubator/knowledge centre for entrepreneurship/start-ups

From 2006, the Government will finance the establishment of incubators at schools in vocational education. These incubators will provide information about entrepreneurship and starting a business, in close cooperation with the Chamber of Commerce. The idea is to bring information and contacts on entrepreneurship closer to the students. In higher education the incubators are more focused on supporting high-tech start-ups (see Box 3.2).

Box 3.2. **Action Programme Technopartner**

The Dutch economy needs to become more innovative. One way to make business more innovative is by stimulating spin offs (techno start-ups). In the Netherlands there is a paradoxical situation: the quality of publicly financed knowledge is high, but the use and valorisation of this knowledge by spin offs from education and research institutions is low compared to other countries. In 2004 the Dutch Government sent the Action Programme *Technopartner* to Parliament. The Action Programme Technopartner was launched with the aim to stimulate researchers and beta-students in starting their own business. The programme consists of:

- A seed capital facility for spin offs in their early phase.
- A subsidy scheme for exploitation of knowledge by spin-offs within and outside public education and research institutions. A pre-seed and patent facility are part of the subsidy scheme.
- A Platform that offers information and expertise.

The operational action lines of the Technopartner programme will be reinforced by the institutional innovations of stimulating entrepreneurship education. Valorisation of knowledge will become a formal task of universities.

Insertion of entrepreneurial skills in qualification structures and curricula

Entrepreneurial skills will be inserted in the new qualification structure for vocational education and also in the qualification structure for teachers. Entrepreneurship among teachers can be stimulated by offering apprenticeships at enterprises and also via training programmes. In higher education, insertion of entrepreneurship in the curriculum cannot be forced, although it is currently encouraged by the performance contracts.

International Entrepreneurship Chair at technical universities

In the Netherlands, six of the 15 universities have their own Entrepreneurship Chair (Bosma, and Wennekers, 2002). The Dutch Government is currently studying whether entrepreneurship can be further stimulated at the three technical universities (Delft, Eindhoven and Twente). As entrepreneurship which is a result of technical spin offs is a fast growing sector, innovative firms should not stop at the border, that is, entrepreneurship should be also approached from an international context. As a result, the Dutch Government and the three universities have projected a study of whether the creation of an International Entrepreneurship Chair, in cooperation with a leading international university, is feasible. The additional idea behind this Chair is that knowledge transfer and international networking will take place concurrently.

Conclusion

As shown by the example of the United States, fostering entrepreneurship and gaining legitimacy for entrepreneurship in education is a long term process. It needs a long term political commitment, in cooperation with all public and private parties involved. The main objective is to create a climate where entrepreneurship can be fostered and where the importance of entrepreneurship is recognised, including by the education sector. For the adaptation and insertion of entrepreneurship into education, it is essential that

concrete policies are developed to help education institutions become more entrepreneurial. It is an important signal that the Government has given priority to entrepreneurship in education in the formal policy memoranda, but very much will depend on whether education institutions can apply these objectives to their organisation and education programmes. The Government therefore, with the help of public and private parties, should also focus its policies on the implementation, for example by facilitating schools with resources, business networks, training for teachers and by offering directly applicable lesson materials, business networks and good practices.

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Understanding Entrepreneurship in Latin America

This paper is contributed by the IDB and summarises the IDB publication “Developing Entrepreneurship: Latin America and Worldwide Experience”¹

For several decades, the Inter-American Development Bank (IDB) has carried out operations and activities to support the creation of companies and foster entrepreneurship.² Yet it was only in the mid-1990s that projects pursuing in one fashion or another the creation of new companies and fostering entrepreneurship began to spread rapidly. However, occasional exceptions aside, no policy of support for entrepreneurship had been formalised, nor did the Bank have a line of action designed with that explicit purpose. Accordingly, the Bank’s efforts have been articulated out of an experience very rich in content, albeit somewhat scattered. That experience has made clear the need to understand entrepreneurship more precisely in order to be able to adjust its tools to more clearly defined needs.

Thus, the first analytical study of business creation in the region began in 1999. The results of this first study, published by the Bank under the title *Entrepreneurship in Emerging Economies: The Creation and Development of New Enterprises in Latin America and East Asia* (Kantis, Ishida and Komori, 2002), were a key element in deepening knowledge of the entrepreneurial process in the region. However, the gains made with this first publication, while important, still left some aspects insufficiently explored. The four countries studied – Argentina, Brazil, Mexico, and Peru (Costa Rica was added later) – did not represent the whole region. In addition, the comparison with the East Asian countries was revealing but determined by marked cultural differences. Finally, the study uncovered relevant aspects in the entrepreneurial process and made policy recommendations, but did not examine operative aspects that could be important if the aim was to incorporate them not so much into overall policies but into the design of specific programmes and projects.

Hence, the Bank decided to broaden the study with cooperation from Fundes Internacional³ and financing from the Trust Fund for Consultancy Services of Italy. The new study used the same methodology developed in the previous stage, incorporating two new Latin American countries, Chile and El Salvador, and extending the international comparison to two European countries, Italy and Spain. The new study also examined instances of best practices in policies and programmes for promoting new enterprises in Europe and Latin America. This summary presents the results of that work.⁴

The entrepreneurial development system

The study adopted a systematic approach focused on analysing the entrepreneurial process in three stages of events whose output is the creation of entrepreneurs and enterprises. These stages are the inception of the entrepreneurial venture, the start up of the

enterprise, and its early development. The first stage begins with motivation of the entrepreneur and includes the formation of entrepreneurial skills, identification of the business idea, and development of the project. In the launch of the enterprise, preparation of the project gives way to the entrepreneurial decision and the central aim of activities is focused on accessing and organising resources. The first years of life are critical to the survival of an enterprise because in this stage of entering the market, the entrepreneur and his or her associates must bring the project face to face with reality. A great many entrepreneurial activities fail to survive this phase (Storey, 1994). For each of these phases and events, key questions have been identified as regards the principal factors affecting each stage.

In the investigation of these questions, the approach adopted takes particular account of a group of factors that, from a systematic perspective, influence the entrepreneurial process and lead to the concept of an entrepreneurial development system, which is defined in this study as the combination of elements and factors that have an impact on the entrepreneurial process, contributing to or posing obstacles to the creation and development of entrepreneurs and enterprises in both quantitative and qualitative terms. These factors may, in simplified form, be grouped in seven categories: i) Social and Economic Conditions; ii) Culture and Education; iii) Productive Structure and Dynamism; iv) Personal Aspects; v) The Entrepreneur's Networks; vi) The functioning of factor markets; and vii) Business Regulations and Policies.⁵

In summary, the systemic approach adopted in this study examines various types of factors that contribute to an understanding of the complex and contextual nature of the entrepreneurial process and have an impact on forming the motivation and skills to engage in entrepreneurial activities, the identification of business opportunities, the preparation of the project, the decision to proceed, the access to resources, and management of the development of the enterprise.⁶

Methodological aspects

This study focuses specifically on new, dynamic ventures. New, dynamic ventures were defined as firms between 3 and 10 years old that have grown to a size of at least 15 and no more than 300 employees at the time of the study. The study also used a group of control (less dynamic firms), made up of new enterprises with a maximum of 10 employees. In each country, dynamic enterprises account for about 70% of the enterprises in the panel. The study does not cover the sizeable group of informal micro enterprises, which represent a significant proportion of Latin American firms.

In order to capture the contextual nature of the entrepreneurial process, the same methodology was applied in the various countries, and territorial areas and sectors with distinct profiles were included. By gaining access to information on the entrepreneurial process in such diverse contexts, captured using the same methodology, it was possible to identify both the common aspects of enterprise creation and development and those that were specific to each environment.

The study was based on information obtained through surveys administered to approximately 2 000 founders of young businesses. Firms were selected randomly from enterprise directories and other available information sources, following the previously defined company profile criteria. In Latin America, where there tend not to be registries of businesses that list the date of founding, an important effort had to be undertaken to create specialised directories of new firms based on information from such sources as

municipalities, business chambers, support institutions, universities, foundations, and previous studies.⁷

Characteristics of new dynamic enterprises in Latin America

The aim of this section is to present the main characteristics of new dynamic enterprises in Latin America. The study reveals the existence of a new generation of enterprises whose main features distinguish them from both less dynamic enterprises and traditional small and medium enterprises (SMEs).

Profile of the enterprises

The enterprises quickly swelled the ranks of the SME sector. In their third year in business, they employed an average of 26 workers, and annual sales were around USD 800 000. On average the enterprises bill slightly more than USD 30 000 per employee. Initial investments of the enterprises surveyed tended to be small. In most cases creating an enterprise required investing less than USD 100 000 during the first year. On average, only one in five exceeded that amount.

The domestic market constitutes the main platform for new businesses and product differentiation was the main source of opportunities for starting dynamic enterprises. A little more than half of the enterprises based their project on offering differentiated products or services. Less common was the case of those who took advantage of opportunities for price competition or who introduced innovations.

The main customers of the new Latin American firms are other businesses, but outsourcing is not a widespread source of business. It may be that high transaction costs, the limited level of industrial and technological development, and the productivity gap between small and large companies limit the division of labour and articulation of production (Katz, 1986). On average, only one in four firms was created to take advantage of this kind of opportunity.

The new enterprises sell to large firms as well as SMEs, but their relative importance varies by country. In general, SMEs tend to be more important as customers of new enterprises in countries where the industrial sector has greater weight.

Profile of dynamic entrepreneurs

Teams of entrepreneurs created most of the enterprises in the study. Cases of sole proprietorships are uncommon, especially in Argentina, Brazil, and Chile. The typical entrepreneur is a young, highly educated, middle-class man. Participation of women is limited, especially in Chile and Costa Rica, but significantly greater in El Salvador (slightly less than 1 in 4 cases *versus* 1 in 10 on average). Half of the entrepreneurs come from homes where the father worked independently as a businessman, a professional, or self-employed. That may have influenced the career projection of entrepreneurs, even unconsciously.

Before beginning their entrepreneurial career, the entrepreneurs most often worked in another company in a similar sector (supplier or customer) or involved in a line of business related to that of the company started. The entrepreneurs had experience in small, medium, or large firms in relatively similar proportions.

People who were between 31 and 45 years old (36-37 years on average) started most of the enterprises studied. But the idea of going into business appeared much earlier in most

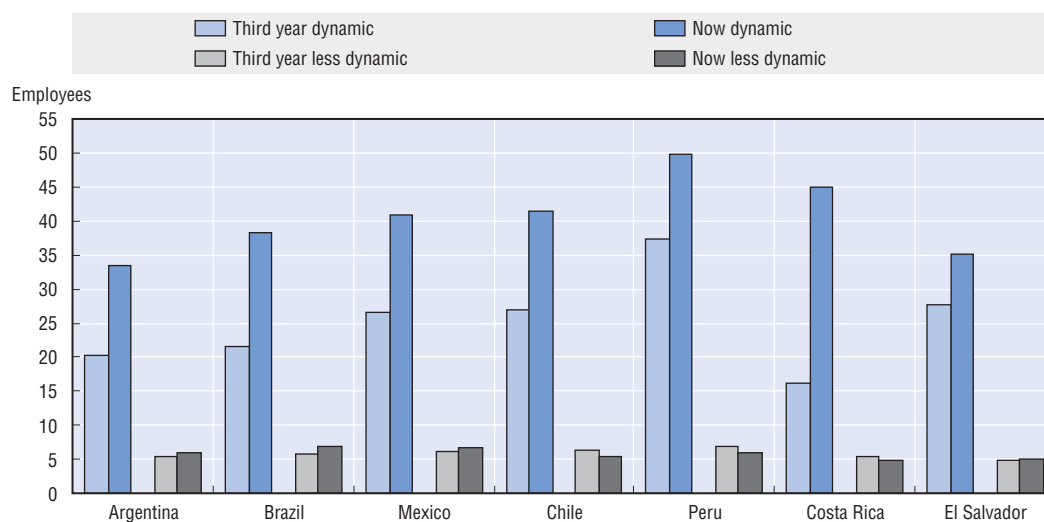
cases, around age 26 on average, and indeed for many, around half, the idea appeared earlier. The three main reasons for going into business are positive: the desire for personal fulfilment, to apply one's knowledge, and to improve personal income. Motivations based on negative factors, such as being unemployed or not having been able to study, were less frequent among dynamic entrepreneurs.

Differences between dynamic and less dynamic enterprises in Latin America

Dynamic enterprises stand apart in various performance-related variables, both in the number of jobs (Figure 3.1) created and in sales. In their third year of life, average sales were almost six times that of the less dynamic group, and the spread tended to widen in subsequent years. However, while to some extent significant contrasts could be expected to appear between the number of jobs created by dynamic enterprises and others – due to the different criteria of selection in the enterprises of the two groups – the dynamism gap becomes clear very early. From a systemic point of view, several factors help explain these differences. The main findings of the research on the role of settings where people are shaped (family, education system, and work), networking, projects, financing, and the conditions surrounding the decision to go into business are presented below.

Family influence. A first aspect of interest is the extent to which there were substantive differences between some entrepreneurs and others before beginning the entrepreneurial process. For example, does family background distinguish dynamic from less dynamic entrepreneurs? While these questions cannot be answered conclusively due to the multiplicity of direct and indirect factors that ought to be considered, and by their multiple relationships, the study made it possible to find some evidence of the influences that these factors exercise in the countries of the region. The contribution of the family, for example, in Costa Rica, El Salvador, Mexico, and Peru, is more prominent than in the Southern Cone. In El Salvador, Mexico, and Peru, being a child of an entrepreneur is more common among dynamic entrepreneurs than among the rest, and as is also the case in Costa Rica, less dynamic entrepreneurs are more likely to be children of salaried employees.

Figure 3.1. **Average employment evolution by group and country**



Source: IDB, 2004.

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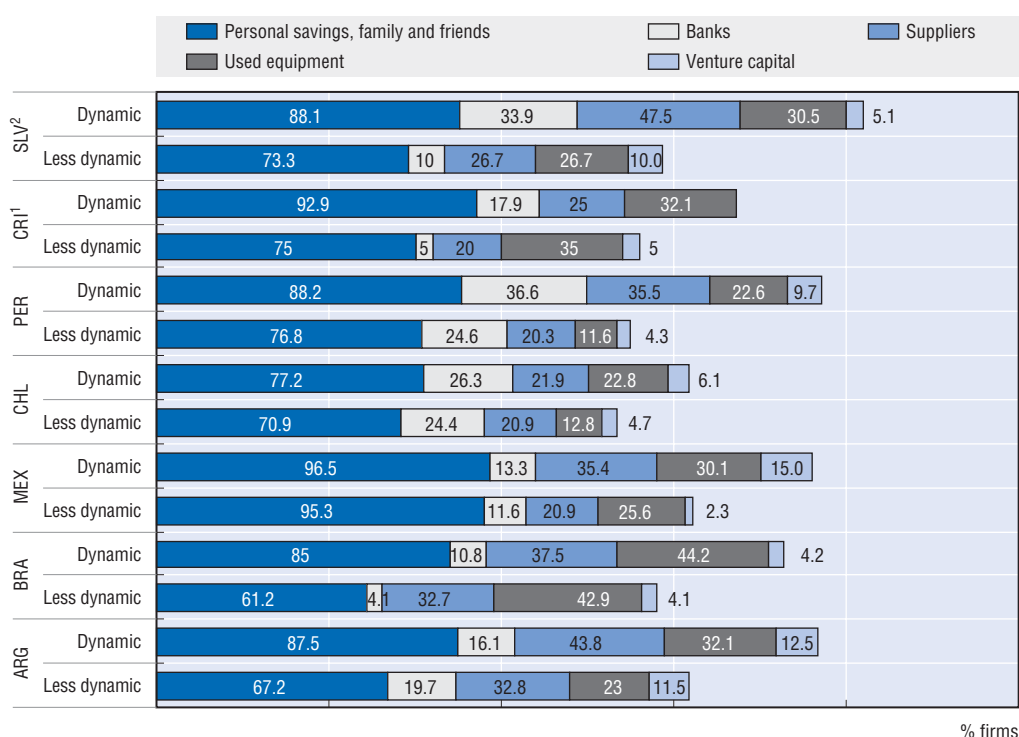
Education system. In almost all the countries, the entrepreneurs have high education levels, but there tend to be no significant differences between those of different degrees of dynamism, except in Mexico and Chile. Whereas in Mexico those surveyed emphasised the contribution of the university to giving them the skills to go into business, in Chile the extent of such recognition was far lower than the regional average, as was also the case in El Salvador. In most countries, the university contributed to the acquisition of technical knowledge, especially for the more dynamic entrepreneurs, but not of other skills necessary for entrepreneurship.

Previous work environment. The main “incubation context” of entrepreneurs and enterprises are the firms where they previously worked. Their contribution to creating vocations and skills is key. That experience is the most acknowledged source of learning because of its distinctive contribution among the more dynamic entrepreneurs. They also highlighted its fundamental role in gathering information on business ideas.

Networking. The study considers three basic situations in which interaction with other people plays a notable role: identifying the business opportunity on which the project is based (gestation stage), accessing funds (start-up stage), and the first moments in the life of the company (early development stage). The entrepreneurs mentioned that during these periods, communication and supportive networks were important for dealing with the problems and challenges of management (Johannisson, 1998). Consideration was also given to the social networks (relatives, friends, and acquaintances), business or production networks (suppliers or clients), and institutions (i.e., for supporting businesses, business associations, and universities). Dynamic entrepreneurs generally stood apart from the rest because they interacted more with executives of large companies. In some countries, networks of dynamic entrepreneurs are more stable, basically because one or another of these contacts ultimately becomes a partner in the new dynamic enterprises. Dynamic entrepreneurs more often received support from their networks in obtaining access to non monetary resources. Network support was highlighted in the case of technology. In some countries, the networks also helped obtain access to information or other resources, such as raw materials or facilities.

Project and strategy. There are major differences in the profiles of the projects taken up by firms of differing degrees of dynamism. Early sales reflect the fact that from the beginning some businesses are more growth-oriented. First-year sales averaged between 5 and 6 times more in the dynamic group, the proportion of projects of USD 100 000 was double, and the average team size was almost 30 per cent larger. In addition, dynamic entrepreneurs showed a greater propensity to export. Even so, for most of the enterprises – even for those exporting – the domestic market constitutes their main business base, and subcontracting is far from widespread.

Financing. Most of the entrepreneurs financed the business start-up with personal savings, and support of family and friends (Figure 3.2). As a rule, dynamic entrepreneurs used a larger number of sources than the less dynamic used. Dynamic entrepreneurs, especially, used their own capital, but they also made more intensive use of other sources, thereby enabling them to avoid the constraints on access to bank financing (for example, they used help from suppliers and/or purchased used equipment). This behaviour of dynamic entrepreneurs is known in the international literature as “bootstrapping” (Winborg and Landstrom, 2000).

Figure 3.2. **Start-up financing sources by group and country**

Note: ARG-Argentina; BRA-Brazil; MEX-Mexico; CHL-Chile; PER = Peru; CRI = Costa Rica; SLV = El Salvador.

Source: IDB, 2004.

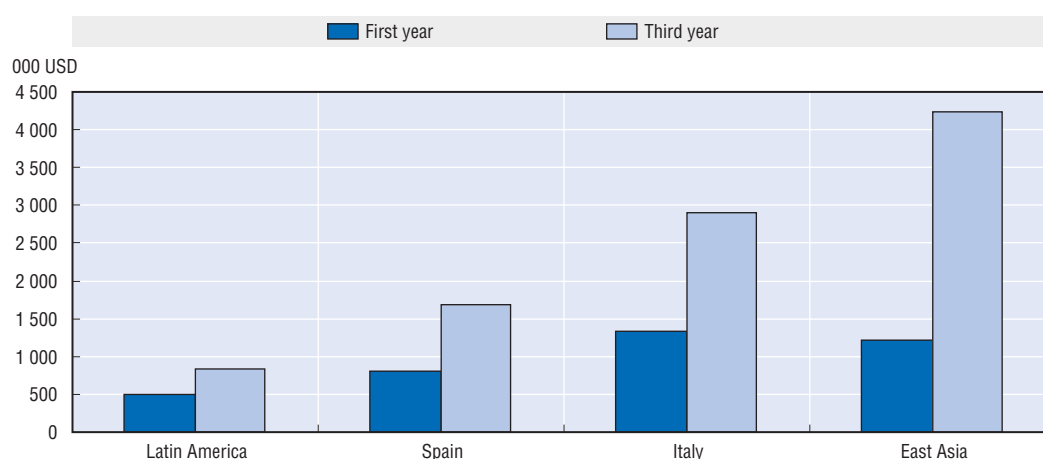
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Comparative analysis with European and East Asian countries

Latin American enterprises are less dynamic than firms created in other regions (Figure 3.3). In the third year in business, for example, only one Latin American firm in four had surpassed sales of a million dollars a year, compared with two firms in three in East Asia,⁸ around half in Italy, and somewhat more than a third in Spain. Furthermore, data on annual sales per employee reveal differentiated behaviour between Latin American enterprises and others. Whereas for the former, average levels are around USD 30 000 by the third year, in almost all the other countries this figure is more than three times higher. Spain is at that threshold while the figure for Japan is six times that of Latin America.

These differences prompt a set of questions about the factors associated with them. It is quite possible that the less favourable structural conditions faced by entrepreneurs in Latin America at least partly explain this behaviour.

Social origin. The social background from which entrepreneurs are likely to emerge is narrower in Latin America. In most Latin American countries the relative presence of dynamic entrepreneurs from lower-class families is limited (less than 30 per cent) (Table 3.1). In East Asia, by contrast, half of the entrepreneurs are from the lower-middle or lower class group. In other words, the social background from which Asian entrepreneurs emerge is broader not only because of the greater significance of the middle class, but also because of the greater presence of dynamic entrepreneurs from lower socioeconomic levels.

Figure 3.3. **Average sales evolution by country or region**

Source: IDB, 2004.

StatLink: <http://dx.doi.org/10.1787/830256340578>Table 3.1. **Social origin of dynamic entrepreneurs**

Percentage of entrepreneurs

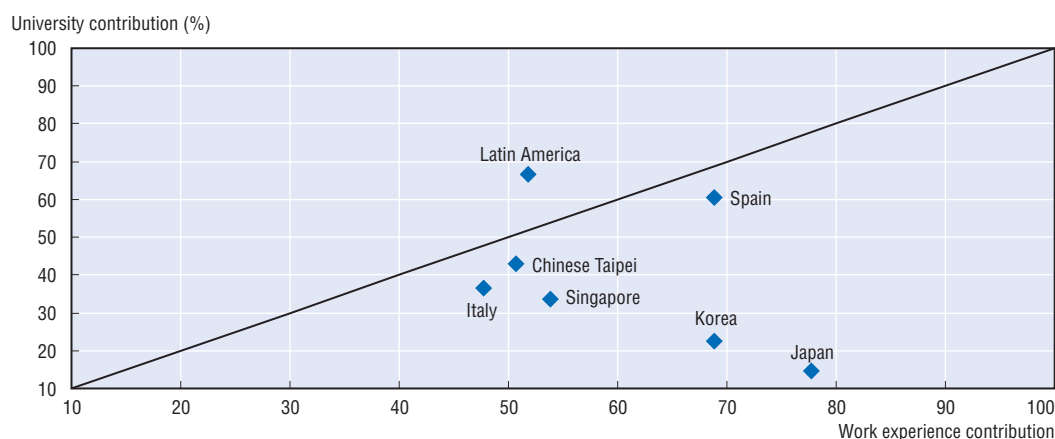
Social origin	Latin America	Italy	Spain	East Asia
High class	3	1	1	1
Middle high	17	11	14	16
MIDDLE	51	73	57	35
Middle low	20	11	21	31
Low	9	4	7	17
Total	100	100	100	100

Motivation. As in Latin America, the main motivation for starting a business in Italy, Spain and Asian countries is the pursuit of personal fulfilment. However, the presence of inspiring entrepreneurial models is a significantly more important source of motivation in Asian countries. In Latin American countries, when models are mentioned by entrepreneurs they belong fundamentally to the family, that is, very close to the entrepreneurs. By contrast, in East Asia, the mass media play an important role in making entrepreneurial models and business opportunities known. In Chinese Taipei, for example, only one in ten entrepreneurs mentioned a relative as a source of inspiration compared with six in ten who mentioned the media. In Latin America, cases publicised by the media tend to reinforce the public's negative image of businesspeople.

Technical knowledge and business skills. There is a significant contrast with regard to the relative role played by the university and the work experience in different regions (Figure 3.4). In Latin America, university contribution to acquiring technical knowledge is a more critical resource for starting a business. In almost all Latin American countries, its contribution is far greater than work experience, and positively distinguishes the more dynamic from the rest. This situation is different from that found in Asian and European countries, where work experience is more important as a source of technical knowledge. In Italy, only one in four entrepreneurs is a university graduate, that is, less than half the rate in the other countries. These figures show that the technical knowledge for starting a

Figure 3.4. **University and work experience contribution**

Percentage of enterprises



Source: IDB, 2004.

StatLink: <http://dx.doi.org/10.1787/377172151451>

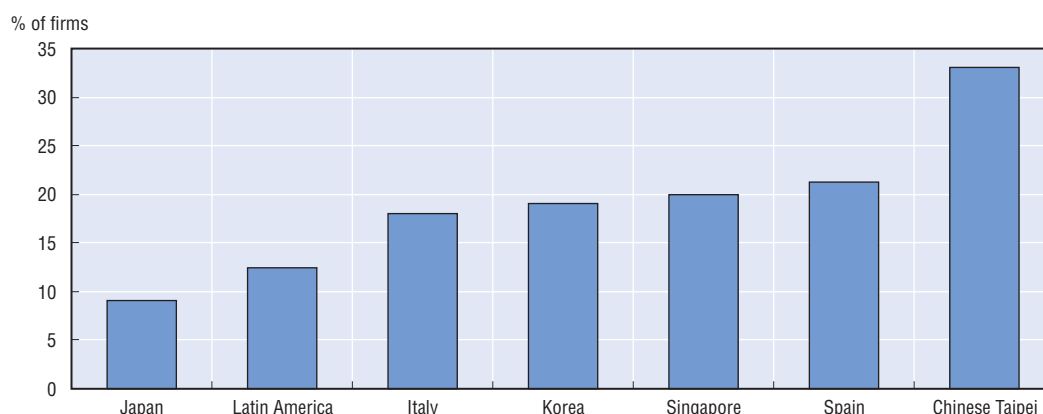
business circulates and is spread through broader channels than those provided by the system of higher learning. In Italian industrial districts, for example, the network of SMEs plays such a role (Boscherini, 2003).

Companies are the most fruitful environment for developing other skills for starting a business, such as management ability (for example negotiation, administration, and teamwork) and other business competencies (business vocation and risk tolerance). Nonetheless, business skills learned in previous employment are still significantly greater in East Asia (78 per cent compared with 56 per cent in Latin America, 38 per cent in Italy, and 60 per cent in Spain).

Business projects. Start-up teams tend to be smaller in Latin America, especially compared with those in Chinese Taipei and Italy, where, respectively, eight and six in ten enterprises have at least three founding partners. Something similar occurs with initial investment. The proportion of Italian and Spanish entrepreneurs who invested more than USD 100 000 (43 and 40 per cent, respectively) is double that of Latin America. Although information available on the investments of Asian entrepreneurs is more limited, it points in the same direction. In other words, projects in Latin America start at a lower initial level of investment.

New export enterprises are scarcer in Latin America (Figure 3.5). This difference may be based at least partially on the degree of international orientation of the companies in which entrepreneurs were formed. It tends to be low in Latin American countries, in contrast with the strong export propensity shown in most of the other countries. “Entrepreneur schools” (previous work experience) provide different skills, learning, and contacts, which are then used by entrepreneurs to do business. Contrasts in learning environments are related, among other factors, to differences in industrial structure and innovation systems and this affects the profile of the new ventures.

Finally, while most entrepreneurs established their businesses by differentiating already existing goods by quality and/or service, those in Italy and Spain and almost all Asian countries (except Korea) moved ahead of their competitors more significantly than

Figure 3.5. **Export enterprises (third year)**

Source: IDB, 2004.

StatLink: <http://dx.doi.org/10.1787/202707671832>

Latin Americans. In some economies, they also managed to differentiate themselves from their competitors in terms of research and development or design efforts (Chinese Taipei) and marketing activities (Chinese Taipei and Singapore).

Networking. Networking is more widespread in Chinese Taipei, followed in order of importance by Korea and Japan. This finding reinforces the image of the existence of business networks favourable for entrepreneurs in that region. Networks (especially of suppliers and clients) provide crucial support in the early years of the firm in Chinese Taipei and Korea.

One aspect that distinguishes the networks of Latin American and to some extent Spanish entrepreneurs is the greater relative importance of their immediate social circle (relatives and friends). In East Asia (especially Korea) and Italy, business relations are much more common than in the other countries. This greater presence of contacts with the business world in the case of Asian entrepreneurs is somewhat surprising given the lesser presence in this region of those who already had previous entrepreneurial experience. This finding seems to indicate that conditions in Asian countries are more favourable for networking.

The initial networks of Latin American entrepreneurs are less stable than those in Italy and Asia, thereby reflecting that connections are weaker. Less than a third of the former still retained any of these ties at the time of the study, as opposed to almost half in most of the other countries. In Italy and Chinese Taipei, at the other extreme, six in ten maintained some type of relationship. Half of the Italians had internalised one of these contacts as a partner in the enterprise, while among the Asians stable ties with customers were also very important (40 per cent), that is, they remained linked to the firm as part of an external network.

Environment and financing. The responses of entrepreneurs about discouraging factors at the time of making the decision to go into business reflect less favourable conditions in Latin America. The financing sources used also present significant contrasts (Table 3.2). Although personal savings constitute the primary funding of entrepreneurs in all countries, the financing context is particularly restrictive in Latin America. Bank loans were used to create the enterprise by a significantly larger segment in Italy, Spain, Korea, and Chinese Taipei, whereas public sector financing was more significant in Japan, Korea, and Italy, as was venture capital in Chinese Taipei, and Korea. In Latin America, however,

Table 3.2. **Sources of financing at company start-up and in the early years**

Percentage of enterprises

Region or economy	Internal sources		External sources						Others ¹	
			Banks		Government support		Venture capital			
	Start-up	First years	Start-up	First years	Start-up	First years	Start-up	First years	Start-up	First years
Latin America	88	65	21	26	3	5	9	6	59	58
Italy	76	49	50	49	19	14	6	7	32	46
Spain	81	61	39	42	11	6	7	13	54	48
Japan	88	66	26	61	28	61	17	17	36	32
Chinese Taipei	67	49	30	35	4	5	33	28	37	30
Korea	70	63	33	30	19	30	23	24	29	31
Singapore	80	63	6	26	11	17	9	14	46	57

1. Clients, suppliers, used equipment and factoring.

Source: IDB, 2004.

venture capital was quite restricted and basically limited to informal investors whose presence was greater during the years of the Internet business boom. Thus, Latin American entrepreneurs were forced to downsize their projects, seek help from suppliers or customers or to purchase used equipment.

Once the company has been started, in some countries the gap in the composition of sources used tends to become firmly established and even accentuated. The use of bank sources in Japan, or government support in Japan and Korea, is thus becoming increasingly common.

In most countries of Latin America, the main reason for not using external sources was the lack of adequate supply, whereas in Italy – and Spain to a lesser extent – the major reason was that there was no need for additional funding. Likewise, Latin American entrepreneurs were most likely to highlight the negative consequences of external financing constraints (such as starting at a smaller scale or technology level), whereas Italy and Korea were at the opposite extreme. In Chinese Taipei and to a lesser extent Japan and Singapore, it was much more common to deal with these constraints by seeking new partners than in the other economies. No doubt the conditions of trust in Japan and Singapore and the greater savings capacity of the population and its lesser aversion to risk facilitated such behaviour.

Policy areas for promoting entrepreneurship in Latin America

The conclusions of the study help reveal the main areas in which policy makers in Latin America should be working. Likewise, the peculiar features of the entrepreneurial process in each country make it possible to reflect more specifically about the policies and programmes needed for each country.

Broaden the social and gender base from which dynamic enterprises emerge

Latin American entrepreneurs belong to middle and upper-middle class sectors and are highly educated, and hence they come from a narrow social base. Thus, access to opportunities for entrepreneurs ought to be more equitable in order to increase the sources of economic wealth, increase the number of dynamic entrepreneurs, and enhance routes to social mobility. Moreover, the inclination to go into business can be intensified – even in

the milieux that usually inspire entrepreneurs – if an overall cultural and economic context more favourable to enterprise creation is generated.

Expand the number and quality of business opportunities

The lesser presence of enterprises in Latin American economies, low per capita income levels and high inequality, the fragmentation of production systems and the weaknesses of the innovation systems (Peres and Stumpo, 2000), limit the quantity and quality of business opportunities for creating new dynamic enterprises in the region, especially high-tech enterprises. Possible alternatives for dealing with this problem include promotion of creativity, subcontracting, and outsourcing businesses; technology transfer; competitive import substitution; local research and development efforts; and outside markets. But all of those efforts must be integrated with other entrepreneurship policies. Likewise, these countries where large numbers of people have emigrated to more developed nations should take advantage of this potential as a source of information and export-business opportunities.

Facilitate potential entrepreneurs' access to work experience

Work experience in sectors that are similar or connected to the activity of the new enterprise constitute a fundamental source for acquiring the entrepreneurial spirit and skills, and access to relevant information, technology, and business contacts. Hence, policies aimed at promoting the development of entrepreneurial competencies should make it easy for potential entrepreneurs to acquire relevant work experience. Policies should also focus on individuals who already have work experience and contacts to motivate them to go into business and help them to access increased business opportunities, knowledge, and resources.

Foster the development of entrepreneur teams and networks

Creating dynamic enterprises requires a group effort. In addition to a team of entrepreneurs with complementary specialised skills, a network of contacts is needed to complement the knowledge, skills, and resources of the entrepreneurs. Networking plays a critical role throughout the entrepreneurial process in identifying the business opportunity, accessing technology and resources, and managing the company during its early years. Hence, entrepreneur development policies should focus on entrepreneur teams or facilitate and motivate their formation; they should likewise adopt and promote networking in everything they do.

Improve access to financing

The analysis made clear the negative consequences faced by Latin American entrepreneurs due to restricted access to formal financing. Currently, there are few financial instruments available to these entrepreneurs, partly because of the general lack of depth of Latin American financial markets, and in particular because of problems resulting from the difficulty of evaluating the risk of new enterprises. Hence, more must be done to deepen financial markets in the region and design new financial products adapted to the needs and characteristics of Latin American entrepreneurs in accordance with the level of development of markets in each country or region. Finally, such formal financing instruments must provide funds during both the start-up phase and the early years of the enterprise.

Enhance the entrepreneurial process in local areas

The investigation demonstrated the disadvantages found in local areas in Latin America. Entrepreneurial development programmes should include components for fostering entrepreneurship aimed at enhancing conditions for creating businesses and helping them grow. The key aspect in such programmes is improving the growth possibilities of the projects, especially in non-local markets, and making them more innovative. Articulation with non-local networks and broadening sources of innovative technological expertise should be given special consideration in such actions.

Take advantage of the transformation power of knowledge-based businesses

In promoting knowledge-based businesses, consideration should be given to the following aspects: formation of human capital, focusing efforts on university graduates and trained employees in medium and large companies; access to specialised financial resources; backing for developing strategic alliances and relationships of entrepreneurs with large companies; support for research and development; and broad and diversified entrepreneur networks. Actions to foster the emergence of such enterprises and entrepreneurs ought to be part of the government's science and technology policies.

Generate environmental conditions more favourable to the growth of new enterprises

The investigation showed that dynamic Latin American enterprises face the most unfavourable conditions. This issue, which is becoming part of the public policy agenda in Latin America, should continue as a maximum priority. However, it is important that consideration be given to the specific impact of regulations and reforms on new enterprises. Likewise, exploration should continue into new methodologies for diagnosing and removing the barriers in the environment that affect entrepreneurial activity. One possibility along these lines is to pay more attention to local or regional areas as a centre of policies for improving the business environment

Adopt a systematic approach based on institutions' complementarity

The weaknesses identified in the Latin American entrepreneurial setting justify the importance of a strategy based on a comprehensive and systemic vision. Moreover, wherever it is applied, it is crucial that there be an adequate evaluation of the operation of the various factors affecting the entrepreneur development system. Policy initiatives adopted in isolation will undoubtedly be less effective than strategies based on a more comprehensive focus that takes into account the critical factors that impact the entrepreneurial process and stimulate or hinder the creation and expansion of new enterprises.

Make development of entrepreneurs a social investment with a long-term vision

Some programmes can show results more quickly, for example, those that direct their efforts at supporting entrepreneurs with previous experience who have already conceived their business project. However, promoting entrepreneurship should be conceived as a long-term strategy. Indeed, the maturation of an entrepreneurial project from the beginning of the motivational process until the business is created takes several years. Broadening the base of dynamic entrepreneurs in a society is as important as building highways or bridges. Entrepreneurs must be socially valued as "strategic human resources". Hence, fostering the emergence of dynamic entrepreneurs ought to be regarded

as a long-term social investment. Some entrepreneurship promotion programmes will demand efforts whose impact can be evaluated only over the long run. This is especially the case for programmes that affect the acquisition of entrepreneurial motivation, one of the critical elements in the inception stage of new enterprises.

Notes

1. Hugo Kantis, Pablo Angelelli and Virginia Moori Koenig (Ed.) (2004), Inter-American Development Bank (in Spanish, English version, published in March 2005).
2. More information about the Bank activities on entrepreneurship and SMEs is available at www.iadb.org/sds/mic/index_mic_e.htm.
3. Fundes Internacional is a network of business solutions to support SMEs in Latin American countries. More information is available at <http://home.fundes.org/>.
4. This summary covers only the first part of the book based on the survey of approximately 2 000 entrepreneurs in 13 economies.
5. The importance of policy for entrepreneurship is analysed in different OECD documents, for instance *Fostering Entrepreneurship* (1998), or more recently *Fostering Entrepreneurship as a Driver of Growth in a Global Economy* (2004).
6. This approach is part of current efforts developed to provide a sounder theoretical basis for entrepreneurship. See for instance, Verheul et al. (2001).
7. The data were gathered on the basis of various sources that made it impossible to estimate the degree of statistical representativeness with precision. In any event, the sources consulted were quite extensive, with a view to limiting biases.
8. The countries included in the study from East Asia were: Korea, Chinese Taipei, Singapore and Japan.

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Women's Entrepreneurship: An Important Issue for the Global Policy Agenda

by

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The OECD Accelerating Women's Entrepreneurship Forum in Istanbul in June 2004 was organised by Ms Littlejohn as a private sector initiative in partnership with the OECD and the Turkish Authorities.

Introduction

Until the mid 1990's, women's entrepreneurship attracted little global attention. Initially, much of the policy rationale for women's enterprise development concentrated on poverty alleviation, women's equality and empowerment, and social inclusion. Leadership in support of these objectives was provided by national gender equality bureaux and by women's NGOs. But, as a result of research about women-owned businesses, advocacy by women's business associations (WBAs), and a series of major international conferences, women entrepreneurs are now seen as an untapped economic resource, having the potential to create jobs and spur economic growth.

The OECD has been a pioneer in the area of women's entrepreneurship by providing groundbreaking leadership and encouraging OECD member and non-member governments to address this important topic for policymaking and programme development. In April 1997, the OECD organised its first major international conference in Paris addressing women's entrepreneurship, entitled "*Women Entrepreneurs in SMEs: A Major Force in Innovation and Job Creation*". One of the principal conclusions of this conference was that there was a need to strengthen the factual and analytical basis for policy making in the area of women's entrepreneurship in order to facilitate comparative analysis and the development of "best practices" related to women entrepreneurship policies and programmes.

In November 2000, some months after the 1st OECD SME Ministerial Conference held in Bologna, Italy, the OECD organised its second conference on women's entrepreneurship, "*Women's Entrepreneurship in SMEs: Realising the Benefits of Globalisation and the Knowledge-based Economy*" to take stock of the developments in this sector since 1997 and to find ways to help women-owned SMEs seize the opportunities offered by globalisation, ICTs, changes in firm organisation, the increasing importance of the service sector, and other current developments. A holistic approach was deemed necessary to remove obstacles to women's entrepreneurship and to strengthen international, national and local institutions that promote entrepreneurship generally to allow women entrepreneurs to achieve their potential as major players in the economy.

Building on these landmark conferences, the OECD's Working Party on SMEs and Entrepreneurship decided to mainstream this theme in its activities, and four years later the issue of women's entrepreneurship was, for the first time, discussed by Ministers at the 2nd OECD Ministerial Conference on SMEs held in Istanbul on 3-5 June 2004.

In conjunction with the SME Ministerial Conference, a Forum on *Accelerating Women's Entrepreneurship* was organised by the private sector on 5-7 June 2004 in Istanbul. Key policy recommendations emerging from the Forum advised governments and decision makers to:

- Increase the ability of women to participate in the labour force by ensuring the availability of affordable child care and equal treatment in the workplace.
- Listen to the voice of women entrepreneurs through the creation of government offices for women's business ownership.
- Incorporate a women's entrepreneurial dimension in the formation of all SME-related policies.
- Promote the development of women entrepreneur networks.
- Periodically evaluate the impact of any SME-related policies on the success of women-owned businesses and the extent to which such business take advantage of them.
- Improve the factual and analytical underpinnings of our understanding of the role of women entrepreneurs in the economy.

This paper provides an overview of findings and recommendations from the Accelerating Women's Entrepreneurship Forum in Istanbul, which focused on best practices and policy recommendations. In addition, it presents a roadmap for advancing

Box 3.3. 2nd OECD Ministerial Conference on SMEs

"Promoting Entrepreneurship and Innovative SMEs in a Global Economy Towards a more responsible and inclusive globalisation"

3-5 June 2004, Istanbul, Turkey

The Istanbul Ministerial Declaration and Women's Entrepreneurship

In the Istanbul Ministerial Declaration, adopted by over 70 OECD and non-OECD economies, Ministers recognised that in order to support the development of the best set of public policies that will foster the creation and rapid growth of innovative SMEs, policies need to contribute to mobilising human resources. Ministers underlined that women's entrepreneurship was an essential element needed to mobilise human resources, stressing that this involves "Promoting women's entrepreneurship through the elimination of barriers to enterprise creation and growth, such as impediments to the right to hold property or to sign contracts, where such impediments exist, and by taking into account at the design stage the impact of SME-related policies on women's entrepreneurship."

Recognising that the OECD offers a global perspective and should capitalise on its extensive experience in order to identify good and innovative practices in areas of SMEs and entrepreneurship, Ministers invited the OECD to "Proactively disseminate OECD activities related to the development of women's entrepreneurship. This could be undertaken through the organisation of meetings and seminars, as well as training workshops, to enable the exchange, transfer and diffusion of best practices amongst member and non-member economies. The OECD-Istanbul Private Sector Development Centre can play a particular role in this regard." See www.oecd.org/cfe/sme for more details.

the women entrepreneurial policy agenda over the next five to six years, based on the emerging consensus in Istanbul (see Box 3.3).

Toward a Strategic Action Programme

The Forum in Istanbul called for a Strategic Action Programme to accelerate women's enterprise development at all stages along the business continuum, from micro enterprise and start-up, to SMEs, to growth and high-growth women-owned businesses.

Improving knowledge about women's entrepreneurship – the central role of research

Improving data, statistics and research about women's enterprises were deemed essential for effective policy making and programme development. Indeed, the call for "evidence-based policy making" was a recurring theme in all plenary sessions and workshops in Istanbul. The scarcity of reliable data continues to be a key obstacle to understanding the true importance of women's entrepreneurship and its impact on job creation and economic growth. Better qualitative information and quantitative data (e.g., barriers to start-up and growth, and demographic information) are urgently needed to accurately profile women entrepreneurs, enhancing awareness of their role in the economy.

Women-owned SMEs have been growing at a much faster rate than the economy as a whole in several OECD countries. According to the National Women's Business Council in the United States, a quasi-governmental advisory body, the number of women-owned businesses in the United States has been growing at twice the rate of all US firms (NWBC Website, 2005). Even so, women entrepreneurs currently constituting one-fourth to one-third of the total business population in OECD countries, still represent a clear minority of employers nearly everywhere.

In the United States, 6.4 million self-employed women provide employment for 9.2 million people and create significant sales. Using the US ratio between the number of employees and self-employment, it is conservatively estimated that self-employed women in surveyed European countries employ about 20 million persons (OECD, 2004).

Fortunately, sex-disaggregated statistics and gender-based policy analyses have become more widespread in recent years. Examples include the work of the Observatory of European SMEs (1996), and the OECD Labour Force Statistics (2000). In addition, in response to the OECD Conference on Women's Entrepreneurship in 1997, a number of countries have initiated efforts to obtain better national statistics on the topic. Even more importantly, at the 80-country SME Ministerial Conference in Istanbul, Ministers called for the collection of gender-disaggregated data about SMEs. Widespread use of a frame of reference such as that developed for the recent OECD research on women's entrepreneurship could prove invaluable in analysing statistical data and facilitating comparability across country.

A recent international study by Lois Stevenson of Canada, former President of the International Council of Small Business (ICSB), and Anders Lundstrom (Sweden) classified 10 countries according to levels of support for women's entrepreneurship (Stevenson and Lundstrom, 2002). The study, which was started in 2002, found evidence of:

- High-level support in Canada and the United States; Medium-level support in Finland, Spain, Sweden, and Chinese Taipei.
- Low level support in Australia, Ireland, Netherlands and the United Kingdom.

Box 3.4. **Local economic development through women's entrepreneurship**

The impact on local development of the expansion of women's entrepreneurship is a theme that has already been explored extensively, particularly by the OECD's LEED programme. They have found that augmenting rates of enterprise births in local areas, and facilitating the development of new women-owned firms, can have positive impacts on job creation, productivity growth, tax revenues, the availability of goods and services and the provision of positive role models (OECD, 2003).

Countries with low levels of entrepreneurial dynamism can potentially make great strides in the creation of businesses and jobs by encouraging entrepreneurship amongst women. Countries with low rates of enterprise creation are also those in which business creation is significantly lower among women than men. In the United States, Canada and Israel, enterprise creation rates are similar among women and men, and all three countries exhibit high levels of entrepreneurial dynamism. By contrast, Denmark, Finland, Japan and Germany belong to a group of countries with lower levels of overall entrepreneurial activity, and higher disparities in business creation between men and women. Furthermore, in the OECD countries that experienced robust growth in the late 1990s, such as the United States, Australia, Canada, Korea, Spain and Norway, levels of women's entrepreneurship were also highest. More extensive research needs to be undertaken to establish the statistical relationship between these two phenomena (OECD, 2003).

Entrepreneurship among women is important for local development and for economic development more broadly, to the extent that entrepreneurial talent among women is unused.

More generally, women's entrepreneurship is relevant to local development for a number of different reasons. As for policy support to entrepreneurship in general, local authorities have a role to play in tailoring some forms of support programmes to the specific needs of female entrepreneurs. Local bodies can also supply other services – particularly high-quality and affordable childcare facilities – that are critical for many women engaged in business. It is also at the local level that all significant partners who can impact on women's entrepreneurship can be brought together: NGOs, networks, women's business associations, enterprises and local decision makers. Furthermore, women entrepreneurs may face specific local obstacles and be particularly disadvantaged in some areas. For instance, women can be hindered by the lack of successful role models and of networks in rural or poor urban zones. Other local obstacles can be linked to the local culture and social organisation. Lastly, higher levels of female entrepreneurship have a positive impact on economic and social expectations and ambitions among other women, as documented by the United States Small Business Administration (OECD, 2000).

The LEED programme on women's entrepreneurship aims to explore the role of women's entrepreneurship in the dynamics of local development. It will endeavour to paint a complete picture of the actual and potential situation of women entrepreneurs in a given territory (country, region or municipality). Recommendations will be provided to help policy makers take suitable measures to foster women's entrepreneurship in conjunction with their local development strategies and enterprise creation policies.

The project is aimed at policymakers at the national, regional and municipal levels, and it calls for the participation of a network of international experts from the public, private and non-profit sectors.

The study confirmed that gender differences exist, affecting the development of women-owned firms. Constraints faced by female employers include deficiencies in financial and social capital, restricted access to resources, and family responsibilities. A major finding of the study has been that countries with high support levels have been those with high levels of female self-employment.

In the United States and Canada, policies and programmes included:

- A Presidential Task Force on Women Entrepreneurs in the United States in 1979, and a Canadian Prime Minister's Task Force in 2002-2003.
- Sex-disaggregated self-employment data; regular reporting on the state of women's business ownership; and extensive academic research.
- An Office of Women's Business Ownership (US Small Business Administration, or SBA).
- Strong advocacy efforts, both by government and NGOs.
- Numerous women's business associations as well as the National Women's Business Council in the United States, the latter a bipartisan and quasi-governmental organisation that provides advice to the US President, SBA and Congress.
- National networks of women's business centres that provide training and advice for women entrepreneurs.
- Streamlined micro loan programmes, bank loans, and angel and venture capital funds for women-owned businesses.
- Online women's business resource centres.
- National and regional awards programmes for women entrepreneurs.
- Regular promotion of women entrepreneurial role models.
- International trade missions for women-led firms.

This study also notes that, according to the 40-country Global Entrepreneurship Monitor (GEM) Report of 2003, men are twice as likely to be involved in early-stage entrepreneurial activity as are women. Moreover, impediments to women's entrepreneurship are similar across countries, regardless of their stage of development (Reynolds, Bygrave and Autio, 2003).

The study concludes that women are "an untapped source of entrepreneurial potential", and that women's entrepreneurship is stronger when "targeted policy and programme measures exist". It recommended a comprehensive, integrated and systemic approach "rather than piecemeal activities", and notes that government support for women's entrepreneurship is highest when there is effective women entrepreneurial advocacy.

The study also finds that policy and "good practice" measures are increasingly being shared across countries and that women's entrepreneurship has been gaining importance and visibility as a topical international issue.

The framework of the 10-country study could be used to measure progress in women's enterprise development in various countries.

Research could be further advanced by adoption of common definitions of what a woman-owned business is, and the adoption of common terms of reference in research about women's entrepreneurship.

Box 3.5. **Research Recommendations**

The Research Workshop included national, regional and international perspectives. Speakers reemphasised the importance of the 10 research policy recommendations from the OECD Women Entrepreneurs in SMEs, 2000 Conference and updated or sharpened several of them:

- Governments should develop gender-disaggregated SME data as a top priority.
- Comparative and longitudinal data on women's entrepreneurship should be collected, and benchmarked over time.
- Standard definitions of women-owned businesses should be adopted (less than 50% ownership, 50-50, and more than 50%), and research should be collected in all three categories.
- Data in isolation does no good. The link must be made between data-knowledge-action, in order to develop effective, evidence-based policies and programmes.
- Information and best practices should be shared widely, via reports, conferences, clearinghouses and online fora that share research and methodologies.
- Public and private sector players should endeavour to make women entrepreneurial information and statistics more user friendly for non-statisticians, by means of success stories, case studies and awards.
- Metrics should be developed to measure the social and economic return on investment (ROI) from investing in women's entrepreneurship.
- Government procurement initiatives for women-led firms in the United States.

In addition, the adoption of two excellent methodologies presented at the Forum in Istanbul for assessing the enabling environment for women's entrepreneurship (one focused on local environments, and one on national environments) could enable policy makers to accelerate women's enterprise development quite substantially.

Finally, the creation of knowledge-sharing networks among researchers, policy makers, WBAs and other stakeholders, at the national, regional and international levels, is critical to the development of sound, evidence-based policy making. Online fora and virtual communities can play a significant role in facilitating the ongoing sharing of knowledge.

Entrepreneurial education and training, resources and know-how

Entrepreneurial education and training is vital for maintaining and raising the level of innovative momentum. In addition to academic institutions, speakers recommended that training be delivered by entrepreneurs and experts at women's business centres, and via women's business associations, supply chains, franchises and clusters. They emphasized the importance of targeted training for women at various stages of business growth, and the value of training women's business associations and NGOs.

Various training strategies adapted to the special needs of women employers were cited, including seminars and workshops, mentoring, peer-to-peer mentoring, online learning, and "just in time" training interventions, targeted to specific business needs.

Box 3.6. Training Recommendations

- A systemic approach to training is needed, implemented as part of a range of interventions promoting women's entrepreneurship. The approach should be: sustainable, professionally provided, demand driven, and linked to real world business problems. In addition, it should consider the global development context in which women operate. Speakers recommended that business development services follow the plan outlined by the Committee of Donor Agencies for Small Enterprise Development.
- Training should be developed to facilitate business growth and to foster job creation that is appropriate to various stages of business growth. The Women's Business Centre model, mentoring, and "just-in-time" learning were proving particularly fruitful.
- Create knowledge networks within and across countries, so that knowledge and best practices can be shared.
- European speakers recommended standardizing entrepreneurial training within the EU, and creating a European training diploma.

Case studies conducted in the United States, Canada and Sweden showed enhanced effectiveness of those training programmes which are targeted directly to women-owned businesses. Distance learning was viewed as an increasingly attractive training option.

For owners of growth-oriented businesses, several methods of training were recommended, including chapter meetings and online training offered by the Women Presidents' Organisation (WPO) in the United States and Canada; intensive one-week training programmes for high-growth women-owned businesses that are suppliers to Global 500 companies, and training at supplier conferences, both of which are provided by the Women's Business Enterprise National Council (WBENC) in the United States, and training related to angel and venture capital investment.

Access to finance

Women entrepreneurs often find it difficult to gain access to loan and/or equity capital. To date, women entrepreneurs receive only a small fraction of equity financing. To redress these market failures, Forum participants recommended innovative programmes to make suppliers of SME finance (banks, angels, venture capitalists) more responsive to the demand for financial resources. At the same time, women's enterprises could become more "bankable" by training women employers, with a consequent decline in perceived risks to lenders and investors. Obstacles to finance could be overcome through an integrated approach, including technical assistance and financing programmes for business development services (BDS).

This strategy has been followed by the African Development Bank (ADB) which has expanded capacity and networking among BDS providers, women entrepreneurs and their associations. In this domain, ADB has worked extensively with the International Labour Organisation (ILO). As an outgrowth of the OECD's 2000 Conference on Women Entrepreneurs in SMEs, the Global Banking Alliance for Women (GBAW) was created by five banks in the United States, Canada, Australia and Ireland. Member banks share best practices and train and raise the awareness of bankers in relation to women entrepreneurs' needs.

Box 3.7. **Financing recommendations**

To bridge the gap between the supply of and the demand for financial resources, the Forum recommended:

- Create strategic alliances that link the provision of financial services with business development services, thus making women entrepreneurs more “bankable”.
- Extend the Global Banking Alliance for Women to more banks, including in developing and transition economies, via the World Bank Group.
- Set up angel organisations to raise awareness, and to educate women on becoming angel investors.
- Run venture capital fora to prepare women to present their businesses to Venture Capitals.
- Ensure that policies and programmes are based on reliable data.
- Create knowledge networks within and across countries, so that knowledge and best practices can be shared.

Access to networks, to markets and to technology

Regarding women entrepreneurs' efforts to gain full access to corporate markets, the Women's Business Enterprise National Council (WBENC) in the United States was cited as the global best practice. Its members are Fortune 500 companies using suppliers that are certified WBEs with 51% or more being owned by women. WBENC provides certification and training and hosts events to link buyers and suppliers. While supplier diversity programmes in the United States started in response to government regulations, working with WBEs is viewed as yielding a competitive advantage. Nearly 90 per cent of all purchasing decisions in the United States are made by women. Potentially large benefits can also accrue to corporations that adopt suppliers diversity programmes. IBM, for example, recently funded an intensive WBENC training programme conducted by Dartmouth University's Tuck School of Business. Within 12-18 months, some certified WBE participants were able to double or even triple their sales. In Europe, a project for Supplier Diversity Programmes has been spearheaded by 11 multinationals, which see supplier diversity as “a tremendous lever for change” (Farmer, 2004).

Among other initiatives: Canada's Women in Business International Initiative (CWIBII) included women-owned businesses in trade missions and created a Canadian-United States Trade Summit at Ministerial level. The US Department of Commerce (DOC) launched a new Global Diversity Initiative, aimed at stimulating export efforts of women and minority entrepreneurs. DOC also recently launched a US outreach tour to educate women-owned businesses about international trade. *Les femmes chefs d'entreprises mondiales* (FCEM, or the World Association of Women Entrepreneurs) has taken initiative to establishing global business linkages through its international network, virtual office and suite of online tools.

The African Development Bank (ADB) has focused on women's entrepreneurship and franchising as ways to spur economic growth. Women account for more than 60% of SMEs in Africa, and 77% of the rural working population. To foster growth, ADB is strengthening

Box 3.8. Corporate market recommendations

- That the OECD spearhead research on the participation of women-owned businesses in the global supply chain, in order to establish a baseline, begin benchmarking, and catalyze input for evidence-based policymaking. Research should also be conducted on multinational corporations that are interested in having women-owned businesses as suppliers. Countries and organisations should use identical methodologies to ensure comparability of data.
- That governments, international institutions, corporations, women entrepreneurial NGOs and other stakeholders identify national and global barriers in the supply chain (including supply chain compression, which is a barrier to new entry).
- That stakeholders study, and then develop, national, regional and global corporate supplier diversity programmes that can successfully integrate women-owned businesses into the supply chain (in particular, the WBENC model). As a means for accelerating this process, international participants might be invited to attend selected WBENC conferences, the Tuck School training programme, etc.
- That stakeholders share research, policies, programmes, training initiatives and best practices through international fora, online fora, videoconferences and study tours.
- That women-owned businesses buy a significant percentage of goods and services from other women-owned businesses, perhaps up to 50%.

women's business associations, partnering with FCEM, using its technology platform, as well as training women entrepreneurs in how to use cyber cafés to sell their goods online (Mokadem, 2004).

A striking example of successful development efforts is provided by Wangari Maathai, the first woman from Africa to be awarded the Nobel Peace Prize in 2004. Mobilising poor women to plant 30 million trees through the Green Belt Movement she made a strong contribution to sustainable development to securing and even strengthening the very basis for ecologically sustainable development.

Capacity building, advocacy and financial sustainability

In recognition of the need to strengthen WBAs and women's NGOs, the World Bank is developing an international database as well as a new quarterly publication to connect WBAs and exchange best practices. At the national level, several promising models exist, such as the umbrella organisation PROWESS in the United Kingdom which identifies and shares best practices, strengthening women entrepreneurial intermediaries through regular training programmes. In the United States the quasi-governmental and bipartisan National Women's Business Council submits policy recommendations to the President, the US Small Business Administration, and to the Congress. In addition, Women Impacting Public Policy (WIPP), representing more than half a million US women entrepreneurs, provides continuous advocacy for women's entrepreneurship at the national and state levels.

Box 3.9. Trade and technology recommendations

- Conduct research on women-owned businesses and international trade to improve policy making.
- Conduct outreach programmes on trade.
- Do trade capacity-building with NGOs and the women entrepreneurs whom they represent.
- Facilitate international networking that can develop into trade opportunities.
- Emphasise the importance of trade in services and knowledge-based industries.
- Encourage and train women entrepreneurs in the strategic utilisation of technology as an entrepreneurial growth strategy, and a tool to access markets and know-how. Engage various entities in this initiative, including governments, international institutions, WBAs, multinational technology companies, and other relevant stakeholders.

Box 3.10. Capacity building, advocacy and financial sustainability recommendations**Capacity building and advocacy:**

- Continued capacity building for WBAs and other women entrepreneurial NGOs, including training in policy development, advocacy and coalition-building.
- Continued OECD leadership is needed to globally advance women entrepreneurial research, policy and programme development. Creation of an advisory task force on women's entrepreneurship is recommended.
- Increased collaboration among international institutions on women entrepreneurial research, policies and programmes, and accelerated sharing of best practices.
- Facilitated linkages among WBAs and women's entrepreneurship-oriented NGOs, in order to share research, models, templates and best practices, and to facilitate effective coalition building and advocacy. Models such as PROWESS in the UK, and the National Women's Business Council and Women Impacting Public Policy in the US, could be particularly helpful.
- And local, national, regional and global advocacy to get gender onto the entrepreneurial agenda.

Financial sustainability for NGOs:

- NGOs need to establish a good network of potential donors, building grant-writing capacity, having well-written proposals that are precisely targeted to the funding specifications of a particular donor. They also need to develop a diversified funding base to ensure sustainability, sharing best practices on fundraising, the need to have advocates or champions within the donor organisation, and the need for regular evaluation of their activities.
- There are also benefits flowing from the creation of funding consortiums focused on particular objectives and niches within the women entrepreneurial business continuum.

Box 3.11. Beyond the specific recommendations indicated above, the Forum called for:

- Establishment of a network to bring together all major stakeholders, international institutions, committed governments, major WBAs, foundations, top researchers, etc., to share strategies, templates and best practices in an ongoing way, and to increase ministerial awareness of the importance of women's entrepreneurship. The network should meet virtually via online discussions groups, and also hold periodic meetings in person to advance the global agenda.
- Enhanced collaboration on women entrepreneurial policies and programmes by international institutions, including continued thought leadership by the OECD.
- A global action plan and roadmap, including a strong emphasis on advocacy, tangible deliverables, and accountability.
- Adoption of national strategic frameworks for women's enterprise development at all stages along the business continuum, and where feasible, regional strategic frameworks as well.
- Development of gender-disaggregated data, using common metrics, in order to facilitate evidence-based policy making on women's entrepreneurship, and comparability of data across all countries.

Concluding remarks

Women entrepreneurs are still a largely untapped economic resource. The Forum called for a strategic approach involving researchers, policy makers, international institutions, corporations, foundations, the media, women's business associations, and women entrepreneurs. The OECD and other international institutions have a central role to play in collecting gender-disaggregated data, and sharing models, templates and best practices.* The room for evidence-based policy making will thus widen as a consequence. International NGOs will need to continue to advance the women's global entrepreneurial agenda. Quantum Leaps, Inc. (formerly called Project Tsunami), the NGO co-organiser of the Forum, is developing a template for a global action programme for women's entrepreneurship for the period 2006-2010, based on recent best practice exchanges. Regional agendas are being developed by relevant associations, including FCEM which has affiliate associations in many countries. Accelerating women's entrepreneurship at national and local levels also requires partnerships between the public and private sectors.

* Such as the best practices developed by the Enterprise Directorate of the European Community, which was used by both the US and Canada for their presentations at the Istanbul Forum; and the methods for assessing the entrepreneurial environment for women's entrepreneurship at the local level developed by the OECD LEED Programme, and a national assessment tool jointly developed by Annette St-Onge and Lois Stevenson, both of Canada, for the African Development Bank and the International Labor Organisation.

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Innovative SMEs in Germany

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Introduction: innovation and the German economy

Innovation is widely seen as a major economic driving force. Germany spends about 2.5% of GDP on research and development (public and private sector), a large amount by international standards, and ranks only behind Finland, Sweden and Switzerland in Europe. It is the Federal Government's aim to raise R&D expenditure to 3% of GDP by 2010.

Germany has strong automotive, chemical and machine tooling industries, accounting for 85% of all R&D expenditure. However, sophisticated medium-range technologies have been increasingly supplemented by new advanced technologies such as information technology and biotechnology. With approximately 800 companies in 2003, Germany is one of the leading countries in the biotechnology and nanotechnology sectors. In terms of patent registrations, Germany comes second among larger economies,¹ and more importantly, the integration of "high-tech" into "medium-tech" products has already boosted innovation performance in manufacturing.

In spite of these positive outcomes, Germany needs to make continuous efforts to maintain and strengthen its innovative power. Technology markets are being globalised, as other countries are catching up or make greater efforts to survive global competition. Both the penetration of markets by new cross-sectoral technologies and the emergence of shorter product- and innovation cycles are putting pressure on innovative companies. Due to globalisation, production structures have been changing, thereby intensifying international competition. The growing specialisation in capital-intensive and knowledge-intensive goods and services is a key feature of countries with high labour costs such as Germany. A rising number of companies have shifted standard activities like accounting and IT-services to foreign countries where labour costs are lower. While the new international division of labour has strengthened competitiveness, Germany views innovation and education as an important means of stimulating economic growth and reducing employment losses.

As innovation is needed in all sectors and at all stages of production, extensive co-operation among all relevant groups is required. Correspondingly, in January 2004, the Federal Government and representatives of business, research and trade unions launched the joint initiative "*Partners for Innovation*". This initiative, is based upon a comprehensive view of innovation policy, including research and economic policy and other policy areas like health or education. "Impulse groups" consist of business and research representatives as well as policy-makers, and concentrate on specific innovative themes. One of these expert

groups focuses on innovative SMEs, dealing, *inter alia*, with innovative public procurement and better techniques of innovation management. Other expert groups identify the innovative potential for areas like mobility, health, energy, networked world and services. Here, viable pilot projects and private-public pioneer activities will be designed, potentially having broad socio-economic effects. (e.g. energy-saving measures for schools, implementing the “digital hospital”, etc.). The proposals, which were submitted in the first half of 2005, are intended to better exploit the potential of Germany’s innovation system.

Challenges and opportunities for innovative SMEs in Germany

In Germany, SMEs are regarded as a driving force behind structural change and economic growth. Their innovative skills, responsiveness to new customer requirements and expertise in high technology combine to make them more competitive than many large companies.

There are about 170 000 innovative SMEs in the industrial and service sectors, of which 36 000 are engaged in continuous research and development (ZEW, 2004). As innovative subcontractors, as suppliers of specialised products and as niche producers of high-tech goods, SMEs contribute significantly to Germany’s success on international technology markets. A fast-growing number of SMEs are actively using the patent system to protect their intellectual assets.² In the pharmaceutical biotechnology industry, SMEs today account for 57% of patents compared to 35% at the beginning of the 1990s. Whereas large companies have been outsourcing work over the last few years, new jobs have been created within the SME sector.

Even so, there are a number of deficiencies acting against the full activation of the innovative potential of SMEs. Over the last decade, German tax provisions have implied a comparative disadvantage for SMEs. While competitive pressure increased with globalisation and lower tax rates prevailing elsewhere, the German tax system failed to provide sufficient incentives for new investment.

Apart from fair tax provisions, SMEs need adequate amounts of self-generated and borrowed funds to invest in growth. While the equity base of German SMEs is traditionally narrow, innovative SMEs have suffered from both the collapse of the “Neuer Markt” and the restraints of the German debt financing sector linked to more sophisticated risk management by private banks and to preparations for the new Basel Regulations on Capital Adequacy (“Basel II”).

Education and training are essential prerequisites for an efficient, highly-developed industrial sector. SMEs, in particular, need skilled labour for knowledge-based products and services. In a country with few raw materials and an ageing population, economic prosperity requires high and rising levels of investment in knowledge and skills. According to the latest PISA studies of the OECD, Germany needs to improve its education system, especially in secondary schools, but also in primary schools and higher education. A high number of graduates from universities is needed as the demand for skilled labour is set to grow in coming years, especially in the fields of science and mathematics.

Improving framework conditions for innovative SMEs: Agenda 2010 and SME initiative for entrepreneurship

With the Agenda 2010, the Federal Government in March 2003 launched a wide-ranging programme of reform aimed at modernising Germany’s economy and society.

Agenda 2010 entails structural reforms of labour markets and health and pension systems as well as improvements of the financial situation of enterprises, private households and municipalities. The main emphasis has been placed upon enhancing the attractiveness of entrepreneurship as a means of lowering unemployment. The policy framework for self-employment will be improved by way of exempting young companies from fees payable to chambers of commerce and handcrafts, offering innovative financing and liberalising the highly-regulated German craft sector.

Improving framework conditions means first of all a lower tax burden for entrepreneurs and companies. Tax reforms since 1998 have progressively lowered taxes for individuals and companies by a total of EUR 59 billion. The lower and top rates of income tax in 2005 have been reduced to historic lows of 15% and 42% (compared to 25.9% and 53% in 1998). SMEs benefit strongly from lower income tax rates, since more than 80% of them take the form of partnerships. The rate of corporation tax was also lowered from 26.5% back to 25%. As a result, the tax system is set to become more competitive internationally³ (BMWA, 2004a).

Under the Agenda 2010, the German Ministry of Economics and Labour has also launched an SME – initiative called “Pro Mittelstand” (“initiative for SMEs”). The SME Initiative covers both innovative and “regular” SMEs.

Thanks to a merger of two Federal support banks, Kreditanstalt für Wiederaufbau (KfW) and Deutsche Ausgleichsbank (DtA), the assistance offered to young entrepreneurs and SMEs is now concentrated in the new KfW SME Bank. The synergy of the merger will be used to group all the traditional SME loan programmes into a single “Entrepreneur loan programme” (since 1 September 2003). All previous loan products for entrepreneurs and SMEs are thus brought together in a uniform loan product. This facilitates access to loans. In the first nine months of 2004, loan approvals totalling EUR 4.3 billion were issued.

In addition, assistance in the form of quasi-equity-capital funding has been offered to SMEs under the new “entrepreneur capital” programme (March 2004). The funding is offered throughout the entire company lifetime, starting with its inception. There are three parts within this product family (“ERP⁴ Capital for Start-Ups”, “ERP Capital for Growth”, and “Capital for Labour and Investments”), representing a large step forward towards a well-rounded offering in the field of subordinate debt, the so-called “mezzanine capital”. For start-up and growth financing under ERP Capital for Start-ups and ERP Capital for Growth alone, some EUR 1.3 billion were made available by the ERP Special Fund in 2004.

Consulting and support are particularly important for start-up entrepreneurs and small firms. The KfW SME Bank offers a range of consultancy services, including a “round table” for entrepreneurs in difficulties, a telephone advisory service on assistance operated by the Federal Ministry of Economics and Labour, the financial participation of the Ministry in the respective consulting services for companies, and an Internet portal for start-ups www.existenzgruender.de to provide some initial guidance. Since 2004, a coaching service for young entrepreneurs, financially supported by the European Social Fund and the KfW, has been introduced in some regions of Germany. The aim is to implement this important support measure nation-wide.

Venture capital as a way of bolstering equity capital has become more and more important not only for innovative SMEs, but also for “regular” SMEs. In Germany, the estimated shortage of venture capital for regular SMEs ranges from EUR 1 million to EUR 5 million. Under the lead management of the KfW, several regional pilot funds for venture capital have been

established. The first fund began to issue approvals in Bavaria in the first quarter of 2004. Further funds are planned to expand the service on a nation-wide scale.

The High-Tech Masterplan: an initiative for innovative SMEs

Compared to other major OECD countries, Germany's share of value-added in the high-tech sector is relatively low. With the initiative "Innovation and Future Technologies for SMEs – High-Tech Masterplan" introduced in 2004, the Federal Government has taken a first step towards eliminating impediments to the growth of innovative companies and helping high-tech entrepreneurs to set up their own business (BMBF, 2004b). The High-tech Masterplan for Innovative SMEs is part of both the Agenda 2010 and of the SME Initiative. The "High-Tech Masterplan" is based on four cornerstones:

- Improving conditions for the establishment of new, technology-based companies by improving access to venture capital (see below).
- Offering new incentives for the development of innovation strategies by re-designing research programmes for SMEs.
- Improving co-operation between public research and SMEs (e.g. by reforming research institutions and Federal institutes in order to improve the relevance of research for technology transfer).
- Taking preventive action to ease the projected lack of skilled labour in science and engineering via expanding all-day schools and facilitating employment and residence for foreign university graduates and scientists as of 2005.

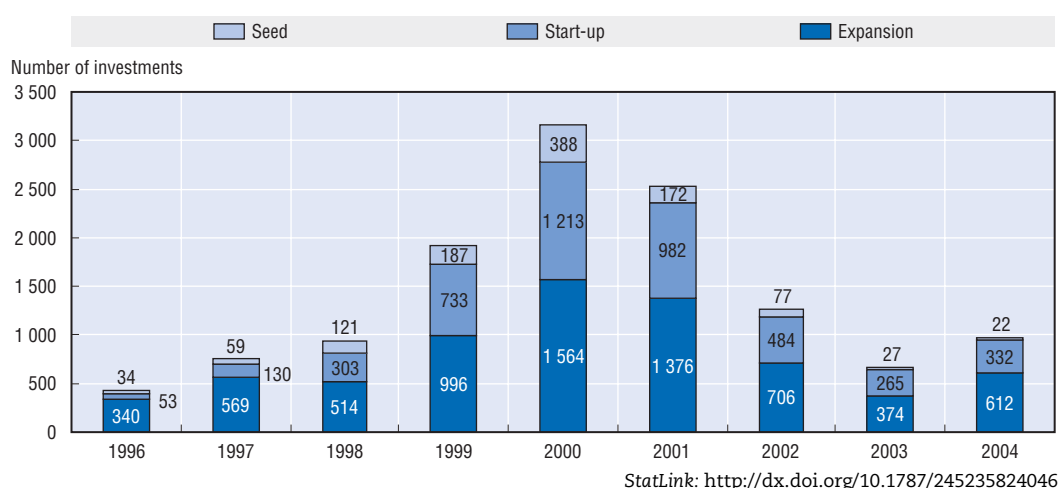
Example: financing innovative SMEs

The world-wide decline in start-up financing experienced in recent years has been dramatic in Germany. Early-phase investments in 2003 fell short of the 1998 level (EUR 292 million in 2003). Only 11% of the venture capital investments in 2003 were provided for early-stage investments, compared to 35% in 2000. Only 28 companies received start-up financing in 2003, fewer than in 1991. This situation called for a new support structure, opening up new financing sources for R&D-based start-ups. Correspondingly, the Federal Government has modified the instruments of Venture Capital promotion.

As newly created innovative companies depend on sufficient equity, the government has set up a new joint venture capital fund of funds. This fund invests in VC funds for early-stage and growth-oriented companies together with private investors (see www.eif.org). The capital of the fund of funds is shared equally by the ERP Special Fund for Business Promotion and by the European Investment Fund (EIF). Both partners are providing a total amount of EUR 500 million over a period of five years. Including the "pari-passu" contributions from private investors, funds of up to EUR 1.7 billion will be made available to innovative, growth-oriented enterprises.

The Government also intends to create a seed fund for R&D-based start-ups. The target group are young entrepreneurs with total capital requirements of about EUR 500 000 to EUR 600 000.

The policy framework for taxation of investment in equity capital has also been improved, with clear rules applying to the differences between commercial and portfolio management funds. In mid-2004, the application of the "half-income procedure" (only one-half of capital gains is subject to income tax) was made legally binding for the higher share of profits received by fund initiators (carried interest). The new regulation will help

Figure 3.6. **Venture capital investments in Germany**

revitalise a venture capital market which has almost dried out over the past few years, particularly in the segment for early-phase financing.

Example: SME-oriented R&D co-operation programmes

Government support for business R&D has been gradually re-directed towards young SMEs. In 2002, about 45% of R&D assistance for business given by the Research and Economics Ministries went to SMEs (EUR 524.9 million in total).⁵ Most technology programmes are intended to create innovative networks, regional clusters and research co-operation with science. A comprehensive econometric evaluation of research programmes in 2002 showed marked complementary effects of research promotion, one Euro of public support inducing additional private R&D expenditure of about 1.5-2 euros. The estimated effect was particularly strong for SMEs (Fier, 2002).

SMEs are often too small to do research and development on their own. The Federal Government has therefore taken action to strengthen co-operation between SMEs as well as between SMEs and research institutes or universities. In 2001, a system evaluation of SME measures called for higher effectiveness of German technology programmes aimed at improving co-operation with SMEs. One example of how this has been achieved is the modified programme PRO INNO II, replacing PRO INNO (programme for the promotion of innovative skills).

Under the PRO INNO II programme, which has helped about 7 000 enterprises with grants since 1999, the number of assistance projects is no longer limited. Instead, a global financial limit has been set, leaving it up to the SMEs to spread grants across several projects. In addition, greater incentives will be given for international joint ventures through concessions for projects with European partners.

The Federal Government has also strengthened the involvement of German technology programme agencies in SME-oriented ERA (European Research Area) net projects of the European Union aimed at facilitating interactions between national programmes for innovative SMEs.

Example: skilled labour as a condition for innovation

A highly-skilled labour force tends to stimulate innovations. In Germany, the lack of skilled labour proved to be the most important impediment to innovation at the peak of the New Economy in the late 1990s. As many as 10 000 German companies cancelled their innovative projects for lack of suitable skilled personnel, and about 6 000 companies could not even start such projects.

Even though the German economy suffers from high unemployment at all levels of qualifications, the Federal Government is convinced that future economic prosperity requires large-scale investment in education and training. The current shortage of engineers is particularly acute in R&D (27%) and construction (26%).

SMEs are often at a disadvantage when competing with large companies for skilled workers. As a result, they tend to suffer more from a lack of skilled labour than do large companies.

Successful innovation policy begins within the educational system. As a first step, the Federal Government has launched the “Future Education and Care” investment programme with a view to creating all-day schools. A total of EUR 4 billion is being made available to the *Länder* from 2003-07 for this purpose.⁶ All-day schools improve education standards for children, while allowing parents to combine work and family life. Aside from this, national standards for education will be implemented. In response to the OECD PISA study, education in foreign languages, reading and writing skills, mathematics and science will be improved.

With a view to meeting the demand for highly qualified labour, the Federal Government seeks to raise the percentage of school-leavers going to university from 36% in 2003 to 40% in 2010. At the same time, universities have been made more attractive by introducing international degrees, shorter study periods and the status of a junior professor.

The Federal Government has also launched a special “training initiative 2003” campaign for young persons in collaboration with industrial associations and trade unions. Its aim is to expand the supply of skilled workers in the future by easing the extreme scarcity of private training places. Rules have been changed to make vocational training a more attractive option for SMEs.

Conclusions

True innovation transcends the boundaries of technological innovation. A strategy confined to a pure “research-push” or “technology-push” will ultimately fail to stimulate innovation and economic growth. Stronger innovation demands action in all policy areas, especially in the domain of education and training. For these reasons, the Federal Government declared 2004 to be “the year of innovation”.

With its Agenda 2010, the Government has moved closer to the goal of a creating a growth-friendly environment, opening up new investment opportunities, especially for innovative firms. The introduction of all-day schools combined with the university reform is a prerequisite for the expansion of knowledge and human skills. The “Partners for Innovation” initiative has fostered close co-operation between all groups responsible for the development of new products and services.

SMEs are of vital importance for generating new knowledge, products and services. Nearly 70% of all employees and almost 80% of all apprentices work in SMEs. The innovation system therefore cannot function without SMEs. The “High-tech Masterplan” being part of the German SME Initiative “Pro Mittelstand”, an important step has been taken to improve framework conditions for innovative SMEs. Some measures will take time to produce positive effects. Meanwhile, with global competition rising, further steps need to be taken.⁷ Apart from removing bureaucratic obstacles, structural reforms of labour markets and health and pension systems must go hand in hand with subsidy cuts for old industries and a shift of federal budget policy towards education, research and SME promotion.

Innovation based upon new ideas and ultimately brought to fruition, is a key entrepreneurial activity. The current reforms rely on individual initiative and responsibility. Entrepreneurs bent on making innovation investments need an appropriate policy framework.

Notes

1. See European Commission (2004) and BMBF (2004a, 2004b) for a detailed analysis of Germany's technological performance. The patent intensity of Germany (world market patents per capita) is second behind Japan whereas the smaller resp. mid-size economies of Finland, Sweden and the Netherlands lead the ranking.
2. The number of German companies applying for EPO (European Patent Office) and PCT (Patent Cooperation Treaty) patents rose from 3 242 in 1991 to 3 583 in 1995 and 5 239 in 1999.
3. BMWA (2004), pp. 27-31.
4. ERP: European Recovery Programme, the so-called “Marshall Plan”.
5. Budget items representing losses in venture capital support programmes are excluded.
6. Under the German Constitution the German states (“Länder”) are responsible for school education.
7. The organisation of a nation-wide “innovative SME day” with more than 600 entrepreneurs, representatives of business associations and policy makers in November 2004 drew public attention to the importance of innovative SMEs in Germany.

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Local Innovation Systems and SME Innovation Policy

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Introduction

The key argument in this paper is that to support small and medium-sized enterprise (SME) innovation more effectively, policy needs to complement initiatives that directly support innovation projects in selected SMEs or influence national framework conditions with initiatives to build local innovation systems. Stronger local innovation systems will improve the general environment supporting the innovation performance of a broad base of SMEs in any given place. But the precise nature of the policy intervention required will vary according to the distinct processes of knowledge generation, transfer and exploitation in different localities.

The first section presents some stylised facts on innovation and SMEs that need to be taken into account when designing SME innovation policy. The second section sets out some conceptual frameworks that can be used to explain these stylised facts and presents the local innovation system concept. The third section utilises the local innovation systems approach to assess the levers that may exist for helpful policy intervention, whilst the fourth section makes the discussion more specific by giving the example of how Scotland has begun to develop a policy framework that will strengthen the key assets, connectivities and capabilities of its local innovation systems. The final section sets out some brief conclusions.

Stylised facts on innovation and SMEs

Innovation is a critical driver of economic growth

The role of innovation as a source of economic growth has increasingly been emphasised by economists and policy makers in recent years. Thus Solow's classic growth accounting analysis of the evolution of the United States economy, despite its methodological problems, served to highlight the critical importance of technological change in economic growth and sparked a wave of further research and thinking on the issue (Solow, 1957).¹ The new endogenous growth models, now at the heart of economic thinking on economic growth processes, place strong emphasis on the role of R&D, highly skilled labour and knowledge spillovers in explaining economic growth (e.g. Romer, 1990). Recent OECD analysis also points to a marked positive impact on economic growth of business sector R&D (OECD, 2003). It is now generally accepted within policy making communities that in order to compete in the globalising knowledge economy, OECD

economies need to focus on activities in which they can achieve greater productivity and product quality than competitors, and both are critically dependent on innovation.

Innovation is spatially concentrated

Innovation activity is not evenly spread within countries. At the most basic level this is quite clear when we consider the importance to national innovation of some of the most well-known concentrations of innovation such as Oxford and Cambridge in South East United Kingdom, Lombardy in North Italy or Silicon Valley, California, and Route 128, Massachusetts, in the United States. It is also commonly pointed out that OECD economies are highly urbanised and that most innovative activity takes place in the largest cities.

In practice it is difficult to measure the innovative performance of a locality, whilst the extent of variation depends in part on the spatial aggregation used. Nonetheless, various empirical studies do highlight significant local differences in innovation rates within countries such as Italy (Camagni and Capello, 1997), the United Kingdom (Keeble, 1996) and the United States (Feldman and Audretsch, 1999; Acs, 2002). Tables 3.3 and 3.4 set out two measures of innovation concentration in Europe at a relatively broad scale (NUTS II territorial units). Table 3.3 provides a measure of innovation output, in the form of patents applications. The range and skew in the data is very apparent, with the top performing areas having much greater patent activity than the poorest performing areas. Table 3.4 shows what can be considered to be both an input and an output of innovation activity, namely the concentration of employment in high technology manufacturing and in knowledge intensive services. Here the range and skew of the data are much smaller, but clear spatial differences are quite evident. There will be further strong differences in innovation performance at very local level *within* the territories shown in these two tables.

Table 3.3. Subnational variations in European patent applications, 2002

Top 15 territories	Patent applications per million inhabitants	Bottom 15 territories	Patent applications per million inhabitants
Zuid Nederland, Netherlands	797	Noreste, Spain	34
Baden Württemberg, Germany	597	Sud, Italy	14
Bayern, Germany	473	Attiki, Greece	13
Hessen, Germany	323	Isole, Italy	11
Ile de France, France	313	Noroeste, Spain	9
Manner Suomi, Finland	312	Sur, Spain	9
Rheinland Pfalz, Germany	307	Nisia Aigaiou, Kriti, Greece	9
Nordrhein Westfalen, Germany	281	Centro, Spain	7
Eastern, United Kingdom	253	French Overseas Departments	6
Hamburg, Germany	236	Canarias, Spain	6
Centre Est, France	232	Voreia Ellada, Greece	5
Westösterreich, Austria	223	Continente, Portugal	4
South East, United Kingdom	205	Kentriki Ellada, Greece	4
Berlin, Germany	199	Madeira, Portugal	1
Niedersachsen, Germany	190	Açores, Portugal	0
Mean	131		
Median	96		

Note: Data included are at subnational, NUTS II, level for 11 EU countries: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Netherlands, Austria, Finland, United Kingdom. No. regions = 68.

Source: Eurostat.

Table 3.4. Subnational variations in innovation related employment in Europe, 2003

Employees in high technology manufacturing as % of total manufacturing employees		Employees in knowledge intensive services as % of total services employees	
Top 10 territories		Top 10 territories	
Aland, Finland	69	South East, UK	17
London, UK	61	Berlin, Germany	16
Manner Suomi, Finland	59	Scotland, UK	14
Hamburg, Germany	57	Schleswig Holstein, Germany	14
South East, UK	57	Dunántúl, Hungary	13
Berlin, Germany	57	Ile de France, France	13
Bruxelles Capitale, Belgium	56	Közép Magyarország, Hungary	12
Ile de France, France	56	Méditerranée, France	12
South West, UK	55	Südösterreich, Austria	11
Eastern, UK	54	Baden Württemberg, Germany	11
Mean	47	Mean	8
Median	48	Median	7
Bottom 10 territories		Bottom 10 territories	
Centro, Spain	38	Vlaams Gewest, Belgium	5
Noroeste, Spain	38	West Midlands, UK	5
Sur, Spain	38	Sud, Italy	4
Continente, Portugal	37	Centro, Italy	4
Voreia Ellada, Greece	36	Yorkshire and Humber, UK	4
Açores, Portugal	34	Attiki, Greece	4
Canarias, Spain	33	Este, Spain	3
Madeira, Portugal	32	Sur, Spain	2
Kentriki Ellada, Greece	29	Noreste, Spain	2
Nisia Aigaiou, Kriti, Greece	28	Continente, Portugal	2

Note: Data are at NUTS II level for 11 EU countries with available subnational data: Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Finland, United Kingdom, Hungary. No. of territories with data for high technology manufacturing = 66. No. of territories with data for knowledge intensive services = 50. High technology manufacturing: NACE Rev. 1.1 Codes 30, 32, 33. Knowledge intensive services: NACE Rev. 1.1 Codes 61, 62, 64, 67, 70, 74, 80, 85, 92.

Source: Eurostat.

Overall, then, national innovation must be seen as a spatial phenomenon, in which certain types of localities are associated with much stronger innovation performance than others. It therefore does not make sense to examine how to influence innovation and economic growth entirely through a national perspective.

SMEs participate in the innovation process

SMEs are increasingly seen by policy makers as playing a key role in the generation of innovation, if not the major role. In fact, theory and empirical evidence are divided on the relative importance of SMEs to innovation as compared with large firms. The classic Structure-Conduct-Performance model of industrial organisation would seem to suggest that large firms with monopoly positions are able and willing to commit substantial resources to R&D activity as a way of maintaining monopoly profits and thus would appear to play the major role in innovation (Scherer and Ross, 1990). But an alternative theoretical argument suggests that SMEs may have more impact on innovation than it would appear from their contribution to R&D activity because they may be more likely to bring radical rather than incremental innovations to the economy (Baumol, 2002). In terms of empirical

evidence, we still lack a clear conclusion on whether large firms or small firms should be seen as the main motors of innovation. In support of those who argue for the importance of SMEs to innovation, OECD (2003) identifies the importance of enterprise “churning” to national productivity growth and of new firm entry in certain high technology sectors and it does seem that a small number of high growth SMEs have disproportionate impacts on growth (OECD, 2002). It is probably best to conceive of innovation as requiring both large and small firms. But if we are to promote national innovation it is clear that we should not exclude SMEs from the equation.

SMEs do not innovate alone

As Metcalfe (2001) argues, the innovative capabilities of any firm depend to a significant degree on active links to the knowledge held by users (knowledge of market), by suppliers (knowledge of materials and machinery) and by non-firm organisations such as public research laboratories and universities whether national or foreign. In the particular case of small firms, it must be recognised that in their efforts to innovate they have fewer internal assets and resources than large firms. Thus it is likely that they will rely even more than large firms on aspects of their external environment to support their innovation activities.

Spatial innovation clusters provide propitious environments for SME innovation

The stories of the best known “innovation hotspots” indicate how favourable such locations are for SME innovation (see Box 3.12). There is also some more formal evidence of an association between spatial concentration of enterprises and rates of technological innovation (*e.g.* Baptista and Swann, 1998).

The strength of SME innovation in spatial concentrations is usually seen as being related to the presence of localised external economies, or agglomeration economies, affecting the innovation process. These agglomeration economies can be viewed in different ways. Thus researchers often refer back to Marshall’s early statement of the triad of externalities present in industrial districts, in terms of information and technology spillovers, spillovers from a pooled labour market, and pecuniary externalities from linkages between specialised customers, suppliers and related firms and organisations. Duranton and Puga (2003) put forward an alternative conception based on sharing, matching and learning mechanisms within an agglomeration.² However conceived, agglomeration economies will increase the static efficiency with which the available factors of production are employed given the existing technology of a locality and also create dynamic efficiency gains by shifting local firms to better practice technologies.

In this context, the job of policy should be to identify the nature of the agglomeration economies that can be built at local level, thus better supporting SME innovation through influencing their environment.

Conceptual frameworks for understanding local innovation processes

A range of concepts and theories are available to explain the spatial concentration of innovation and how these concentrations support SME innovation. Some of the key conceptual frameworks are outlined in Table 3.5. The frameworks are closely related, with researchers often drawing inspiration from several schools, and all of the approaches put considerable emphasis on knowledge spillovers, which are seen as at the core of economic growth processes in recent growth theory. The table nonetheless also points to some significant differences of emphasis.

Box 3.12. Examples of SME innovation hotspots

Most policy makers are familiar to some degree with the most famous innovation hotspots in Europe and the USA and often look to them for inspiration in policy design. Brief information on the nature and reasons for development of four of them is provided here.

Silicon Valley: Situated to the south of San Francisco, in and around Santa Clara County, Silicon Valley now has some 8 000 high technology firms and some 500 000 high technology jobs (Koepp, 2002). Nevertheless, as late as the 1950s Santa Clara County was mainly an agricultural area and its rapid development in microelectronics and computing has mainly occurred since then, through sustained new firm formation and small firm growth. Castells and Hall (1994) describe the key factors in the Valley's development. Firstly, despite its lack of a previous industrial base, the area did have a significant research tradition in electronics at Stanford University and was already producing a small number of start-ups before the Second World War. The process of spin-outs from Stanford was accelerated with the creation of the Stanford Industrial Park in the 1950s, which accommodated firms specialised in electronics technology, particularly those with close contacts with the University. One of the companies that located on the Park was Shockley Semiconductors Laboratory, from which an important spin-out company, Fairfield Semiconductors, emerged. This key enterprise created a large number of spin-out companies in the 1960s, all remaining in the locality. Silicon Valley's development was further supported by the dramatic expansion of military demand for electronic devices in the aerospace and space industries in the 1960s, with major defence contracts being awarded to Silicon Valley-based firms from the Defense Department and NASA. Further underpinning success factors were the creation of strong social networks supporting the exchange of knowledge and the emergence of local venture capital firms developed by individuals from within the cluster, which provided finance for the development of electronics firms outside military markets. By the 1970s Silicon Valley had become a fully developed cluster with knowledge generation capacity, high skilled labour markets and finance markets. It has thus been able to develop in computers and microelectronics as well as its original semiconductor specialism, going well beyond the military markets that contributed much to its early success.

Massachusetts Route 128: Castells and Hall (1994) tell a similar story for the development of the Massachusetts Route 128 area. For them, the key factors in the development of this concentration were that Massachusetts Institute of Technology (MIT), and to a lesser extent Harvard University, became the hub of advanced electronics research in the 1940s and 1950s, with considerable support through funds and orders from the Defense Department. MIT staff and graduates used their knowledge in new technologies and their excellent personal contacts with the military establishment to start companies that proposed and created spin-outs. These companies clustered, developing agglomeration economies, supported by the high quality of labour in the region related to its educational facilities and its industrial tradition in skilled manufacturing. The area nonetheless suffered industrial decline in the 1970s and 1980s, linked to the decline of some of its large companies. Best (2000) argues that Route 128's resurgence from the early 1990s can be explained in terms of the replacement of a vertically integrated production system with an open system of smaller specialist firms. The result has been a regional capability to rapidly reinvent products, diversify technologically, create new market niches and invest new industrial sub sectors, in a similar model to that of Silicon Valley.

Cambridge: In the UK, the Cambridge SME-based high technology cluster has grown rapidly since the 1960s to employ around 30 000 employees in over 1 000 overwhelmingly

Box 3.12. Examples of SME innovation hotspots (cont.)

small and medium sized firms in the late 1990s (Keeble *et al.*, 1999). According to Lawson (1997), there are three key channels for knowledge transfer in the cluster that enable local SMEs to take research-based ideas to market. The first channel consists of links between the University of Cambridge and local firms. Formal knowledge transfer relationships exist in the form of consultancy, collaborations, etc. There is significant spin-out activity whereby individuals from the University set up their own firms to commercialise their ideas, and there are important informal channels as personal relationships are maintained among people in the University and firms. The second channel consists of inter-firm linkages. These linkages are encouraged by the small size of most firms (meaning that a considerable number of tasks must be performed externally), the small scale niche orientation of many firms, which allows substantial overlap in activities without direct competition, and the importance of corporate spin-outs, in which links often continue with the parent firm. The third channel concerns the functioning of the local labour market, which provides access to a vast range of technical skills through the frequent movement of employees between firms and from the University to firms. Employees take both a stock of knowledge with them when they move and an ongoing link with previous firms or the University, often through personal relationships.

Sophia Antipolis: Castells and Hall (1994) see Sophia Antipolis, near Nice in the French Côte d'Azur, as a classic example of a technopole, now with around 400 companies and 9 000 employees on a high quality business park started in the 1970s in a previously undeveloped area. The technopole was kick-started by the decentralisation to the park of key public research institutions, including the *École Nationale Supérieure des Mines de Paris*, followed by the establishment of nine other higher education institutions on the park. Local government funded the development of infrastructure such as sites, roads, housing, telecommunications infrastructure and an advanced telecommunications research centre. A semi-public company was established to attract foreign investment and some major companies were attracted in the early years of the park's development, including IBM, Texas Instruments and Digital. The pole has developed strengths in information, telecommunications and electronics and in pharmacology, biology and chemistry as well as in public research, education and training. Synergies and knowledge spillovers have gradually developed within these three specialisations.

Each of these innovation hotspots is very local in scale and, although there are commonalities, the precise processes involved and the role for policy varies between them. Their stories illustrate the importance of examining how to influence SME innovation at a local scale.

Given the available concepts, it can be argued that the local innovation systems approach is a good one for the purpose of considering how policy might intervene to support SME innovation at local level. It has a stronger emphasis on how local collective learning actually takes place than most of the other frameworks available.³ It also identifies a wider range of actors involved in collective learning processes than most of the other frameworks, putting relatively strong emphasis on the role of non-firm organisations and recognising the potential role of local development agencies in influencing local collective learning. The rest of the paper therefore adopts the local innovation systems approach as its analytical lens, although the existence of many parallel and often overlapping frameworks should also be recognised.

Table 3.5. **Frameworks for analysing innovation processes in agglomerations**

Framework	Mechanisms supporting SME innovation
Porterian clusters (<i>e.g.</i> Porter, 1990)	Rivalry between competitors; specialised factors of production (land, labour, capital); large and growing home demand and sophisticated customers; and related industries and support institutions including specialist suppliers.
Marshallian districts (<i>e.g.</i> Pyke <i>et al.</i> , 1990)	Non pecuniary externalities from knowledge spillovers through informal personal exchanges, customer supplier transactions, etc.; pecuniary externalities from labour pooling; and pecuniary externalities from inter firm linkages.
Innovative milieu (<i>e.g.</i> Camagni, 1991; Aydalot and Keeble, 1988)	Linkages between firms through labour mobility and informal networking, which support collective learning and reduce uncertainty, thus improving decision making.
Learning regions (<i>e.g.</i> Storper, 1997; Morgan, 1997)	Learning processes facilitated through “untraded interdependencies” between local firms and other organisations working through formal and informal information and collaboration networks and labour market interactions, facilitated by trust and social capital and technology support organisations.
Local innovation systems (<i>e.g.</i> Cooke, Heidenreich and Braczyk, 2004; Howells, 1999)	Knowledge generation, exchange and exploitation takes place in a system with important learning interactions among suppliers, customers, public research organisations, financial institutions and so on, if necessary supported by appropriate policies developed by local development agencies.

The local innovation systems concept builds on longer established work on national innovation systems. Niosi and Bellon (1996), among others, set out the key agents and types of interaction in a national innovation system. For them, the key agents comprise private and public firms (either large or small), universities and government agencies. The key interactions may be technical, commercial, legal, social or financial. These come together in a system of interactions aimed at producing innovation within national borders. This thinking can be extended to the production of innovation locally, through systems that involve essentially the same types of agents and interactions, but at local scale. Critically, however, the precise nature of the agents and interactions can be expected to vary between localities and it is the implications of this variation for policy that the local innovation systems approach is so useful in uncovering.

The relevance of the local innovation systems approach for effective SME innovation policy design is underlined by the three following points:

1. Many of the processes driving innovation largely occur locally. These need to be understood for policy effectively to intervene. In particular, because knowledge tends to be embedded in people and requires close interactions between people to be useful, much of it can be considered to be relatively immobile. For SMEs, access to important components of this knowledge (tacit knowledge) requires a physical presence in the local innovation system. As Howells (1999) points out, empirical studies have identified clear distance decay effects in the rate of knowledge and information links between individuals and organisations, whilst local face-to-face contacts are critical for the effective use of these links. Moreover, SMEs in particular tend to have spatially restricted search patterns when seeking collaborative partners or technological inputs and thus local environment is of particular importance to them. If policy is to support SMEs effectively, we therefore need to understand the processes of local knowledge transfer that are important to SMEs and consider ways in which they might be influenced.
2. Different localities have distinct sector specialisations and distinct sets of innovation processes. For example, an SME-based high technology concentration is likely to have

different processes of knowledge generation, transfer and exploitation than a large firm dominated concentration. And a fashion or media cluster is likely to involve many different innovation processes to an electronics manufacturing cluster. Policy to stimulate SME innovation therefore needs to distinguish between different types of local innovation systems, ensuring that policy is adapted to different local innovation processes.

3. There are strong local differences in innovation performance. Certain localities appear to be good locations for knowledge-based activities. These places have the opportunity to generate high incomes locally and also contribute to national growth. The small number of genuine innovation hotspots need to be well managed to enable them to develop and grow. Other less favoured localities possess few of the attributes required for vibrant local innovation. Policy with national objectives, if it does not take account of these differences, is likely to have unintended local effects. For example, support for particular national sectoral strengths is likely to favour localities already successful in these sectors at the expense of less favoured areas and areas successful in other sectors. Furthermore, policy for strongly performing areas should not be the same as for weaker areas. Thus in innovation hotspots beginning to encounter agglomeration diseconomies policies for dispersion of activity or redeployment of available resources may be appropriate, whilst activities to build up concentrations, for example through inward investment, may be required in less favoured areas.

Influencing the capacity of local innovation systems to support SME innovation

This section seeks to examine more closely how policy may be able to influence the ability of local innovation systems to support SME innovation by addressing market and systemic failures and supporting less favoured localities.

Addressing market and systemic failures

One approach to the question of how policy might usefully intervene at local level is to examine the market failures that may affect SME innovation performance in any given locality. This approach is focused in particular on identifying how to increase incentives to the production of knowledge. Table 3.6 identifies a number of potential market failures, whose existence and strength are likely to vary between localities, and some potential policy responses, concentrating on actions that can be taken at local level. The precise nature of a policy intervention to rectify market failures should depend on the specific barriers and opportunities in the locality in question.

The value-added of using the local innovation systems approach over market failure analysis alone consists in its ability to identify further potentially fruitful areas for public intervention (notwithstanding potential government failure) in particular in the facilitation of processes of collective learning.⁴ Table 3.7 therefore points to additional issues that arise when we take a systems perspective to policy design. The table draws strongly on Lundvall and Borrás (1997).

Once we view the SME innovation process as part of a process of collective learning within a local system, we see the role for policy in creating appropriate local assets (for example knowledge based organisations to generate innovation), *connectivities* (to facilitate the interactions that support collective learning), and *capabilities* (for example to support innovation adoption capability in SMEs and knowledge transfer capabilities from universities). As with market failures, locally differentiated policy intervention is likely to

Table 3.6. **Market failures and SME innovation**

Type of failure	Nature of failure	Potential local policy actions
Information failures	Barriers to the flow of information on innovation opportunities lead to missing markets and constraints for SMEs in obtaining finance, strategic partners, etc.	Promotion of networks and partnerships. Public support to SME research projects. Encouraging specialist finance providers.
Public goods	Undersupply of non rival and non excludable goods that contribute to SME innovation, <i>e.g.</i> university research.	Public supply of basic innovation infrastructure locally.
Externalities	Undersupply of activities that benefit others in addition to the producer, <i>e.g.</i> training of highly skilled labour. Reduced incentives to SME innovation.	Direct public support for SME research projects. Public support for training of highly skilled labour in local specialisms.
Monopolies	Incumbent firms restrict entry through branding and other behaviour, constraining the ability of innovative new and small firms to enter the market and compete.	“Second best” policies supporting SMEs in order to “level the playing field”. Support of new firm entry in local sector specialisms.
Indivisibilities	There is an indivisible cost involved in creating knowledge and if marginal cost pricing is used the fixed cost is irrecoverable, constraining the production of knowledge by SMEs and others.	Public funding of public and private research projects with potential spin offs for SMEs.

Table 3.7. **System failures and SME innovation**

Type of failure	Nature of failure	Potential local policy action
Infrastructure provision	Underinvestment in the local infrastructure with which firms interact, <i>e.g.</i> communications infrastructure and technology transfer organisations.	Incentives for private or public provision of communications and knowledge transfer infrastructure.
Transition and lock in failures	Firms and localities are highly capable in their own technological area but not in related areas. They are therefore unable to switch away from their existing technologies.	Incentives for technological activities that broaden firm and organisational capabilities and nurturing of emerging technological systems.
Institutional failures	The institutional and regulatory context has an unexpected negative impact.	Monitoring and adjusting local institutions and regulations.
Learning failures	Firms may not be able to learn rapidly and effectively.	Developing firm capabilities through human capital programmes, support for R&D and technology dissemination policies. Opening channels to knowledge sources, <i>e.g.</i> universities and other firms.
Suboptimal balance between exploitation and exploration	Local innovation concentrations may work too much on exploitation and not enough on exploration (or <i>vice versa</i>)	Using public procurement and funding to support exploration, introducing diversity in the industry by supporting new and small firms, supporting variety through dissemination of codified information. (Or encouraging commercialisation of basic research.)
Suboptimal balance between selection and variety	Local innovation concentrations may have too rapid selection, whereby underperforming firms or activities close, and too little variety, in terms of firms and activities carrying potentially promising new technologies (or <i>vice versa</i>).	Strengthening competition policies and use industrial and technological policies to support new firms carrying potentially promising technologies (or weaken competition policies and limit the use of industrial and technological policies supporting firms that are likely to fail).
Appropriability traps	Too stringent appropriability may limit the spread of knowledge within the innovation system.	Encouraging local knowledge transfers.
Complementarities failures	The appropriate complementarities may not be present in a local innovation system.	Formation of R&D networks, industry university interfaces and bridging institutions.

Source: Draws on Lundvall and Borrás (1997).

be more successful than national policies alone, because the precise nature of the failure will vary between areas.

The market failure and systemic failure frameworks need to be applied together when considering the most effective policy design. Rectifying the market failures affecting innovation in particular localities will help build their local innovation systems, particularly with respect to knowledge production activity, whilst addressing systemic barriers will also help promote the transfer and exploitation of knowledge. The overall objective is to create a strong local innovation system with the right incentives to innovate and with the right assets, connectivities and capabilities for collective learning. This system should not be completely closed in on itself, but should be open to external influences, thus ensuring a capacity to adapt to technological change over time.

Some specific policy levers that can be used to strengthen local innovation systems are discussed below using the three-fold classification of assets, connectivities and capabilities in the innovation system.

Assets

- Public investment in technology development organisations, including universities and public research laboratories, focusing on activities in which the locality has strengths.
- Creation of science and technological parks and incubators close to universities and public research laboratories.
- Attracting inward investment and encouraging new firm start ups to build sector strengths or fill gaps in the local innovation system.
- Supporting access to finance for innovation in the local area's specialisation.

Connectivities

- Creation and strengthening of local networks among SMEs, large firms and research organisations through facilitating mutual awareness, brokering contacts, and supporting common facilities and services.
- Encouraging local innovation collaborations, for example between public research and industry or between suppliers and customers.
- Creation of local bridging institutions, for example intermediary technology transfer agencies to facilitate links between industry and public research by helping shape the direction of research and facilitating technology transfer.⁵
- Ensuring openness of the local innovation system to sources of knowledge and markets for knowledge outside the system, for example by encouraging linkages between SMEs and foreign direct investors, cross-border collaborations by universities and SMEs or by intermediary technology transfer agencies placing research contracts outside the system for exploitation locally.

Capabilities

- Education and training of individuals to increase their innovation skills.
- Advice, training and consultancy to SMEs to increase their motivation and capabilities to absorb innovation.
- Influencing the motivation and abilities of universities and public research organisations to engage in collaborative research with SMEs and facilitate academic spin-outs.

- Influencing the motivation and abilities of large firms to support corporate spin-outs and participate in collaborations with small firms.

Supporting localities where the local innovation system is weak or absent

One of the difficulties with arguing for policy to support local innovation systems is that some localities have established strengths to build on whereas other localities have only very weak assets, connectivities and capabilities. If policy aims to build on existing strengths, some localities are likely to be left further behind in innovation performance and hence in incomes and growth. For example, policies funding knowledge transfer from university departments with recognised research strengths to local SMEs working in the same technologies are likely to work in favour of those areas with already good innovation performance and against those with poor performance. But at the same time it is difficult to support local innovation systems in localities that do not have some existing strengths. We can therefore ask ourselves the question: *Should policy to support SME innovation through local innovation systems focus exclusively on existing innovation hotspots or does it also have a role in less favoured localities?*

The answer to this question depends on the degree of political commitment to developing concentrations of innovation in places where innovation is weak. Experience shows that it is possible to build innovation concentrations even where there is very little in the way of innovation strengths, as long as government is willing to adopt a long-term strategy and commit significant resources to it. Each of the innovation hotspots identified (see Box 3.12) owes much to public policy. The now vibrant Sophia Antipolis technopole in the south of France was started by the location of public research institutions on a publicly-funded science and technology park in a virgin location. Similarly, the USA innovation concentrations in Silicon Valley and Route 128 owe much to public defence spending. And in the United Kingdom, the Cambridge high technology cluster has been built on massive public research expenditure largely directed through Cambridge University. However, the returns for national output from public investment in areas without an existing focal point around which to build innovation capacity are likely to be much smaller than the returns from the same investments in areas with existing strengths. Thus the issue for policy makers becomes one of the scale of resources they are willing to devote and the range of mechanisms they are willing to use for the objective of territorial equity as opposed to national growth.

Nonetheless, even if the policy objective is not to remove territorial disparities by committing greater resources to less favoured areas, it can still be argued that existing support to less favoured localities would be more effective if it were redirected to promoting innovation as a driver of local growth. This is indeed the case in a growing number of local development strategies. Clearly, however, different methods of public intervention are likely to be appropriate for less favoured localities as opposed to the leading innovation concentrations. For example, policy for less favoured areas is more likely to focus on promoting inward investment and orienting local firms to external knowledge sources, whilst in already strong innovation agglomerations the emphasis is likely to be on creating channels for knowledge flows between local exploiters and generators of knowledge. This underlines the essential local logic of the local innovation systems approach, namely creating policies adapted to the specific local opportunities and barriers to knowledge production and collective learning in the local innovation system.

Scotland: an example of policy supporting local innovation systems

This section attempts to make clearer the policy options implied by the local innovation system approach by examining some programmes influencing innovation assets, connectivities and capabilities in a specific case example, namely Scotland in the United Kingdom. In 2001, Scotland introduced a new economic development strategy called “A Smart, Successful Scotland”, which introduced a new approach based on increasing productivity, entrepreneurship, skills and digital connections (Scottish Executive, 2001). Although the approach is not set out explicitly in terms of the local innovation systems framework, building innovation is a key part of the strategy and the actions identified in the strategy will have the effect of developing Scotland’s innovation system. It can be considered a good learning model for other areas seeking to build their local innovation systems.

The three strands of the approach as set out in the strategy are as follows:

- Growing business: Achieve greater entrepreneurial dynamism and creativity, more e-business, increased commercialisation of research and innovation, and global success in key sectors.
- Global connections: Digital connectivity, increased involvement in global markets, Scotland to be a globally attractive location, and more people choosing to live and work in Scotland.
- Learning and skills: Improving the operation of the Scottish labour market, improving skills training for young people, ensuring basic employability of all people, and improving demand for high quality in-work training.

A number of the specific programmes now being implemented to take this forward are discussed in OECD (2004) and are briefly summarised here.

Assets

- Attracting highly-skilled labour:

Talent Scotland. This initiative aims to raise the international profile of Scotland and its electronics companies in order to attract overseas engineers to work in Scotland. A Web site serves as the main communication tool for the programme. It provides a matching service between Scottish companies seeking to fill skills gaps and overseas-based engineers interested in job opportunities in Scotland.

Connectivities

- Connections between research and industry:

Proof of Concept Fund. The Fund has a budget of approximately EUR 50 million over a six year period to help researchers in Scotland’s universities, research institutes and National Health Service Trusts to take pre-commercialisation projects further towards commercial applications. The Fund aims to help grow Scotland’s future knowledge-based companies.

- Stimulating knowledge transfer from foreign direct investment (FDI):

The Alba Centre. The legacy of past FDI strategies has given Scotland a very large information and communications technology (ICT) sector, but one where foreign affiliates dominate the industry and its exports. A centre of excellence has therefore been developed in information and communications technologies (ICT) at the Alba Centre, which should help to embed foreign ICT affiliates and encourage knowledge

transfer by providing a strong supporting environment and building domestic competencies that will dovetail with those of foreign enterprises. The core activities of the Alba Centre are: i) the Alba Campus, a technological park where ICT sector foreign investors and newly started microelectronics design companies can co-locate; ii) the Scottish Embedded Software Centre, providing access to embedded software expertise, links to local industry and academic institutions and technical and strategic resources; iii) the Virtual Component Exchange, which is a trading platform for intellectual property in semiconductor design; and iv) the Institute for System Level Integration, providing a platform and critical mass for postgraduate education, professional training, research and support for the electronics design community.

- Intermediary technology transfer agencies:

Intermediate Technology Institutes (ITIs). The Scottish ITIs are bridging organisations aimed at accelerating the process of commercialising R&D in Scotland by undertaking technology foresight and commissioning commercialisable research. Three ITIs were announced in 2003 in the fields of energy research, life sciences and communications technology, with funding of some EUR 650 million over 10 years. They are managed by an executive team recruited from industry with the assistance of a scientific advisory board (including leading academics) and a market advisory board (including representatives of major Scottish and global companies and SMEs). Market opportunities are identified by members of the Institutes and the advisory boards and then groups of researchers are commissioned to produce the required technology in a series of research packages leading to exploitable products. Partnerships with universities are encouraged because there is a clear synergy between the pre-competitive research supported by the ITIs and the basic research undertaken by universities.

Capabilities

- Building SME innovation capabilities:

Global Scot network. This is a global network of influential Scots and people with an affinity for Scotland. Members can take on specific roles such as business support, intelligence support, school support etc. One of the benefits of the network is in assisting Scottish SMEs to enter into cross-border strategic alliances, through advice and mentoring, provision of contacts, or assistance with finance.

Global Companies Development Programme. This programme supports SMEs that could become significant players in the global economy. The main purpose is to develop the strength of the management team to meet the challenges of internationalisation. It uses consultancy support, peer group learning and specialist events to assist SME management to develop and implement an internationalisation strategy.

Virtual and Incubator Offices. Four virtual and incubator offices are being operated in the USA. One of their key functions is to provide incubation space for Scottish SMEs to enter the North American market, with support from Scottish Enterprise staff.

Conclusion

The principal message of this paper is that the spatial dimension is critically important to the SME innovation process, calling for specific and tailored local policies to improve the quality of the local innovation systems within which SMEs innovate. Once we embrace this framework, the policy logic becomes one of how to support collective learning

processes by influencing the assets, connectivities and capabilities of particular local innovation systems.

Local development agencies are well placed to design and implement such tailored policies because of their ability to build specialised knowledge of the strengths and weaknesses of their own local innovation system. However, this type of intervention requires new thinking by local development agencies, which need to be proactive in assessing the market and systemic failures constraining innovation performance in their locality and in designing, implementing and refining appropriate policies to address these failures. These local policies should be seen as complementing rather than replacing existing national SME innovation support.

SMEs are likely to be major beneficiaries of a policy designed around strengthening local innovation systems. This is partly because they are less likely than large enterprises to have large scale internal finance mechanisms, labour markets and R&D facilities and thus tend to depend more than large firms on the capacity of their external environment to provide these resources. It is also partly because a shift of innovation policy to the local innovation systems approach implies a shift away from traditional policies for knowledge generation that benefited disproportionately large firms and public research organisations in the past.

The irony in all this is that understanding of the importance of local environment to SME innovation is growing at a time when globalisation processes, including increased trade and investment flows and improved transport and communications, had led many commentators to discount the importance of locality in economic growth processes.

Notes

1. Solow estimated that changes in total factor productivity accounted for some 87.5% of US economic growth 1909-49.
2. Sharing mechanisms concern the gains from the wider variety of input suppliers that can be sustained by a larger final goods industry, from the narrower specialisation that can be sustained with larger production, and from sharing of risks. Matching mechanisms concern the increased quality of matches, the increased probability of matching and the alleviation of hold-up problems in larger agglomerations. Learning mechanisms concern the generation, diffusion and accumulation of knowledge.
3. For example, the Porterian and Marshallian clusters concepts recognise the importance of knowledge spillovers but largely see them as occurring through market processes (such as labour markets and supply chains) or the social capital context, but how these interactions might be supported by policy is less explicit.
4. Key gaps when focusing exclusively on the market failure approach with respect to innovation processes relate to: i) Methodological individualism – traditional neoclassical analysis assumes that agents, such as firms, operate independently of any formal or informal institutional context (e.g. legal frameworks governing market functioning, norms governing goals and reciprocal behaviour, and networks), whereas in practice how firms go about innovation is strongly influenced by the institutions that surround them. There are well known differences between innovation processes in the USA as compared with Japan, for example, and it is likely that there are also differences in innovation processes between agglomerations within countries. ii) Equilibrium – neoclassical analysis focuses on how markets can achieve optimum static equilibrium, whereas innovation is a dynamic process in which imperfect competition is pervasive. iii) Knowledge – traditional neoclassical analysis assumes that knowledge is perfectly available, but the tacit knowledge involved in much of the SME innovation process requires effort and organisational capabilities to acquire and exploit. Overall, in contrast to market failure thinking, the systems approach is based in economic thought that tends to assume instead varying institutional frameworks, dynamic and path dependent processes, imperfect competition and learning mechanisms to assimilate tacit knowledge.

5. Such institutions should carry out foresight activities not to pick winners but to create a pool of technological opportunities from which new products and processes can emerge.

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Japan's Small and Medium Enterprises Amid Ongoing Globalisation

This paper is based on *Globalisation and SMEs* in Japan's 2004 White Paper on SMEs, prepared by the Small and Medium Enterprise Agency, Japan

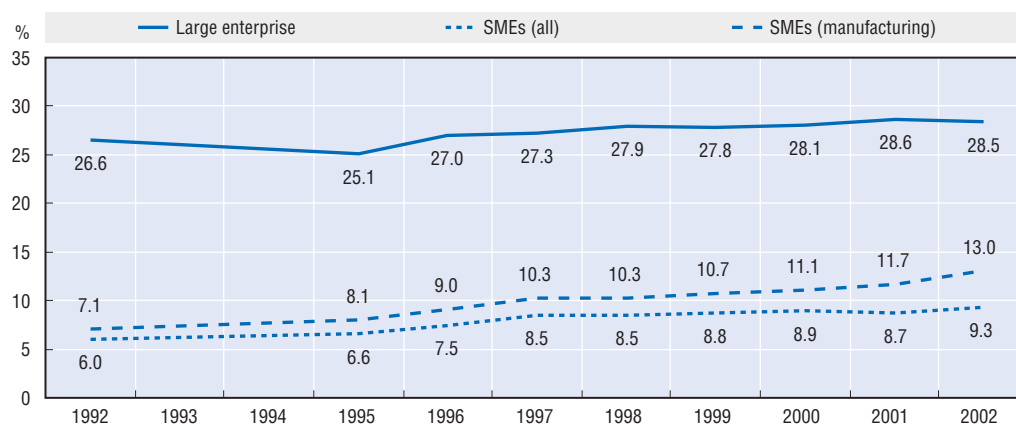
Introduction

Rapid globalisation has intensified competitive pressure on Japan's small and medium sized enterprises (SMEs). New inroads have been made into foreign markets where factor costs, market structure and social and legal systems are vastly different from those of Japan. Some SMEs have abstained from starting own production overseas, outsourcing part of their products to overseas manufacturers. This paper discusses the international movements of Japan's SMEs and identifies the main reasons for success and failure linked to different forms of international division of labour. The issue of "hollowing out" is also addressed.

Increasing internationalisation of SMEs

Overseas operations are typically more widespread among large companies than among SMEs. This gap however, has narrowed over the ten-year period to 2002, the proportion of SMEs with overseas subsidiaries rising more strongly than that of large enterprises, notably in SME manufacturing (Figure 3.7). Economic globalisation has thus

Figure 3.7. **Proportion of enterprises with overseas subsidiaries**

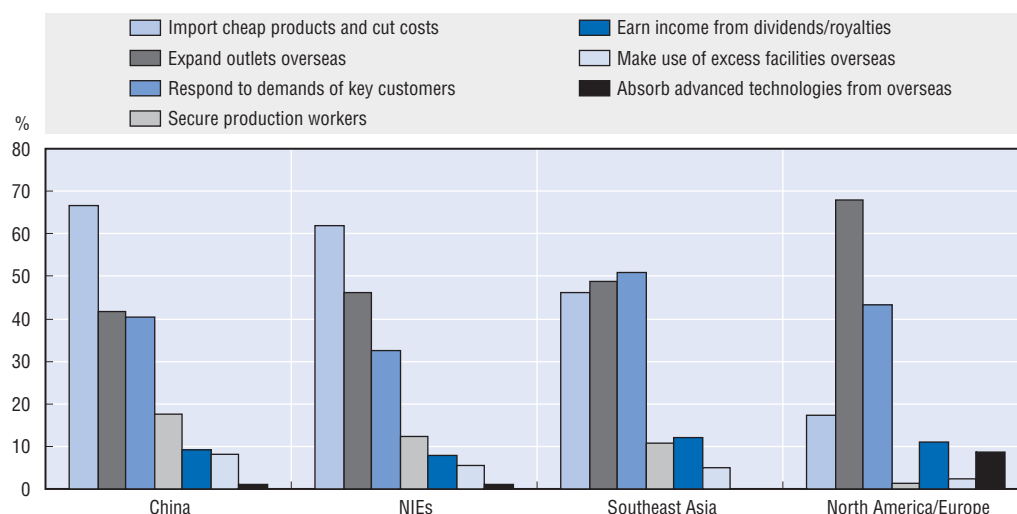


Note: Overseas subsidiaries are overseas corporations in which a Japanese enterprise has a share of 20% or more; SMEs are as defined under the Small and Medium Enterprise Basic Law (1999).

Source: METI, (1992-2002).

StatLink: <http://dx.doi.org/10.1787/716058106253>

Figure 3.8. **Purpose of establishment of operations overseas by SMEs according to region**



Note: Totals exceed 100 due to multiple responses; NIEs: Newly industrialised economies.

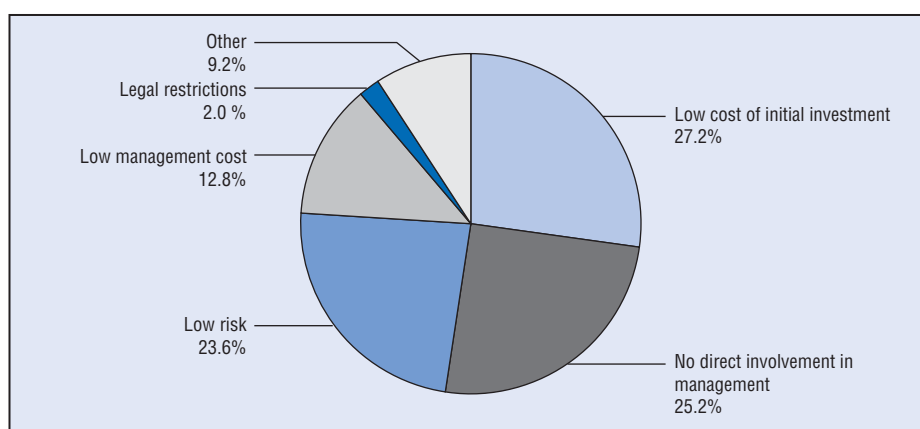
Source: JSBRI and RIETI (2003).

StatLink: <http://dx.doi.org/10.1787/368153427760>

provided a particularly strong stimulus for the internationalisation of Japan's SMEs. The economic rationale for expanding the presence of SMEs overseas differs from region to region, the principal reasons being the exports of locally produced, less costly products to Japan from China and NIEs (Hong Kong, Chinese Taipei and Korea); the fulfilment of orders by major business partners in Southeast Asia, and establishment in North America and Europe in order to expand sales in these markets (Figure 3.8).

Overseas production can be started through direct investment (an overseas subsidiary) or through business linkages, entrusting off-shore production to an overseas company. Initial capital requirements for direct investment are higher than those for business linkages (Figure 3.9). Other important factors favouring the choice of business alliances include the level of management involvement and level of low risk.

It is found that for overseas production, companies may opt for business alliances instead of direct investment because: i) direct investment requires significantly higher investment (27.2% of respondees); ii) there is no need to participate in the management (25.2%); and iii) direct investment involves a high risk (23.6%). In other words, a business alliance is utilised by a company that a) cannot afford to invest much money or that b) sees overseas production as being too risky.

Figure 3.9. **Factors influencing type of business collaboration chosen**

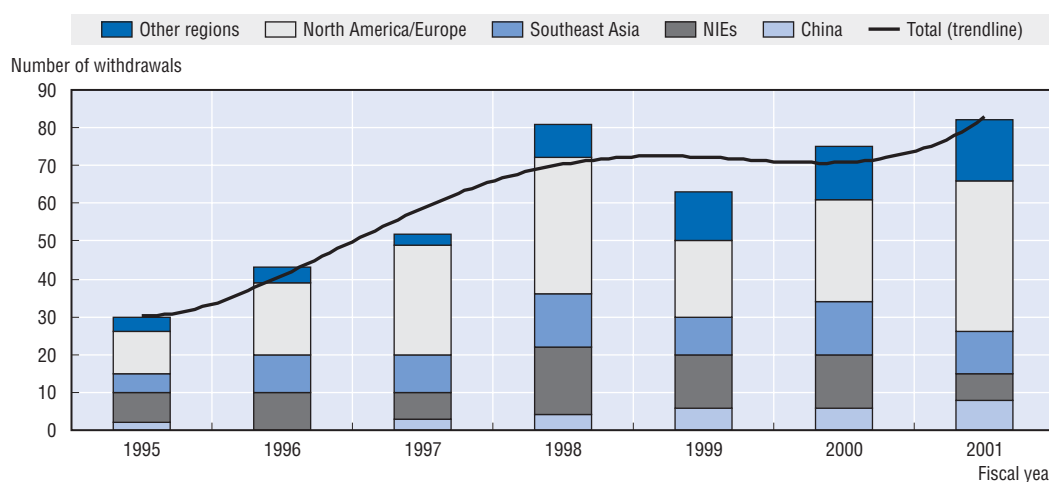
Note: Business collaboration is here defined as the “development of relation of cooperation in production system through e.g. contracting out of production, lease of production facilities and joint production under agreements or contracts with overseas enterprises that are not the target of FDI”. NIEs: Newly industrialised economies. Enterprises engaged in business collaboration were asked their “reasons for choice of business collaboration instead of FDI”.

Source: METI, (1995-2001).

StatLink: <http://dx.doi.org/10.1787/724766463510>

Success and failure of overseas direct investment

The rising trend of overseas business operations has coincided with increased withdrawals from such markets, reflecting business failure as well as efforts to concentrate foreign production in one region (Figure 3.10).

Figure 3.10. **Number of withdrawn overseas subsidiaries of SMEs (by region)**

Note: Withdrawals from overseas subsidiaries by parent companies with capital of no more than YEN 300 million or ≤300 regular workers. NIEs: Newly industrialised economies.

Source: METI, (1995-2001).

StatLink: <http://dx.doi.org/10.1787/062573700865>

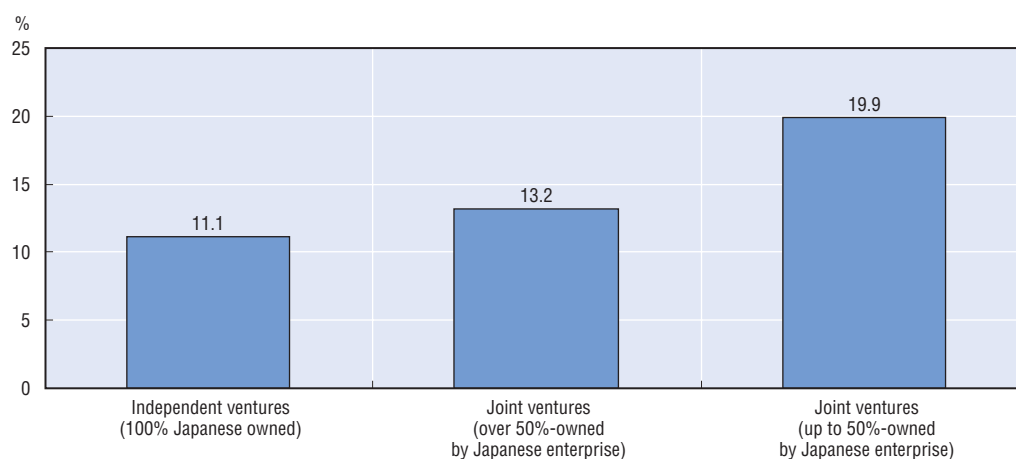
In considering the factors for success and failure, it appears that foreign direct investment is frequently hampered by production delays as production at a foreign affiliate takes time to get underway. Surveys show that only 40 per cent of foreign subsidiaries succeeded in reaching initial production targets by the end of the first two years. Given this experience, new projects of foreign direct investment may need to allow for longer start-up periods.

While most SMEs tend to take foreign investment decisions mainly to benefit from low labour costs, this alone may not be sufficient to ensure adequate profitability. Surveys also show that overseas subsidiaries with rising profits have been largely those which attached particular importance to market size and to the legal, taxation dimensions of that market in addition to ensuring that its products adequately match the local market.

The relative success of foreign direct investment also depends upon its form, essentially as “sole ownership” (100% owned) or as a “joint venture”. The latter type has the advantage of allowing Japanese investors to acquaint themselves more easily with business practices and institutional aspects of foreign markets. At the same time however, joint ventures may suffer from managerial disputes as well as from leakages to local partners of Japanese technology and know-how.

Survey evidence suggests that withdrawals from overseas markets are significantly lower for the form of “sole ownership” than for joint ventures (Figure 3.11). Higher withdrawal rates are indicated for joint ventures having a participation of over 50% and for those beset by managerial disputes.

Figure 3.11. **Percentage share of foreign market withdrawals by Japanese SMEs by type of investment**



Source: JSBRI and RIETI, (2003).

StatLink: <http://dx.doi.org/10.1787/467431143845>

The choice of top executives may also play a part in the continuity of foreign operations. It can be observed from survey evidence that a higher percentage of affiliates continues to exist when top executives are “employees of the head office” than when they are “representatives of the head office”. In the case of non-Japanese top executives, “local top executives appointed by the head office” tend to ensure greater continuity.

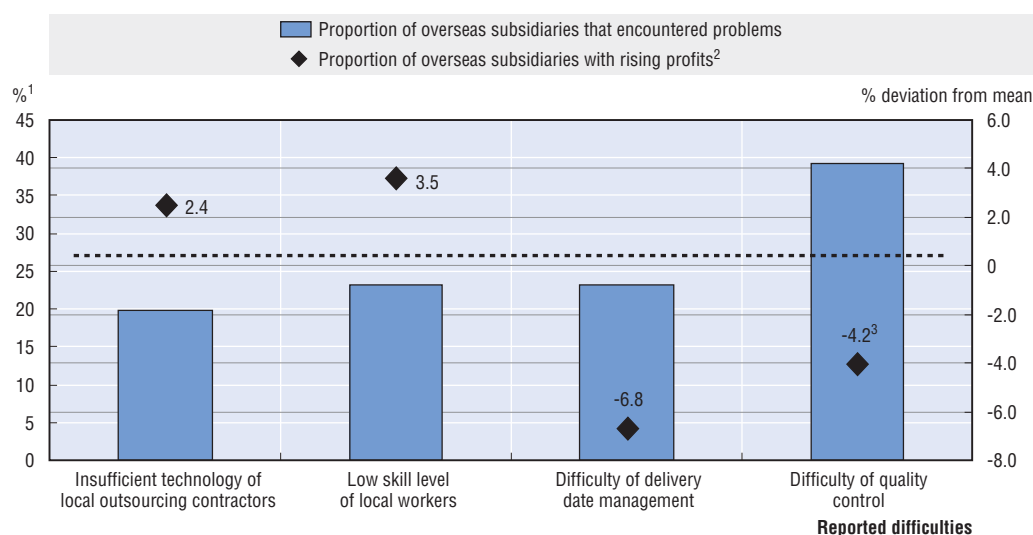
Management problems can be dealt with more efficiently by full-time top executives than by head office representatives who tend to have management responsibilities at both the level of head office and at foreign affiliate level.

Qualifications required for head office employees who wish to be sent abroad usually include strategic planning ability, language skills and communication ability. As regards top executives of local origin, appointments made by the head office involve greater continuity than those made by joint venture partners. Human capital also acquired by foreign employees in Japan appears to represent an important managerial asset.

The performance of foreign subsidiaries following the initial investment period also depends upon the method of production control and sales management.

A frequent problem in production control is the quality control performed at the local affiliate, with such problems adversely affecting profitability. Figure 3.12 shows the relative incidence of reported difficulties.

Figure 3.12. **Production control and profitability of overseas subsidiaries**



1. Totals exceed 100 due to multiple responses.

2. Proportion of overseas subsidiaries whose profits were higher in 2003 than 1998.

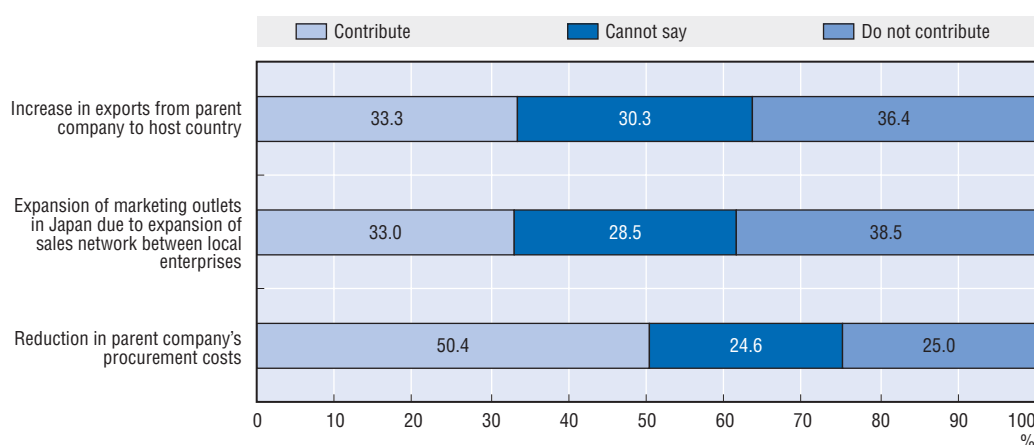
3. Statistically significant difference observed.

Source: JSBRI and RIETI, (2003).

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Many overseas subsidiaries exercise production control with the help of work manuals, production plans and through a clean and organised workplace. The use of production equipment that does not require “complicated operations” tends to ensure higher levels of profitability than total quality control and those methods focussing on specific associated skill requirements.

The success of foreign direct investment depends in large part upon market outlets for new production. For this reason, many local affiliates carry out local market surveys and train sales personnel. In combination with after-sales service such initiatives tend to increase sales, especially when carried out by the affiliates themselves rather than by other companies such as sales agencies and trading firms.

Figure 3.13. **Contribution of overseas subsidiaries to Japanese parent company**¹

1. Respondents were asked to choose from “contribute”, “cannot say” or “do not contribute” regarding the contribution of their overseas subsidiaries’ activities in each category.

Source: JSBRI and RIETI, (2003).

StatLink: <http://dx.doi.org/10.1787/320483244362>

Foreign operations and domestic output

Overseas production can affect domestic production in a number of direct and indirect ways.

Leaving the substitution effect aside, the main indirect effects have taken the form of increased exports from head offices to overseas affiliates, market expansion in Japan due to the expansion of sales networks among overseas local businesses and reduced purchase costs at head office (Figure 3.13). The expansion of overseas business activity has thus been found to stimulate exports from Japan in the form of increased inputs for foreign production, while imports for low-cost products from foreign subsidiaries have lowered costs in Japan.

Rising output of foreign subsidiaries often results in lower domestic production (substitution effect). A number of Japanese SMEs, however, have been able to step up both domestic and foreign production thanks largely to the use of own brands overseas and quality differentiation. Moreover, companies with overseas operations usually undertake highly integrated R&D efforts which help them maintain or even raise domestic output levels at times of rising overseas production. High R&D intensity may result in technological differentiation, allowing continued production of standard products at home. Enterprises with rising overseas and domestic production also have a relatively low labour share, perhaps a consequence of high R&D intensity.

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E-business and SMEs in Six Non-OECD Countries: South Africa, Brazil, Chile, China, India and Singapore

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Background

Information and communication technology (ICT) connectivity (PCs and Internet) is nowadays very widespread in businesses of all sizes. As is the case with all technologies, small businesses are slower than large ones to adopt new ICTs. Potential small business benefits and firm and sector-specific strategies drive the adoption and use of ICTs. Since the late 1990s, the OECD has been involved through various studies, events and fora to foster SME adoption of ICTs and associated business applications. For example, a report, *SMEs and Electronic Commerce*, was prepared as a background document for the Ministerial workshop, “Realising the Potential of Electronic Commerce for SMEs” in the framework of the 1st OECD Conference for Ministers Responsible for SMEs, in Bologna, in 2000. The Bologna Charter on SME Policies, adopted at that Conference, called for consideration to be given to SME perspectives when guidelines, rules and regulatory initiatives are drawn up, thereby underlining the importance attached to Ministers to the SME dimension. The topic has continued to hold the attention of policymakers since that time in view of the rapid evolution of these technologies and changes on global markets, and their consequent policy implications regarding SME uptake of these technologies and their business applications.

For the second OECD Conference of Ministers Responsible for SMEs, held in Istanbul, in June 2004, a background report “ICT, E-Business and SMEs” containing a number of key policy recommendations (see Box 3.13) was prepared by the Working Party on the Information Economy in co-operation with the Working Party on SMEs and Entrepreneurship. Within the main background report, the OECD and the non member dimensions were examined. This present paper summarises the separate report on the six selected non-member economies. This separate report was prepared by Dr. Muriel Faverie, FORUM, Université Paris X, Nanterre, France, in close cooperation with the OECD secretariat (Mr. Graham Vickery and Mme Marie-Florence Estimé). This work received financial assistance from the French Government and from the United States Department of Commerce [e-Business Facilitation Initiative at the OECD]. In addition, a background report “Alternative Dispute Resolution (ADR) Online Mechanisms for SME Cross-Border Disputes” was prepared along with a handbook containing two educational instruments for resolving e-commerce disputes online (B2C and B2B).

Box 3.13. ICTs, e-business and SMEs

Background report prepared for the 2nd OECD Ministerial Conference on SMEs, Istanbul, June 2004: Key policy recommendations

- Move beyond policies for basic connectivity and ICT readiness to facilitate more widespread uptake and use of complex ICT applications and e-business uptake by small firms. Target programmes where there are demonstrated market failures (e.g. R&D incentives, standards frameworks, skill formation, information and demonstrations on best practice and benefits from adoption and use of ICT), taking into account that commercial considerations and returns drive business adoption of new technologies.
- Encourage rollout of affordable quality broadband networks to underpin small firm competitiveness and growth. Continue to liberalise network infrastructure and promote broadband competition and liberalisation in network services and applications. Where the needs exist, and without pre-empting private initiative or inhibiting competition, complement private investment with public financial assistance to expand coverage for under-served groups and remote areas.
- Strengthen the regulatory infrastructure for trust, security (including spam and viruses) and privacy and consumer protection, intellectual property protection of ICT innovations and digital products to build small firm confidence in networks essential for domestic and cross-border on-line activities.
- Expand, in conjunction with business and consumer groups, use by small firms of low-cost on-line dispute resolution mechanisms. Strengthen cross-border co-operation between stakeholders and the development of rules with cross-border application.
- Develop and distribute digital content including expanding the commercial use of public sector, education and health care information, and use e-government services to enterprises as a tool to improve efficiency of government/small business interactions and operations.
- Reduce ICT skill impediments to small firm growth. Strengthen government and private roles to improve basic ICT skills and developing frameworks to encourage higher level ICT and e-business skill formation (including marketing, organisational, security/trust and management skills in addition to ICT skills) in conjunction with education institutions, business and individuals.

Source: OECD, (2004).

Introduction

The six non-member countries: South Africa, Brazil, Chile, China, India and Singapore examined in this report are a heterogeneous group: Singapore being a highly specific case of a “city state” classified as a high-income country by the World Bank, the five other countries being characterised by per capita incomes in the average range, high income dispersion and major inequalities in wealth and development. The available data suggest that SMEs in these countries use e-business far less than large companies do. They also use it less than SMEs in OECD countries, which are better equipped. What is more, the level of e-business used by SMEs varies strongly across countries and sectors and regions within the same country. The size of these differences is subject to uncertainty, the available statistics being extremely limited.

A number of factors are usually taken into account in assessing the level of “e-readiness”: macroeconomic data, the level of penetration and use of information technologies, etc. These data, however, cannot fully explain why one firm in a given economy, or in a given sector, will engage in e-business, while another firm in the same economy or the same sector will not. For the purpose of this study three sets of additional data have been used: the degree and nature of the economy’s integration into world trade; sectoral dynamics; and the polarisation of development and growth in certain regions. Indeed, the empirical findings reveal the importance of these structural factors and of the ways they interact in evaluating the different patterns by which information and communication technologies spread. The interlinking of these factors provides a matrix that clarifies differences across countries, regions and sectors. The above structural factors are also present in OECD countries, but their impact on the inclusiveness or exclusiveness of the information society is often less pronounced, because of the greater homogeneity of economic situations. Overall, the study finds that levels of e-readiness differ widely from one country to the next, ranging from high in Singapore, where digital technology is even more widely used than in OECD countries, to low in China and India, and a level comparable to the OECD average in Chile.

The main results of this study are as follows:

- A company’s propensity to adopt ICT and use e-business seems to be determined less by its size than by the region in which it is located and the sector to which it belongs.
- On the whole, in emerging countries,¹ ICT access and use seem to fit into existing wealth accumulation patterns and to increase regional inequalities rather than correct them.
- With regard to sectoral dynamics, it seems possible to break out of this polarisation around the most developed urban and industrialised centres. The most encouraging example in this regard is the agri-food sector in India, which seems to be driving a trend that is not only spreading access and use through cities to rural areas, but that is also reaching thousands of micro-enterprises.
- The sectors that are integrated into global production or marketing chains seem to be most likely to engage in e-business.
- In the poorest countries, the collective dimension of ICT use and penetration is a vital aspect. One computer or one portable telephone can serve dozens or even hundreds of people, and also small companies and micro-enterprises. This phenomenon is usually missed in macroeconomic statistical evaluations by the International Telecommunications Union (ITU) or the World Bank, which tend to be based on individualised availability and use indicators more relevant to developed countries. This shows that in order to measure the spread and use of information technologies in these non-OECD countries, a new set of relevant indicators is needed.²
- Even though the professional use of a mobile phone is in principle excluded from the OECD’s definition of e-business (*see paragraph on definitions*), it should be noted that in the poorest regions with the least infrastructure, this technology is spreading much faster than fixed-line telephones, computers and Internet. In these regions, the mobile phone may have become the preferred channel of information and communication for small companies and micro-enterprises.

When it comes to adopting and conducting e-business, differences between large and small enterprises are important. To a greater extent than large firms, SMEs³ are subject to dynamics and constraints in the uptake and use of the Internet that depend both on their

environment and on their own characteristics. In addition to national differences in wealth, economic growth, educational attainment, several other factors are important, including the status of telecommunication facilities, the accessibility of computers, the existence of a domestic information technology industry (hardware and software), a sound financial system, demographic and geographic features reflecting the size of the country and the concentration or dispersal of its population. While SMEs are generally under less pressure to develop e-business they have less access to the required know-how, skills and financing. Structural factors being central to an analysis of e-readiness, each country's review is based upon several indicators, highlighting the national environment in which e-business of SMEs is developing.

SMEs' investments in ICT also depend on their commercial and industrial dealings with large companies. This feature underlines the importance of a firm's commitment to e-business at the sectoral and regional level. The way in which a firm positions itself within its region and sector is key in determining its propensity to acquire and use information technologies. Sectoral and geographic dynamics naturally differ from one country to the next, depending on a country's economic structure and the way it participates in international trade. For this reason, the quantitative macroeconomic assessment has been enriched by using data on sectoral and regional dynamics.

In a first section entitled "Some initial points of reference", the methodology and the main results achieved are described, while each subsequent section comprises a country study.

Some initial points of reference

Definitions

Information and communication technologies (ICT)

ICT refers to a wide range of more or less interchangeable and complementary infrastructure and equipment products for households, businesses and government: telecommunications and switching infrastructure, equipment for private networks, fixed and mobile telephones, servers, personal computers, work stations, communication equipment, software, etc. For reasons of availability and comparability, we have limited our data to telecommunications infrastructure, fixed and mobile telephones, computers and Internet in households and businesses. Although these indicators are no doubt insufficient, they are considered to be relevant for showing the extent to which digital technology is used within an economy, and they are the subject of many reliable and comparable statistical surveys and evaluations (ITU, 2003).

E-business

For the purpose of this study, we have adopted the definition of e-business provided by the OECD (2004, p. 106): "ICT-enabled intra- and inter-firm business processes over computer-mediated networks" This definition not only includes purchases and sales via Internet, but all uses of ICT in companies. As the 2004 OECD report points out with regard to e-business developments: "In spite of the growing level of business adoption and public debate concerning e-business (e-commerce), very little data on the use and impacts of e-business have been available to policy-makers [...]. Most internationally comparable official data at OECD level concentrate on access, connectivity and some aspects of ICT use (mainly e-commerce)." (OECD, 2004, pp. 109-10.) This also holds true for the non-OECD countries under review, in which data on e-business are even more scarce and incomplete. This is why rather than analysing the actual use of e-business by SMEs, this paper focuses on the conditions for its development ("e-readiness").

E-readiness

The measurements of “e-readiness” that have been undertaken since the late 1990s are meant to assess an economy’s ability to benefit from the spread, adoption and use of digital technologies. A broad variety of different methods and tools are used in the different studies. The following section explains the method that has been adopted to assess SMEs’ “e-readiness”.

SMEs and micro-enterprises

The countries studied here have no common definition of what constitutes an SME. Instead of imposing a single definition, each country’s own definition has been used. It will be remembered that in the poorest countries, SMEs and especially micro-enterprises are the population’s main source of labour and subsistence, if not of wealth. It is also important to note that the vast majority of them are not covered by official statistics.

Methodology

SMEs are subject, just as large companies are, to structural and macroeconomic factors that impact not only on the degree to which they will adopt e-business but also on the dynamics of that decision. Some of these factors act on the demand side, others on supply, and still others on both sides. The case studies have been prepared on the basis of two sets of data: macroeconomic data, qualifying the environment in which e-business develops in a given country; and data relating to the country’s economic structure and to the nature of its international trading relationships.

Assessing the environment

A number of data problems always come into play in gauging the development of a country’s information society. Whether one tries to measure the spread or use of technologies, or to assess the environment in which those technologies are introduced, an impressive volume of data must be assembled:

- For measuring the level of computerisation in China, the Chinese national statistics bureau uses 25 factors (ITU, 2003).
- For its “e-readiness” index, Harvard University assesses nearly 40 qualitative and quantitative criteria.⁴
- The Economist Intelligence Unit and IBM use more than 100 factors.⁵
- A study financed by the European Commission entitled “E-Factors” identifying the factors that influence the spread and use of e-business enumerated more than 250 factors.⁶

For purposes of this study, eight criteria have been selected: macroeconomic factors determining a country’s level of development and factors bearing on the quality of equipment and services offered specific to e-business.

- Macroeconomic factors include a country’s wealth (assessed on the basis of per capita income), its GDP growth rate over recent years, its level of education, and its economic stability. These factors influence both the demand for and the supply of e-business. A country’s wealth and its growth rate will give businesses and government the means to invest in the structural, institutional and organisational changes necessary to the development and use of ICT. Income per capita affects the size of the domestic market and the level of household spending on equipment and services. Educational attainment determines people’s ability to use information technologies, as well as the labour

market's supply of skills needed for the development and use of ICT by business, and the maintenance and development of a domestic software and hardware industry.

- The quality of equipment and services offered. The quality of infrastructure and the ICT penetration rate constitute the immediate technological environment in which e-business develops. We have assumed, as have all studies assessing "e-readiness", that broadly available digital telecommunications facilities are most suitable for supporting growth in the demand for new services. The price of communication services is a key factor for demand. Generally speaking, in the countries under review, these prices are low compared to those in the OECD area. They are very high, of course, when measured according to purchasing power parity (PPP). Lastly, a country's capacity to produce hardware and software adapted to local needs has been considered a positive factor.

Differentiating development paths

The international comparison underlying this study shows that the dynamics of e-business development are also subject to factors such as a country's economic structure and the nature of its trading relationships.

- A country's *geographic size and its population density* are determining factors, in that they define a level of concentration that has two mutually opposing effects on the spread of e-business: a high degree of concentration promotes the spread of know-how and techniques, but neutralises certain advantages of e-business in overcoming distances (the example of Singapore). By contrast, a widely scattered population is a great handicap to the spread of knowledge and techniques, but enhances the comparative advantages of online as opposed to face-to-face data exchange (examples of India, China and Brazil).
- An economy's *openness to international trade*: the number of bordering countries, and the quality and importance of trade with neighbouring economies also seem important. There are two broad models: one where e-business is driven by international trade (South Africa, China, India and Singapore), another where the development of domestic e-business has gone forward without much involvement in foreign trade (as in Brazil).
- *Economic structure*: Information technologies are generally more important in industrialised or service-dominated economies than in economies that are predominantly dependent on the primary sector. This can be variously ascribed to the level of development (particularly of income and education) which is generally lower in primary-based economies, and to the fact that information technologies are little used in rural areas. Nonetheless, the study of India offers an interesting example of how e-business can flourish among micro-enterprises in isolated rural areas.

A major consequence of these factors is that their interlinkages determine the sectoral and geographic dissemination path, which will differ greatly among countries: the case studies show how the interplay between these factors can favour or hinder the effects of sectoral or geographic polarisation, or can produce broader or generic uptake effects. Thus a cumulative process of exclusion is often found reflecting a set of unfavourable factors. These processes of exclusion from e-business, and more broadly from the information society, have their greatest impact on both micro-enterprises located far away from industrial and commercial centres and larger industrial firms which are not integrated into the dynamics of ICT and e-business.

Government involvement

In all the countries under review, governments have introduced programmes to facilitate the spread and use of information technologies. Their initiatives have been of various kinds, some aimed at “wiring” the whole national territory and its population, others implying heavy government involvement through its own use of ICT and e-business, and still others targeted at existing private-sector dynamics, and in particular sectoral dynamics. Although some resemble, and indeed stem from, measures taken in OECD countries, many are innovative.

Statistics and case studies

The criteria underlying our case studies were selected pragmatically. In the first place, use was made of various OECD studies on the spread of ICT and e-business⁷ and the framework adopted for the “Globalisation and E-Commerce” project of the Center for Research on Information Technology and Organisations (CRITO) at the University of California at Irvine. As the case studies progressed, certain criteria that appeared essential were added, while others that appeared irrelevant were deleted from the analysis. The analysis is strengthened by the adoption of a common statistical base for all the case studies: this makes it possible to compare different situations and to highlight common elements and particular features that will clarify a given situation or process. With the framework established, the case studies were conducted in an open-ended fashion, to take advantage of the data and analytical elements available.

The study relies upon three types of statistical data: macroeconomic statistics from international agencies, national macroeconomic surveys and national or regional microeconomic surveys. Under the first category, data from the ITU and the World Bank have been used. They are systematically collected worldwide, and measure the penetration of different types of communication equipment within a given population (number of hosts, number of fixed telephone lines, number of mobile telephones, number of computers per thousand inhabitants, etc.). They are interesting because they allow for international comparisons over fairly long periods of time. These data can be difficult to interpret, however, especially when it comes to making comparisons among populations with very different economic and social characteristics. Differences in the penetration of substitutable or partially substitutable technologies, differences noted within a given population between categories of individuals or firms, or between regions, all of which serve to distinguish economies, are not reflected in these indicators. A number of surveys were undertaken in the countries studied, covering these international indicators and supplementing them with country-specific indicators. For some countries, equipment indicators relate to households, while in other countries they refer to the regional or city level. These national data, while they are not always systematic and are derived from sources of varying quality, make it easier to appreciate an economy’s real situation. The data they offer are incomplete, however, and are not always comparable between countries.

In the absence of sufficient statistical data, it has not been possible to identify the way in which these elements affect the equipment status of SMEs in the countries under review. Data on businesses and their usages are highly fragmentary and specific. Apart from Chile, where we had access to a survey covering nearly 1 400 enterprises, the data for the other countries were drawn from various players, for the most part in the private sector, covering an extremely restricted sample of firms with very limited geographic and sectoral representation. The surveys were for the most part conducted in relatively

developed economic regions, on the basis of telephone interviews, and reflect practice only among the firms best equipped, as was the case with the business survey undertaken in the context of the CRITO Global E-Commerce Survey (GEC). That study covered 3 000 large, mid-sized and small firms in 10 countries, examining their ICT equipment and the use they made of it, as well as the factors determining that penetration and those uses. Employing a methodology and questionnaires common to all the countries, that survey was extremely useful as far as comparing these factors internationally. The limited sample size (300 firms per country, including 200 large firms and 100 SMEs), however, and the inherent biases in the methodology (telephone survey) meant that the results were not of much help in determining the level of e-business uptake by firms in a given economy.

That being the case, the data are highly incomplete for certain factors – those relating to ICT use by enterprises and to differentiation by size, by sector, and geographically.

Overall results

As noted above, this study attempts to assess the environment in which ICT is taken up by SMEs. This involves investigating both the way SMEs are positioned in the economic fabric and the relationship of that economic fabric to ICT. The paths by which information technologies are disseminated, have been classified according to three structural parameters: the polarisation of ICT penetration around specific urban centres, the sectoral dynamics of ICT dissemination, and the globalisation of the economy. The following paragraphs present an overview of each of the case studies.

Singapore: the dynamics of globalisation

Singapore is a special case among the group of countries studied. It is a “city state”, with high levels of education and income per capita, high-quality information and communication infrastructure, significant ICT penetration, and diversified usages. The Digital Access Index⁸ assessed by ITU at 0.75 (the highest index being 1) places Singapore in 14th position, just behind the United Kingdom and Switzerland, but ahead of Japan, Germany, Austria and Ireland. All international classifications based on these criteria place Singapore among the countries best prepared for the spread of ICT and its uses.⁹ The dynamics are chiefly explained by the country’s small size and its special position in world trade. There is a significant difference in sectoral ICT use, with highly equipped sectors such as those involved in multinational business (electronics and logistics, in particular), and relatively under-equipped sectors, such as the food sector (this may be explained by the small size of the country, which encourages networking and reduces the gains from long-distance electronic communication).

Chile: a shortage of skills and domestic services

Although both Chile and Brazil rank highly in terms of their Digital Access Index (DAI), with 0.58 (43rd out of 180) and 0.50 (65th out of 180) respectively, the situation is fairly different in these countries.

Chile’s GNP is seven times smaller than that of its neighbour Brazil, but its income per capita is twice as high. Moreover, it has a relatively high level of education. Telecommunication facilities are of good quality and connection costs are low. Yet e-business is used differently depending on the size of firms and where they are located. Reports by Chile’s Ministry for Industry show that while large Chilean companies have levels of ICT equipment and use comparable to the OECD average, this is not the case for

SMEs. These reports, like those of the World Bank, explain such differences by the limited supply of the skills needed to operate and use ICT and the difficulties of access to this market experienced by SMEs. This situation (low availability of highly skilled labour, which tends to emigrate to richer countries) is very characteristic of countries with average or low per capita income. In Chile, this shortage is worsened by the fact that it does not have a highly developed industry for producing ICT. Coupled with relatively high ICT equipment and user costs, this low domestic supply of services also seems to have the effect of discouraging companies from installing the software needed for more sophisticated e-business transactions. Lastly, the Chilean situation is characterised by a great degree of economic and population concentration in the central region (around Santiago and Valparaíso), which lessens the advantages of using ICT to overcome distances.

Brazil: dynamics geared to the domestic market and the banking sector

Brazil covers a vast territory with a large population, and with sharp economic and social disparities. The economic situation, which was long unstable, has not prevented the development of telecommunication facilities. These are of average quality, and households and businesses are constantly adding to their ICT endowment. This trend is led primarily by the banking and financial sector, which is focused on the domestic market. Foreign trade effects are still weak. The fact that the process is driven by the banking sector is important because this process is generic: it embraces all kinds of players, individuals and firms, large and small, and it extends to the entire urban area of the country.

South Africa: highly polarised development due to globalisation

South Africa and China are located in the top third of the “average” Digital Access Index (DAI) rankings (with 0.45 and 0.43 respectively), and their development is highly polarised around a few rich and industrialised economic centres. One of the main differences between the two countries is that for South Africa the integration of its industry into world production networks is the main source of the penetration and use of ICT in firms, while in China the main driver is the growth of the domestic market.

With regard to the penetration and use of ICT, South Africa is the continent’s most advanced country. Nevertheless, its 3.8 million Internet users account for less than 10% of the population. This country, which has a relatively low growth rate and high levels of unemployment, is characterised by a digital divide that increases the existing socioeconomic disparities between the richest and poorest populations, ethnic groups and urban and rural areas. Its economic dynamism is chiefly due to the fact that it is integrated in global production chains and trade. E-business is largely being developed by large firms in the service sectors, which now account for the bulk of GDP (65.3% in 2003), and manufacturing and mining activities, which have been strongly modernised and rationalised, as is the case for the automobile and agri-food industries, and integrated into global production chains. The dynamism of these sectors is based on banking and financial structures linked to large financial corporations of major industrialised countries, an effective stock exchange and considerable foreign direct investment. They are integrated into international trade through an intensive and sophisticated use of ICT. This trend, which is mainly linked to global markets and international firms, is polarised in two main regions, Gauteng and the Cape, and is spreading little to SMEs. Nevertheless, South Africa boasts an extremely widespread use of mobile telephones, which are being used (in particular for business purposes) by a much larger population than other types of ICT,

including SMEs, SMIs (small and medium industrial enterprises) and people living in urban and rural areas.

China: highly polarised development

China presents some striking contrasts. Although it has enjoyed extremely high rates of growth for more than a decade, China overall remains very poor, with low levels of education and per capita income, and very low rates of ICT penetration. In some provinces, however, and particularly in Beijing and Shanghai, things are different. It is here that much of China's wealth is concentrated, farmlands are the most fertile, and ports open up world markets for the products of local industry and fisheries. These areas are home to the largest industries and the biggest universities. They are the most highly developed zones, economically and socially, and this is where ICT uptake is concentrated. In terms of e-business, this polarisation is reinforced by great inequalities of public policies between provinces. In China, the propensity for an SME to invest in information technology is thus closely tied to the economic situation of the province in which it is located.

India: the model?

The same characteristics are found in India as in China: infrastructure and capacity (educational, legal, political, financial) that differ greatly from one area and province to the next, with economic development and growth highly polarised in a few urban centres. As a result, in India also, an SME's propensity to use ICT is highly dependent on the region in which it is located and the dynamics of local growth. However, the two countries differ because of the bipolar development policy that India has been pursuing for over 50 years and which has now led to a growing development of the production of ICT-related goods and services, coupled with the modernisation of the primary and secondary sectors. For India, ICT and its use genuinely have a key position in its strategy for alleviating underdevelopment. Indian production of business services on Internet is one of the world's most competitive. This development fits in with India's success in producing and exporting software and computer equipment over the past ten years. It shows its ability to raise its sights and shift from manufacturing to the production of services in communications technology sectors. This production, which requires highly skilled labour, is enabling India to increase its human capital and competencies and limit the brain drain towards Western countries. At the same time, India is modernising its secondary and primary sectors, and information technologies are playing a key role. Regarding e-business and more specifically e-business in SMEs, relatively few quantitative data exist. Firms which are primarily oriented towards international demand, and those in ICT sectors in particular, are naturally major users of sophisticated e-business, which covers all firms in these sectors, both large and small, as well as their partners in the banking and financial sector, including government and universities. However, these dynamics of penetration remain within the limits of these partnerships, which generally are located in specific urban centres such as Bangalore and New Delhi. The use of computers and the Internet in other sectors, such as agri-food, is more exceptional and less sophisticated, but seems to be having broader penetration effects through regions (from urban areas to rural areas) and concerns small and micro-enterprises in particular.

Some comparative quantitative data

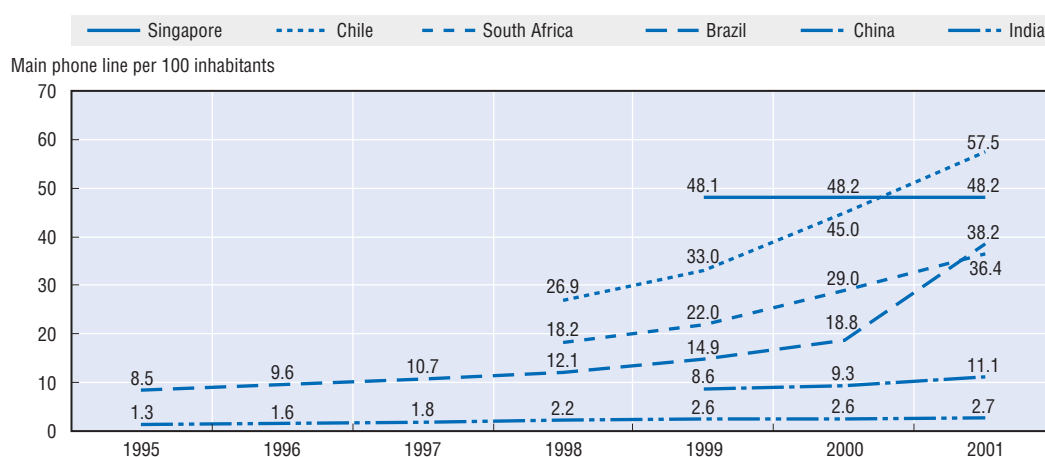
The following tables show the main indicators of the environment in which e-business is being developed by SMEs in the countries studied.

Table 3.8. The environment for e-business: level of development

	GDP 2003 (USD billions) ¹	GDP growth rate	GDP/capita (USD) PPP	Education level	Literacy rate % total population 2002	Economic stability
USA	10 881	1.2	35 750	High	97.0	Strong
Singapore	91	2.2	24 040	High	92.5	Strong
Chile	72	2.1	9 820	High	95.9	Strong
Brazil	492	1.5	7 770	Average	87.3	Average
China	1 409	8.0	4 580	Average	85.8	Weak
India	605	4.4	2 670	Very low	58.0	Average
South Africa	159	3.0	10 070	Average	85.6	Strong

1. Source: World Bank, Development Indicators Database, September 2004.

Figure 3.14. Comparison of the trend of telephone penetration rates in various emerging countries



Source: ITU (1999, 2001) and World Bank (2003).

StatLink: <http://dx.doi.org/10.1787/187856547130>

**Table 3.9. The environment for e-business:
communication infrastructure, availability of equipment and services (2001)**

	Telephones/ 1 000 population	Personal Computers/ 1 000 population	Secure servers/ million population ¹	Hardware production ²	Average cost of a 3 min. local call (USD)
South Africa	364.4	68.5	n.a.	n.a.	0.1
Brazil	385.1	62.9	5.15 ³	n.a.	0.1 ⁴
Chile	574.8	106.5	n.a.	n.a.	0.1
China	247.7	19.0	n.a.	17 750.00	n.a.
India	43.8	5.8	0.01	730.27	n.a.
Singapore	1 195.6	508.3	21.18	24 568.86	n.a.
USA	1 117.9	625.0	n.a.	n.a.	0.13
OECD average ⁵	508.28	285.55	17.77	221 159.20	n.a.

1. 1998 data. Source: ITU.

2. 1999 data. Source: Reed Electronics Research, the Yearbook of World Electronic Data 2000.

3. 2000 data. Source: International Telecommunication Union. Yearbook of Statistics 1991-2000, Geneva International.

4. 2000 data. Source: World Bank 2003.

5. 1999 data. Source: International Telecommunication Union World Trade Indicators, ITU, March 2001.

6. n.a. = data not available.

Source: World Bank "World Development Indicators Database" (2001 data), August 2003.

**Table 3.10. International comparison of fixed
telephone prices (2002 data)**

	Local call (USD)	Cost of a subscription as a % of per capita GDP
Singapore	0.02	0.3
Japan	0.07	0.5
Germany	0.09	0.6
France	0.12	0.6
United States	n.a.	0.8
Chile	0.1	2.5
Brazil	0.03	2.6
South Africa	0.09	3.4
India	0.02	12.5
China	n.a.	n.a.

Source: ITU, 2003.

Table 3.11. **Costs of using Internet (August 2003)**

	Cost of using 20 hours of Internet (USD)	% per capita GDP
United States	14.95	0.5
Singapore	11.04	0.6
Germany	14.10	0.7
France	14.15	0.8
Japan	21.12	0.8
Chile	21.81	6.1
Brazil	27.99	11.8
China	10.14	13.0
South Africa	33.33	15.4
India	8.74	21.9

Source: ITU, 2003.

Table 3.12. **International comparison of DAI (estimated on the basis of 2002 data)**

ICT access capacity	Country	Infrastructure	Accessibility	Knowledge	Quality	Use	DAI
Very high	Sweden	0.94	0.99	0.99	0.64	0.67	0.85
	Denmark	0.89	0.99	0.99	0.66	0.61	0.83
	United States	0.74	0.99	0.97	0.54	0.65	0.78
	United Kingdom	0.86	0.99	0.99	0.53	0.5	0.77
	Singapore	0.78	0.99	0.87	0.54	0.59	0.75
	Japan	0.72	0.99	0.94	0.47	0.64	0.75
	Germany	0.76	0.99	0.96	0.52	0.48	0.74
	France	0.76	0.99	0.96	0.51	0.37	0.72
High	Chile	0.41	0.94	0.89	0.36	0.28	0.58
	Brazil	0.29	0.88	0.90	0.32	0.10	0.50
Average	South Africa	0.23	0.85	0.83	0.26	0.08	0.45
	China	0.22	0.87	0.79	0.24	0.05	0.43
	India	0.04	0.78	0.57	0.18	0.02	0.32

Note: The Costs of using Internet (August 2003) of data access and comparability, is constructed on the basis of a very limited number of indicators (8) representing 5 factors considered to be fundamental to an individual's ability to access and use ICT:

1. Infrastructure development is assessed on the basis of the number of persons with fixed and mobile telephones.
2. The quality of infrastructure is assessed on the basis of the number of subscribers to high debit services and the level of international bandwidth per capita.
3. Accessibility is assessed by the price of Internet access.
4. Knowledge is assessed by the literacy rate of the population and the enrolment rate.
5. Use is assessed by the number of Internet users.
6. The above table provides the results of this index for the countries studied in this report compared with several OECD countries.

Source: ITU, DAI results World Telecommunications Development Report, (2003).

Table 3.13. International comparison on the basis of the “e-readiness” ranking

	Overall score	Ranking
Denmark	8.28	1
United Kingdom	8.27	2
United States	8.04	6
Singapore	8.02	7
Germany	7.83	13
France	7.34	18
Japan	6.86	25
Chile	6.35	29
South Africa	5.79	32
Brazil	5.56	35
India	4.45	46
China	3.96	52

Note: This ranking concerns the 60 most developed economies. It is prepared on the basis of an “e-readiness” indicator aimed at measuring an economy’s capacity to use Internet. This indicator is constructed on the basis of 100 quantitative and qualitative criteria organised into 6 distinct categories: infrastructure, economic environment, level of uptake by companies and individuals, social and cultural conditions that influence the use of Internet, availability of Internet related services. The above table compares the ranking of each country studied in this report with several OECD countries.

Source: EIU and IBM, (2004).

Notes

1. Except for Singapore, to which the term “regional inequalities” does not apply.
2. Per capita indicators are the most widely used since they are the easiest to obtain. It suffices to divide the figures for access to a technology by the population of the country in question. However, the fact that these indicators do not take into account differences in the socio-demographic structures of the various countries means that they are of little relevance when making international comparisons between countries and regions characterised by different levels of development. “Households” are a much more accurate and relevant unit for measuring a population’s access, although the data are more difficult to obtain. Access can also be measured by “community”, and this is an indicator that is generally used in the rural regions of India. In a survey conducted in South Africa in 2001, those questioned were asked whether they had access to a telephone through one of their neighbours or anywhere else near their home. The survey concluded that only 6% of South Africa’s population did not have access to a telephone.
3. For the purposes of this report, SMEs are firms with between 25 and 250 employees.
4. Harvard University (2000) Readiness for the Networked World: A Guide for Developing Countries Center for International Development, <http://cyber.law.harvard.edu/readinessguide/forward.html>.
5. EIU (2003) E-readiness ranking 2003 www.ebusinessforum.com.
6. www.e-factors.net/?efactors_project.
7. We can mention, *inter alia*, various issues of the “OECD Information Technology Outlook” (2004, 2003, 2002, 2001, 2000).
8. The International Telecommunication Union’s Digital Access Index measures the quality of the national environment in which ICT spreads. In other words, it makes it possible to evaluate an economy’s ability to adopt ICT, but most importantly to cross-compare economies. This index, which it should be possible to calculate for virtually all countries, is constructed on the basis of a limited number of relevant indicators (8), one of the main qualities of which is that they are known for many countries. The first assessment was conducted by the ITU using data on 180 countries. ITU World Telecommunication Development Report 2003, pp. 99-125.
9. See in particular the classifications entitled “E-readiness” of the Economist Intelligence Unit and the Network Readiness Index published by the World Economic Forum.

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Country Profiles

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Australia

SMEs in the economy

In 2000-01, there were 1.16 million private sector non-agricultural SMEs (defined as having fewer than 200 employees) in Australia, accounting for approximately 74% of employment in this sector, while enterprises with fewer than 100 employees accounted for 67% of employment. The SME share in employment has been rising since the early 1980s, reflecting structural changes to the Australian economy. Approximately 0.5% of all businesses have more than 100 employees while 0.2% of all businesses have more than 200 employees.

There were approximately 1.12 million small businesses (fewer than 20 employees) in Australia in 2000-01, accounting for 47% of total non-agricultural private sector employment. Approximately two-thirds of these are home-based businesses, almost 85% of them are micro-businesses having fewer than five employees (including non-employing businesses), and approximately one half of them have no employees. The average annual growth in employment in the small business sector was 3.0% during the period 1983-84 to 2000-01, higher than the 2.4% average annual growth rate for businesses other than small. Consequently, the contribution of the small business sector to employment has increased marginally over the period, its share rising from 45% to 47%. Within manufacturing, SMEs employ 67% of the manufacturing workforce, while small businesses account for approximately 30%.

The share by business size class of industry value added in manufacturing industry for 1999-2000, was as follows: 17% for small businesses; 17% for businesses having between 20 and 99 employees; 9% for businesses having between 100 and 199 employees; and 57% for businesses with 200 employees and over.

Framework policies

The Federal government, and state and territory governments, all play important roles in determining the business environment affecting SMEs, as well as being important in the delivery of programmes and services to assist businesses to grow and prosper. Only the programmes and policies of the Federal government are the subject of review here. The state and territory governments also deliver small business advisory services, including a range of information and advice to SMEs either through discrete agencies, one-stop shops or through the funding of private organisations. A key objective of the Australian Government has been to put in place the fundamental building blocks to improve the economic environment and growth prospects for SMEs. Within this context, the policy priorities have been to:

- Maintain low inflation and interest rates.
- Create an internationally competitive taxation system.

- Minimise the regulation burden placed on small firms.
- Actively encourage skills development by the owners and managers of small firms.
- Assist with innovation and entry into export markets.
- Increase the opportunities for small firms to gain access to government procurement.

SME policies and programmes

Regulatory Reform

In 1996, the government established the Small Business Deregulation Task Force and nearly all of its recommended measures have now been implemented. In its July 2004 statement *Committed to Small Business*, the government announced further initiatives to assist the small business sector by improving the climate and operating environment. Key initiatives introduced to reduce the regulatory burden on SMEs include:

- A plain English summary of employment definitions and obligations to assist compliance with Federal, State and Territory employment and tax laws.
- A reduction of 30% in the paperwork required by the Australian Bureau of Statistics – a statistical clearing-house now ensures that duplication is avoided.
- A reduction in the number of forms related to company registration and reporting, and the frequency with which they have to be lodged.
- Improved access to government information, services and transactions through the Business Entry Point.
- An Internet gateway for business to access the Australian Tax Office's services online. Businesses can lodge their Business Activity Statements (BAS) and view their accounts online at a specific Business Portal.
- Streamlining and less duplication of regulations following reviews of the food industry and laws affecting industrial, agricultural and veterinary chemical sectors.

The policy focus is maintained on administrative simplification and burden reduction, particularly through regulation impact assessments. The government has introduced a range of measures including Regulatory Impact Statements, Regulatory Performance Indicators and Annual Regulatory Plans. In addition, all Cabinet submissions must indicate the potential impact on SMEs of changes in government policy. Amendments in 2001 to the unfair dismissal laws were aimed at reducing the regulatory burden on SMEs, and key changes included: a three month qualifying period when unfair dismissal provisions will not apply, unless otherwise agreed; a requirement that size class be taken into account when assessing whether dismissal procedures are reasonable; greater scope for costs to be awarded against parties who act unreasonably in pursuing or defending claims; and greater accountability measures applicable to all parties, including lawyers and advisers.

Entrepreneurship

In the May 2002 Budget, the government announced the *Small Business Assistance Programme* (SBAP) with AUD 60 million funding over four years, of which 36 million is to support skill development projects promoting an enterprise culture and the establishment of small business incubators. The Small Business Enterprise Culture Programme (SBECP) and Small Business Incubator Programme are sub-programmes of the SBAP. The SBECP provides competitive grants for initiatives designed to enhance small business access to skills development and mentoring, and the Small Business Incubator Programme provides

funding to help meet infrastructure and set-up costs of new small business incubators. These programmes are delivered by AusIndustry. Details are available at www.AusIndustry.gov.au.

In the May 2003 Budget, the government announced the successful New Enterprise Incentive Scheme (NEIS) providers, building on the already successful number of providers who help unemployed people to start and run their own businesses. NEIS provides training, support and assistance for participants to become self-supporting and independent, in their first year of business. For more information, visit www.workplace.gov.au. Due to recent government announcements regarding the status of ATSIC (Aboriginal and Torres Strait Islander Commission) indigenous programmes are yet to be finalised.

Financing

Taxation

The Australian Taxation Office (ATO) is increasing its focus on the SME sector. Ongoing tax reform measures are being implemented to assist in easing the taxation and administrative burdens on SMEs. Recent reforms include two new R&D tax concessions, the R&D offset and the 175% premium deduction. Under the R&D offset, companies with annual turnover less than AUD 5 million can cash out their R&D deductions if the aggregate claim is more than AUD 20 000 and less than AUD 1 million. Under the other measure, the new 175% premium deduction was introduced in addition to the new venture capital measures which seek to facilitate non-resident investment in Australia.

The introduction of concessional treatment of capital gains reduces the capital gains tax (CGT) liability for taxpayers and their related entities with net assets less than AUD 5 million. A new 50% CGT discount applies to most taxpayers while a further 50% reduction applies to the disposal of business assets for eligible small businesses. Other exemptions also apply in certain conditions. The *Simplified Imputation System*, effective 1 July 2002, provides an appropriate balance between revenue protection, costs and ease of compliance. Changes in the Capital Allowance system simplified the tax law in relation to the depreciation of assets, streamlined the tax treatment of those assets and recognised certain “black hole” expenditure. Certain administrative requirements for completion of the capital allowances schedule were also reduced.

The *Review of International Tax Arrangements* aims to reduce compliance costs and complexities for SMEs with offshore investments. *Foreign withholding measures* may also apply to payments made to SMEs involved in construction, entertainment and sports industries. The *Consolidation* measure allows wholly-owned groups to form a single consolidated group and be treated as a single entity for taxation purposes, and involve the lodgement of only one income tax return for all group members.

Attracting investment

Invest Australia is the government’s inward investment agency responsible for attracting inward foreign investment and is currently working with companies on projects with potential investment in Australia totalling more than AUD 85 billion. These investment and promotion activities were transformed significantly from 2002 following the recommendations of the *Blackburne Review* for revamping Invest Australia, to develop a highly strategic, targeted and nationally coordinated approach to investment promotion and attraction into Australia. Invest Australia was restructured as an autonomous agency

with broader responsibilities, strengthened stakeholder relationships, and included the release of the *National Investment Framework (NIF)*, *Global Returns*, and the implementation of a global advertising campaign. Prior inward investment activities of Austrade and the Office of the Information Economy were incorporated into Invest Australia in 2002, and from 1 July 2003, Axiss Australia merged with Invest Australia. Partnership capabilities are developed through: i) the National Investment Advisory Board (NIAB), comprising the heads of State and Territory investment agencies; and ii) a Biotechnology Events National Committee, and an Information Technology Events National Committee. In November 2003, the government launched its three year marketing plan, *Partnerships for Investment*, and its associated national investment and business brand, *The Future is Here – Technology Australia*. Also in line with the National Investment Framework, the collaborative plan was developed in cooperation with State and Territory governments and in consultation with industry.

Venture capital

Venture capital is an important and growing component of Australia's broader capital market and is a major source of funding for innovative, fast growing Australian companies and for more established companies undertaking restructuring. The Australian Government introduced an initiative in 2002 through changes to Australian taxation law to ensure that the taxation treatment of non-resident investment in Australian venture capital was competitive with the taxation treatment of non-resident investment in other comparable countries. This initiative extended an earlier tax exemption, provided to non-resident pension funds from certain countries, on profit from the disposal of investments in eligible venture capital businesses. It is applied to: i) all tax-exempt non-residents and non-residents of Canada, France, Germany, Japan, the United Kingdom or the United States, as well as non-resident venture capital fund of funds established and managed in these countries; and ii) taxable non-residents of those same countries (in addition to another seven countries) holding less than 10% of the equity in a venture capital limited partnerships. The initiative also allowed for the establishment of new venture capital investment vehicles known as venture capital limited partnerships (VCLPs) and Australian Fund of Funds (AFOFs).

While non-residents have already made a significant contribution to the growth of the Australian venture capital market, there is potential for further significant non-resident investment as venture capital becomes increasingly internationalised. By introducing a world's best practice investment vehicle for venture capital, investment in the Australian venture capital market by non-residents is expected to increase especially for relatively high-risk start-ups and expanding Australian companies that otherwise would have difficulty in attracting investment through normal commercial means.

The Australian Government has continued its Pooled Development Funds (PDF) programme (established in 1992) to provide tax incentives to promote investment into pooled investment funds, to develop and demonstrate the potential of the market for providing patient equity capital (including venture capital) to eligible Australian SMEs. Investments by PDFs are confined predominantly to the acquisition of new capital in eligible SMEs. Investors in PDFs receive both capital gains tax exemption on the sale of their shares and concessional taxation treatment on dividends. In addition, PDFs are taxed at a concessional rate below the company tax rate. The Innovation Investment Fund and

Pre-Seed Fund also offer access to venture capital to small companies in the early stage of development, and for commercialising their innovative ideas.

Technology and Innovation

The government launched an AUD 5.3 billion package in 2004 entitled *Backing Australia's Ability – Building Our Future through Science and Innovation*, to follow on from the 2001 package of AUD 3 billion. Most of the money will be disbursed in 2006-07, when spending on the earlier package is concluded. This package aims to facilitate the commercialisation of Australian ideas and enhance international competitiveness. The package comprises a number of existing and proven programmes such as the Commercial Ready Programme, Commercialising Emerging Technologies Programme (COMET), R&D Tax Concession, Biotechnology Centre of Excellence Programme, and funding towards the National Biotechnology Strategy and Biotechnology Australia. For information on these initiatives visit: <http://backingaus.innovation.gov.au/>.

AusIndustry, the programme delivery division of the Department of Industry, Tourism and Resources, delivers a range of innovation grants, concessions, investments and business services to more than 10 000 businesses annually. Through 22 AusIndustry offices countrywide, Australian businesses are encouraged to invest and become more innovative and internationally competitive. Among AusIndustry's key products are:

- *Commercial Ready*, AusIndustry's new flagship innovation grants product, which will provide up to AUD 200 million annually for the next seven years to small businesses for R&D, proof-of-concept, and early-stage commercialisation activities.
- *R&D Tax Concession*, a broad-based, market driven tax concession to allow companies to deduct up to 125% of qualifying expenditure incurred on R&D activities when lodging their corporate tax return. A 175% Premium (incremental) tax concession and R&D tax offset are also available in certain circumstances.
- *Commercialising Emerging Technologies Programme (COMET)*, a competitive, merit-based programme to support early-growth stage and spin-off companies to successfully commercialise their innovations.
- *Small Business Assistance Programme*, which includes the Small Business Incubator Programme, the Small Business Enterprise Culture Programme and the Small Business Answers Programme. These programmes are designed to assist small business with skills development, the establishment of small business incubators and advisory and support services.

IT programmes

Promoting the adoption of ICT applications and e-business strategies by SMEs is a high priority for the government. The *ICT Incubators Programme* (originally under the title *Building on Information Technology Strengths (BITS) Incubator Programme* established in 1999) aims to improve the rate of commercialisation of ICT ideas and R&D by establishing incubators to increase the success rate of new business formation in the Australian ICT sector. Ten incubators were established across mainland Australia, and one in Tasmania, funded under the *BITS Intelligent Island Programme*. In May 2004, the government announced additional funding for incubators of AUD 36 million over four years, bringing total funding to AUD 122 million over ten years. In August 2004, the Australian Government announced that eight incubators would receive further funding. The funding allows incubator

managers to assist incubators at a critical stage of their development when they may not be well served by venture capital markets. All incubators incorporate a structured business growth programme that includes: access to early stage finance; making use of an experienced board; access to a management team and advisory panels; providing business coaching and mentoring; and providing firms with channels to markets and international partnerships.

In addressing SME e-business and e-commerce issues, Australia's approach has focused on dealing directly with network and trust issues, through the development of government online initiatives and awareness campaigns specifically addressing small business needs. These measures have addressed Internet governance, online security and online transaction issues, as well as encouraging greater usage of e-business practices by SMEs. One of the first measures introduced was the *Information Technology Online Programme* (ITOL), a competitive funding programme designed to accelerate the national adoption of electronic commerce business-to-business solutions, and assist clusters of SMEs, offering competitive funding of up to AUD 200 000 for projects that demonstrate new and innovative online solutions that will improve business competitiveness. Since 1996, the ITOL programme has provided almost AUD 12 million to 110 e-business projects with a broad geographic and sectoral coverage.

The promotion of e-trading between small businesses and government agencies, and a small-business e-commerce strategy have been implemented following a commitment of AUD 6.5 million announced in 2001 to assist SMEs with practical guides and information. Measures include the roll out of e-procurement demonstration projects involving small businesses trading electronically with Australian Government agencies. Four key agencies were selected and received funding to implement e-procurement demonstration projects. The experiences of these "early adopters" have been evaluated, and a guide documenting these experiences, along with illustrative case studies, and "how to" information and tools is being developed. Complementing this activity, a guide to help suppliers trade electronically with Australian Government agencies, *Doing Business Online with Government* has been issued.

The government also manages two online procurement information systems that improve the access of suppliers (including SMEs) to government business – the *AusTender* system (for electronic tendering); and the *Gazette Publishing System* (for reporting contracts in excess of AUD 2 000, arranged by Australian Government agencies). Resources developed for these two systems and other recent initiatives include:

- A comprehensive package of information and resources about e-business for small businesses, including a comprehensive Web site at www.e-businessguide.gov.au and a *Getting Started* booklet.
- The brochure *Phishing – Don't Take the Bait!* providing advice on how to avoid online identity theft and how to bank online safely. The brochure is available at www.dcita.gov.au/ie/e-security.
- An e-catalogue guide to help small businesses publish electronically as well as advice on integrating procurement and supply chain management initiatives more efficiently.
- Funding for developing an e-security portal, driven by industry, to assist firms including SMEs better understand e-security threats and how to deal with them. For further information visit www.security.iaa.net.au.

- A package *Internet Security Essentials for Small Business*, covering the main security issues for operating safely online, providing information to assist small businesses to better protect their business operations and information systems against online fraud and theft, viruses and unsolicited commercial electronic messages (spam). The package links to a hands-on interactive *Safety Net* online tutorial at www.aoema.org, which provides users with realistic and effective responses to online security threats, at their own pace. The booklet and brochure are available at www.dcita.gov.au/ie/e-security.

A comprehensive national regulatory framework was put in place to address business and community concerns about spam. Anti-spam legislation, the Spam Act 2003, became fully operational in April 2004. Extensive consultation ensured that the legislation reinforces good business practices without being a barrier to growth. In March 2004, the government announced a commitment of AUD 142.8 million to a National Broadband Strategy to promote broadband availability and use. Components of the package have a specific focus on improving affordability of broadband services for SMEs in regional and remote Australia.

Management

Business Entry Point

The Business Entry Point (BEP) initiative, the single entry point for business for government information and transactions, was established by the government's *More Time for Business* small business policy statement. The BEP is also the government endorsed Business Portal and through the Web site www.business.gov.au, improves access to government information concerning all levels of government, and facilitates electronic interaction between government agencies and the business sector, particularly small business. Through this facility it is possible to: gain access to information on government assistance programmes and services and on business information topics; get a better understanding of employer obligations; tailor queries to suit the particular business and area of operation; privately and securely undertake a number of initial business registrations; and obtain information about licences and codes of practice. Access is provided to resources from Australian Government agencies, state, territory and local government agencies, and industry associations. Various company, payments, tax and other registration facilities are available online and discoverable via the BEP Web site. The BEP is also the access point for the Australian Business Register (ABR) Online, which allows businesses to apply for Australian Business Numbers (ABNs), search the public ABN database, and update their own ABN record. The Business Licence Information Service (BLIS) run by each State and Territory are also discoverable via the BEP. The BLIS offers intending and existing businesses a first-stop point of enquiry through which application forms for all business licences can be obtained.

The development of the Business Resources Facility (BRF) service for small business has enabled easier access to government information. The BRF provides the information base for the BEP content syndication product that takes government content and delivers it to the Web sites that businesses visit on a regular basis. Since November 1999, the BEP has provided online registration for businesses wishing to obtain their ABN and to register for taxation and other government purposes. Currently, over 70% of all ABN registrations are undertaken online. The BEP is also undertaking trials with electronic authentication products that will enable professional credentials such as qualifications and licences to be verified online. Other products, such as the *Transaction Manager*, allow small businesses to

discover, manage and complete online transactions with Commonwealth, State and local government agencies.

Women in Small Business

Austrade's *Women in Export programme* is dedicated to removing barriers to export for women entrepreneurs and to raise the "intention to export" amongst female-led companies. The programme encourages networking and mentoring amongst female exporters and business groups to raise awareness of Austrade programmes such as the New Exporter Development Programme (NEDP) and Export Market Development Grants (EMDG) scheme. The *Women in Export* programme aims to help Austrade's mission to double the exporter numbers from a 25 000 base of traditional exporters in 2000-01, to 50 000 by 2006-07. According to Austrade research, most of the growth in the exporter community is derived from SMEs in emerging industries. Therefore, many of the new exporters will be run by women entrepreneurs or have females involved in management.

Export Promotion

Austrade provides information and advice to existing and prospective exporters through a network of staff in 117 locations in 58 countries. In addition to the provision of export and investment services, Austrade also manages several export assistance programmes to assist businesses in identifying and capturing export markets, general information and assistance being provided free of charge, and fees applying for more tailored services. Among the export programmes administered are:

- The *Export Market Development Grants (EMDG)* scheme assists small and medium sized exporters and aspiring exporters to seek out and develop export markets by reimbursing up to 50% of eligible export promotion expenses of exporters less the first AUD 15 000. In 2003-04 a total of AUD 143.8 million and 3 699 grants were paid under the scheme. For the 2002-03 grant year (paid in 2003-04) 66% of recipients employed 20 people or fewer, and 70% had an annual income of AUD 5 million or less.
- *TradeStart*, a partnership between Austrade and public and private sector service providers, is designed to improve access for SMEs to the export assistance services of Austrade and is delivered through a national network of 50 offices in metropolitan and regional areas.
- The *New Exporter Development Programme (NEDP)* is a package of free services designed to assist SMEs develop their businesses overseas and their exports. Advice and information on exporting are provided, as well as export coaching, and assistance on the ground in foreign markets.

In addition to these programmes, the Export Finance and Insurance Corporation (EFIC) helps smaller exporters secure working capital from financial institutions through the Export Working Capital Guarantee facility and can provide the bonding often required for export contracts. EFIC also provides a range of medium to long-term finance and insurance facilities (generally over two years) to assist SMEs export Australian capital goods and services. These include Documentary Credit Guarantees and Finance, and Medium-Term Payments Insurance. Further information on EFIC's products and services is available at www.efic.gov.au.

Austria

SMEs in the economy

99.5% of enterprises in Austrian manufacturing and service sectors are SMEs, providing employment to approximately 65% of the labour force. In the period 1995-2003, SME numbers increased by 11.6%, and the number of their employees by 8.1%.

Start up rates: The number of newly established businesses has been increasing steadily in Austria in recent years. A variety of start-up initiatives by the government, as well as changing economic conditions, have fostered the trend towards self-employment. However, while the average rate of self-employment in EU countries is 10.8%, it is still only 6.3% in Austria. This is mainly attributed to a certain reluctance towards capital investment. In international comparisons of start-up rates, Austria usually ranks in last or second-to-last place. However, Austria has the highest survival rate of newly established businesses, approximately 83% of businesses still being active after three years (the EU average is about 70%) and 72% of new Austrian businesses are still active after five years. The so-called “new jobs” in the IT, new media, telecommunications and advertising sectors are currently enjoying a boom and are also leading in the establishment of new businesses. The number of newly established businesses for 2004 is estimated to be 29 700, more than double the 1993 figure (14 600).

Framework policies

The EU enlargement offers Austria the opportunity to shift from the periphery into the heart of Europe. The Austrian economy has been quick to seize and exploit opportunities opening up on the new markets. Austria's close economic ties with Central and Eastern European neighbouring countries constitute a major pillar of the mainly SME-structured Austrian economy which is open and whose trade is interlinked very closely with the EU 2004 accession countries. The government implements the Lisbon Agenda through an ambitious reform programme in product, labour and capital markets. The Austrian Cardiff Report mirrors this reform agenda to raise productivity and employment while also enhancing social and environmental sustainability. The government has taken comprehensive measures since 2000 to strengthen economic competitiveness and to create a business environment that attracts investment.

Recent product market reforms include: reform of the Competition Law; creation of the Federal Competition Authority; reform of public procurement; liberalisation of the electricity industry, gas and telecommunication markets; a new Shop Opening Hours Act; simplification of the regulatory framework for SMEs and start-ups (involving reduction of start-up costs and easier access to several professions).

Measures taken for fostering the transition to a knowledge-based economy include: initiations to stimulate R&D and innovation in the business sector (a tax allowance,

establishment of a National Foundation for R&D and innovation); streamlining the framework for financial support on R&D; reform of the University Law: full autonomy for universities on 1 January 2004; and additional financial endowments for *Fachhochschulen* (advanced technical colleges) for educational projects on innovation for the period 2004-06.

For improving competitiveness, the government has introduced: tax relief, especially a corporate tax reduction of 9% down to 25%; and group taxation (“Gruppenbesteuerung”) for those with majority share holding. In its capital market reform, the government established the Financial Market Authority; and made a capital market offensive to stimulate the Austrian capital market through a Corporate Governance Code and an equity-based private pension scheme (“Zukunftsvorsorge”).

Business environment

Competition policy

A substantial reform of the competition law came into force on 1 July 2002, its emphasis being on the organisational structure of competition law enforcement, the introduction of new investigative powers for the authorities and reform of the sanctions system. A major step in reforming the institutional setting of competition law was the creation of the independent Federal Competition Authority (FCA). The Competition Act currently is being revised, the intention being to align it with European competition law and to introduce a leniency programme.

Reform of public procurement

The new Federal Act on Procurement (BVerG 2002) entailed major changes in procurement. In application since July 2003, and affecting the Federal Government, the states and the municipalities, it includes comprehensive regulations for the range below the common EU threshold values. A system of legal protection was adopted for the purpose of a tight and efficient procedure of inspection. The federal law also stimulates new general conditions for the utilisation of electronic media and the application of new technologies in the area of public procurement.

Tax reform

The tax reform for 2004-05 includes income taxation reductions (EUR 2.2 billion) and corporate taxation (EUR 1.1 billion) as well as increases of several excise taxes (EUR 232 million). It is realised in two steps: i) a tax reform package, taking effect in 2004, to reduce the tax burden by almost EUR 0.5 billion; ii) the second package worth about EUR 2.5 billion to be mostly implemented in 2005. The total volume of the tax reform for 2004-05 reaches about EUR 3 billion (1.2% of GDP) from 2007 onwards. Tax reform is an important element of the government's long-term strategy to bring the tax ratio down to 40% of GDP. By 2007 the tax ratio should have fallen from 43.2% of GDP in 2003 to 41.9%. The income tax reform of 2004 introduces, *inter alia*, a preferential tax treatment of retained profits of sole proprietorships and partnerships. Corporate tax reductions involve a decrease from 34% to 25% in 2005. This and a liberal group taxation which allows companies to offset inter-company profits and losses (including losses incurred by foreign affiliates) should promote Austria's attractiveness as a headquarter location. Wide-ranging incentives favouring SMEs were introduced, the additional premium for investments was extended until 31 December 2004, funding for R&D with an immediate effect on businesses

was stepped up to a considerable extent, and the allowable deductions for research and education were raised significantly.

E-government

In line with the agreement reached at EU summits in Feira and Lisbon to make all major administrative services available on the Internet by end of 2005, Austria has already taken decisive action to implement the e-government project. In May 2003 the government launched an e-government initiative to coordinate all e-government activities in Austria, setting up two cross-departmental coordination bodies (e-government Platform and e-Cooperation Board), taking stock of all ongoing activities and agreeing a roadmap. Entering into force on 1 March 2004, the e-government Act was a milestone achievement. Austria was one of the first EU member states to adopt comprehensive legislation on e-government www.cio.gv.at/egovernment/law/e-Gov_Act_endg_engl_Fassung1.pdf.

As security and trust are critical factors in e-government and e-commerce, Austria uses the same standards and tools for both areas (citizen card function, digital signature, electronic payment). This is a major contribution to securing Austria's position as a business location. In the benchmarking of 20 basic e-government-services carried out for the fifth time among 28 countries in October 2004, Austria has strengthened its position, improving its overall ranking from fourth to 2nd. In terms of the share of services that can be fully transacted online, Austria scored 72% (European average 46%). In terms of online sophistication, Austria's score is now 87%, up from 40% in 2001.

In the future, major efforts will be deployed as part of the e-government drive to offer high-quality, efficient, low-cost and secure administrative services to all citizens and companies. Internet use is high and growing in Austria (60% of Austrians had Internet access in 2003, 5% higher than in 2002) and above the EU average. Rates are higher in the corporate sector, with 79% of all firms having Internet access in October 2003.

Reduction of start-up costs

The "Neugründungsförderungsgesetz" (BGBl. I Nr. 106/1999, Art. XV, Bundesgesetz, mit dem die Neugründung von Betrieben gefördert wird) abolishes administrative fees for setting up a new business (single entrepreneurs) and has been extended to include business successors. Transaction costs accrue only for the legal setting up of limited liability companies.

A broad range of occupations are no longer subject to restrictions by the amendment to the Crafts, Trade, Service and Industry Act which came into force on 1 August 2002. Businesses may now provide services that go beyond their original speciality, due to an increased inter-permeability of the various sectors. Besides, new businesses also benefit from faster licensing procedures (a reduction in the number of documents required) for production facilities and from longer opening hours. Among the changes brought about by the amendment are the following: qualification requirements concerning the conduct of commerce are no longer required, thereby easing access to self-employment; one-stop-shop principle applies at district level; the foundations have been laid for electronic registration, administration and application throughout Austria; additional examinations and authorisations abolished concerning certain trades; qualification requirements to be achievable by practical experience; no prequalifications to be mandatory for admission to examinations for regulated trades; upgrading of partial trades facilitating hiring employees

and training apprentices; previous bankruptcy no longer to exclude starting a trade (except in cases of crime); much simplification and streamlining (more than 100 Articles concerned).

Shop opening hours: The new Opening Hours Act 2003 came into force on 1 August 2003 allowing the Provincial Governor to define daily shop opening hours by means of regulation, or in the event that this option is not exercised, default opening hours are set. The total shop opening time must not exceed 66 hours per week, to be extended to 72 hours by regulation on decision of the Provincial Governor.

Promotion of entrepreneurial skills

Measures in schools: In recent years a number of actions to promote entrepreneurial skills in primary and secondary schools as well as initiatives to expand training strategies for small-business managers have been implemented across Austria on varying scales and at varying levels of intensity, depending on pupil age and type of school. Nearly all such school-based measures in the area of entrepreneurship education are directed at SMEs and their needs. Educational measures cover entrepreneurial attitudes and abilities relating to the development of key qualifications and personal skills (social skills, personality training, team working, responsibility, critical faculties, flexibility, communication skills). The following initiatives can be cited as examples:

- To promote an “entrepreneurial way of thinking”: pilot-phase curricula on *Entrepreneurship and Management* in colleges of business administration.
- Package of teaching materials for entrepreneurship education made available to all secondary schools in February 2004 and to all vocational schools in the second half of 2004.
- The *Initiative for Teaching Entrepreneurship*, together with the National Foundation for Teaching Entrepreneurship in New York, is developing a new programme (including teaching materials for pupils and teaching aids for teachers) for Austrian schools.
- *Entrepreneurial initiatives in apprenticeship training:* Following the 2003 amendment to the Vocational Training Act, improvements for entrepreneurial initiatives in apprenticeship training have been introduced (e.g. lowering of entry age for final examinations, boosting work experience abroad by providing a basis for apprentices to participate in international training programmes).
- *Entrepreneurship initiatives on universities:* Most Austrian universities offer courses relevant to entrepreneurship, and the range of courses is expanding rapidly at technological universities.
- *Spin-off centres (AplusB Centres*)* established in almost all university locations, bundle university facilities relevant for entrepreneurship and network them with other players (study courses at Fachhochschulen, private sector providers, promotion agencies, economic chambers).
- Examples of study courses on entrepreneurship and business start-ups at various universities in Austria include: MBA courses; MBA study course on intra- and entrepreneurship; business successor courses; Certified Fellowship of Entrepreneurship and Innovation Management; courses for self-employment; university courses for young entrepreneurs.

* AplusB Centres (for details see: www.tig.or.at/): BUILD! Business Idea Lab and Development Kärnten (Carinthia); tech2b Oberösterreich (Upper Austria); CAST Tirol (Tyrol); INiTS Wien (Vienna); Science Park Graz.

- *New skilled occupations:* In 2003, 19 skilled occupations were established (in areas such as forwarding logistics, mobility services, metal construction and orthopaedic/rehabilitation technology). For example “EDP system technology” replaces the former “communications technician”. These new classifications have been established in the growth and service sectors (such as ICT, EDP) recognising the reduced emphasis on mechanical work and more demanding requirements in the area of networks, operating systems and standard software. It is expected that this will help eliminate skills gaps.

Women’s entrepreneurship

In 1983, the Austrian Federal Economic Chamber founded the department *Women in Business* to foster female entrepreneurship and represent the interests of all Austrian female entrepreneurs. One of its main tasks is to identify barriers affecting female business-owners and to seek changes in the political framework causing such barriers. A major obstacle is the issue of work-home compatibility. To facilitate the taking of maternity leave by women entrepreneurs, *Women in Business* introduced the scheme of *business continuation aides* (“Betriebshilfe”) whereby business can be continued by experienced, committed and flexible business continuation aides during the absence of the female entrepreneur. These reliable management aides are available 40 hours per week.

In 2003 a study on “*Female Entrepreneurs in Austria – The Current Situation and Possibilities for Development*” was initiated by *Women in Business*; co-financed by the Federal Ministry for Economic Affairs and Labour, the results presented in February 2005. The research provides a substantial database on the subject of female entrepreneurship in Austria as well as information and answers to the following: Do business enterprises led by women show significantly lower performance potential than those managed by men and if so why; the specific problems and difficulties that women are facing as entrepreneurs, their weaknesses and strengths; and possible support that female entrepreneurs could expect on the part of business policy. The study informs policymakers on the needs of female entrepreneurs as well as the impact of policies on women’s entrepreneurship, and thereby contribute to improved design of future policies and programmes.

Innovation and technology

According to the main results of the Third Community Innovation Survey (CIS 3) every second enterprise in Austria is innovating. During the period 1998-2000, 49% of Austrian enterprises with more than 9 employees introduced new or significantly improved products or services onto the market and/or introduced new or significantly improved processes in their enterprise and/or carried out innovation activities which were not yet completed or had been abandoned before the end of the period under review (for more information: www.statistik.at/englisch/results/vgr/inno_txt.shtml).

Programmes to promote innovative SMEs

In October 2002, a business promotion institute *Austria Wirtschaftsservice Limited Liability Company* (AWS, www.awsg.at) was established by merging four existing institutes. Its aim is to strengthen the domestic business location and the competitiveness of Austrian companies and secure jobs in the long-term. As a Federal Government agency the AWS is a powerful financing and support partner, offering subsidies, financing and advice in all phases of company growth (including to the point when an enterprise goes public),

and support to procure innovation and technologies. A package of specific support provisions is available through a one-stop shop. AWS has two main promotion priorities, start-ups and SMEs, especially those geared to innovation and technology adoption.

An example of an AWS initiative is *Technology Marketing Austria (Tecma)*, a subsector of AWS, launched in 1997, and which is a patent utilisation agency, and provides the link between (university) research and commercial exploitation of results. Tecma assists in seeking financially strong partners in Austria and abroad, and negotiates licences. Within the scope of its *UniINVENT* programme, Tecma also organises and carries out the training of innovation scouts at universities. Tecma may also cover the preliminary costs of patent applications, and examine new products for their technical features and economic promise. An international evaluation has confirmed Tecma's success in commercialising university research results. Legal, operative and infrastructural prerequisites were also necessary for the programme to function effectively. On 1 January 2004, universities were granted new opportunities and responsibilities in exploiting scientific inventions and developments, so that they now have title to inventions of their research staff.

Tecnet is an expert check for market and technology development. The services provided by the Tecnet-based innovation agency include: information, market analyses, consultations with experts and preparation of expert opinions for technology enterprises, finding lenders and investors (e.g. banks, equity investment companies, or business angels). The agency gathers information from specialised databases, experts, national and international organisations, technical publications and the Internet. *Life Science Austria* is the central advisory and coordinating office for researchers and enterprises in the field of life sciences. The *Seed Financing Programme* finances the growth of innovative enterprises before and during start-up and the development phase by means of customised start-up finance. On behalf of the Federal Ministry of Economic Affairs and Labour and in conjunction with the provinces, the AWS runs an annual two-stage competition for the *State Prize for Innovation*. *Jugend Innovativ* is a partnership between the Federal Ministry of Education, Science and Culture, the Federal Ministry of Economic Affairs and Labour and the AWS. Support is provided for original solutions in the area of interdisciplinary project teaching in Austrian schools from year 10.

AWS provides support programmes for all business stages (start-ups, especially in high-technology sectors, business expansion, R&D, internationalisation and restructuring) in order to help potential and existing entrepreneurs/firms.

Among the AWS programmes are:

- *Double-Equity-Guarantee Fund* – providing additional funds to strengthen equity capital (start-up and early phases) for SMEs.
- *Equity capital guarantees* – for investments up to EUR 20 000, the equity capital guarantee covers 100% of the SME investor's risk and 50% of larger investments.
- *Guarantees for employee investments* – AWS has a model contract which allows employees to invest simply and without bureaucracy in their enterprise, the investments also having the possibility to benefit from equity capital guarantees.
- *Yield bonds* – The yield bond is a profit-dependent, interest-bearing subordinated bond, available to the SME for at least 10 years as inactive capital. The investor can also receive above-average returns.

- *Capital guarantees* – A venture capital fund “buys” itself a guarantee from the AWS for part of the fund capital put up, upon which the fund invests in the enterprise. The guarantee comes into effect if the value of the holdings is sold below the original value, and the AWS pays loss compensation to the VC fund. Otherwise, the AWS receives a share of the profit.
- *i2’ Ideas x Investment* – i2 is a stock exchange-analogous market for private investors and innovative entrepreneurs where investors obtain attractive investment opportunities and innovative entrepreneurs gain an experienced partner who contributes capital and shares risk.
- *i2 – Die Börse für Business Angels* (a business angel exchange) – works to match, usually within 14 days, private investors with investment projects, generally in the early stages and having good growth prospects.

The successful technology transfer programme of the Federal Ministry of Economic Affairs and Labour, *protec 2002+*, is in its next phase (2000-2006) and was developed for the purpose of enhancing innovation among SMEs. Two successful calls for proposals have been undertaken, the results of which are found on www.bmwa.gv.at. *Protec 2002+* is open to all sectors and technology segments and addresses not only SMEs but also entities providing know-how to SMEs and includes three programme lines:

- *protec-TRANS*: supports concrete technology transfer projects of individual SMEs geared to the use of external resources (universities and other research institutions, polytechnics) by these SMEs.
- *protec-INNO*: fosters projects involving the development, diffusion and implementation of innovation management tools and new consultancy approaches (good practice models).
- *protec-NETplus*: aims to accelerate efforts to establish (sustainable) co-operation models and networks to raise SME innovation levels, to undertake such projects within existing innovation networks. Network structures, partner competence, network management play a role in this context.

Incentives for public private partnerships

A major task of Austria’s science, innovation and technology policy is to support a new, more R&D-intensive, growth strategy. The transition to a new growth path requires investment in knowledge but also brings to the forefront the issue of the overall efficiency of the National Innovation System (NIS). In recent years, a variety of policy initiatives have aimed to increase both the R&D intensity of the economy and the efficiency of the national innovation system, including measures to stimulate R&D in the business enterprise sector (e.g. a substantial extension of fiscal support). But fostering linkages in the national innovation system has become the major policy focus, and public-private partnerships (PP/Ps) the major policy instrument.

The *Kplus* programme and the *Kind/Knet* programme are examples of the policy reorientation. Launched in the late 1990s, they support collaboration between enterprises and research institutions (universities, government research labs, etc.) in pre-competitive research with a high potential for commercial application. While *Kplus* emphasises strategic co-operative R&D at a high, internationally competitive level, the *Kind/Knet* programme is more industry-driven. Although just a few years old there is evidence that both programmes are already successful in promoting R&D co-operation between business firms and research institutions in areas of strategic importance for the Austrian economy

and society. Currently there are 18 Kplus centres and 17 Kind/Knet centres or networks in operation. Overall, about 25% of the industrial partners are SMEs. In the Kind/Knet programme the participation of SMEs is not mandatory but applicants are strongly encouraged to include SMEs. In particular the Kind/Knet guidelines quote the special consideration of the technological needs of SMEs among the criteria for granting support to a competence centre.

VTÖ is the umbrella organisation of Austrian technology centres and a network for the transfer of technology and know-how. It is an integral part of the country's technology and innovation community and serves as an interest group. Technology centres, through their function as contact partners for regional enterprises, make an essential contribution to the development and upgrading of existing economic potential, thus enabling Austrian industry to hold its ground in international competition. With the introduction of www.inna.at/, an Internet platform, VTÖ has added another component to better network Austria's technology centres and to provide information to entrepreneurs and scientists. The initiative has been launched in association with the Federal Ministry of Economics and Labour.

Successful e-business models and first-class small business support

Telefit Roadshow: The roadshow provides nationwide, key information on risks and opportunities of digital networking with customers, suppliers and employees to mainly SMEs. To date, more than 4 000 enterprises have taken part in evening or afternoon events. The scheme is jointly financed by the Chamber of Trade, the Federal Ministry for Economic Affairs and Labour and private sponsors. For 2004, 55 Telefitshows are planned. *ECAustria* (previously the *E-Commerce initiative*) is an interactive information, service and events platform to promote Internet-supported business processes in SMEs, providing sector-specific good practice from successful e-business projects. The SME target group is reached via the interactive Internet portal www.ecaustria.at, which also diffuses information by means of a weekly newsletter. Examples of successful good practice from e-business solutions may be downloaded. ECAustria is run in the framework of a public-private partnership by the Federal Ministry for Economic Affairs and Labour and the Austrian Chamber of Trade in conjunction with a large number of private and public sector partners. In 2002 the platform was nominated by the European Commission as an exemplary project among 162 European e-business initiatives.

Internationalisation of SMEs

Internationalisation initiative

Austrian policymakers hold the view that the still relatively low number of exporting firms should be doubled, the still small radius in geographic terms of external economic activities should be enlarged, the export of services beyond tourism should be pushed higher, and Austrian foreign direct investment should be more diversified sectorally and geographically. For SMEs in particular, the *Internationalisation Initiative* is of special importance, containing measures totalling EUR 50 million financed by the government, complemented by an equivalent amount in trade-related initiatives and programmes of the Austrian Chamber of Commerce. A *Quick-Start-Package* with funding amounting to EUR 17 million was implemented in 2003. The International Initiative is based on a three column approach: export of goods, export of services, and FDI. In the use of the funding the highest multiplier effects for the economy and the location are sought. In designing the different programme instruments, stakeholder value was key, and the interests of all

groups were sought to be reflected in the most efficient way. Intensive cooperation took place with the Austrian Chamber of Commerce, the Strategy Unit for Foreign Trade and Investment, and with commercial banks.

The range of measures is designed to enhance the specific strengths of the Austrian external economic sector (e.g. market share in some target markets particularly in Eastern Europe, strong position in some market niches) and help to remove structural weaknesses (e.g. too few “world brands”, insufficient presence in emerging markets). In addition, support is provided to for SMEs which are going to export for the first time, as well as “export professionals” having the intention to enter new markets; and country or regional specific packages of measures are provided for target markets with a high potential.

JUS-NET KMU (SME Legal Network)

In light of the 2004 EU-enlargement and so as to provide SMEs with optimum business activities in Eastern Europe, a professor from the Institute for Business Management of Small and Medium Enterprises at Vienna University of Economics and Business Administration was appointed by the Federal Minister of Justice to act as SME-representative. He will provide tailor-made information on the legal systems in neighbouring countries, informing enterprises on what to expect, what to bear in mind when concluding contracts and joint ventures, etc. The SME-representative is assisted by “JUS-Net KMU” (SME Legal Network), in which public and private actors participate, in order to assist Austrian enterprises to enter the new EU member states. JUS-Net KMU aims to promote SME competitiveness quickly, efficiently and without bureaucracy, and cushion them from the negative effects of EU enlargement. This is to be achieved through the provision of legal information (e.g. product liability, compensation in damages, collateral debts, procedural law, arbitration and insolvency provisions); information on location and workplace maintenance in Austria; improved access to financial aid for enterprises; facilitation of interregional co-operation; creation of a network in the fields of law and administration, industry and SME promotion in co-operation with cross-border lawyers offices, trustees and numerous other institutions.

The legal manual “*KMU-Leitfaden Unternehmungsgründung und rechtliche Rahmenbedingungen – Slowakei, Slowenien, Tschechien, Ungarn*” (SME Guidelines for founding an enterprise and the legal framework conditions – Slovakia, Slovenia, Czech Republic, Hungary) was elaborated in co-operation with the Federal Ministry of Justice, the Centre of Legal Competence, and JUS-Net KMU, and addresses in particular SMEs in Austrian border regions, reviewing SME relevant legal aspects in four new EU-member states. Four chapters: i) Founding an enterprise; ii) Product liability and consumer protection; iii) Collateral debts; and iv) Procedural law, arbitration and insolvency provisions, cover the basic information the entrepreneur needs to set up business in the new, enlarged “home market”.

Belgium

SMEs in the economy

There is no standard definition of an SME in Belgium as the criteria vary according to the subject area under consideration: legislation on economics, tax, accounting, social legislation, social security, access to regulated professions, etc. However, mainly to avoid distortion of competition, there has been a clear trend since 1996 towards making increasing use of the definitions recommended by the European Union which define SMEs to be enterprises having fewer than 250 employees and which meet specific criteria with regard to turnover, balance sheet totals and independence. Accordingly, micro-enterprises are considered to have between 0 and 9 employees; small enterprises having between 10 and 49 employees; and medium-sized enterprises having between 50 and 249 employees.

Official Belgian statistics do not as yet allow the classification of enterprises according to whether they employ more or fewer than 250 persons. The following table presents the statistics available according to the size categories currently used.

Table 4.1. **SMEs in Belgium: percentage distribution**

Number of Employees	0	1-4	5-9	10-19	20-49	50-99	100-199	200-499	500-999	1 000 +
Enterprise numbers ¹	72.7	19.2	3.8	2.1	1.4	0.4	0.2	0.1	0.04	0.03
Employees ²		10.5	8.2	9.4	14.5	9.0	8.7	10.9	7.6	21.2

1. Source: Institut National de Statistique (INS): units registered for VAT, as of 31 December 2002.

2. Source: Office National de Sécurité Sociale (ONSS), situation as of 30 June 2002.

The total number of self-employed workers and their assistants in Belgium was 795 257 in 2002, of whom 5.5% were assistants. For a majority of self-employed workers (73%) this was their main occupation. However 19.4% were self-employed as a supplementary occupation not including those working after retirement (7.7%). Small enterprises (< 50 employees) contribute 54.3% of Belgium's business turnover and 47.2% of exports.

Framework policy for SMEs

The new Federal government which came to power in July 2003 indicated its goal of 200 000 new jobs to be created over the next four years and its policy of giving a fresh impetus to knowledge creation and entrepreneurial initiative. Several specific actions have been planned, including: improving the environment for self-employed entrepreneurs and enterprises both at the economic level and in terms of their social status and financial environment; the introduction of simplified procedures for SMEs; a review of tax policy; and increased research and development.

In particular, the policy pursued by the Federal Minister responsible for SMEs and the middle classes in 2002 and 2003 (when the term of the last government ended) focused on four main lines:

- Promoting the strengths of SMEs by reforming corporate tax and by encouraging them to commit themselves more fully to electronic commerce.
- Reducing administrative costs by setting up a *Bank and Enterprise Forum* and a private network of one-stop counters for an array of formalities, by introducing an SME impact form, by updating certain legislation concerning regulated professions, and by modifying the legislation regarding the major retail sites, for example.
- Reassessing and encouraging self-employment, particularly by providing a status for assisting spouses.
- Providing equitable social security coverage to self-employed entrepreneurs.

Moreover, because of Belgium's federal structure and the resultant division of responsibilities between federal and regional authorities, many regional policies also target SMEs.

The Walloon Government's economic policy priorities follow the lines of approach set out in the *Contract for the Future of Wallonia* agreed in January 2000, which defines a general multi-year policy for Wallonia. This gives first priority to sustainable development, in particular through micro-enterprises and SMEs. In practical terms, this policy has already led to the creation of a system of grants for those undertaking projects, the development of consultancy support, the streamlining of public aid for SMEs, the amendment of economic expansion laws in favour of SMEs, the development of enterprise networks, in particular SME networks, the simplification of administrative and regulatory procedures (one-stop shops for enterprises, a single Internet portal for administrative services).

The government of the Brussels-Capital Region has adopted the following policy approach to enterprises: creation of an economic climate favourable to enterprises by giving them legal security under economic legislation; taking account of the importance of SMEs and self-employed entrepreneurs in the context of economic policy; reappraisal of subsidies for economic expansion to be allocated in a more selective manner; reduction of administrative formalities affecting SMEs and self-employed entrepreneurs, as well as extending the use of the one-stop-shop principle; providing easier access to venture capital; development of enterprise centres.

One of the priorities of the Flemish Government is a plan to promote entrepreneurship and to increase the number of first-time entrepreneurs through the provision of training and supervision by government departments, and by forging closer links between universities, *hautes écoles* and enterprises (whether new or growing). Other lines of action are the promotion of a one-stop-shop culture, the promotion of investment and development of new jobs.

SMEs policies and programmes

The regulatory business environment

Professional and sectoral regulations

The Federal government has launched a wide-ranging review aimed at reforming and simplifying procedures for access to profession for self-employed entrepreneurs, as well as the requirements imposed in terms of entrepreneurial abilities (professional and

managerial knowledge). Retail legislation is being reassessed and will be simplified where appropriate (market trading and second-hand goods, opening and closing hours, weekly closing). The procedures relating to major retail sites were reformed in 2004.

Reducing administrative costs

Over the past two years, the Federal government has sought to rein in new administrative costs by providing that all notes submitted to the Council of Ministers specify the administrative costs that would ensue from the proposal under examination. To this end, the so-called *Kafka Test* was introduced in May 2004, its aim being to avoid adding to the administrative burden on enterprises by checking that new policy measures do not give rise to unnecessary formalities. This test is applied to all government proposals that have a major impact on the administrative costs of citizens and/or enterprises. In this way the Federal government aims to fight against red tape before proposals come into force.

Following the example of the Federal Administrative Simplification Agency, similar bodies have been set up in the Flemish and Walloon regions of the country. Administrative streamlining measures have concentrated on those formalities considered to be excessive by the business community.

Moreover, the Flemish Government has introduced a compensation rule for administrative costs. It has been applied since 1 April 2004 to draft studies for decrees in the policy fields of the economy and housing. This rule states that any increase in administrative costs due to a decision by government must be accompanied by a proportional reduction in other administrative costs. Initially, this measure is restricted to enterprises.

Federal plans to assist employment

Since 1 January 2004, federal plans to assist employment have been simplified with the aim of increasing their effectiveness. The 20 schemes which existed for private enterprises, and which provided for employer social security cost reductions, were replaced with one basic plan and five plans aimed at target groups. One of these schemes targets start-up enterprises which employ staff for the first time or which increase the number of their employees to more than one or two.

Economic development assistance

The regional public authorities have comprehensively reviewed their economic development assistance systems. In the Flemish region, since 2003, a rule which permitted assistance to enterprises that fulfilled certain conditions has been replaced by a competition system where only the top firms in the league table receive assistance.

E-government projects

The Enterprise Forum Bank

The law to establish the Enterprise Forum Bank, modernize the trade register and create approved Enterprise Counters was passed in January 2003. The Enterprise Forum Bank assigns a single identification number to each company and self-employed entrepreneur and registers their basic identification information (name, address, corporate name). In this way, enterprises will no longer have to complete the same formalities several times for different administrations. The public services will have to request this

information directly from the Forum Bank and will no longer question enterprises directly. The Forum Bank has been fully operational since July 2003.

Moreover, private one-stop enterprise counters have been created for entrepreneurs to handle the processing of their start-up or change of activity records. These counters make it possible to reduce the time needed to create an enterprise and the associated administrative formalities. The aim is to reduce the time it takes to complete the administrative procedure for the creation of an enterprise to three days by 1 July 2005. A single form for first-time entrepreneurs should also be available by that date.

The Social Security Forum Bank

Since 2003, an e-government project for social security has been developed. Through the Social Security Forum Bank. The policy aim is to bring the electronic exchange of salary and other data linked to the employment of personnel into general use. This project rationalises requests for information (to a single collection from the employer), provides standard instructions, and simplifies and reduces a range of forms.

Tax portal

The Belgian tax authorities have also embarked on the path of electronic data exchange, launching tax portal which allows users to carry out certain formalities online (electronic declarations for VAT and professional deductions), download various forms or consult a tax database. In 2004 a significant advance was made in relation to self-employed entrepreneurs, members of the professions, and heads of companies, with the authorisation of optional use of a proxy to file electronic declarations (mainly accountants and accounting firms).

Regional portals

The three regions have also set up one-stop centres for information, advice and services for aspiring entrepreneurs and enterprises.

Developing an entrepreneurial culture and society

Improving the social status of self-employed workers

To make self-employed enterprise attractive from a social point of view, the Federal Government has introduced several measures aimed at improving the social status of self-employed workers and at bringing it closer into line with that of salaried employees. These measures relate to various aspects of the social status of self-employed workers, namely pensions, health and invalidity insurance, family allowances and the disability system.

The “4x4 Enterprise” Plan

In April 2002, the Walloon region launched an ambitious “4x4 Enterprise” Plan aimed at encouraging entrepreneurship. This Plan has four main lines of direction each comprising 4 actions, hence its name. The first of these is to encourage a taste for enterprise, with the aim of involving the population in the entrepreneurial process. The others are aimed at providing support for enterprise creation, stimulating growth by lending impetus to the development of enterprises and, lastly, governance.

Incorporated into the framework of this plan in May 2003, the Foundation for Research and Teaching of the Entrepreneurial Spirit (FREE) is a forum for research into

entrepreneurship and is designed to provide a common platform for efforts aimed at fostering entrepreneurship in Wallonia. It is based on close collaboration between the business and academic communities.

Free “Start up Cheques”

In Flanders, since June 2004, the government has financed the costs of starting up or taking over an enterprise by means of *start up cheques* which are free of charge for first-time entrepreneurs. Aspiring entrepreneurs can use these grants to cover the costs of formalities within certain limits at approved enterprise counters.

Promotion of women’s entrepreneurship

The social status of assisting spouses

In 2003, after many years of waiting, the assisting spouses of self-employed workers obtained recognition. In 95% of cases they are women who work with their husband or partner. Until then, although they worked with their spouses, they had no social status, which caused problems in the event of illness, death or separation from their spouse. Since 1 January 2003, they have been assigned a presumptive status, that is to say any spouse potentially concerned is considered to be assisting unless they specifically claim not to be. On payment of a minimal contribution, this status gives them pension and healthcare rights. Beginning in 2006, registration for this social status will be mandatory.

The “4x4 Enterprise” Plan

Various actions specifically targeting women have been undertaken in the framework of this plan in order to raise awareness through: publication of a book of experiences; meetings on the subject of women’s entrepreneurship; and the launching of a competition with a reward for the best enterprise managed by a woman.

Access to international markets

The European Internal Market is a reality only when citizens can go to live and work in another member state or when enterprises can develop beyond their borders. Although the Internal Market works well on the whole, individuals and enterprises can occasionally encounter difficulties when they are active in a member state other than their own, for example when the authorities of another member state apply the rules of the Internal Market differently or incorrectly.

This is the reason why SOLVIT Centres were created in 2003 in the 25 member states of the European Union, as well as in Norway, Iceland and Liechtenstein. Their mission is to resolve practical problems in the most efficient way possible in order to avoid recourse to the law. This procedure is free. SOLVIT’s results in Belgium have been exceptional. Between May 2003 and May 2004, 20 cases were examined and a solution found in 19 of them; the average time taken to review a case was 48 days (the maximum limit is 70 days).

Access to financing for self-employed entrepreneurs and SMEs

Investment Funds

The Federal Government’s agreement in July 2003 states that the financing of SMEs faces three main obstacles: access to venture capital, access to bank credit, and accessing the stock market. To remedy this, the assets of the Investment Fund, which is a federal

instrument for granting loans, have been increased and the Fund's remit broadened. In addition, a law provides for public sector support to bring in external private finance and thus help first-time entrepreneurs during the difficult initial period when financing problems are the most acute. The *Starters Fund* has been created as a subsidiary of the *Investment Fund*. Its task is to raise funds from the public in order to make them available to the *Investment Fund* for the financing of supplementary credit in the form of loans to first-time entrepreneurs and start-up loans to unemployed job seekers who wish to create their own jobs.

Reform of corporate tax

A reform of corporate tax came into force on 1 January 2003, the measures being particularly aimed at small enterprises and consisting of a further reduction in the reduced tax rate on small enterprises, encouragement of the self-financing of small enterprises, and an exemption for SMEs from certain tax increases.

Private Pricaf

Belgium has adopted an innovative approach by creating in April 2003 a new instrument for financing unlisted companies which favours SMEs, namely the Pricaf. This is an unlisted private company designed to encourage private investors, companies or individuals to acquire a holding of at least EUR 250 000 in the capital of a company and thereby invest in venture capital, unlisted on the stock market, without being obliged to set up and manage a company themselves for that purpose.

Regional policies

Both the Walloon region and the Flemish region have, respectively, created unified agencies for the financing of SMEs in order to pool multiple financing instruments as well as know-how in financing and SMEs. These agencies also have the task of defining new financial products to meet the differing needs of enterprises during the various phases of their existence.

At the end of 2003, the Flemish Government also approved the amalgamation of the 5 networks of Business Angels then active in Flanders, thus making economies of scale possible in terms of market position and making the network more attractive for both Business Angels and entrepreneurs, and facilitating faster and expanded contact between them.

Innovation and technology

Collective Research Centres

The federal authorities in charge of the economy encourage development of the technological competitiveness of SMEs through financial support for several of the activities of collective sectoral Research Centres, most of which have a clientèle mainly comprising of SMEs. Attention is focused on three main areas:

- Research into future standards.
- Making SMEs aware of standards (because of their economic impact) and circulating information relating to the issuing of new standards.
- Improving SMEs' knowledge of, and access to, the fields of industrial property, patents and the protection of brands and models.

Regional policies

Since 2002, networks bringing together enterprises with operating offices in the Flemish region, research organisations and intermediaries, have become a reality. Four types of project are pursued: technological services, promotion of innovation by topic, promotion of innovation at the sub-regional level and collective research. The Flemish authorities have also updated a publication entitled *100 questions on innovation*. This guidebook provides practical advice to Flemish entrepreneurs and heads of companies who want to innovate.

In the Walloon region, various support mechanisms are available to assist SMEs refine strategic decisions inherent in the launching of a new product, process or service.

Technology clusters and bundles

The Walloon region promotes technology clusters and bundles, whose common goal is to provide support for networked enterprises with a view to enhancing their competitiveness. These projects promote contacts between a wide variety of partners, build an atmosphere of trust between partners, encourage collaborative work, create common entities to carry out projects larger than any of their members could take on alone, and offer the latter the possibility of honing their technical skills and gaining greater insight into the market.

The work of clusters is directed towards one or more key technologies in the Region. They associate a limited number of enterprises with research centres, the objective being to develop industrial applications for the technologies concerned. Economic clusters have a much wider impact because they concern the networking of a significant portion of an economic sector. The actions of the clusters are geared towards the market, entailing the pooling of work at several different levels: perfecting of new products, innovation, relations between subcontractors and contractors, training programmes, promotion, commercial approaches, etc. Networking produces *ad hoc* partnerships between a limited number of companies that are members of the cluster.

Acquisition and development of qualifications

Both the Walloon region and the Flemish Community have set up *training cheque* systems to promote the training of self-employed entrepreneurs and SMEs on the basis of a partial reimbursement out of regional budgets of training costs.

Vocational training has been supported by a Decree in the Flemish Community since 2003. The training of self-employed entrepreneurs and SMEs is part of an integrated policy which aims to promote entrepreneurship. The training system needs to be constantly adapted to accommodate both changes in the business environment and advances in training methods. As well as basic training (apprenticeship and entrepreneurial training), the vocational training of entrepreneurs is a life-long process.

E-business in enterprises

In 2002, the Walloon region introduced a grant for SMEs wishing to adopt e-business practices.

Canada

SMEs in the economy

In June 2004, there were approximately 2.3 million businesses in Canada. About 1.3 million of these had no employees, and of the other 1 million:

- 99.7% were SMEs, which are considered to have fewer than 500 employees.
- 98% had fewer than 100 employees.
- 75% had fewer than 10 employees.
- 58% of businesses had no more than 4 employees on their payroll.

SMEs account for about 65% of Canada's private-sector payroll employment. Self-employed individuals represented about 14% of the total labour force in 2003. Within the manufacturing sector, firms with fewer than 4 employees account for approximately 2% of employment, while those with fewer than 50 employees generate approximately 21% of employment. Altogether SMEs generate approximately 57% of manufacturing employment. In this profile, selected programmes, policies, and services, mainly of the Federal Government, will be highlighted.

Framework policies

The government of Canada recognises the importance of SME growth for the growth of the overall Canadian economy. As outlined in the Speech from the Throne on 5 October 2004, the government currently has in place the following five-point economic strategy, which is intended to build an even more globally competitive and sustainable economy:

- Investment in people.
- Strengthening of Canada's ability to generate and apply new ideas.
- Provision of "smart government", making it easier for businesses to do business in Canada.
- Commitment to regional and sectoral development.
- Promotion of trade and investment.¹

In 2000, the Federal Government announced the largest tax reduction in Canadian history, and many provinces have also reduced their taxes. More recent Federal Budgets have included additional tax measures and initiatives to help SMEs grow and prosper. Specifically, both Budgets 2003 and 2004 committed to increase the amount of qualifying income eligible for the reduced 12% federal corporate income tax rate from CAD 200 000 to 300 000, effective in 2005. SMEs also benefit from several funding commitments made in Budgets 2003 and 2004 to the Business Development Bank of Canada (BDC), Farm Credit Canada (FCC) and the National Research Council's Industrial Research Assistance Programme, all of which are intended to support business growth. Budget 2004 also committed the government to reducing the paper

burden faced by small businesses and making improvements to the Scientific Research and Experimental Development (SR&ED) tax credit.

SME policies and programmes

The policies and programmes of the Federal Government generally fall into four categories:

- Creating the right business climate through policy, legislative and regulatory initiatives.
- Increasing clients' and stakeholders' awareness of current issues, opportunities and responsibilities.
- Helping clients and stakeholders to develop their ability to respond to opportunities.
- Encouraging the adoption of behaviour that contributes to productivity, employment and enterprise growth.

Since 1995, the government's policy role for SMEs has shifted to emphasise the development and provision of information on economic performance, market trends, emerging opportunities, new technologies, and best practices that can help SMEs improve their competitiveness. The Canada Business Service Centres, established in each Canadian province and territory, provide information on federal and provincial government services, programmes, and regulations aimed at SMEs. In addition, governments use on-line means to deliver information and services and to maintain an interpersonal support network. Efforts are focused where policies and programmes could correct gaps in the marketplace. This policy stance has led to reduced government programming, fewer subsidies, and an increased focus on getting general policies right and less on trying to address problems with a scattered programming approach. The government now provides more facilitation and less direct financial support. This approach has received support from the small business community.

Entrepreneurship

Since entrepreneurial activity is known to be associated with national economic growth, entrepreneurship is an important activity for any country. To facilitate entrepreneurship, the Canadian government has better streamlined information available to SMEs. In order to simplify the process of acquiring accurate, timely, and relevant information and referrals, the Federal Government developed an Internet portal for Canadian businesses at <http://businessgateway.ca>. The on-line portal is part of the government On-line initiative and provides access to relevant, frequently used services and information offered by the federal, provincial and territorial governments. In addition, Industry Canada maintains Strategis (<http://strategis.ic.gc.ca>), a Web site designed to provide significant savings and improved service to Canadian SMEs. Specifically, entrepreneurs can find an on-line guide for SMEs entitled *Your Guide to Government of Canada Services and Support for Small Businesses* on the Web site at http://strategis.ic.gc.ca/sc_mangb/smeguide.

The federal and provincial governments created 13 Canada Business Service Centres (CBSCs) (www.cbsc.org), one for each province and territory, and many of them having a large number of satellite offices in Chambers of Commerce across the country. They provide a wide range of information on government services, programmes and regulations about starting a new business or improving an existing one. In so doing, they provide information on all levels of government. One of the CBSCs' most popular features is the Interactive Business Planner (IBP), which is the first business planning software product specifically designed to operate on the Internet. It uses Internet capabilities to assist entrepreneurs in preparing a 3-year business plan for their new or existing business.

Since tax situations can often be complex, the Canada Revenue Agency (CRA) (www.cra-arc.gc.ca) has been working with small businesses to improve services, reduce the burden of compliance and maintain confidence in Canada's tax system. The CRA Web site provides a Guide for Canadian Small Businesses, containing information on CRA programmes relevant to SMEs, including an overview of their obligations and entitlements under laws administered by the CRA. As well as explaining how to plan for taxes, keep records, and make and report payments, it also explains the different kinds of business structures, income tax reporting and payment, payroll deductions, importing and exporting, and how to prepare for and handle an audit.

Human Resources and Skills Development Canada (HRSDC) (www.hrsdc.gc.ca), the federal department that plans and implements Canada's human resource policies and programmes, also helps workers who are seeking to become self-employed. HRSDC provides Self-Employment Assistance (SEA), which helps Canadians create their own jobs and businesses and focuses its efforts at the community level by providing technical advice, income support, and coaching geared to individual needs. For example, with support from HRSDC, communities can identify potential growth sectors in their communities and market niches, and then encourage business start-ups in these areas.

In addition, there are three regional development agencies (RDAs): Atlantic Canada Opportunities Agency, Canada Economic Development for Quebec Regions, and Western Economic Diversification Canada. Each RDA is responsible for its own economically diverse region and is available to assist SMEs. In addition, Industry Canada runs the Federal Economic Development Initiative for Northern Ontario which is similar to the RDAs in some ways.

The Atlantic Canada Opportunities Agency (ACOA) (www.acoa-apeca.gc.ca), the federal agency responsible for economic development in Atlantic Canada, works to increase the number of start-ups by providing online business development tools for entrepreneurs. For example, its Web site provides the Young Entrepreneurs' Info Kit, a how-to kit aimed at people under the age of 30 who wants to start a business. Atlantic Canada also has a network of 41 Community Business Development Corporations (CBDCs) located throughout eastern Canada. Their mandate is to stimulate private sector employment in rural Atlantic Canada through business financing, counselling, and advisory services to small businesses.

Canada Economic Development for Quebec Regions [CED(Q)] (www.dec-ced.gc.ca) offers financial and non-financial services to foster economic development in Quebec's regions. This includes the development of SMEs through information, consulting services and financial assistance to carry out activities that conform to targeted areas of intervention, namely support for innovation and productivity, market development and entrepreneurship and business climate development.

The Federal Economic Development Initiative for Northern Ontario (FedNor) (www.fednor.ic.gc.ca) is responsible for promoting economic growth, diversification and job creation and helping to build sustainable communities in northern and rural Ontario. Although much of its support is provided through community organisations, it provides direct support to SMEs as well. Through the Northern Ontario Development Fund, FedNor provides support to SMEs in the areas of innovation and technology, business financing, trade and tourism, and human capital. It also supports community economic development through a network of Community Futures Development Corporations (CFDCs), which

provide small businesses in small towns and rural communities with repayable financing, technical advice, counselling, information and referrals.

Western Economic Diversification Canada (WD) (www.wd-deo.gc.ca) is the federal regional development agency mandated to promote economic diversification and development in western Canada's provinces. To support entrepreneurs, WD funds the Western Canada Business Service Network (WCBSN), a network of more than 100 local economic development organisations. As part of this network, Canada Business Service Centres (CBSCs) provide single-window access to information for business. In addition, Community Futures Development Corporations (CFDCs) deliver a variety of services, such as consulting and training services, and provide financing to small businesses. Also through this network, Women's Enterprise Initiative Centres provide business advice and information, networking, mentoring, and access to capital specially designed for female clients. Four Francophone Economic Development Organisations (FEDOs) provide enhanced services to Francophones, including training, business and community economic development, access to capital, and information services.

Financing

"A financing gap is considered to be any factor in the market that restricts access to capital sources."² The public sector has expended considerable effort to describe and quantify financing gaps in the market. It has used this research to focus its efforts on closing these gaps, which are still present for SMEs, in particular for start-ups, R&D-intensive firms and exporters. Gaps exist for various reasons: size gaps exist because financing requirements of SMEs are often not large, and therefore, SMEs do not represent enough potential to attract interest from financial institutions; risk gaps exist because financing for growth is rejected as financing ratios either do not match what lenders expect or lenders demand more collateral than SMEs can pledge; knowledge gaps exist because financial institutions do not understand knowledge-based businesses; and flexibility gaps exist because flexible terms and conditions are not offered on loans from financial institutions and SMEs do not even try to request terms other than those dictated by their financial institution. SMEs in the start-up stage have the most difficulty obtaining financing when compared to older companies. Although financial institutions have made significant inroads in improving the accessibility of debt financing for SMEs, much more needs to be done. In order to obtain financing, SMEs can look to alternative means such as personal money, family support, and informal *angel* support. Other options are highlighted below.

Based on a programme in existence since 1961, the Federal Government's Canada Small Business Financing Programme commenced on 1 April 1999 through the Canada Small Business Financing Act (CSBFA), which facilitates access to debt financing to increase the availability of financing for small businesses. Under this programme, the Federal Government shares with lenders the risks associated with providing loans to most small businesses. Although banks and other financial institutions make the loans, the government pays 85% of any losses incurred as a result of default. The marketplace gap it fills is as relevant today as it was at the inception of its predecessor, the Small Business Loans Act, in 1961. In fiscal year 2002/03, there were over 11 000 loans made under the Canada Small Business Financing Programme, worth approximately CAD 950 million in asset-based debt financing. Start-ups and new businesses accounted for 50 per cent of the number and 57 per cent of the value of these loans. Industry Canada recently completed a five-year comprehensive review of the programme, which can be found at

www.strategis.gc.ca/sbresearch/csbfa. A five-year pilot project extending the CSBFA programme to capital leases was launched in 2002.

The Capital Leasing Pilot Project gives SMEs an additional financing option, allowing younger and smaller firms, which in the past have been underserved by the leasing industry, to make better use of their limited capital to innovate and enhance their businesses. Both elements of the CSBFA – loans and leases – operate with an objective of cost recovery. Small businesses pay fees designed to cover the government's claims costs.

The Business Development Bank of Canada (BDC) (www.bdc.ca) is a federal Crown corporation. The Bank complements the financial services industry by providing a full range of financial (loans, subordinate financing and venture capital) and consulting services to SMEs on a pan-Canadian basis, with a network of 85 branches across the country, including its virtual branch, BDC Connex. The BDC places a particular emphasis on knowledge and export-based industries. Its lending products fill marketplace gaps by providing flexible, longer term financing that supplements the shorter term financing available from other sources. The BDC also plays an instrumental role in the venture capital marketplace by filling gaps in the area of early-stage investment and invests a greater portion of its dollars in pre-seed and seed stage firms when compared to private sector venture capitalists. During fiscal year 2003/04, the BDC provided financing and consulting services to 23 000 clients. The total amount of new loans authorised increased to over CAD 2 000 million. The BDC invested CAD 109 million of venture capital in 70 investments, which leveraged almost CAD 600 million from other sources.

In partnership with major financial institutions, Industry Canada also maintains a Web site called *Sources of Financing*, which is found on the Internet at www.strategis.gc.ca/sources. SMEs can use the Web site as an online resource for locating traditional and alternative sources of small business financing. The Web site also provides tools intended to save SMEs money.

In 2000, the SME Financing Data Initiative was launched to provide comprehensive and unbiased information to policymakers on the state of SME financing in Canada. Since its inception, the initiative has completed two reports, which examine the complexities of access to all types of financing, ranging from debt to risk capital. The information gathered in these reports originates from a number of national surveys, including the Survey on Financing of Small and Medium-sized Enterprises (2000 and 2001) and the Survey of Suppliers of Business Financing (2000-03). For further details on this initiative, the reports or other research documents, visit the Web site at www.strategis.gc.ca/fdi.

Technology and innovation

Since 1997, the government of Canada has built a strong foundation in basic science and technology by investing more than CAD 13 billion in research and development, which includes investments in the Canada Foundation for Innovation, health research and other initiatives to create leading-edge capabilities.³ The next challenge for the government is to turn more of Canadians' bright ideas into dynamic businesses, great jobs and growing export earnings.⁴ Therefore, the government of Canada is working to develop policies to foster Canadian capabilities in key enabling technologies – such as biotechnology, information and communications, and advanced materials – which will be drivers of innovation and productivity in the 21st-century economy.⁵ Some current government initiatives are listed below.

Technology Partnerships Canada (TPC), located on the Internet at www.tpc.ic.gc.ca, uses a unique investment approach designed to enhance job creation. It does this by partnering with the private sector to invest in research and development in key growth sectors. Businesses usually repay the investments made by TPC through sales-based royalties. TPC supports innovative SMEs across Canada in partnership with the National Research Council-Industrial Research Assistance Programme (NRC-IRAP). The TPC-IRAP Programme assesses and implements investments for SMEs in projects of up to CAD 3 million, not normally investing more than 33% of eligible project costs.

The Industrial Research Assistance Programme (IRAP) is designed to help SMEs meet the technological challenges they face for delivering new products, processes or services, through the provision of technological advice, innovation support, and financial help. Its goal is to enhance innovation capacity so that good ideas can be turned into profitable businesses as quickly as possible. More information about this programme can be found on the Internet at www.nrc-cnrc.ca/irap.

The Canadian Technology Network (<http://ctn-rct.nrc-cnrc.gc.ca>) gives technology-related SMEs access to a wide variety of technology and business assistance. A linked network of advisors is available across the country and can work with a particular SME to identify its needs and help find the management that can meet the challenges it faces. All advisors are employed by organisations in Canada known for technology or related business success and competence.

Since 1994, the Communications Research Centre (CRC) (www.crc.ca) has been assisting both innovative young companies and more experienced SMEs develop their potential through its Innovation Centre. The technologies, facilities, and expertise at this location can be used so that new companies can test their wings and older companies can carry out research and development on new products.

Tax incentives through the Federal Government's Scientific Research and Experimental Development (SR&ED) Programme (www.cra-arc.gc.ca/taxcredit/sred) encourage investment in research and development that leads to new or improved technologically advanced products and processes. The SR&ED Programme gives claimants cash refunds and/or tax credits for their expenditures on eligible research and development work done in Canada. Eligible work includes experimental development, applied research, basic research, and support work in engineering, design, operations research, mathematical analysis, computer programming, data collection, testing, and psychological research.

Management

The government of Canada recognises that competent management skills are a necessity for SME success. A significant number of SMEs go out of business due to their own shortcomings, one of which is management deficiencies, and not because of external factors, such as competition and technological change. A study published by Statistics Canada in 2003 indicates that younger firms fail because of inadequacies in managerial knowledge and financial management abilities. As such, the government provides information and services to improve SME management skills, such as business planning, marketing, sales, service, finance, and human-resource management.

Human Resources Management (www.hrmanagement.gc.ca) is an information source designed to help SME employers meet their human-resource-related needs and help

develop their business management skills. It provides information on hiring, entrepreneurship, productivity, competitiveness, layoffs and terminations, staff relations and planning, pay and benefits, training and development, and labour laws.

Industry Canada also maintains three other Web sites to assist entrepreneurs with management skills. *Managing for Business Success* (www.strategis.gc.ca/sme-management) provides practical links and references to Web sites designed to offer owners and managers of SMEs a gateway to information that can help with resolving most management challenges without spending too much time searching for information. *Steps to Growth Capital* (www.strategis.gc.ca/growth) is an interactive Internet site that offers a step-by-step guide on how entrepreneurs wishing to grow their businesses can prepare themselves for securing risk capital. *Steps to Competitiveness* (www.strategis.gc.ca/steps) assists entrepreneurs in assessing their SMEs in certain areas, such as marketing and strategic planning, in order to determine if they are competitive in these areas.

Internationalisation/globalisation promotion

In essence, all of the above mentioned programmes, services, and policies are meant to promote the internationalisation of SMEs in the global economy. However, the Canadian Government provides additional programmes and services to SMEs specifically in the area of exporting.

Team Canada Inc. is a partnership of federal, provincial, and territorial governments providing Canadian companies with assistance in accessing world markets. *Team Canada Inc.* provides programmes and services in the areas of skills development, market information, counselling and advice, market entry services, and trade financing. *ExportSource* (www.exportsource.ca) is *Team Canada Inc.*'s on-line resource for export information. It provides a single access point to all trade-related government departments and agencies on subjects including: preparing to export, marketing research, marketing exports, entering the market, financing exports, and preventing and resolving problems.

Two other government-owned financial institutions deal exclusively with exporting. The Canadian Commercial Corporation (CCC) (www.ccc.ca), an export sales agency wholly owned by the government of Canada, specialises in international procurement markets for Canadian exporters, providing services to help SMEs win export sales. Export Development Canada (EDC) (www.edc.ca) is a Canadian financial institution devoted exclusively to providing trade finance services to support Canadian exporters and investors in 200 markets around the world.

Notes

1. Canada, Governor General of Canada, Speech from the Throne to Open the First Session of the 38th Parliament of Canada, 5 October 2004.
2. Carleton University Centre for the Study of Training, Investment, and Economic Restructuring, *Capital Markets in Western Canada: A Review of Research Findings* (Western Economic Diversification, May 1999), p. 5.
3. Canada, Governor General of Canada, Speech from the Throne to Open the First Session of the 38th Parliament of Canada, 5 October 2004.
4. *Ibid.*
5. *Ibid.*

Czech Republic

SMEs in the economy

In 2003, the number of SMEs as a share of the total number of companies in the Czech Republic was 99.8%. In manufacturing industry, construction, commerce, hospitality, transportation, finance, services, and agriculture, SMEs employed 62.2% of all employees in the Czech Republic in 2003. The SME share of output in 2003 was 52% and the SME share in book value added was 52%. In 2003, SMEs accounted for 34% of exports and 50% of imports. SMEs contributed 33% to the Czech Republic's GDP in 2003.

Government policies in support of SMEs

The policy of promoting and encouraging SMEs in the Czech Republic is founded on the assumption that, of all business entities, SMEs are most sensitive to changes in the business environment. In developing a policy for the support of SMEs, the government of the Czech Republic also takes into account the irreplaceable role of SMEs in the national economy. SMEs create a healthy business environment, increasing market dynamism and playing a significant role in the creation of jobs, and are a key element capable of stabilising the economic system.

In the Czech Republic, there are three basic laws regulating entrepreneurial activities:

- The Commercial Code since 2002.
- The Trade Licensing Act, amended by the *Euro amendment of the Trade Licensing Act* from 2002, and in force since 1 May 2004.
- The Act on the Support of Small and Medium-Sized Entrepreneurship, effective as of 1 January 2003, as amended.

On 9 June 2004, the government adopted a *Concept for the Support of Small and Medium-Sized Entrepreneurship for 2005/06*, which, *inter alia*, addresses the deficiencies identified in the contemporary business environment in the Czech Republic and the impact on SMEs of the Czech Republic's accession to the EU. The long-term goal of the SME Support Concept is to ensure that the SME sector functions in a manner that helps enhance the performance of the national economy and its competitiveness reduce unemployment, and narrow regional, social, and economic disparities as a basic requirement for the economic development of society. The Concept's medium-term goals include plans to increase the contribution of SMEs to economic growth and exports, to create conditions conducive to business, including the promotion and encouragement of young entrepreneurs.

The implementation of the SME Support Concept includes: a simplification of access to business by the removal of administrative barriers, a suitable range of education possibilities, full exploitation of the possibilities of drawing on increased funding from EU resources for the promotion of entrepreneurship, and active participation in new European Union initiatives in the field of business development, the support of

entrepreneurship in the regions with reinforced state aid with the aim of narrowing regional disparities, or the creation of innovation networks between SMEs and scientific and research centres, including support for the development of technology parks.

Improvement of the business environment

The Czech Government pays special attention to improving the business and investment environment. In this respect, the Business Environment Development Council was set up in February 2004 to prepare specific proposals for the formation of the national economic policy, economic strategy, and other policies which affect the development of the business environment. The council, headed by the Minister of Industry and Trade, draws together representatives of the public and private sectors to cooperate on the above-mentioned issues. Working groups are appointed to handle specific problems related to objectives formulated by the Council assembly. The Council's current priorities include a reduction in the time it takes to register enterprises and a new corporate bankruptcy law. The reduction of the time it takes to register an enterprise is being handled via state administration authorities (trade licensing offices) in three steps, which will eventually lead to the emergence of a central registration point. These specialised centres will play the role of basic registration points for entrepreneurs not only for launching their business, but also in subsequent stages of their business activities.

New bankruptcy legislation will reinforce the position of creditors, and as such should be of particular benefit to SMEs. A significant step forward will be the expanded range of ways to handle the debtor's insolvency, including bankruptcy, reorganisation, or composition.

Government support programmes for SMEs

An important part of the system which supports and encourages SMEs is made up of the programmes of support to SMEs. The Ministry of Industry and Trade announced eleven such governmental SME support programmes for 2004, three of them (START, CREDIT and MARKETING) linked to the Czech Republic's accession to the EU and to the possibility of drawing on resources of the EU Structural Funds and transferred to the Operational Programme for Industry and Enterprise, in May 2004 (see below).

Entrepreneurship and financing

The START programme, the main aim of which is to increase the number of entrepreneurs, facilitates the realisation of business projects for those entering the world of entrepreneurship for the first time or following a long time break by providing support in the form of special rate loans. Beneficiaries can be both natural persons and companies that meet the set requirements. The form of support can be interest-free loans for financing up to 90% of assumed accredited project costs. The minimum amount of available credit is CZK 100 000. The main purpose of the programmes GUARANTEE and CREDIT is to ease SME access to capital. Support instruments intended to facilitate SME access to capital include special-rate guarantees, capital investment guarantees, guarantees for bids placed in public commercial tenders, and loans with reduced interest rates.

The purpose of the GUARANTEE programme is to offer special-rate bank guarantees for bank credit, leases, and venture and development capital in order to facilitate the implementation of SME business projects focusing on investments, and to provide

guarantees for bids placed in public commercial tenders and guarantees for operating credit in order to enhance the competitiveness of these entrepreneurs. For example, one form of support is a special-rate guarantee for a bank credit balance or for a lease, where the special deal can reduce the cost by up to 9% per annum. In cases where support entails a guarantee for capital investment, this guarantee can cover up to 70% of the capital investment.

The aim of the CREDIT programme is to offer special-rate investment-based credit in order to facilitate the implementation of business development projects of small young enterprises, which often find that their lower capital resources are a barrier in obtaining external funding or which can only offer limited security for credit. One form of support is special-rate credit of CZK 0.2 to 2 million, with a repayment period of five years and a fixed interest rate of 4% per annum, covering up to 90% of the estimated eligible costs of a project.

Technology and innovation

In February 2004, the Ministry of Industry and Trade announced a new Framework Programme for the Support of Technology Centres and Strategic Service Centres. This programme replaces the previous Framework Programme for the Support of the Formation and Expansion of Technology Centres and the Framework Programme for the Support of Strategic Services, and regulates the forms of support and conditions for the provision of this support.

The forms of support which can be obtained via the Framework Programme for the Support of Technology Centres and Strategic Service Centres, provided that requirements are met, are as follows: a subsidy for business activities provided for a maximum period of ten years, covering a maximum of 50% of costs spent on the acquisition of tangible and intangible fixed assets or the gross wages of employees, including mandatory employer payments for health insurance, social security, and the state employment policy; a subsidy for training and retraining provided for a maximum of five years, covering a ceiling of 35% of costs spent on special training and 60% of costs spent on general training, up to a maximum of CZK 150 000 per new job.

The Czech Government is preparing an Innovations Act and a uniform national policy for the support of innovation. The first step launched in the scope of the active support process was the formulation of the National Innovation Strategy, which has been approved by the government. The second step is the current preparation of a National Innovation Policy by the government Council for Research and Development. A fundamental step forward will be the formulation of the Innovations Act, which will form the basic terms and conditions for the blanket support of innovations in the Czech Republic.

E-commerce

On 19 May 2003, the Czech Government discussed the Electronic Commerce White Paper, which is the basic government strategic document containing plans, goals, and specific measures emphasising and promoting the importance of public private partnerships and the development of the knowledge economy. The White Paper also contains plans, goals, and specific measures to promote electronic commerce. The Electronic Commerce White Paper contains programmes and suggestions for the support of the business environment and for ensuring the gradual diminution of distrust and ignorance regarding e-commerce through the provision of training support. The government will also support the activities of the private sector and educational

institutions in the field of consumer protection, information system security, information exchanges between market players, and improvements in the culture of managing intellectual property products. Enterprises will be motivated to use information technology, *inter alia*, by means of support programmes, and cooperation will be promoted with entities from abroad on projects for the transfer of know-how and practical experience from foreign programmes relevant to local market conditions. The government will also encourage Internet availability for disabled citizens, Internet access in public places, and the development of digital television.

Based on the conclusions of the Electronic Commerce White Paper, on 29 July 2004, the parliament passed Act No. 480/2004 on certain information society services thereby reinforcing the legal status of information society service providers and appointing clear rules for the dissemination of commercial communications. This law also sets clear rules on the information society within the EU market and regulates rights and obligations in e-commerce, in particular reinforcing the status of the consumer.

Other measures stemming from the Electronic Commerce White Paper are connected with an amendment of Act No. 227/2000 on electronic signatures, which introduces the institution of electronic brands and the institution of timestamps into Czech law and liberalises the recognition of qualified certificates in the context of EU member states.

The Ministry of Informatics has also initiated liberalisation in the issuance of electronic finances by proposing changes to Act No. 124/2002 on payments.

Support of SME exports

An important element of government policy in the field of SMEs is the promotion of exports. The main aim of MARKETING programme is to support the competitiveness of Czech entrepreneurs in foreign markets. Among the supported activities are the provision of marketing information bearing on the entry to foreign markets or the production of promotional materials for presenting a Czech entity abroad. The support is provided in the form of a subsidy for accredited costs of the project. The minimum amount of the support is CZK 100 000 and the maximum is CZK 1 million. CzechTrade, is the agency responsible for the implementation of the MARKETING programme.

SME quality management

The CONSULTING programme enables persons preparing to enter into business to receive special-rate professional services in business consulting or information and services from business innovation centres. The programme provides support in the form of grants for business consulting services, the promotion of innovation companies at Business Information Centres (BICs), the training of entrepreneurs, or grants for the services of the Association of Female Entrepreneurs and Managers. Subsidies covering 50% of costs are available for selected training and seminars drawn up by the enterprise and investment support agency CzechInvest, Regional Advice and Information Centres (RPICs) and BICs, provided that the training participants meet the programme terms and conditions.

Regional programmes

The Ministry for Regional Development announced several regional support programmes for 2004: the Regional Programme to Support the Development of Industrial Entrepreneurial Entities in the NUTS 2 territories of Severozápad (Northwest) and

Moravskoslezsko (Moravia-Silesia), and in other regions with concentrated State Aid; the Regional Programme to Support the Development of Economically Weak and Structurally Affected Regions; and the Regional Programme to Support the Renewal and Construction of Technical Infrastructure in the Former Military Districts of Ralsko and Mladá.

Other government SME support programmes in 2004

- **MARKET** – this programme aims to enhance SME competitiveness on domestic and foreign markets. Support aims to help SMEs integrate into the EU internal market. Support takes the form of a subsidy for the acquisition of a certificate, of compliance with the Czech standard SN TEST.
- **VILLAGE** – the aim of this programme is to enhance the attractiveness of small-scale business and employment in small municipalities and thereby improve the economic and social environment in these areas. Business entities engaged operating municipalities with a population of up to 2 999 may be granted a subsidy covering 5% interest on bank loans for business projects, provided that they meet the programme terms and conditions.
- **REGENERATION** – the aim of the programme is the same as that of the VILLAGE programme. Business entities operating in areas of protected urban reservations, protected urban zones, protected village reservations, and protected village zones, and in buildings entered in the Central List of Cultural Monuments of the Czech Republic may receive a subsidy covering 3% interest on bank loans for business projects.
- **COOPERATION** – the programme is focused on the establishment of SME clusters. A subsidy is provided up to a maximum of 50% of the costs of implementing a cooperative project and is limited to a ceiling of CZK 1.5 million. In the Czech Republic, there is currently one cluster operating along optimal lines – Moravian-Silesian Engineering Cluster.
- **SPECIAL** – the programme's aim is to increase employment within specific disadvantaged population groups and is intended to supplement other SME support programmes (with the exception of the certification subsidy offered in the MARKET programme). A subsidy is available for each eligible employee from such population groups, amounting to CZK 4 000 monthly for a period of four years.
- **DESIGN** – the programme provides methodological assistance to SMEs seeking to incorporate design into their business strategy, helps them select a designer, creates terms and conditions for effective cooperation between a designer and entrepreneur, contributes to the coverage of financial costs for the creation of copyrighted work, and promotes new products with a quality design. Support is in the form of a grant for design work covering 50% of the fee for the creation of copyrighted work, up to a maximum of CZK 80 000.

Government SME support programmes for 2005-2006

For 2005/06, the Ministry of Industry and Trade has developed seven SME support programmes to be funded out of resources from the national budget. The Government has approved six of them (GUARANTEE, MARKET, PROGRESS, CONSULTING, DESIGN, ALLIANCE) in November 2004. The REPRESENTATION programme will be approved following approval by the European Commission.

The shared aim of all the programmes is to increase the competitiveness of SMEs in the Czech Republic:

- **GUARANTEE** – this programme is aimed at easing the implementation of SME business projects by means of special-rate bank guarantees, especially in relation to bank credit or leases.
- **MARKET** – the main aim of the programme is to make it easier for SMEs to acquire ISO certification and to support the investment-based projects of starter SMEs.
- **PROGRESS** – this programme makes it possible to implement the larger-scale developmental business projects of SMEs in selected branches of the economy.
- **CONSULTING** – the programme's aim is to enable entities preparing to enter into business to receive special-rate professional business consulting services and training services.
- **DESIGN** – this programme helps to increase SME competitiveness by producing top quality designs.
- **ALLIANCE** – the programme aims to enhance the SME competitiveness on foreign markets, in particular by supporting international marketing activities of consortiums of at least three SMEs.
- **REPRESENTATION** – the programme helps increase enterprises activities abroad by supporting the establishment of their foreign commercial representation (offices).

Operational Programme Industry and Enterprise 2004-2006

The Operational Programme Industry and Enterprise (OPIE) for 2004-06 is the principal programming document related to the policy of economic and social cohesion of the industrial sector. This document has been drawn up further to the goals and strategy of the Czech Republic's industrial policy. The OPIE is a priority programming document, based on which financial support is available (from the European Regional Development Fund) to entrepreneurs following accession to the EU.

OPIE support aims to preserve and develop competitive and efficient manufacturing industrial potential, to make an effective contribution to enhanced economic efficiency of the production base, and to support the necessary structural changes in industry so that by the end of the subsequent programming period the Czech Republic as a whole will no longer be a less developed region of the EU.

The EU finances in the framework of the OPIE focus on selected priorities, with the aim of ensuring that all regions contribute to the Czech Republic's economic growth in the coming years, and of suppressing the tendency of social exclusion reserved for certain population groups. Individual OPIE measures are implemented via support programmes.

OPIE programmes ensure that comprehensive support is available for SMEs through EU Structural Funds. The OPIE has three priorities: Priority 1 – Development of the business environment; Priority 2 – Development of the competitiveness of enterprises; and Priority 3 – Technical assistance.

In addition to the START, CREDIT, and MARKETING programmes mentioned above, a further eight programmes with this specialisation have been announced:

- **PROSPERITY** – support for the infrastructure of industrial development, especially science and technology parks, business incubators, and technology transfer centres.

- REAL ESTATE – support for projects designed to prepare, develop, and regenerate industrial zones, business properties.
- TRAINING CENTRES – support by projects relating to the structural reconstruction and the modernisation of existing premises of corporate training facilities, as well as projects for the construction and fitting-out of specialised new training facilities designed to train groups of business entities.
- CLUSTERS – support of projects for the establishment and development of branch-based associations (clusters) at regional and transregional level.
- DEVELOPMENT – support for the development of SME competitiveness during the growth phase of SMEs, i.e. support for an improvement in the technological level and the refinement of processes, such as the implementation of certification and international standards.
- INNOVATION – support for projects focusing on an increase in the technical and utility values of products and services, improving the efficiency of manufacturing processes and service provision, on the implementation of progressive management methods, the making of significant changes to the organisational structure, or changes in the strategic orientation of enterprises, and other non-technical innovations.
- ENERGY SAVINGS – support for projects leading to a reduction in the energy requirements of industrial enterprises by means of a reduction in the energy requirements of processes connected with manufacturing, conversion, and distribution of energy, new technology for the processing of energy materials, the implementation of cogeneration, etc.
- RENEWABLE ENERGY SOURCES – support of projects for the implementation of power or heat generation from renewable energy sources, such as projects for the construction, renovation, or reconstruction of facilities for the use of renewable energy sources, projects for cogeneration drawing on renewable energy sources.

Denmark

SMEs in the economy

In Denmark, SMEs account for almost 100% of all firms (the share of large firms in the total number accounts for only 0.2%), and very small firms (0-9 employees) represent 92% of the total number. SMEs represent approximately 70% of total employment while very small firms represent about 30% of the total.

Organisation

The Ministry of Economic and Business Affairs is responsible for Denmark's overall business policy and a number of agencies implement policies and contribute to policy planning in varying degrees. The economic framework of the Ministry's policy is determined in the annual budget decided by Parliament. As the business environment is a product of the policies of several other Ministries (concerned with labour market, taxes, R&D and export promotion), other Ministries may also play an active role in business policy. For instance, the Danish Trade Council at the Ministry of Foreign Affairs has an important role in export promotion by offering companies access to information, consultancy, and assistance in market preparation, for more than 100 markets worldwide.

SME policies and programmes

Denmark does not have a specific SME policy. Denmark focuses on a growth oriented policy, where policy instruments are judged on the basis of their contribution to growth. Firms do not contribute to growth by being small. Growing firms and new firms can contribute, however. Therefore, Denmark focuses on entrepreneurs and not SMEs in general. This is however not the same as saying that small firms are not considered in Danish policy. Some policy instruments are focused on small firms as analysis shows specific problems for small firms. Denmark also focuses on reducing administrative burdens especially for small firms.

Entrepreneurship policy

In Denmark, entrepreneurship has increasingly been in the focus of government policy and business development in general in recent years. It is the stated goal of the Danish Government that Denmark be a member of Europe's entrepreneurial elite by 2010. In order to assess if Denmark is on track to fulfil this goal, the *Entrepreneurship Index* has been developed.

The *Entrepreneurship Index* 2004 (October, 2004),* provides the first comprehensive picture of Denmark as an entrepreneurial nation. The *Entrepreneurship Index* is an analytical tool and the first systematic mapping and evaluation of entrepreneurship and of all major

* www.ebst.dk/publikationer/ivaerksaettere/entrepreneurship_index_2004/index.htm.

entrepreneurship initiatives. The index is a unique tool that allows the Danish government to identify the main problems and the critical areas that need to be improved.

The index shows that Denmark has competitive framework conditions in policy areas such as labour market regulation, administrative burdens and public services for entrepreneurs but experiences challenges concerning the creation of better equity financing possibilities for entrepreneurs in the early stage, better education for entrepreneurs, reform of the bankruptcy legislation and creating better opportunities for entrepreneurs to receive professional private counselling. The need for improvements in these areas is reflected in the strategies of the government and in a series of initiatives which are, amongst others, described below.

Financing

Vækstfonden, The Danish Investment Fund, is a state-backed investment company, providing funds to fast-growing Danish companies and act as a fund-of-funds investor in the private equity sector in the Nordic region. In 2001 *Vækstfonden* launched a new investment strategy. The strategy emphasises sustainability in two ways. Firstly, *Vækstfonden* has abandoned the use of subsidised loans. Instead, *Vækstfonden* is taking a more commercial approach to investing, employing the same funding instruments as used by private investors and sharing in the upside on investments. The main instruments are equity, convertible loans, and mezzanine finance. Thus, one rationale behind the new approach is that the greatest economic impact is achieved by targeting those companies that can survive financially without subsidies, but who have difficulties in raising capital. Secondly, as a result of replacing subsidised loans with market instruments, the Fund has released equity capital from its initial allocation of DKK 2 billion. The higher share of returns on successful investments, which *Vækstfonden* can expect to receive, enables it to sustain higher investment levels without jeopardising financial stability. These investments are divided across direct funding to companies and commitments to venture capital funds. In 2003 *Vækstfonden* made 51 direct investments in innovative primarily new and small companies. The total amount of capital invested in 2003 was DKK 173 millions.

Since August 2000, *Vækstfonden* has managed the national loan guarantee scheme for SMEs (the so-called “*Vækstkaution*”). *Vækstkaution* is offered to banks extending credits to Danish SMEs within a range of EUR 10 000 to 700 000. The maturity of the loans is three to ten years, with an average maturity of approximately eight years.

The main objective of *Vækstkaution* is to augment bank lending to SMEs and to encourage innovation and development activities in SMEs. The volume of the loan guarantees in the programme declined throughout 2002 and 2003, from DKK 521 million in 2001 to DKK 192 million in 2002 and DKK 160 million in 2003. The slowdown reflects the fallout from the global economic downturn as well as a tightening of guarantee requirements due to unsustainably high default rates during the first years of the scheme. By the end of 2003, loan guarantees covering more than DKK 1.1 billion in loans had been granted since the third quarter of 2000. In June 2004 the guarantee percentage was raised from 62 to 75, and the demand for guarantees is expected to pick up during the next few years.

In collaboration with Danish banks the government will set up a new type of government-backed loan called “*get started*” loans from 2005. In addition to offering regular financial advice and loans, the entrepreneur is offered additional entrepreneurial

counselling. The government covers a significant share of a bank's loss on "get started" loans. In 2005 the government plans to use DDK 57 millions on "get started" loans.

Education

Education and training are important tools to strengthen innovation and entrepreneurship in Danish society. Education and training for entrepreneurship constitutes one of the initiatives in the latest two Danish action plans for entrepreneurship which the government launched in January and October 2003.

Among the most important initiatives in this area is the International Danish Entrepreneurship Academy. In an increasing number of colleges and universities, entrepreneurship is taught in various ways ranging from theoretical studies to simulations of real life and *in situ* training in start up companies. However, there is still a need to integrate entrepreneurial programmes for many students at all levels. This is the expected role of the future International Danish Entrepreneurship Academy. The aim of the academy is to provide students at all levels the possibility to take classes in entrepreneurial topics as a part of their education.

Furthermore, the academy will provide best practice on educational issues as well as being the future centre of Danish research in entrepreneurship and innovation. The ambition is to create an internationally known and respected academy. The academy officially opens in 2004 and enrolls its first students in class in 2005.

Regulatory reform

Bankruptcy legislation

In connection with the Danish Government's action plan *Promoting Entrepreneurship* from January 2003, the Bankruptcy Council under the Ministry of Justice was requested to consider how entrepreneurs could start again more easily after an honest bankruptcy or a similar economic failure.

Conclusions from a report presented by the Bankruptcy Council in August 2004, were used by the Minister of Justice to put forward an amendment to the Danish Bankruptcy Act in regards to discharge. The main elements of the proposed amendment are as follows:

The condition that "the bankrupt must have steady economic relations" to obtain an early discharge, will be relaxed. The present legislation does not allow debt discharge until the insolvent has satisfied "steady economic relations" criteria. Currently, this means that the insolvent must attest their economic situation will be unchanged during a set period, preventing them from being able to pay off the debt. This condition is to be relaxed in the new legislation.

A shorter period of debt repayment in the case of early discharge: It is proposed in case of an early discharge to reduce the period the bankrupt typically will have to repay the debt from the current five to three years. To avoid misuse, a person is only entitled to early discharge according to the new rules once every ten years.

Faster repayment of debt: there will be a possibility for the insolvent to start repayments as soon as the insolvency proceeding begins and not – as today – only when the proceedings have been concluded.

Assuring that the new legislation will only include honest insolvent entrepreneurs: by integrating the new system in the insolvency proceedings, it will be ensured that all of the

relations in the insolvent company have been investigated thoroughly. This is conducted by a trustee in bankruptcy, typically an attorney, who is in charge of the insolvency proceedings along with the bankruptcy court. The aim is to prevent abuse of the more rapid proceedings.

Reducing the administrative burdens by 25 per cent by 2010

In Denmark better legislation and regulation for business is part of *The Danish Growth Strategy*. The Danish Growth Strategy is the overall policy framework for increasing economic growth in Denmark. One of the long term goals of this strategy is to reduce administrative burdens for enterprises by up to 25 per cent by 2010. This is to be done in several ways.

The government's *Something for Something* initiative launched in February 2004 increases the focus on businesses that have difficulty in complying with rules and regulations, while making it possible to relax the enforcement of the rules with regard to, e.g., the working environment as well as the rules on environmental protection and tax affairs for those business enterprises that have their house in order. The government is also reducing the number of rules in the national legislation that hampers competition. Finally, the government has commenced a number of forward-looking initiatives through the action plan *A More Business-Friendly Public Sector*, starting in 2003, with the objective of further easing the administrative burdens for business enterprises. All of these steps will make it easier to be an SME or entrepreneur.

All basic registration of Danish businesses is now conducted by one authority

The Danish Commerce and Companies Agency (DCCA) has, since June 2004, been the registration authority for a range of basic business information. VAT-related data of sole traders is among the basic information that no longer has to be reported to the tax authority. As a result of the new division of work, Danish businesses only have to contact one authority for basic registration, independent of their legal form. This will ensure a high focus on efficient registration and quality service. The DCCA has in recent years, developed ICT (*information and communication technology*) tools for self registration on the Internet available for limited liability companies. The infrastructure and knowledge from these projects will be used to further develop applications for other types of businesses, i.e. sole traders.

The systematic *simplification of the most onerous acts and rules* is an initiative that can create major administrative alleviations for business enterprises as well as ensuring a more meaningful and updated public regulation. A screening phase of the work has been commenced so as to map the potential for simplification of the acts and rules that result in the largest amount of administrative burdens. The actual simplification of the rules will thereafter be commenced. Concrete areas that will be looked at include simplification of reports to Statistics Denmark (Danmarks Statistik), the Danish Company Accounts Act and the Danish VAT Act. A simplification of the rules for environmental approval has already been implemented, and supervision will be introduced in accordance with the "*Something for Something*" principle. Added to this is a simplification of the Danish Agricultural Act, which will provide farmers with greater and more flexible freedom of action in connection with the expansion of their farming operations.

Improving the Competition Act

A new Competition Act was due to be adopted at the end of 2004, the aim being to secure more effective competition rules to the benefit of undertakings and consumers. Smaller undertakings might in particular benefit from the improvements that a modernisation of the Danish notification system will lead to. Future undertakings can refer to the conditions of exemption from e.g. the prohibition on agreements, which restrict competition, without having notified the agreement with application for exemption to the Competition Authority. This will mean a significant administrative relief for many undertakings. Furthermore, smaller undertakings will benefit in general from a more effective enforcement of the competition rules.

Business service reform

On 1 January 2004, 15 new business service centres were launched. The business service centres provide guidance for entrepreneurs and small businesses. With this initiative Denmark now has a unified public guidance and information system.

The government has also facilitated access to private guidance by launching a virtual counsellor network as well as a number of entrepreneurship clubs. The virtual network consists of advisers that offer free counselling to entrepreneurs and small enterprises. The entrepreneurship club is a forum where business individuals act as mentors for entrepreneurs and will be comprised of 30 to 40 locally anchored clubs.

Technology and innovation

Innovation Incubator

The main purpose of the *Innovation Incubators* is to invest in innovative projects and newly started businesses based on technology and knowledge intensive ideas. The *Innovation Incubators* initiative was originally launched in 1998, with a new model for the allocation of public funding in 2002. The main criterion in the new model is the incubator's ability to attract additional private capital to the businesses. The new model also emphasises the networking activities between the incubators, the universities and other research institutions. The government has proposed to invest DKK 121 million in 2005 and DKK 118 million every year from 2006 to 2008. This is significantly above the previous plans.

Technology Transfer Act

In June 2004 a new *Technology Transfer Act* was adopted, entitling public research institutions to establish limited companies for the purpose of technology transfer. The new *Technology Transfer Act* aims to promote the commercial exploitation of research results including the creation of new science based enterprises. Creation of new science based enterprises is facilitated by the ability of institutional companies to acquire equity in start-ups in return for intellectual property rights (IPRs) as an alternative to payment in cash.

Improved and extended 150 per cent tax deduction scheme

In order to encourage business investment in Research and Development the Danish Government introduced for a two-year trial period a 150% tax deduction on the research investments of private enterprises from 1 August 2002. The investment must be in research projects undertaken by public research institutions or public-private co-financed doctoral schools. In May 2004 the government extended the trial period for another three years and

improved some of the conditions in favour of SMEs. Small and medium businesses can, when participating in private-public R&D projects, deduct their own R&D costs including wages related to specific projects, whereas large companies can deduct only 150% of the amount they pay directly to a public science institution. Private enterprises need to apply in order to qualify for the deduction, and can deduct a maximum of DKK 5 million.

Finland

SMEs in the economy

In 2002 there were almost 226 600 enterprises in Finland (excluding agriculture) according to the Business Register of Statistics Finland. These firms employed 1 315 000 persons and their total turnover amounted to EUR 274 billion. Of this total, 99.7% were SMEs, having fewer than 250 employees, accounted for 61.5% of employment, and 52% of the total turnover in the business sector. The share of self-employed entrepreneurs was around 40%.

Since 1998 the stock of enterprises has exceeded the peak level recorded before the recent recession. Numerically, the trade and services sectors account for the most enterprises while industry and trade represent the largest employers. An average Finnish firm has six employees, the average European level.

In the Finnish economy, the high proportion of small companies is accompanied by the important role played by large companies. Micro firms (with less than 10 employees) account for 94% of all enterprises and a large majority of Finnish firms are born and remain small, and it is argued that a need exists for a more growth-oriented perspective on the part of start-ups. International comparisons show that relatively few obstacles to entrepreneurship exist in Finland and the current enterprise structure is partly explained by the success of large-scale industry rather than by lack of opportunities or unwillingness to take entrepreneurial risks.

In 2000 Finland shifted emphasis from SME policy towards enterprise policy with the adoption of the *Entrepreneurship Project*, launched by the (MIT), and included in the government Programme. The project ran until the end of the last governmental term in March 2003. The Project was implemented in cooperation between nine ministries and the Association of Finnish Local and Regional Authorities. The Employment and Economic Development Centres (EEDCs) and, the various stakeholders of Finnish economic life also participated actively in the work. The project consisted of some 130 measures aimed at increasing start-up, growth and competitiveness of enterprises. The evaluation of this project was subsequently presented to the OECD Working Party on SMEs and Entrepreneurship.

The present government implements four new horizontal and inter-ministerial policy programmes, one of which is the *Entrepreneurship Policy Programme*, an integral part of the government's economic and industrial policy. Its objectives are to ensure stable development of the business environment of enterprises, to offer long-term predictability and to improve Finland's position among Europe's leading countries in terms of operating conditions for entrepreneurship. The government aims to secure the functioning of the market economy and increase the role and recognition in society of enterprises and entrepreneurs as creators of economic growth and employment. Meeting these objectives

will call for continuous development and renewal of the existing stock of enterprises, growth and internationalisation of businesses and competition conditions that favour entrepreneurship.

The *Entrepreneurship Policy Programme* (2004-2007) is a tool for the government to ensure that resources will be used efficiently, that measures implemented will be in parallel and will not be duplicates, so that synergies generated from the horizontal cooperation between various administrative sectors can be fully exploited. Efficient utilisation of resources (e.g., technology funding, general assistance to business, the regional centre programme, the rural policy programme, the use of labour policy resources for promotion of entrepreneurship and the network of polytechnics and universities) will be safeguarded with inputs for increasing capacity for horizontal collaboration and for utilising expertise within regions.

The Entrepreneurship Policy Programme, managed and coordinated by the (MIT) assisted by a programme manager, is overseen by a ministerial group. Eight ministries, business organisations and other stakeholders also participate in the programme to monitor improvements in entrepreneurship conditions and to identify needed reforms. The programme consists of five sub-sectors:

- Entrepreneurship education and advisory services to enterprises.
- Start-up, growth and internationalisation of enterprises.
- Taxes and payments affecting entrepreneurial activity.
- Entrepreneurship in the regions.
- Legislation concerning enterprises and functioning of the market.

Within each subsector, a number of policy initiatives are undertaken revolving around issues such as enhancing financial and socio-economic incentives for setting up and expanding SMEs, further improving technological know-how and innovation resources of SMEs, better entrepreneurial regulation, as well as opening up public sector services for competition. Entrepreneurship and its development as a societal phenomenon will be monitored and an annual survey on the status, trends and impacts of entrepreneurship in Finland will be drawn up, to be complemented with regular evaluations of entrepreneurial intentions and competitiveness.

Overview of policy developments concerning SMEs and entrepreneurship

The regulatory business environment

During 2002-04, Finland worked actively to improve the quality of entrepreneurship-related legislation. In May 2003 the OECD country review on the quality of Finland's regulation "Regulatory Reform in Finland – A New Consensus for Change" was completed. The government capacity to assure high-quality regulation, regulatory governance, functioning of competition policy and openness of the market were among the key areas reviewed as well as a sector-specific analysis of the activities of public enterprises and the national postal service. Concerning regulation quality, the report made a number of recommendations in support of improved law drafting, and improved regulatory impact assessments. Evaluation of regulation in force was recommended, as well as increasing more detailed written guidelines, and training of legislators in several fields.

Concerning competition policy, the OECD report found that Finnish competition policy compares well with other European countries, playing a key role in the restructuring of the

Finnish economy. Following regulatory reform, most of the market is considered to be within well-functioning competition. A future challenge will be to provide public services more efficiently and in a neutral manner with respect to competition. Taking into account competition aspects more systematically in drafting legislation, is also recommended, as well as assessing competition impacts as part of the regulatory impact assessment.

Various initiatives are underway in the Entrepreneurship Policy Programme to implement these OECD recommendations. For example, a regular monitoring process between the government and business organisations will shortly be introduced to analyse at regular intervals the ongoing legislative proposals from the standpoint of their business impacts.

Access to infrastructure – the local dimension

In Finland the basic and entrepreneurial infrastructure have been found to be of a high standard in the analyses of business environment competitiveness (WEF, IMD, etc.). As regards information and knowledge infrastructure, in planning and implementing business policy, it has been kept in mind that the circumstances and conditions of entrepreneurship vary greatly in different parts of the country. The varying needs of the regions are taken into account when deciding action priorities in the allocation of resources. Special attention needs to be given to the development of collaboration between administrative sectors and cooperation between regional actors. The government continues to improve regional capacity to develop and utilise research and product development funding as well as innovation facilities.

The objective of the Regional Business Services Project (2002-2007) is to establish a national network of at least 50 regional business service points. The activity is based on the mutual cooperation of municipalities, Employment and Economic Development Centres (EEDCs), employment offices, new enterprise centres, advisory organisations, educational institutions and private business service firms. The goal is to develop the supply and quality of business advisory services intended for start-up and small businesses.

Development of an entrepreneurial society and culture

The readiness of Finnish citizens to become entrepreneurs will be encouraged by means of entrepreneurship education and training and by strengthening their business skills, with the aim of increasing the attractiveness of entrepreneurship as a career option. The know-how concerning entrepreneurship and entrepreneurial activity will be reinforced throughout the entire education system.

As part of the government's Entrepreneurship Policy Programme, the Ministry of Education renewed entrepreneurial education and training programme plans related to the various levels of education. The Ministry also developed a concrete action plan for entrepreneurial education and training by school type. These action plans are expected to promote cooperation with the relevant partners for further development of entrepreneurial education and training.

The new criteria for basic education and the new national curricula for upper secondary school include a thematic entity called "Participating Citizenship and Entrepreneurship" which schools will implement gradually until 2006 (2005 for the criteria).

The work of the *Entrepreneurship Spearhead Project*, set up by the Ministry of Education in 2002, has progressed in line with its objectives set in all of the three areas and projects will be launched regarding development of education and networking of local actors in

regional cooperation and entrepreneurship education. Negotiations have been conducted with national producers of learning materials on how entrepreneurship training can be better taken into account. Entrepreneurship education will be taken more widely into account in teacher training, the continuing education of teachers and of teacher trainers.

Policies and programmes for fostering female entrepreneurship

Women entrepreneurs numbered 71 000 in 2003, accounting for 33% of all entrepreneurs, the highest share recorded to date. An important instrument in recent years for the promotion of women's entrepreneurship has been a loan granted by Finnvera, the volume and effectiveness of which have been increasing, and which amounted to a total of EUR 18 208 000 loaned to women entrepreneurs for 1 213 projects in 2003. The activities of business advisers specialised in women's entrepreneurship at the EEDCs, which started in early 2001, have been established as an advisory network for women planning to become entrepreneurs or already engaged in entrepreneurial activity. The advisers support women in matters related to start-up and business expansion. They set up networks between actors promoting female entrepreneurship at both regional and national levels; enhance development of good practices and models for stimulating women for entrepreneurship; use the good practices developed by their own network and exchange experiences of regional implementation models that promote female entrepreneurship.

Examples of programmes and initiatives promoting female entrepreneurship include the following: (MIT) launched in early 2002, a pilot programme of the Women Entrepreneur Network (Nappi), which aims to provide women with new tools for acting as the manager, resource and expert of the network, and to activate the operations of already existing networks of women entrepreneurs; the multi-annual Womenet project develops electronic business and networking of small women-led enterprises, and aims to bring new IT models to sectors dominated by women and encourage women to become active in new fields of business. To promote female entrepreneurship based on new innovations, the Tuulia project was launched in 2002 aiming to, in addition to the promotion of new start-ups, activate and encourage women to become inventors. A working group to examine the practical needs and development potential of advisory services for women entrepreneurs was established within the Entrepreneurship Policy Programme. Furthermore, a survey is planned to inform decisions to be taken in 2005 regarding the establishment of women entrepreneur resource centres.

Access to international markets

The openness of the Finnish economy is key to the functioning of competition. The deepening of the EU internal market and the general deregulation and removal of barriers to trade have strengthened competition in Finland's domestic market and promoted productivity and restructuring. The structure of Finnish industry increasingly reflects technology exploitation and solid technological know-how. Nevertheless, OECD estimates still place Finland among countries where regulation is shown to somewhat hinder competition. The EU Single Market remains a priority, providing Finnish companies with many opportunities, although these are not without challenges. With the EU-wide SOLVIT service the Finnish authorities assist companies when they encounter cross-border problems on the internal market, caused by incomplete applications or incorrect interpretations in other member states of the internal market legislation made by

authorities. In 2003, the (MIT) organised a wide-ranging, nationwide SOLVIT information campaign, following which contacts to the SOLVIT Centre of Finland, operating under the auspices of the Ministry, increased considerably.

E-business and e-governance

The government launched a number of projects to support the development of electronic business. Creating user confidence by various means is deemed important, and implementation of EU legislation is a central part of the government's approach. Digital tools to cover e-logistics, various mobile services, e-accounting and e-invoicing are targeted priorities and are also subject to technology development programme efforts. E-government is an important aspect of the promotion of e-business. Companies can file digital tax returns and business registry reports, and all government special financing services are accessible through one portal. Electronic marketplaces have also been created for public procurement.

Examples of new initiatives utilising e-business include the following: A national nursing service network HOPE was developed containing a unique national reference service for private companies engaged in the nursing sector. The project has compiled information on enterprises into a service index which also functions as a marketing channel for enterprises and as a search service for clients and stakeholders. The service network is also an information dissemination and training channel for service enterprises in the social sector. The Enterprise Finland (www.enterprisefinland.fi) Web service has been in operation since 2002 and contains, *inter alia*, a search service including the principal public services intended for enterprises. A nationwide start-up service for those setting up a business in which all regional service providers participate is currently being prepared. The English version of the Web service is now available, aimed at foreign enterprises in business, or intending to go into business in Finland.

Access to finance

According to studies carried out at regular intervals, the availability of financing has not been a problem for Finnish SMEs in recent years. The financial market for SMEs functions rather efficiently, and the availability of venture capital is good by international standards. Only five to six per cent of SMEs have reported problems in the availability of financing. However, the surveys do not cover comprehensively the problems associated with seed and start-up phase.

The public sector is involved in the Finnish venture capital industry. SITRA (the Finnish National Fund for Research and Development) is an important player in all segments of the risk capital markets, its activities varying from direct portfolio investments to minority ownership of technology-transfer companies at universities and research institutions. TESI (Finnish Industry Investment, a State capital investment company) is a co-investor in a number of regional venture capital firms and has as its primary goal to promote production and commercialisation of innovations by setting up funds specialising in financing enterprises in the seed and growth stages. An external international evaluation of TESI was conducted in 2003, and based on the recommendations of the evaluators, the (MIT) decided to focus the company's investment activities on funds specialising in the seed and start-up stages. The company also examines the take-up of the so-called asymmetrical profit-sharing models in order to attract capital for these funds.

The joint *Liksa pre-seed financing* of the *National Technology Agency (TEKES)* and *Sitra* are well established and will continue operations until the end of 2005. *Sitra* announced *DIILI* in 2003, a service aiming to increase the sales resources and business skills of start-up firms. *DIILI* represents a third tool for the *PreSeed* financing service in addition to *LIKSA* and *INTRO*. The marketplace of *Sitra's INTRO* has become a central investment channelled to private investors seeking start-up businesses. Despite the active investment activity in the marketplace, the lack of sufficient sales potential and business know-how slows down the progress of even good enterprises in the investment process, for which the *DIILI* channel offers a new solution, opening up a channel for sales and business professionals to the *INTRO* marketplace. Through it they can join entrepreneur teams to deal with sales tasks by exchanging their work input with shareholding.

Finnvera is a specialised state-owned financing company that promotes Finnish exports by offering export credit guarantees and supports domestic operations of SMEs by providing risk financing and guarantees, including when the available collateral would not satisfy other lenders. *Finnvera* special credits include start-up loans granted to the founder of a new enterprise, and micro loans and loans granted to women entrepreneurs. *Finnvera* also offers small enterprise guarantees, based on special financing arrangements between *Finnvera* and the banks. *Finnvera's* activities were evaluated in 2004 and the working group set up to continue the evaluation work made a proposal for developing the activities of the specialised financing company, recommending that the activities of the company should be tax-free. The current tax regime penalises SMEs with respect to the cost of domestic SME financing and export credit guarantees when compared with competitor countries. The working group further proposes that the regulatory control of the company's domestic activities be reduced and activities would be better managed through the ministry's industrial policy targets.

Fifteen regional EEDCs also act as channels for public finance for SMEs, providing various loans, guarantees and subsidies on a regional basis. They also have a role in channelling EU finance.

Innovation and technology

Numerous indicators show that: the Finnish innovation environment is excellent; the level of educational attainment of the workforce is high; research resources are top-class; cooperation between businesses and research institutions is intensive; and innovation activities are productive and internationally oriented.

The external evaluation of the Finnish innovation environment was completed in the second quarter of 2003, and the Ministry consequently decided to draft a strategy paper based on the recommendations of the evaluators. Although Finland ranked among the top countries in the world in terms of its innovation environment, measured by several indicators, the number of entrepreneurs and innovative firms remains relatively low in Finland. Therefore, the evaluation recommended, *inter alia*, switching from technology policy to innovation policy and from SME policy to entrepreneurship policy, focusing on market failures and maximising the external effects, and on increased risk-taking in public funding, as well as better coordination between innovation organisations.

The *National Technology Agency (Tekes)* programmes have intensified research and technology co-operation between large enterprises, research organisations and SMEs, aiming to facilitate SME participation in national technology programmes co-ordinated

and financed by Tekes. Technology experts at EEDCs act as a link between Tekes and regional enterprises. Several support programmes promote co-operation, innovative activities, networking, and technology transfer between SMEs and educational establishments and are co-ordinated through the EEDCs.

Tekes is a key institution for funding applied and industrial R&D, using capital from the state budget via (MIT). Nearly 50 per cent of industrial funding by Tekes is awarded to companies having fewer than 50 employees, and 70 per cent of all venture capital investments in Finland have received Tekes funding at some stage of their development. Tekes is a complementary source of financing for private venture capital investors, providing funding in the earlier stages while venture capitalists provide additional funding as the firms mature. The MTI, Sitra and Tekes jointly launched a project to develop and extend business development and business incubator services geared to technology and know-how based business start-ups, aiming to accelerate their growth, development and internationalisation at the initial stage of their business activities and at supporting new business start-ups with high quality expert services.

Preparatory funding has been marketed for improvement of SME readiness to utilise ICT technology. Tekes has for several years encouraged enterprises to elaborate technology strategies and has renewed guidelines for assisting SMEs, research institutions, universities and polytechnics for developing these strategies. Preparatory funding is available to do this and a strategy guide is available free of charge to SMEs, to assist them define their core competencies and key technologies in order to ensure competitiveness.

Skills acquisition and development (including management training)

MTI and the regional network of 15 EEDCs seek to improve the operational conditions for SMEs by arranging counselling, training, and enterprise development projects. These activities aim to stimulate the establishment of SMEs; develop business skills of management and personnel; develop skills in marketing and internationalisation; promote product development; promote the utilisation of new technology and improve productivity; increase co-operation between enterprises and promote networking; and develop service enterprises. The EEDCs offer a selection of specialist and development services appropriate to the various phases in the life cycle of an SME.

Management training organised by the EEDCs is designed specifically to meet the needs of SMEs and during the training process the emphasis is on the practical approach both in terms of the selection of teachers and the teaching methods. Specialist and consultation services are nationwide brand products and the quality of specialist and consultation services is assured in advance by careful selection of qualified specialists who are subject to strict eligibility criteria and who are given the appropriate training to deliver the programme.

Examples of new training and development services offered by the EEDCs include the following: an expert service, *Network Rating*, launched in 2004 as an evaluation and development programme for the networking capacity of an SME. The programme evaluates the current status of an SME's networking capacity, defines a networking strategy upon which it draws up a concrete networking development plan. In the last quarter of 2004 a new expert service for drawing up a business plan was due to be introduced, to assist enterprises prepare for changes in their operating environment and for adjusting their activities. The service will also aim to improve the business expertise of enterprises, and be

particularly suitable for young SMEs as well as for longer established enterprises. The *TuoteStart* service entity was launched in 2003 aimed at SMEs and individuals intending to commercialise product or service ideas, and assist with the processing and launching emerging product and service ideas, product development projects, commercialisation projects, etc. Through *TuoteStart*, the internal experts of the EEDCs and national groups encompassing hundreds of experts and enterprises of various fields are utilised in the development of SMEs.

France

SMEs in the economy

There is no single definition of an SME. The various criteria used differ according to the laws or regulations introducing measures to assist SMEs. In France, SMEs have usually been defined as enterprises having more than 10 or 20 (in the industrial sector) employees and fewer than 500.

A Recommendation of the European Union of 3 April 1996, updated on 6 May 2003, has clarified the situation: SMEs are defined as enterprises with fewer than 250 employees, and are classified as micro enterprises (0 to 9 employees), small (10 to 49) and medium (50 to 249).

For the purposes of analysing French SMEs, particularly in the industrial sector, an additional category has been introduced: “very small enterprises” (10 to 19 employees). The criterion of independence is taken into account by excluding certain enterprises from the SME classification on the basis of turnover thresholds or financial data.

According to these definitions, the 2.4 million SMEs in Metropolitan France represent 99.8% of all firms in the industrial, commercial and services sectors (excluding agriculture, financial activities, the renting of real estate and administration). They employ 8.3 million persons, corresponding to 59% of the active population (10 million employees and self-employed workers). They account for 46% of turnover and 53% of value added of all firms in the industrial, commercial and services sectors, but only 23% of exports.

Table 4.2. SMEs in France: Distributions by enterprise size class

Number of employees	0	1-9	10-19	20-49	50-249	250+
Industrial, commercial and service enterprises ¹	55.2	37.3	3.8	2.4	1.0	0.2
Employment ²	5.6	23.3	7.5	11.8	14.9	36.9
Turnover ²	3.1	13.3	5.9	10.6	13.1	54.0
Value added ²	3.8	17.3	6.8	11.2	14.1	46.8
Exports ²	0.6	4.9	3.0	5.5	9.3	76.8

1. Source: INSEE-DECAS : fichier SIRENE at 01/01/2003.

2. Source: DGI-INSEE-Decas: tax database for 2001 (real regime).

While SMEs account for slightly less than half (46%) of the workforce in the industrial sector (excluding agri-food) and transport, they represent 85% of all employees in construction and civil engineering, 69% in commerce, 60% in agri-food and 53% in services.

In education, health and social services, SMEs employ 89% of the total workforce, firms with fewer than 45 employees alone providing nearly 24% of jobs.

Enterprises with fewer than 20 employees account overall for 29% of total jobs: 52% in construction and civil engineering, 49% in education, health and social action, 38% in

commerce, 30% in services and agri-food, 15% in transport and 13% in industry (excluding agri-food).

Framework policies

French SME policy is geared towards creating conditions conducive to the development of SMEs and therefore employment. It is oriented in the following three directions:

- To foster the creation, expansion and transfer of ownership of enterprises, in particular by providing support to local players. The goal is to place entrepreneurial ambitions at the heart of a package to stimulate business creation dynamics and expand employment.
- To promote business modernisation, by using local networks of start-up assistance, facilitating innovative start-ups so that entrepreneurs can make and sell new products and find new markets; this involves new technology and is aimed at promoting quality.
- To improve the legal, administrative and financial environment of enterprises, in particular by:
 - ❖ Simplifying administrative procedures and thus freeing corporate executives from non-productive routine tasks. This implies easing administrative constraints and simplifying the tax and employment regimes of small businesses. The objective is to give entrepreneurs the means to do what they do best: to create, lead and develop businesses.
 - ❖ Spreading the (financial) risk more widely when creating, but also expanding, enterprises.

Such a policy allows for the diversity of people and firms, and also for that of the various economic and social interests involved, whether national or local, public or private (e.g. banks), so that the dynamics at work can be fully unleashed in all of the relevant employment areas and territories.

The government's policy includes measures aiming to:

- Give support to innovative firms and to the creation and transfer of ownership of businesses.
- Stimulate interaction amongst players (including advisory bodies and local authorities) to help entrepreneurs develop their firms (through new markets, new technologies, training, quality control and certification procedures, etc.).
- Improve SME financing, develop venture capital and encourage greater recourse to the SME Development Bank (Oséo-BDPME).
- Direct state subsidies to SMEs towards a policy for a business environment consisting in particular of a more equitable share of resources and costs among operators, limiting complex administrative procedures and providing appropriate training for entrepreneurs and their employees.

SME policies and programmes

Promoting entrepreneurship

The number of new start-ups in France fell from some 200 000 a year in the late 1980s to 175 000 in the late 1990s, but there was net growth again in 2003 (back up to 200 000,

compared with 178 000 in 2002). 2004 was a record year, with 225 000 totally new start-ups. The previous high point was in 1989, with 204 000 new entrepreneurs. Entrepreneurial density (the number of firms created in relation to the population) is reputedly lower in France than in other industrialised countries such as the United Kingdom or the United States, but comparisons in this field are very difficult to make, as the scope of coverage is not always identical. The number of enterprise transfers has been decreasing regularly, standing at 40 000 in 2003 as against 50 000 at the beginning of the 1990s. These transfers consist almost entirely of transfers of sole proprietorship firms (mostly shops), which are tending to diminish in number, given the current preference for the corporate form, which is a factor that explains the decrease in the number of transfers observed. However, in general, enterprise transfer problems, including the transfer of corporations, are giving cause for concern, since 500 000 firms are forecast to change hands over the next ten years when their current owners retire (retirement of entrepreneurs born during the post-war baby boom).

Armed with these figures, the government is placing enterprise creation and support for transfer of ownership high on its agenda. To this end, it successfully enacted the “Economic Initiative” Act of 1 August 2003, which is aimed at meeting the target of 1 million new enterprises within five years. The measures concern all categories of entrepreneur and every facet of enterprise creation, acquisition and transfer, including regulatory, social, finance, tax, information and communications issues. The proposals come under five headings:

Theme 1: “Making enterprise creation simple, fast and accessible to all”. In other words, making it faster, simpler and less expensive to set up a firm. It is now possible to set up a company with capital of one euro, and entrepreneurs will be allowed to begin completing the formalities on the day they register their companies. There will be no further delays or geographical constraints to hinder enterprise creation, and incorporation will be possible online via the Internet. Some of the requirements prior to or at the time of registration will be lifted and entrepreneurs will be given more freedom to register their companies at their home address. Finally, entrepreneurs will be offered better protection, notably by means of a provision that they will not lose all their personal assets if their companies fail.

Theme 2: “Building bridges to enterprise creation”. The diversity of potential entrepreneurs calls for individual solutions. The “dual activity” option will give all wage-earners one year to set up their own business, allowing them sufficient time for their project and providing these employee/entrepreneurs with special social insurance cover for that year.

Theme 3: “Financing business initiative”. This will create new opportunities for the financing of business initiatives by banks, relatives, the stock exchange and subsidies. One aim is to direct personal savings towards the burgeoning economy, in particular by fostering a local approach to investment. For example, Local Investment Funds (*fonds d’investissement de proximité*, FIP) have been created under the Economic Initiative Act. These are venture capital investment funds aimed at investing in small family-owned companies (corporations and limited liability companies) in a geographical area limited to no more than three adjacent regions. In 2003, five FIPs were established and a total of 30 million euros was collected. In 2004, 26 new FIPs were approved and are still in the savings accumulation phase.

Investment in FIPs is made attractive for private individuals by allowing them to reduce their income tax by 25% of the amount of the investment, which is subject to a cap of EUR 12 000 for a single person and EUR 24 000 for a couple.

Theme 4: “Social backing for entrepreneurs”. For the first year of business, an entrepreneur’s social insurance contributions are deferred and spread over several years; better and simpler support for enterprise creation has been made available to people experiencing financial difficulties/exclusion or to the unemployed, and the arrangements have been extended to other categories of entrepreneurs such as job-seekers over the age of 50.

Theme 5: “Facilitating enterprise acquisition and transfer”. The current tax regime creams off a large share of a firm’s resources at the very time when its future is uncertain. The tax burden on enterprise acquisition and transfers will be lightened, and simpler procedures will facilitate changes in corporate ownership.

In addition, the government considers that entrepreneurship and the desire to be master of one’s own destiny by going into business must be developed further in France, despite the progress observed with the implementation of the Economic Initiative Act. A special effort is being made to promote entrepreneurship in the education system and to change mentalities. This initiative is based on the protocol signed between the Minister for National Education and the Minister for Small and Medium-sized Enterprises, Trade, Craft Industries, Liberal Professions and Consumer Affairs, which is aimed at developing entrepreneurship among young people. This protocol provides for the following initiatives:

- Implementation of a national communication campaign.
- Preparation of an inventory of priority initiatives and co-ordination measures by the *Observatoire des Pratiques Pédagogiques en Entrepreneuriat* (OPPE, Observatory of Educational Practices in the Field of Entrepreneurship).
- Inclusion of entrepreneurship in existing school programmes; training and awareness-raising initiatives for teachers.

The *Observatoire des Pratiques Pédagogiques en Entrepreneuriat* (OPPE), an institution which is considered as a good practice by the European Union, has listed 260 initiatives (December 2004), which can be broken down as follows: 78 initiatives in universities, 41 in business schools, 63 in engineering schools and 78 in secondary schools. Furthermore, an “Initiatives for Young People” competition, sponsored by the Ministry for National Education, the Ministry for SMEs and the Ministry for Research, will select in January 2005 the best educational projects for virtual enterprises prepared by secondary school pupils. A prize of EUR 5 000 will be awarded at the Entrepreneurs’ Fair.

The government has also launched a campaign to support the measures of the Economic Initiative Act, with funding of EUR 2.5 million over a 26 month period. It has also encouraged the “enterprise creation train” initiative, which had 17 000 visitors during 14 stops in major cities in 2003, and 10 000 visitors in 13 stops in medium-sized towns in 2004.

This initial series of measures will be supplemented by a further Bill, which should be debated in 2005 and which will be more focused on enterprise development, the status of entrepreneurs and their spouses, the transfer of ownership and the survival of enterprises, and the promotion of training.

In addition, in 2004 the government initiated a measure to consolidate three public bodies that support policies for promoting SMEs and innovation. These are the SME

Development Bank (now Oséo-BDPME), the French Innovation Agency (now Oséo-ANVAR) and the SME Agency (now Oséo-Services). In 2005, these three structures will be consolidated into a new entity, known as Oséo, which will now be responsible for all the missions carried out by these bodies, including SME financing, innovation subsidies and knowledge improvement in SMEs.

This step will make it possible to ensure more effectively the continuity and consistency of public financing and subsidies. In addition, this new entity will be responsible for providing a range of new on-line services to SMEs and for preparing policy studies for the government.

Policies supporting SME access to financing

There has been a significant shift in policies regarding small enterprises' access to credit in recent years. The interest subsidy policy, which had lost much of its attractiveness and effectiveness because of the drop in interest rates, has been abandoned in favour of enhanced guarantees. The development of guarantee mechanisms improves enterprises' access to credit, particularly for the smallest of them, by facilitating risk-taking by banks. Monies destined for interest subsidies to craft enterprises have therefore been gradually redeployed in order to promote these mechanisms.

The SME Development Bank (Oséo-BDPME), through its subsidiary SOFARIS, has largely delegated to banking and financial networks the decision-making on guaranteeing loans to very small enterprises. The *Société interprofessionnelle de garantie d'investissement* (SIAGI), a subsidiary of the network of chambers of trade, and the *Sociétés de Caution Mutuelle Artisanales* (SOCAMA), subsidiaries of the *Banques Populaires*, have been associated with this effort.

The task of Sofaris (a French company which guarantees the funding of SMEs) is to facilitate SME access to financing, by guaranteeing the loans, and in certain cases equity capital, allocated to them by different financial institutions.

To this end, Sofaris administers guarantee funds, financed essentially by the state, in order to assume part of the risk related to the granting of credit (medium and long-term loans, equity type loans, furniture leasing and lease purchases, surety bonds on French markets and exports, etc.) as well as equity funding (25% of the annual budget) to SMEs. This system, based on close co-operation with banks and venture-capital agencies, is an important tool in the government's industrial policy.

Another interesting tool that should be mentioned is the enterprise creation loan (PCE).

- The PCE (*Prêt à la création d'entreprise*), launched in October 2000, is aimed at facilitating business creation by new entrepreneurs, especially those with small projects (under EUR 45 000). It gives priority to financing intangible needs. Loan amounts range from EUR 2 000 to 7 000, and the reimbursement period is five years, with a six month grace period.
- The PCE, which is granted by Oséo-BDPME, must be combined with medium or long-term bank financing for an amount ranging between two to three times the loan amount. Since its creation, 52 712 start-ups have been granted PCEs for a total amount of EUR 326 million, together with accompanying bank loans for a total amount of EUR 572 million. 60 779 jobs have been created. 18 463 PCEs were granted in 2004 alone.

Furthermore, some provisions contained in the Economic Initiative Act directly or indirectly concern the financing of very small businesses (TPEs).

In this regard, it can be mentioned that the creators of limited liability companies (SARL) are now able to set freely the amount of the enterprise's equity capital and to use savings accumulated in enterprise savings accounts (*livret d'épargne entreprise*), securities-based savings plans (*plan d'épargne en actions*) and Local Investment Funds (*Fonds d'investissement de proximité*, FIP), which can now supplement direct investments in the capital of small enterprises. In addition, FIPs, although they do not directly constitute a tool of bank financing for individual enterprises, will contribute to the guarantee mechanisms of financial assistance granted to these enterprises by participating with mutual insurance companies and guarantee institutions.

Lastly, with regard to the micro-credit granted by associations, it should be mentioned that a legal framework for these transactions was created by the Decree of 30 April 2002, which established an "enabling committee".

Assistance for the development of craft, commercial and service SMEs

The Fund for Service, Craft and Commercial Enterprises (FISAC) was created by Section 4 of Act No. 89-1008 of December 1989 to respond to the threats to the survival of local commercial and craft enterprises in rural and urban areas adversely affected by economic and social change, in particular the threats posed by the depopulation of certain rural areas, the development of large-scale retailers, especially on the outskirts of towns, and the difficulties of distressed urban areas.

FISAC is a scheme based on financial solidarity between small commercial and craft enterprises and large-scale retailers, and is funded through a levy on the gross surplus of the proceeds of the Tax for Assistance to Commerce and Crafts (TACA) paid by large-scale retailers (companies with a sales area greater than 400 m²). Since the 2003 Finance Act, the proceeds of this tax are allocated to the general State Budget.

The operations assisted by the FISAC are now classified in four main categories:

- Collective rural and urban operations.
- Individual operations aimed at enterprises in rural areas.
- Studies.
- Specific collective initiatives decided by the Minister responsible for commerce and crafts (such as compensation of businesses following natural or technological disasters, contributions to the financing of the economic development initiatives of chambers of trade and national professional craft organisations, support for businesses dealing in cultural goods, etc.).
- Decisions to grant aid are taken by the Minister for SMEs, Trade, Craft Industries, Liberal Professions and Consumer Affairs on the basis of projects prepared at the regional level by regional agencies responsible for commerce and crafts and by prefectures at the *département* level. In order to simplify the process and reduce the time required to grant subsidies, the requirement that applications be reviewed by a national commission was abolished in 2003.

Supporting the development of Small and Medium-sized Industrial Enterprises (SMIs)

Local industrial development measures are implemented essentially at regional level as part of state/region programmes. They are put into effect by the Regional Directorates for Industry, Research and the Environment (DRIRE).

- Set up in January 1994, the Small and Medium-Sized Industry Development Fund (FDPMI) supports investment in equipment to improve the technological level and competitiveness of enterprises. To be eligible, firms must have a sound financial basis, employ fewer than 250 people, be independent, and have a turnover and balance sheet not exceeding EUR 39 million and EUR 26 million, respectively. More than 75% of successful applicants are businesses with fewer than 50 employees.
- Regional advisory funds (FRAC) help SMIs to benefit from the services of outside advisers and consultants for a given project which is particularly important for their development (strategy, commercial environment, quality, management, etc.). State aid takes the form of subsidies of between 50% and 80% of the cost of the relevant studies or diagnoses, depending on the duration of the expertise.
- Adopted on a general basis in 1989, the Manager Recruitment Subsidy (ARC) is given to SMIs which create a new job and recruit a high-level manager for an indefinite period. The subsidy which may not be combined with any other similar public assistance is limited to the first year and represents 50% of salary and payroll taxes up to a maximum of EUR 30 000.

Technology and innovation

Considered as key factors for competitiveness, industrial research and innovation are assisted in many ways. A strong increase in enterprises' R&D effort by 2010 is required if the objective of reaching 3% of GDP set by the French President is to be attained.

In this regard, a government plan in support of innovation was presented in its final form on 9 April 2003 by the Ministers responsible for industry and research. A number of measures in this plan directly concern SMEs:

- Venture-capital investors are given more favourable status, in particular, tax status through the creation of "sole entrepreneur venture-capital investment companies" (*Société unipersonnelle d'investissement à risque*).
- The research tax credit enabling enterprises to reduce the cost of the physical and human resources allocated to research has been modernised and now includes enterprises' costs to defend patents and technology watch expenditure.
- An aid scheme for the projects of new, innovative enterprises, including exemptions from taxes and social charges, has been established.

In addition, SMEs also receive resources from the Industry Competitiveness Fund, which enables the State to provide medium-term assistance to strategic industrial R&D projects.

The main task of the French Innovation Agency (ANVAR) is to support industrial development and growth by promoting innovation in SMIs and by helping to exploit the results of research. It is also responsible for finding the financing required for enterprise expansion, notably through its expertise. Since 2005, ANVAR, together with the BDPME and the SME Agency, constitutes a new structure named Oséo.

In addition to these specifically targeting measures, SMEs also are eligible for measures aimed at promoting innovation and R&D in companies.

- The Ministry for Research and Technology has developed a set of procedures to promote the training of young graduates through research, and to enhance research and innovation in enterprises. These procedures are based on a tripartite co-operation between a young graduate, a skills centre and the enterprise which employs the graduate during the training period. There are different levels of training: higher-level technician (research contracts for higher-level technicians – CORTECHS), engineer or master engineer (technological research diploma – DRT; lengthy apprenticeship), doctorate (industrial contract for training through research – CIFRE) or post-doctorate (post-doc).
- The Regional Centres for Innovation and Technology Transfer (CRITT) are responsible for promoting technology transfers to SMEs. The 2004 Finance Bill consolidated the resources allocated for CORTECHS by the initial 2003 Finance Act (EUR 5.3 million).
- The Industrial Contracts for Training through Research (CIFREs) are designed to enhance the technological capacity of enterprises by organising research and development programmes for young researchers (with five years post-secondary education) in collaboration with a research team external to the enterprise. In 2002, 48% of CIFREs were allocated to SMEs. The number of contracts financed by the Research Ministry's budget has increased progressively, rising from 660 contracts in 1998 to 860 in 2003. An additional 300 contracts will be financed in 2004, bringing the total to 1 160.
- Financing for training for and through research has also been given since 1998 for post-doctorate students, with the twofold objective of helping young graduates to find jobs and encouraging SMEs to make greater efforts with regard to technological research and innovation: the 2004 Finance Bill provides for the possibility of financing an additional 200 post-doctoral contracts.
- SMEs also have access to financing from the Research and Technology Fund (FRT) in the form of project subsidies in the framework of EUREKA procedures, advances in technology, large-scale programmes and networks. The effort initiated several years ago to refocus the FRT on SMEs was continued in 2004. The FRT is also a means of promoting an active policy to support the creation of innovative enterprises.

Women entrepreneurs

Business creation by women helps develop professional equality and economic growth. Nevertheless, although the labour market participation rate of women has been growing constantly over the last two decades and now stands at 48.3%, the fact remains that despite exemplary success stories, very few women create their own enterprise. Only some 30% of enterprises were started by women, who represent only 20.2% of entrepreneurs with ten employees or more (INSEE, 1999).

Among the constraints encountered by women wishing to create their own enterprise, are:

- Greater difficulty in obtaining bank loans.
- Failure of the various players involved in enterprise creation to take into account the special nature of enterprise creation by women (*e.g.* financially small projects, less training in business management).
- Lack of suitable support structures.

In this context, the government, which has adopted a deliberate policy to promote women's rights and equality between men and women in the country's social, economic and political life, has continued to support women who wish to create, take over or develop an enterprise.

The measures launched and implemented are designed to meet the following two objectives:

1) Improving financing possibilities and access to bank loans

To this end, the Guarantee Fund for the creation, acquisition or development of enterprises by women (FGIF) is being decentralised in co-operation with *France Active* (FA) and *France Initiative Réseau* (FIR). These two major networks of enterprise creation support have their own financial tools, such as the unsecured loans that they manage on behalf of the State, and assistance such as enterprise creation loans (PCE), aid to unemployed persons creating or buying an enterprise (ACCRE) and consultancy vouchers. This means that women creating enterprises can benefit from a broad range of financial tools to help them realise their financing plans.

Furthermore, the two networks mentioned above have a long-standing partnership with banking networks. For example, *France Active* is recognised for its role as an intermediary with banks. Thanks to these networks' know-how and these partnerships, women creating enterprises will receive assistance when they negotiate loans with banks.

Lastly, under an agreement for supporting and promoting the FGIF concluded between the State and *France Active*, it is planned for this network to establish partnerships with banking networks in order to make them more aware of the enterprise creation problems faced by women and to increase the number of women's projects financially supported by banks.

2) Increasing support for women entrepreneurs

The operational procedures established by the decentralisation of the FGIF provide for support to women receiving FGIF assistance in each French region. In addition, some regions have developed partnerships to help women wishing to create or purchase an enterprise, regardless of the financial tools being used.

In January 2004, the Minister responsible for gender parity and professional equality launched a new "Chrysalis" scheme aimed at promoting activity and enterprise creation by girls and women in distressed neighbourhoods who have know-how, skills and talents, but whose creative energy is hampered by an unfavourable economic and social environment. The scheme consists of involving local players (local authorities, advisory networks, associations) in enterprise creation projects undertaken by women and, on the basis of each profile, setting up mentoring by entrepreneurs. For each project, a mentoring contract will link the project mentor, the women carrying out the project and a support structure. The programme has been implemented experimentally in nine cities in the sectors of restaurant/catering, fashion and dressmaking, communication and information and communication technologies, personal services and commerce.

Territorial planning: strengthening the synergies at work in local production poles and developing poles of competitiveness

In France, since 1998 the agency responsible for territorial planning and regional action (*Délégation à l'Aménagement du Territoire et à l'Action Régionale*, DATAR) has identified

and provided support to over one hundred local production systems engaged in collective approaches. These may entail the creation of infrastructure, the defining of partnerships with research centres and universities, but also international market prospecting, initiatives to improve product image, and less usual initiatives, such as the pooling of certain functions traditionally carried out inside enterprises (such as human resource management) and initiatives involving design.

The second objective of poles of competitiveness is even more ambitious, for it is not only aimed at supporting and revitalising existing systems, but at ensuring the success of a site at the international level. This requires combining transport and high-speed communications infrastructure, public and private research centres and laboratories (science parks), business incubators and venture-capital funds. A particularly pertinent example is the technological pole of Crolles, where the presence of major contractors (ST Microelectronics, Philips and Motorola), the close proximity of Grenoble's technological and scientific research laboratories (CEA-LETI) and incubators and the strong involvement of government have made possible a high density of innovative SMEs.

Internationalisation

Marketing insurance is the main instrument for supporting the international expansion of SMEs. It consists of insuring SMEs against the risk of the commercial failure of conducting business abroad. State/region planning contracts include foreign trade provisions that provide export start-up subsidies – 50% from the state and 50% from the regions – to SMEs (subsidising the recruitment of export staff, consultants, etc.). Allocations under the new state/region plans (2000-06) amount to a total of EUR 63.6 million, or some EUR 9.5 million a year.

The CODEX procedure, under which advances repayable after five years were paid to one or more large-scale SME establishments abroad in highly promising areas outside the European Union, was abolished in July 1998. It was replaced by a guarantee fund created under heading 64-00, "foreign aid grants". This fund, used to insure against economic risk SMEs investing in emerging and transition economies, was set up in March 1999 under the group responsible for its management (SOFARIS – AFD – COFACE).

Germany

SMEs in the economy

In Germany there are 3.4 million SMEs active in the crafts, industry, trade, tourism, service, and liberal professions. SMEs represent 99.7% of all enterprises in Germany and realise 43.2% of all business turnover. The important economic and social contribution made by SMEs is illustrated in the fact that nearly 70% of all employees – which means approximately 20 million employees – and more than 80% of all apprentices in the business sector work in SMEs. In terms of defining SMEs, Germany considers SMEs to be entities employing up to 500 employees and generating an annual turnover up to EUR 50 million.

Firm start-up and closure rates for different economic sectors during the period 1998-2003 are shown in Tables 4.3 and 4.4. It is noteworthy that closure rates have exceeded start-up rates for manufacturing in 2002 and 2003. Start-up and closure rates stayed very close together and moved practically in tandem for some industries, e.g., Transport, Storage and Communications and Wholesale and Retail Trade, Motor Vehicle Repairs. Financial intermediation, together with the Hotels and Restaurants industry, show parallel and recently rising trends for both start-ups and closures. The rates have been converging for Real Estate, Renting and Business Services, with start-ups showing a gradual decline during the five year period.

Table 4.3. **Enterprise start-up rates by economic sectors, Germany 1998-2003**

Classification ¹	Economic sector	Enterprise start-up rate ²					
		1998	1999	2000	2001	2002	2003
A	Agriculture, hunting and forestry	12.0	11.0	10.4	9.4	9.5	9.6
D	Manufacturing	7.7	6.7	6.0	5.7	5.4	5.5
F	Construction	16.3	14.7	13.6	12.4	12.0	14.1
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	18.5	16.6	15.4	14.8	15.7	17.4
H	Hotels and restaurants	8.2	8.1	7.7	7.7	8.0	11.6
I	Transport, storage and communication	20.3	17.3	16.8	15.9	15.1	17.9
J	Financial intermediation	152.8	151.6	164.1	178.8	163.9	185.3
K	Real estate, renting and business activities	18.0	17.9	17.3	16.5	15.8	15.5
O	Other community, social and personal service activities	14.6	14.5	12.9	12.4	12.8	14.9
B,C,E,M,N	Other sectors	14.3	13.5	13.5	15.5	14.4	13.5
A-K,M-O	Total	16.4	15.4	14.6	14.1	14.0	15.3

1. Classification of economic activities: 1998-2002: WZ 93 (German version of NACE Rev. 1), since 2003: WZ 2003 (NACE Rev. 1.A691).

2. Number of enterprise start-ups in relation to the number of enterprises of the previous year (according to VAT-Statistics, in per cent).

Source: IfM Bonn.

Table 4.4. **Enterprise closure rates by economic sections, Germany, 1998-2003**

Classification ¹	Economic sector	Enterprise closure rate ²					
		1998	1999	2000	2001	2002	2003
A	Agriculture, hunting and forestry	8.1	7.9	7.4	7.2	7.1	7.3
D	Manufacturing	6.6	6.3	5.7	5.6	5.6	6.0
F	Construction	11.9	11.6	11.6	11.5	11.6	11.9
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	16.5	16.6	15.4	14.8	14.9	16.9
H	Hotels and restaurants	10.8	11.2	11.1	10.9	11.2	15.0
I	Transport, storage and communication	17.6	17.9	15.0	14.8	14.6	17.2
J	Financial intermediation	123.9	123.3	116.4	124.6	136.7	157.2
K	Real estate, renting and business activities	11.2	11.6	10.5	10.4	10.5	11.5
O	Other community, social and personal service activities	9.1	9.7	8.6	8.4	8.9	10.4
B,C,E,M,N	Other sectors	7.8	7.8	6.8	6.9	6.8	7.5
A-K,M-O	Total	12.8	12.9	11.9	11.7	11.8	13.3

1. Classification of economic activities: 1998-2002: WZ 93 (German version of NACE Rev. 1), since 2003: WZ 2003 (NACE Rev. 1.1).

2. Number of enterprise closures in relation to the number of enterprises of the previous year (according to VAT Statistics, in per cent).

Source: IfM Bonn.

Framework policies

The necessary reform steps for the German economy are laid down in *Agenda 2010* which is the most comprehensive economic policy reform concept ever launched in Germany. The reforms are expected to increase, permanently, the growth potential of the German economy and so enable more sustainable employment. The reforms will result in greater flexibility and dynamism in product and labour markets, will accelerate reintegration into regular employment, remove bureaucratic obstacles, reduce subsidiary wage costs, and through reductions in taxation and charges enable people to enjoy higher net incomes. *Agenda 2010* will also establish a new balance between individual responsibility, creativity and the readiness to take risks on the one hand, and social justice and solidarity on the other – including between the generations.

The reforms in the pensions and health systems will reduce subsidiary wage costs and make work more rewarding, both for enterprises and their employees. The health system reforms aim to increase efficiency in the health system and ensure the delivery of high quality health care. The pensions reform should create the basis for medium and long term financial stability in provisions for old age.

SME policies and programmes

As SMEs are considered to be the driving force for more growth and employment, the German Ministry of Economics and Labour launched an SME Initiative in January 2003. This initiative is part of the *Agenda 2010* of the German Federal Government (see above) and entails six core elements:

- Promotion of entrepreneurship.
- Securing of the financing of SMEs.
- Promotion of vocational training and education of skilled labour.
- Reduction of bureaucratic obstacles.

- Promotion of innovative SMEs.
- Foreign trade and investment.

Regulatory business environment

To improve the starting conditions for start-up entrepreneurs and the regulatory framework for SMEs, the Federal Government's "Initiative to reduce Bureaucracy" adopted in July 2003, focuses on Germany's attractiveness as a competitive business site and especially on the support of the SME sector. Seventy-five projects have already been launched, among which:

- An important liberalisation of the crafts sector.
- Reduction of statistical burdens to be carried by businesses.
- Simplification of the workplace conditions entrepreneurs are in charge of by modernising the Workplace Ordinance.
- Acceleration of the registration procedure concerning the German Commercial Register reducing the delay from two months to a maximum of one month. By introducing a nationwide online registration in 2007, registration within one day will become standard practice.

As a further step, the labour market especially for SMEs and start-up entrepreneurs has been liberalised by facilitating the temporary employment of workers and altering the threshold for applying the Act on Protection against Unfair Dismissal.

The goal of tax policy is to lower perceptibly the overall burden on individuals and companies, thus creating more latitude for consumer spending and private investment. The tax policy strategy consists of a combination of tax rate reductions and the simultaneous broadening of the assessment basis. By means of the government's tax reform measures, consumers and companies will obtain in 2005 total relief of more than EUR 50 billion.

Development of an entrepreneurial society and culture

The promotion of entrepreneurship is one of the key elements of the SME initiative started in 2003. Several measures were taken in order to improve the start-up conditions for young entrepreneurs and small enterprises:

- The turnover threshold was raised to EUR 17 500 and bookkeeping requirements were reduced significantly.
- Access to the crafts sector was facilitated, the Crafts Code amendment providing an important impulse for employment and training, and making it easier to set up new businesses and transmit businesses to successors. Since 2004, start-up entrepreneurs whose businesses earn less than EUR 25 000 have been partially exempted during the first four years from membership fees to the chambers of industry and commerce as well as the chambers of handicrafts.
- As advice for young entrepreneurs and start-ups are important for the success of a business, the project *Gründerservice Deutschland* (Service for founders in Germany) was launched. This project is an alliance under the umbrella of the Federal Ministry of Economy and Labour, the chambers of commerce, the handicrafts chambers, the KfW banking group, the federal employment agency, business promoters and other partners in order to improve information and advisory services for start-up entrepreneurs.

- With the labour market reforms, the Federal Government is continuing to apply the maxim “Challenge and Support”. Individual initiative will be better rewarded than hitherto, and passivity will incur sanctions. In combining unemployment and social assistance, inefficient dual structures are removed and new opportunities for employment – especially for the low skilled – are opened. Two laws, the First and Second Act to Modern Services on the Labour Market, came into force on 1 January 2003. One of their aims is to open up new possibilities for employment especially via self-employment. During recent years the number of start-ups supported through the instrument *Überbrückungsgeld* (bridging allowance) had significantly increased. With a new programme called *Ich-AG* (Me.Inc) which is implemented for unemployed people who expect a relatively low income (up to EUR 25 000/year) an additional start-up allowance was introduced in 2003. In 2004, 184 000 persons using the bridging allowance instrument, and 172 000 persons receiving assistance through the *Me.Inc.* started-up a new business.

Policies and frameworks for fostering women’s entrepreneurship

Women account for about 28% of the self-employed in Germany. Although this number has increased significantly in recent decades, the level is still not high enough taking into consideration that women are equally as well educated as men. Therefore, in 2004 the German Federal Government established an agency for women entrepreneurs. The agency is located in Stuttgart and its services are accessible nationwide for female entrepreneurs via a hotline and Internet portal. The agency provides women who wish to or who have just started a business with useful information and advice and provides contacts for experts. By means of targeted consulting and by increasing the visibility of successful businesswomen, greater use will be made of the potential offered by well trained and innovative women.

The government also encourages women into self-employment by reforming conditions for so-called “mini-jobs” making temporary work acceptable.

Access to international markets

An essential part of the *Agenda 2010* and the SME Initiative is the “Active Worldwide” external economic programme, combining into a ten-point programme the key concerns of external economic policy such as the market liberalisation policy in the current round of world trade talks approaches increasingly geared for the internationalisation of SMEs in areas such as Hermes export credit guarantees and investment covers. Furthermore the aim is to strengthen the worldwide network of German chambers of commerce abroad, adding in 2003 and 2004, additional chambers in Bulgaria, Croatia, the Baltic countries, Jordan (on behalf of Iraq), Algeria, Libya, Qatar and Singapore, and providing more intensive political support for involvement by German companies in foreign countries. Support for foreign fairs held abroad is being focused to a greater extent on SMEs.

For facilitating compliance with rules and requirements in the area of intellectual property protection, relevant information is offered to SMEs, through more than 20 patent information centres in Germany. In addition, information on how to protect intellectual property is available through the Web site of the Federal Ministry of Education and Research (www.patente.bmbf.de) and the German Patent and Trademark Office (DPMA: www.dpma.de). Included is information especially designed to the needs of SMEs, by the World Intellectual Property Organisation (WIPO) (www.wipo.int/sme/en/index.html).

Moreover, the three major business associations in Germany recently undertook a successful initiative by founding the *Action Group of German Businesses against product piracy and counterfeiting (APM)* in 1997. APM not only takes action for the benefit of its members (more than 65 German companies of different branches and sizes) with regard to detecting infringement of intellectual property in foreign countries and IPR enforcement, but it also serves its members as a platform for the exchange of information and experience. The Federal Ministry of Economics and Labour co-operates with APM by jointly organising conferences and seminars. In addition, APM is supported by German Embassies in third countries, such as China.

E-business

The German Government assists 24 regional centres of expertise in e-commerce which dispenses to SMEs a broad range of information, advice and training for making better use of the Internet. In addition, branch-specific centres of expertise for trade and tourism and for the liberal professions exist. The PROZEUS-project will help to upgrade the e-business competence of SMEs to participate in global procurement and sales markets through integrated processes and standards and transfer know-how to interested companies. Through these and other initiatives the Federal Government assists SMEs to meet the challenges of the Internet age. For example, the Multimedia Start-up Competition is an incentive for turning innovative business ideas into reality in the promising multimedia sector. The German Internet Prize seeks to encourage the creation of business models and has successfully tested best practice examples of innovative Internet solutions adopted by SMEs, which can provide guidance to other interested parties.

Access to finance

A major challenge acknowledged by German policymakers is to ensure SME access to financial markets. The Federal Government considers itself responsible to ensure sufficient finance for SMEs. Therefore important decisions have been taken for concentrating SME financing efforts in the new KfW SME Bank resulting from the merger of the Reconstruction Loan Corporation (KfW) and the German Equalisation Bank (DtA) which occurred in September 2003.

In order to facilitate SME access to loans all previous loan products for young entrepreneurs and SMEs have been brought together into a uniform loan product called “entrepreneur loan”. In 2004, loan approvals for about EUR 5.7 billion were issued.

Since March 2004, assistance with quasi-equity-capital funding is offered to SMEs (so called “entrepreneurial capital”). The three parts of this product line (“ERP* capital for start-ups”, “ERP capital for growth” and “capital for labour and investment”) comprise an important step for a well rounded offering in the field of subordinate capital (so called “mezzanine capital”). About EUR 1.3 billion were made available by the ERP special fund in 2004.

As a result of the structural changes occurring in the financial markets and the banking sector in Germany, equity capital is expected to gain considerable importance in order that the financing conditions be obtained. As German SMEs have relatively lower equity capital than comparable enterprises in other European countries, the SME sector is

* ERP = European Recovery Programme, the so called “Marshall Plan”.

faced with the necessity of far-reaching changes in its financial structure and needs to improve its equity base. To fill the gap for venture capital volumes ranging between 1 and 5 million for SMEs, several regional pilot funds were initiated for private equity, under the lead management of the state owned KfW SME Bank. The first pilot fund was started in the second quarter of 2004 and further funds will follow.

Innovation and technology

In 2004 the German Government launched a comprehensive innovation initiative of which the High-Tech Master Plan for the SME sector is one of the first sets of measures. As SMEs have only limited R&D capacity, R&D co-operation and innovative networks are given special support. The High-Tech Master Plan for the SME sector contains the following elements:

- First a new assistance architecture to finance young technology companies. The new umbrella fund of the European Investment Fund (EIF) and the “ERP Sondervermögen” participates in professional venture capital funds by, on average, 30% of the funds’ financial volumes. The funds invest in young technology-oriented companies (early stage and development phases).
- Young technology companies also benefit from the Venture Capital Start-Up Fund launched 1 November 2004 and will participate at commercial terms together with private venture capital investors in such young firms.
- Together with private investors, the German Government plans to set up a special High-Tech Start-Up Fund in the years ahead as a third pillar of support in the new assistance architecture. This Fund will support R&D based start-ups by providing venture capital in the first years of operations.

Venture capital has also become more attractive due to the Act to Promote Venture Capital. This legal measure improves the tax conditions for the establishment of new venture capital funds in Germany. Furthermore the German Government wishes to strengthen cooperation between SMEs and between SMEs and research facilities. With the newly launched PRO INNO II programme, support is provided for national and transnational R&D cooperation and R&D personnel exchange between SMEs and research centres. The InnoNet programme assists the formation of innovative networks between SMEs and research units. In addition, the role of SMEs in cooperative industrial research is strengthened in the framework of the “Industrielle Gemeinschaftsforschung”. The support for innovation in Germany’s new States continues to be a focus of assistance efforts. With the new INNO-WATT programme R&D support is increasingly oriented to innovative engines of economic growth. With the competition *Network Management East* (NEMO) the development of innovative networks of SMEs in Germany’s new States is supported. Technological capabilities can be packaged together, common market strategies developed, and new employment possibilities developed.

Skills acquisition and development (including management training)

Lifelong learning has become a key focus in Germany in recent years, for innovation in the education system, improving competition and innovation in enterprises by highly qualified employees, supporting individual chances at the labour market and also for efforts to open up greater opportunities for disadvantaged groups. The Federal Government launched an extensive research and development programme dealing with

“learning in the process of work”, “learning in the social environment”, “learning in continuing education and training institutions” and “learning on the Net and with multimedia”. Funding amounting to approximately EUR 130 million is provided for this programme by the Federal Government and the European Social Fund to cover the period 2001 to 2007.

Another government project concerning the skills area is the programme *Learning Regions – Providing Support for Networks*. One important objective of this programme is the reduction in the shortage of skilled personnel in regional industries through the development of a matching supply of continuing education. In the framework of this programme, 73 regional networks are funded with some EUR 118 million.

Greece

SMEs in the economy

SMEs are the backbone of the Greek economy and society. According to estimates by the European Observatory for SMEs for the year 2003, the total number of enterprises in Greece, excluding the primary sector, amounts to 771 000 and they employ 1 785 000 people. SMEs (up to 250 people) constitute 99.9% of all Greek enterprises and employ 86.5% of the labour force. Very small enterprises (up to 10 people) constitute 93.2% of all Greek enterprises and employ 57% of the labour force.

Framework policies

During recent years, the Greek economy maintained a high growth rate (approximately 4% on an annual basis), mainly because of the financial inputs provided by the Structural Funds of the European Union, the Olympic Games investment boom, and increasing rates of private consumption backed to a large extent by the rise in consumer confidence. However, despite the economic growth of recent years, many of the structural problems still remain and continue to have a negative impact on the competitiveness of the economy. The problems centre around: the existence of administrative burdens complicated and time-consuming procedures for starting a new business and operating existing ones; insufficient use of new technologies and innovations that hold back productivity; the tax system; rigidities in the labour market, and insufficiencies in market competition.

The main objective of the new government's policies is to reverse the decline of Greece's competitiveness assisted by a series of interventions that aim at facilitating the creation of new businesses as well as the development of existing ones whilst encouraging their internationalisation through the following:

- The simplification and improvement of the business environment and the reduction of regulatory and administrative burdens on enterprises in particular by reducing the time and cost required for starting a new business or for expanding existing ones.
- Ensuring healthy competition in all markets.
- The establishment of a simpler, fair and stable tax system along with transparency and lower taxation for enterprises; a system that encourages the modernisation and growth of businesses.
- Ensuring the existence of a more effective labour market that increases employment rates.
- The reform of the development law in order to provide improved incentives for SMEs especially in the regions, as well as increased rates of assistance to SMEs.
- Adequate infrastructure in the transport, energy and telecommunications sectors.

SME policies and programmes

SMEs are at the heart of government policy which aims at improving the competitiveness of enterprises, in recognition of the potential of SMEs and their decisive contribution to the economic and social life of Greece, especially in relation to employment creation and the improvement of competitiveness. The objectives of the government's SME policy are:

- The creation of a favourable business environment (legal, social, fiscal, financial, technological) free from unnecessary bureaucratic obstacles, which encourages entrepreneurship in all levels of economic activity and which maintains fair competition.
- The development and exploitation of e-Government that will open up communication channels and simplify transactions between SMEs and public services.
- Easy and friendly access to enterprise development programmes and financial incentives mainly with initiatives adapted to the actual needs of enterprises in all sectors (industry, trade, services, tourism, and energy) and having simplified and transparent procedures.
- Consideration of the dimension of and the needs of SMEs when planning and implementing policies for enterprises, and systematic consultation with SME representatives.
- The provision of appropriate training for both SME owners and employees.
- Building sufficient and adequate infrastructure and support services for SMEs and improvement of their effectiveness, as well as their networking, aiming at delivering integrated support at national and local level; modernisation of SMEs, adoption of new technologies and innovations as well as quality systems.
- The opening-up of the Greek market and the internationalisation of SMEs.

The objectives of this policy are pursued and implemented mainly by the Ministry of Development and by other Ministries through certain programmes and policy measures, on a national and regional level. The main financial instrument of the Ministry of Development is the *Operational Programme of Competitiveness*, which is financed by the Structural Funds of the European Union. It covers a wide range of activities in the field of energy, natural resources, tourism, industry, commerce, services, research and technology. SMEs have the possibility to benefit from almost every programme, but many programmes have the specific goal of assisting SMEs. The national programmes that are geared to assisting SMEs are described below.

Support programmes for SMEs

- *Integrated business plans for small and very small enterprises*: The programme, which is addressed to manufacturing enterprises that are at least three-years old, finances entire two-year business plans. These plans can include activities such as introduction of new technologies, improvement of existing equipment, acquisition of user rights or know-how, marketing and product promotion.
- *Networking of SMEs*: The programme is addressed to existing SMEs in manufacturing which have operated for at least three years and deals with the creation of networks of enterprises, independently of the sector in which they belong (manufacturing, trade, services, and primary production with the exception of agriculture).

- *Technological modernisation of enterprises*: The programme targets manufacturing SMEs and supports the financing of the introduction of: quality systems, innovations, logistics as well as the establishment of new or the expansion of existing recycling units, or units that provide quality services.
- *Certification of enterprises*: The programme aims at providing financial assistance for the development of quality management systems, health and safety measures in the working place, and for safety food management.
- *Young entrepreneurship*: The programme aims at the development, support and promotion of businesses owned by young people, between the age of 21 and 39, by providing financing assistance to start a new small or very small-sized viable business in the manufacturing sector, in trade, services or tourism.
- *Women entrepreneurship*: This programme is similar to that implemented in support of young entrepreneurship except that it is addressed solely to women who wish to start a new viable business and who are aged between 21 and 55 years old.
- *Entrepreneurship for persons with disabilities*: The programme promotes entrepreneurship in individuals with disabilities who wish to start a new small business.
- *Environmental business plans and cooperation*: The programme provides financial assistance to SMEs for:
 - ❖ Environmental plans that lead to certification with the Eco-label in accordance with Environment Management Systems (EMAS, ISO).
 - ❖ Waste management within the context of long-term partnerships.
 - ❖ Solutions to acute environmental problems by investing in installations of dangerous industrial waste management.
 - ❖ Prevention of industrial accidents.
- *E-business*: The programme encourages the adoption of information technology SMEs. It finances comprehensive investment plans for the introduction or use of information systems by services related to operational resources management, internal organisation and business administration. It also promotes the integration of SMEs in the e-business economy, their presence in the electronics market, the development of digital content and the adoption of modern practices.
- *Programme for trade and services*: This programme provide financial assistance to SMEs for implementing business plans in the areas of:
 - ❖ Purchase and installation of hardware and software in order to computerise business processes.
 - ❖ E-business initiatives.
 - ❖ Supply and installation of equipment.
 - ❖ Development, application and certification of administrative systems.
- *SME Training*: The programme finances training and know-how transfer for SMEs aiming to upgrade their human resources. It also finances training in specialised areas related to the implementation of other programmes.

Support services for SMEs

- *Guarantee Fund for SMEs (TEMPME)*: The Guarantee Fund for small and very small enterprises aims at facilitating SME access to capital markets. It aspires to promote the

technological and organisational modernisation of these enterprises as well as the application of innovative practices. The Fund is the link between SMEs and the banks as it assumes part of the loan risk.

- *Industrial, technological and business infrastructures*: This programme finances the creation of organised sites for the installation of business activities in order to optimise the siting and development of manufacturing activities, protect the environment, encourage the creation of enterprise networks and facilitate their operation in a sufficient and productive way.
- *Centres of Business and Technological Development*: The objective of these Centres is the coordination of the local agencies, the Chambers, and the business support services taking into consideration the particular needs and characteristics of the business sector of the region. In 2004 there were 13 such Centres in different regions of the country providing specialised and comprehensive advisory support to SMEs of the region. The Centres are supported by a Central Support Structure, which coordinates the work and actions of the 13 regional Centres.
- *National Observatory for SMEs*: This is the mechanism that supports the elaboration of policies targeting SMEs, by recording and analysing the trends in the evolution of the SME sector and evaluating the effectiveness of policies that aim to assist SMEs. It also diffuses to the business community and all interested parties, information, studies, and reports concerning the evolution of SMEs and their contribution to the economy.
- *Reception Centres for Investors*: These Centres operate in each prefecture of the country as *one stop shops*. They help to coordinate different public services and local agencies in the provision of information and technical assistance to persons who wish to start a business or modernise and expand their business. The Centres provide information to investors on business opportunities offered by the *Community Support Framework*, the development law and other programmes.
- *National Council for Competitiveness and Development (ESAA)*: This is the highest state institution that has a consultative and advisory role on matters of competitiveness concerning the Greek economy and enterprises. Its members comprise representatives from Ministries, state-owned organisations, unions, chambers of commerce, banks and local authorities.

Research and technology actions for SMEs

The following reported measures are not addressed exclusively to SMEs. However because of the structure of the Greek economy, SMEs are those that profit mainly from them.

- *PRAXE*: Concerns support for research units for standardisation and commercial exploitation of research results and localisation and exploitation of research results with establishment of new enterprises (spin offs). This measure supports the creation and development of new business activities dealing with the exploitation of knowledge produced at research laboratories or research and educational institutions. Enterprises are created and developed with assistance of specialists in business operations and private funding organisations and are known as spin offs.
- *ELEFTHO*: Concerns support for incubators and research and technology parks. The action supports the development of infrastructure for services for investors and entrepreneurs, for the development and exploitation of technological innovations via

the creation of incubators for knowledge intensive enterprises, and research and technological parks.

- PAVET: Supports the development of industrial research and technology and is addressed to enterprises with already developed productive and commercial activity. The action applies to innovation in all sectors of production and services with the following objectives: the development of new or improved products/services; the improvement of productivity with the development of new or improved methods of production; the transfer and adaptation of high technology to traditional sectors of industry; and the development of technological innovation activities.
- PAVET-NE: Supports the development of industrial research and technology in enterprises less than 5 years old. Its objectives are the same as those of PAVET.
- PEPER: This programme promotes demonstration projects and innovation and supports the introduction of new (for Greece) modern or advanced technology into enterprises. This technology must have been tested already in the same sector in enterprises abroad or in a different sector in Greece or have produced interesting results at the laboratory or pre-industrial level and also show proof of its operability at industrial level.
- *International collaboration in industrial research and pre-competitive activity*: The main objective is to encourage Greek enterprises to participate actively in the development of co-operation on a European and international level in industrial research and demonstration projects.
- *Research and technological development consortia in sectors of national priority*: Co-operation between productive and research entities in research and technological development projects is promoted through this action, in order to produce innovative products or services in sectors of national priority. More specifically, consortia of enterprises, research centres and educational institutions are promoted in the following sectors: sports, natural environment and sustainable development, the built environment – earthquakes, renewable energy sources, culture, knowledge intensive tourism, health – biomedicine, new forms of business, food technologies, transports and piloting technologies.
- HERON: is a programme for the employment of new research personnel in enterprises and supports the employment of new researchers (Ph.D. holders) and technicians in enterprises. The programme is intended to act as a catalyst for the familiarisation of enterprises with the procedures, operation and general benefits of research activity as an integral part of general planning and operation.
- *Patent dissemination programme*: The aim of this initiative is to provide information to business and society about procedures for obtaining patents and about issues relating to patent protection.

Hungary

SMEs in the economy

In terms of enterprise numbers, the Hungarian economy is dominated by small and medium-sized enterprises (SMEs). According to the data of the Hungarian Central Statistical Office the number of registered enterprises in 2004 amounted to 117 million, the number of active enterprises numbering 856 000. The size distribution of active enterprises is as follows: large enterprises 942 (0.1%), medium-sized enterprises 4 933 (0.6%), small enterprises 850 470 (99.3%). The structure of Hungary's SMEs compared to that of other economies reflects a relatively lower share of medium-sized enterprises and a higher share of both small enterprises and, in particular, very small enterprises. Micro-enterprises (less than 9 persons) make up 96.1% of the total, of which enterprises without employees account for 25.0%; other small enterprises (10-9 persons) make up 3.2%. The majority (450 733 or 53%) of the total SME population work as sole proprietor, of which 194 750 are in part-time and/or second jobs.

A breakdown by sector, shows SMEs in the service sector to have the highest share: real estate, renting and business activities accounting for 30.6%; wholesale and retail trade, repair of motor vehicles and household goods making up 21.2%. Manufacturing enterprises represent 8.7% of the total, and construction 9.5%. The regional distribution of businesses shows significant disparities in enterprise density: 39% of the active enterprises are registered in the Central Hungary Region, of which 28% in the capital, Budapest. The distribution of the number of sole proprietors is somewhat more balanced, their share in Central Hungary being 29%, and in Budapest 18%.

SMEs in Hungary play an outstanding economic role, providing nearly two thirds of all jobs and contributing between 40-50% of GDP.

Policies affecting SMEs

In addition to measures taken to access financing for the SME sector, a number of important steps have been taken in the area of taxation.

The "simplified enterprise tax" (commonly referred to as EVA) was introduced in 2003. This tax type may be chosen by enterprises with annual sales not exceeding HUF 15 million (including VAT) and which have been operating in an unchanged form for at least 2 years. The tax, payable at a rate of 15%, replaces: i) the VAT and other taxes on company cars; ii) for sole proprietors the personal income tax paid by them and the personal income tax payable on the enterprise's dividend base; and iii) for enterprises, corporate tax and the personal income tax payable on dividends received. The positive experience gained following the introduction of the new, simplified tax prompted the government to raise the sales limit (below which enterprises may opt for the new tax type) from HUF 15 million to HUF 25 million (from EUR 60 000 to EUR 100 000) in 2004. In addition to the new 15% tax

rate, the main attraction of the new type of tax lies in its simplified records and lower administrative burdens.

Corporate tax rate

The corporate tax rate has been cut from 18% to 16% effective 2004. In consideration of Community regulations, currently there are less rigorous prerequisites and a wider range of possibilities to obtain corporate tax relief, while the allowances affecting the corporate tax base have also increased.

Corporate tax relief

In order to improve economic competitiveness, a new type of corporate tax relief has been introduced for investments aimed at creating new jobs. The criteria of the development tax relief, introduced on 1 January 2003, have become considerably less rigorous in 2004, the range of eligible investments has been expanded, while the threshold for eligibility has been lowered. The additional criteria linked to the tax relief have also been relaxed considerably. For applications submitted for a development tax relief after 31 December 2003, the term of the tax relief has been increased from five years to ten years.

Allowances decreasing the corporate tax base: promoting employment

In order to promote the employment of those with disabilities, the tax allowance (deduction from the tax base) granted per person and per month for each employee with at least 50% disability has been doubled. The tax allowance linked to the practical training of vocational school students has also increased.

Local trade tax allowance

A new tax allowance has been introduced as of 2004 in relation to local trade tax. A reduction of 25% of the tax payable under the Local Tax Act may be applied to pre-tax income but not exceeding the amount of the pre-tax profit, if any. In order to be eligible for the allowance, the taxpayer must not have any taxes or similar payments overdue as of the last day of the tax year.

Depreciation

A tax policy tool designed to help increase the use of IT equipment is available as a possibility to depreciate newly purchased IT equipment at an accelerated 50 per cent rate.

Loss carryover

Losses incurred in or after 2004 may be carried over for an unlimited period. The associated decree can first be applied to the negative tax base generated in, or loss carried over from, 2004. The new measure has effectively eliminated the previous 5-year limit on loss carryover.

Enterprise development policies and programmes

Regulatory environment

One of the most important objectives of the financial regulation of SMEs is to create an enterprise-friendly regulatory environment and improve the quality of regulation.

- For enterprises opting for the simplified tax (EVA), records have become less complicated, and administrative burdens have decreased.

- The range of the highly popular investment tax allowances for small businesses has been expanded in 2004.
- By the EU accession date, a new SME Act had been drawn up. The Act adopts EU regulations, and sets forth considerably higher sales and total assets limits. As the new Act came into force, about one thousand companies previously classified as large enterprises were re-categorised as medium-sized enterprises, thereby extending the preferential treatment granted to SMEs to a wider range of businesses.

Access to infrastructure

Incubator facilities are designed to give smaller businesses access to the required level of infrastructure, while industrial parks do the same for larger companies. All industrial parks have the essential utilities (water, sewage, electricity – including industrial current, gas, paved roads, fixed-line telephone network and public lighting), while enterprises may also have access to so-called additional infrastructure (Internet, ISDN, ADSL).

Developing an entrepreneurial culture

The successful operation of businesses requires access to and the availability of appropriate information. In order to provide information to enterprises, a special publication, Forrástérkép (Funding Map) is published annually to present the grants and other forms of assistance available to them, and a call centre is also operated to provide prompt responses to entrepreneurs' questions. In the future, to ensure an even wider range of information services, a new SME Web site will be set up to present government programmes and other opportunities that exist in support of the development of businesses.

Local Business Centres provide access to essential information required for the establishment, operation, management and development of businesses, and also offer personal consulting and advisory services. The programme is financed in part by EU funds.

It is indispensable for the successful operation of businesses that entrepreneurial skills and knowledge be developed in the education system. Since the last quarter of 2003, business and economic skills have been part of the curriculum in primary schools.

It has been a key objective to ensure that by the time the system of grants co-financed by the Structural Funds is deployed, a sufficient number of professionals would have been trained in writing applications and providing related advice, and be able to compile EU grant applications for SMEs or provide advice for businesses that contact them. The Multiplier Training Programme, launched in February 2004 with the participation of chambers, entrepreneurial associations, interest representation organisations and companies writing grant applications for others as a service, serves this very purpose.

Strengthening the presence of women entrepreneurs

Special consulting and training programmes will be launched in the future to help reduce the competitive disadvantage of women entrepreneurs (inappropriate business skills, difficulties in raising funds, business partners that do not take them seriously). The programmes will be developed using the experience gained from similar initiatives in developed countries.

Promoting access to financing

The government assists SMEs in raising financing through both non-refundable grants and preferential loan arrangements. Most grants are co-financed by the EU and are geared to promote the modernisation of, and cooperation between businesses, and the provision of advisory services for them. The government decided in 2003 to set up a 4-phase preferential loan programme operated in collaboration with several credit institutions and other organisations:

- Under the *Micro-Loan Programme*, loans of HUF 1 to 3 million (EUR 4 000-12 000) are granted, primarily for the development of start-up micro-enterprises. In 2003, over HUF 3 billion (EUR 12 million) was disbursed to approximately 1 000 businesses.
- The *Széchenyi Credit Card Programme*, launched in 2002, helps businesses take out working capital loans more simply and faster than previously. The government has deployed a 3-percentage point interest subsidy, a partial guarantee and a guarantee-fee subsidy to support the arrangement. In mid-2004 the maximum limit on the credit card was increased to HUF 10 million (EUR 40 000). So far, 17 000 businesses have participated.
- The *Midi-Loan* is a HUF 3 to 10 million (EUR 12 to 40 000) bank loan with a 4-percentage point interest subsidy. In total, HUF 260 million (EUR 1 million) was disbursed in 2003.
- The *Europe Loan* is designed to help developments in the HUF 10-150 million (EUR 40 000 to 600 000) range. So far, almost one thousand businesses have taken out such loans using funds from the state-owned Hungarian Development Bank (MFB) at preferential interest rates.

In Hungary, *Hitelgarancia Rt.*, operating similarly to the guarantee systems in place in EU countries, supports lending to small business, providing a maximum 80% guarantee – against the government's counter-guarantee – for commercial bank loans taken out by enterprises to a maximum amount of HUF 600 million (EUR 2.4 million).

The government also has the goal of increasing *venture capital* involvement in SME financing. To assist in the capital raising process, the state teamed up with banks to found *Kisvállalkozás-fejlesztő Pénzügyi Rt.* (Small Business Development Financial Company), which deals with small investments at market rates.

In addition, to further assist small businesses in raising funds, in September 2003 the government launched the *Lánchíd Factoring Programme*, through which an enterprise may factor out hundreds of millions of forints worth of receivables annually, with a maximum HUF 3 million interest rate subsidy.

Promoting enterprise access to global markets

In the globalised world economy, closed local markets open up, and at the same time, new market opportunities emerge. A primary goal is therefore to improve the economic competitiveness of businesses in general and give them information about new markets.

E-commerce

Grant programmes were launched for the use of domestic, and as of 2004, the most advanced EU information technology and the implementation of model e-marketplaces and portals, which combined with the SME portal, were designed to help SMEs catch up in information technology. The Act on electronic communications came into effect in 2004. In March 2004 a programme was launched with EU financial assistance to promote

e-business among SMEs. The implementation of the eHungary programme, designed to set up the Public Network and Internet points, is in progress.

Innovation and technology

Innovation plays an important part in putting the economy on a course of sustained, balanced growth. In order to help innovative SMEs, assistance is provided for the registration of enterprises' inventions abroad and their launch in foreign markets.

The government also provides non-refundable grants to: promote technology development in SMEs and their participation in R&D programmes; the development of new, technology and knowledge-intensive micro-enterprises; the establishment of businesses (so-called *spin-offs*) based on the research results of higher education institutions and research institutes; cooperation between large companies and SMEs that might become their technology-intensive suppliers; and, create new jobs in R&D and to strengthen the innovative capabilities of SMEs.

Networks, clusters and entrepreneurial networks

In order to work off the competitive disadvantage of SMEs compared with large companies, the goal is to create supplier networks, clusters and franchise networks and ensure cooperation between enterprises and research institutes.

Ireland

SMEs in the economy

SMEs constitute the vast majority of enterprises in Ireland, amounting to over 99% of total enterprises and accounting for over two thirds (66%) of employment in 2002. Small enterprises (i.e. those employing fewer than 50 people) comprised 97% of the total and 44% of employment in that year. Medium sized enterprises (employing 50 to 250) comprised 2% of enterprises and 22% of employment.

Framework policies

The slowdown in growth at global level, the downturn in the technology sector and the competitiveness challenges faced by Irish firms in the globalised economy have combined to create a challenging business and trading environment for many in the Irish SME sector. The enterprise sector in Ireland today faces a vastly changed landscape compared with that experienced by business 10 years ago. Policies adopted by successive Irish governments during that period have ensured that SMEs have been afforded a central place in the making of public policy in Ireland. Ten years ago, a typical small firm had to operate in a high taxation, slow growth and high interest rate environment. The venture capital market has since widened and is more open to small firms. The stable exchange rate, due to EMU membership, has also played an important part in underpinning stability for the traded sector.

The Irish economy has proved remarkably resilient through the global downturn in 2001-2003 and has continued to grow, albeit more slowly than during the late 1990s. More recently, in its *Medium Term Review 2003-2010*, the Economic and Social Research Institute (ESRI) has projected an average annual GNP growth rate of 5.4% for the Irish economy in the second half of this decade.

Ireland continues to give policy priority to the easing of the tax and regulatory burdens faced by the enterprise sector. The phased reduction of corporate tax (the corporation tax rate has been reduced over recent years to its present rate of 12.5%) and the easing in the compliance obligations for small firms have helped create a business friendly environment. Successive social partnership agreements have also played a key part in forming a consistently good industrial relations environment for a protracted period.

The National Development Plan 2000-06, www.ndp.ie, identifies the maintenance of economic and employment growth and the consolidation of Ireland's economic competitiveness as key objectives. From a planned total investment of over EUR 50 billion, approximately 80 percent of funds will be allocated for investment in economic and social infrastructure, employment and human resources and the productive sector. The development of a strong and highly skilled entrepreneurial class, the supply of

sophisticated support structures and the provision of a conducive business environment are central to this process, reflected in the policy measures taken by Ireland in recent years.

SME policies and programmes

The involvement of the social partners in the identification of the general objectives of enterprise policies and consensus building is highly developed in Ireland. Successive partnership programmes have provided a stable framework which has enabled the country to achieve one of the highest levels of economic growth in the OECD area. The parties to the negotiations include the government, employers (including representatives of small firms), trade unions, farmers and the community and the voluntary sector. The latest in a series of such national “agreements” (*Sustaining Progress: Social Partnership Agreement 2003-05*) was concluded early in 2003 and it is designed to provide a coherent and focused strategy for managing the interlocking elements of the economy and the behaviour of economic and social policies. The Agreement sets out a policy framework for sustaining economic progress, covering areas such as macroeconomic policy and “Building, Maintaining and Sharing Economic Development and Prosperity”. It also sets down detailed arrangements for “Pay and the Workplace”; this covers public and private sector pay and related issues, workplace relations and environment and “delivering Quality Public Service”. It also contains a number of specific commitments in relation to entrepreneurship and small business. These include introducing support to improve the growth capability of SMEs through improvements in technology transfer, productivity, competitiveness and management as well as specific initiatives in relation to entrepreneurship amongst women and in the social economy.

The government is also committed to continuing to work closely with small business organisations, through the Round Table for Small Business and other fora, to ensure that the voice of small business is heard throughout government. The Round Table participants include representatives of the small business sector, government officials and the enterprise development agencies. The Round Table has as its objective the facilitation of exchanges of information and ideas affecting the SME sector and the provision of a focal point of contact, permitting ongoing participation and input by the SME sector to policy determination.

The regulatory environment

The Irish Government is committed to structural and regulatory reform and the current Programme for government promises to: “vigorously pursue a programme of regulatory reform with particular emphasis on removing unwarranted constraints on competition in all sectors of the economy and placing the consumer at the top of the policy agenda”. In pursuit of this aim, the government published a major National Policy Statement on Regulatory Reform in the form of a *White Paper on Better Regulation* in January 2004. It sets out the core principles that the government sees as important to ensuring good regulation: necessity, effectiveness, proportionality, transparency, accountability and consistency. An Action Plan to give effect to the principles set out in the White Paper will form the basis for the regulatory reform agenda for the remainder of 2004 and into 2005.

The Action Plan commits the government to make better use of evidence-based policy-making through the use of Regulatory Impact Analysis (RIA) and systematic consultation, to updating the Statute Book through a programme of Statute Law Revision,

to a programme of sectoral regulatory reviews and to a programme of administrative simplification and customer-focused reform. Regulatory Impact Analysis is being piloted across a number of Departments using suitable primary or secondary legislative proposals at an early stage of development. A steering group, chaired by the Department of the Taoiseach (Prime Minister), is overseeing and coordinating the project, with expertise and support being provided to participating government departments.

The White Paper also provides for government departments and offices to improve service delivery to its customers by, *inter alia*, simplification of forms, review of requirements for customers to provide information and improving accessibility to legislation through restatement, consolidation or publication of user guides. These commitments reflect the wider customer-focused reform agenda, which is an integral part of the government's public service modernisation programme. Developments in this area will reinforce the contribution that regulatory reform can make to the effectiveness of public service delivery and governance. A programme of Statute Law Revision has also commenced in the Office of the Attorney General of Ireland. This programme envisages the streamlining of the statute book by repealing obsolete Acts and re-enacting those that are still relevant, into a modern format, which will simplify the law in key areas and reduce transaction costs.

The Irish Presidency of the European Union secured agreement among the four Presidencies for 2004 and 2005 to prioritise regulatory reform. The Initiative includes commitments to the further development of impact assessment procedures, the development of a method to measure administrative burdens on business, the identification of priority areas of existing community law for simplification and the development of regulatory indicators to measure the quality and the pace of reform of regulation at both EU and member state level.

Access to infrastructure

The government is committed to ensuring that Ireland is provided with a level of physical and social infrastructure that is affordable and underpins economic development. Investment in infrastructure will be sustained at 2003 levels of expenditure up to 2005, in order to advance implementation of the NDP infrastructure programme.

Revised arrangements for managing capital spending are being introduced. These require each government Department to provide details of capital projects initiated during 2003 and which are planned for the following four years. Departments are also required to provide an end-year report showing the actual expenditure outturn and outputs delivered. These arrangements will allow scope for making greater use of multi-annual funding envelopes for medium-term capital programmes. On 1 January 2003 a new body, the *National Development Finance Agency*, was set up to advise state authorities on the optimal means of financing infrastructure projects. The Agency may also, in certain circumstances, provide finance for such projects, either directly or otherwise, including through special purpose companies which can securitise revenue from user charges. As regards Public Utilities, approximately 56% of the electricity market has been opened to competition since February 2003. The market for "green" electricity, and for Combined Heat and Power electricity, has been fully liberalised. It is intended that, by February 2005 all electricity customers will be eligible to source electricity from any supplier licensed by the Commission for Energy Regulation. The level of gas market liberalisation had increased to 85% in late 2003. Full liberalisation is expected to be achieved in 2005.

In Ireland, road transport is the dominant mode of moving goods and products and is likely to remain so in the future. The average size of Irish haulage firms is small when compared to other European countries. Over 50% of Irish haulage firms are one-vehicle operators. In order to develop the sector, the government has approved a Programme of Action for the Road Haulage Industry. This programme builds on an earlier commissioned report “A Strategy for the Successful Development of the Irish Road Haulage Industry” and is designed to make a major contribution to the development of a vibrant road haulage sector which meets the highest professional and safety standards. The Programme includes measures to increase enforcement of road transport legislation in order to combat unfair competition, to remove barriers to compliance and to encourage training and increased professional competence.

Development of an entrepreneurial society and culture

Efforts to promote youth enterprise are very active in Ireland. Young people are encouraged to explore entrepreneurship and enterprise development from the ages of 12 and up, under a number of different programmes. The *Young Entrepreneurs Scheme* targets second level students between the ages of 12-18; *Young-ebiz.com* targets 15-17 year olds, *Shell LiveWIRE* targets 16-30 year olds and the *Graduate Enterprise Scheme* targets university and college graduates.

The responsibility for provision of training and counselling for new entrepreneurs and micro-enterprises is located, in the first instance, in the network of 35 City and County Enterprise Boards (CEBs). These Boards play a pivotal role in assisting start-up business and the development of micro-enterprise in Ireland. Under the National Development Plan the CEBs are engaged, *inter alia*, in the fostering of an enterprise culture – both through the existing educational structures and in existing enterprises. The Boards are free to design and deliver programmes tailored to meet the specific needs of their communities in four broad areas:

- Preparation/review of local enterprise plans/promoting an enterprise culture.
- Business information/advice, counselling and mentoring support.
- Financial assistance.
- Management development.

With the implementation of new programmes, the focus of CEBs has moved to higher value-added jobs in the manufacturing and tradable services sector, to increasing competitiveness through access to e-business and the promotion of quality management and best practice. However, specially tailored packages are being designed to extend an enterprise culture to first level schools and to support the participation of women in business.

Enterprise Ireland is responsible for helping and supporting the development of new Irish enterprises built on successfully harnessing the creativity and innovation of home grown entrepreneurs. State support for entrepreneurship, in this respect, is focused on the ongoing creation of new entrepreneur-led business entities with a solid base in innovation, intellectual capital and a capability to become internationally competitive within a short period of time. While up to two years ago the IT sector and software, in particular, would have dominated the start-up profile, emerging businesses in new sectors such as biotechnology, photonics, medical devices and functional foods are now becoming more commonplace. These are seen as new areas of opportunity where Ireland has a strong research base.

The *Enterprise Platform Programme* is a one-year rapid incubation programme designed to provide hands-on support and management development for entrepreneurs who wish to start their own business. To achieve this, the programme includes an appropriate balance of formal education, training, personal development, counselling, business mentoring and business guidance to provide participants with the skills necessary to develop a business idea to a sufficient stage of development to be launched or – in the case of businesses which are already trading – to strengthen their market and trading position.

Enterprise Ireland is also actively engaged in supporting the establishment of the necessary physical infrastructure to facilitate new and emerging innovative businesses. At present they are working with the Irish third level Institutes of Technology to develop on-campus incubation centres to facilitate the generation of new high growth companies. Specifically, a new initiative has been put in place providing funding amounting to EUR 30 million to Institutes of Technology for the establishment of business incubation centres, the aim being that all such Institutes of Technology will by end-2005 have an incubation centre.

Fostering Women's entrepreneurship

While the selection of projects for financial assistance by the CEBs is not gender based, the Boards have identified the need for a specific strategy to address the issues particular for women entrepreneurs and to help develop a culture and environment conducive to the promotion of female entrepreneurship at local level. In this regard the Boards operate a successful "*Women-In-Business Initiative*" (WIB) which is essentially a business Network, based at local level, through which established successful businesswomen can act as role models and can provide mentoring and networking opportunities to potential female entrepreneurs in their own area. The Networks provide an on-going programme of activities on business-related topics such as insurance and taxation as well as information exchange.

In addition, the CEBs also encourage the active participation of women in training and development programmes such as "*Start Your Own Business Course*" and Management Development Programmes. In 2003 almost 7 000 women received training on CEB Programmes throughout the country, while almost 500 women completed certified training.

Access to Finance

Finance measures provided to enterprises by development agencies in Ireland, include: *financial and capital measures* (capital grants, feasibility studies, rent subsidies, seed capital, marketing grant, loan guarantees); *labour-related measures* (including employment grants, training grants, management development grant etc.); and *technological and innovation support* (technology transfer). The Irish venture capital market continues to show strong growth ensuring critical support for the development and expansion of Irish business. Seed and venture funds supported by the state (through Enterprise Ireland) are primarily focused on innovative start-ups in high priority sectors and locations that are considered regional development priority areas. These funds have a total of over EUR 430 million available for investment up to 2006.

In addition, *Enterprise Ireland* has established a database of "*Business Angels*", with over EUR 10 million available to invest in SMEs. The *Business Expansion Scheme*, first introduced in 1984, has been extended on various occasions and was in 2004 further extended to 31 December 2006. The scheme is as an income tax based incentive for private investors to invest long-term equity capital in companies (in particular new and smaller companies,

operating in certain sectors of the economy) which would otherwise find it difficult to raise such funding and would instead have to rely on loan finance. Provided that an investor holds his investment for a minimum period of 5 years, the scheme provides individual investors with tax relief, at their marginal rate, in respect of an investment of up to almost EUR 32 000 per annum in certain qualifying companies.

Access to global markets

The creation of a new state agency, *Enterprise Ireland*, with responsibility for all aspects of the development of indigenous Irish enterprise brought together support services from three separate entities to form a single, integrated organisation devoted to helping Irish companies to develop and compete so that they can grow profitably in world markets. The emphasis is on advising companies with 10 or more employees, which have demonstrated possible prospects and capabilities – those with leadership positions in their chosen markets, those in the process of establishing strong market positions, and newly created start-ups which aspire to leadership positions. Each company is assigned a development advisor as a primary point of contact with whom to assess needs and capabilities, formulate an agreed growth plan and access the range of services and resources needed to execute the plan. Through their various programmes, *Enterprise Ireland* supports ambitious Irish companies to build capability, innovate, grow, create new partnerships and reach international customers. Support is also provided to international businesses to find world class suppliers and partners in Ireland and to trade profitably with Irish companies.

Using their 33 international offices *Enterprise Ireland* works in partnership with both well established and start-up companies to:

- Create market awareness for individual companies and for Ireland, as a source of supply.
- Develop knowledge and understanding of markets.
- Develop and build profitable sales and effective marketing capabilities.

A particular focus in recent years has been to help Irish SMEs diversify their European markets, with a special emphasis on helping them establish strong competitive positions in the most recent EU accession states. *Showcase Ireland* is the country's largest international craft, gift, fashion and interiors fair. It is organised and marketed internationally by Enterprise Ireland on behalf of the Crafts Council of Ireland. In 2003, 8 500 buyers visited the show with over 1 900 from international markets. Also in 2003 the President of Ireland led a mission to China which was the largest trade mission ever to leave Ireland. More than 145 executives from 82 companies took part in this mission, taking in networking events throughout China.

E-commerce

Over the past five years a range of actions have been taken by the Department of Enterprise, Trade and Employment, and the development agencies, to foster an environment conducive to e-business in the broadest sense, and to help enterprises benefit from the potential of the Information Society. These included the initial business awareness campaign conducted by the Department in conjunction with the Irish Business and Employers Confederation, the Enterprise Ireland *Acceleration Fund* and *eBIT* programmes, the *EMPOWER* initiative undertaken by the County Enterprise Boards and the *PRISM* training and awareness programmes undertaken by the Chambers of Commerce of Ireland.

A further project, to develop a new *National eBusiness Strategy*, was completed in July 2004. The aim of the strategy is to encourage SMEs (including micro-enterprises) in the non ICT producing sectors of the economy, to use ICTs in a way which will maximise their competitive advantage. The Strategy outlines actions to be taken and further work to be initiated in a number of areas. The Strategy represents the output of a project group established for this purpose in December 2003. The Group was led by the Department of Enterprise, Trade and Employment and included representatives from Forfas, Enterprise Ireland, Shannon Development and the City and County Enterprise Boards.

The Strategy outlines the scope of the policy challenge going forward, under four key headings, to be addressed in stimulating more optimum ICT usage by enterprises. These key headings are as follows:

- How to build ICT-management skills and ICT user skills in all Irish SMEs?
- How to build the confidence of enterprises for trading online?
- How to ensure SMEs are prepared for the challenges and opportunities of e-procurement?
- How to build appreciation among enterprises of the need to maintain secure IT systems?

A Working Group to oversee and implement the proposed work programme has been established.

Innovation and technology

The first campus companies in Ireland were set up during the early 1960s. Since then more than 550 such companies have come out of Irish universities.

Ireland is committed to ensuring that innovation and technology remain at the heart of the business development process, embedding it within companies and exploiting its market relevance. There is clear evidence of the links between investment in research, technological development and innovation (RTDI) and enhanced economic activity through increased competitiveness, company growth and new company start-ups.

In recognition of the driving role of RTDI in economic development, EUR 2.48 billion was provided in the National Development Plan for RTDI activities across all government Departments and Agencies – over EUR 1.5 billion of which was earmarked for RTDI for industrial development related activities. This funding is being used to enhance innovation and use of new technology in Irish enterprises, in order to increase output and employment. This is being achieved through focused support for in-company R&D, the networking of companies with the wider Science & Technology infrastructure, the better use of technology in balanced regional development and the preparation for future technological opportunities through the vehicle of the *Science Foundation of Ireland*.

Science Foundation Ireland awards grants based upon international merit review by distinguished researchers. It also advances co-operative efforts among education, government and industry that supports its fields of emphasis and promotes Ireland's ensuing achievements around the world.

The *Research Technology and Innovation (RTI) Scheme* aims to bring about a substantial increase in the level of high quality R&D in businesses in Ireland. It supports commercially focused, industry led projects in product and process development. It concentrates on high quality, risk intensive R&D projects which are essential for companies to establish or to maintain their overall competitiveness. Projects can relate to either product or process

development. RTI also encourages firms to collaborate with research institutions and other firms. The *Innovation Management Initiative* aims to increase the number of companies undertaking R&D for the first time and to improve the efficiency and effectiveness of the innovation and R&D process in those companies already undertaking R&D. It also aims to achieve value added R&D by capturing the creative potential of employees. The *Campus Companies Initiative* supports the development of existing third level campus-based companies and the establishment of new companies. Assistance is provided to researchers interested in commercialising R&D emerging from college campuses. This includes funding to enable campus-based companies to assess the commercial viability of innovative technologies

A new tax incentive providing for a tax credit of 20% of incremental expenditure on qualifying R&D activities was introduced in 2004. Expenditure over a defined base qualifies for the credit and the company concerned may then offset the credit against corporation tax payable. Unused credit may be carried forward for offset against the company's future corporation tax liability.

Skills acquisition and development

FÁS is the Irish national Training and Employment Authority, its functions including the operation of training and employment programmes; the provision of an employment/recruitment service; an advisory service for companies and support for co-operative and community-based enterprise. Through its Services to Business Units, FÁS provides an extensive range of training and company development programmes for enterprises in Ireland. Programmes are available to all sectors of industry and commerce and all sizes and types of firm, whether indigenous or foreign. Programmes fall into four main categories:

- Services to Business Training Courses (Competency Development).
- Small Firms Cluster Programme.
- Excellence through People Programme.
- Disability Awareness Training Programme.

In 2001 a Skills and Labour Research Unit was set up in FÁS to assist the government's *Expert Group on Future Skill Needs*, which was set up for the identification of skill needs, the promotion of education and continuous training, and raising awareness of job opportunities. Since 2002, the Unit has carried out an Annual Labour Market Report, Sectoral Studies (Transport/Logistics, Software and Digital Media), Construction Forecasting Models and a number of research projects to provide guidance to policy and planning in relation to skills needs:

- Survey of Employer Vacancies.
- Engineering Craft Skill Needs.
- Soft Skills.
- Construction Professionals.

In addition, FÁS, in conjunction with the Economic and Social Research Institute, is carrying out a "Manpower Forecasting Project" which will provide national forecasts for 2015 and regional breakdowns of those forecasts.

The *Training Networks Programme* addresses the SME needs through the adoption of an enterprise-led training model. The programme encourages inter-company networking and

clustering as important tools to foster and disseminate small business innovation potential. The current mandate of Skillnets covers the period 2002-05 and it will continue to develop the enterprise-led approach. Funding (under the National Training Fund) of EUR 15 million has been allocated to Skillnets for this period to be matched by additional private sector funding. The main thrust of the new phase of the Programme will be to test further innovative approaches to the training of people in employment and to expand the training networks concept into new sectors www.skillnets.com.

Networks, clusters and partnerships

The enterprise development agencies in Ireland work closely together in encouraging business networking. A number of initiatives have been taken to create formal and informal networks between managers and promoters from the community-led enterprise sector. The purpose of this networking is to enable communities to learn from each other and to establish best practice methods of doing business. In addition, costs have been cut by, for instance, establishing a group insurance scheme for Enterprise Centres.

The growth of clusters of similar businesses is a very important aspect of regional development and, in Ireland, certain regional specialities are developing in the engineering sector, such as toolmaking in the North West and the East. There has also been an emergence of a home-grown cluster of innovation-led, venture capital funded technology companies that are winning leading positions in international markets for medical device manufacturing.

Networking and partnering is especially important in the life sciences sector in Ireland because of the scale of the development costs of the end product. Very often it is the result of a combination of companies working together and providing different elements to the end product. The life sciences sector also operates on a global scale so it is essential for Irish companies to be near their buyers through their partners and with the help of Enterprise Ireland's overseas network. *BioLink USA-Ireland* is a networking body bringing together highly qualified Irish expatriates working across the US including scientists, engineers, entrepreneurs and researchers in biotechnology. The network furthers knowledge transfer, sales opportunities and strategic advice. The success of the initiative has led Enterprise Ireland to establish a similar networking organisation in the UK.

Along the West coast of Ireland, a new industry-driven initiative known as the *Atlantic Technology Corridor* was set up to focus on developing the technology sector from Limerick to Galway. It involves more than 250 technology companies, multinationals and local firms, as well as local development agencies. This high technology cluster will provide networking and knowledge sharing opportunities in the region and encourage joint R&D initiatives among local SMEs.

To cater for more regionally dispersed locations, a *Community Enterprise Centre* programme has approved capital, management development and feasibility support for community based projects throughout the country since 1989. This funding is being used to provide infrastructural facilities to support the establishment and expansion of micro enterprises, with local community participation. This initiative clearly underlines the government's commitment to fostering an enterprise climate throughout the various regions and to supporting small business during the earliest stages of development. Over EUR 8 million has been approved to build Enterprise Centres in 35 locations in Ireland since 2002.

Italy

SMEs in the economy

During the last few years the Italian economy has experienced some strong difficulties due to both the growth of international competition, tending to be particularly marked in sectors of intensive specialisation of the productive system, as well as a rather modest consumption trend. The economic growth rate, following the positive trends of 2000 and 2001 (respectively 2.9% and 1.8%), slowed significantly and remained largely unchanged during the following two-year period, recording growth rates below 0.5%. The SME sector, representing the core of the Italian productive system, suffered most from this slowdown.

The Italian economy is characterised by an enterprise size distribution heavily biased towards micro-enterprises (fewer than ten employees) and this feature is particularly marked compared to other OECD countries both in terms of enterprise numbers and in employment shares. 84% of Italian manufacturing enterprises are micro-enterprises, account for 25% of employment, 11.4% of turnover, and 15.3% of value added.

The predominance of small and very small enterprises has influenced the development of Italy's industrial sector composition. In contrast to other advanced economies, Italy has, during recent decades, developed its specialisation model *Made in Italy* in traditional sectors, to the detriment of both scale intensive and high tech sectors. Micro-enterprises predominate in manufacturing, especially in traditional sectors, such as food and drinks, wood and furniture, publishing, textile, clothing and the shoe industry. Sectors where SMEs are not as dominant tend to be in material production such as metals, rubber, coke from oil refineries, and chemicals. In terms of employment share, the size class (10-249 employees) clearly predominates, except for the food and drinks sector where the employment shares of micro, and small and medium sized enterprises are comparable. The SME share in turnover is particularly marked in the *Made in Italy* brand industries: food and drinks sector, textile, clothing and footwear, wood, rubber articles and non-metal industries.

Nonetheless, the Italian entrepreneurial spirit needs to be further strengthened and channelled to be more competitive in its development and policymakers have directed their efforts in recent years to this end. To overcome problems of growth related to the small size of enterprises, the government plans specific measures to promote the merging of small enterprises so that they may pass the minimum critical threshold below which their growth may be hindered.

Framework policies

The national regulatory framework takes account of the predominant weight of small enterprises in the Italian economy and has three main policies: simplification and reduction of tax burdens in order to stimulate enterprise investments growth; labour market reform to increase flexibility; and elimination of red tape.

Simplification and reduction of tax burdens

Laws enacted in 2001 and 2002 introduced a series of tax incentives in favour of entrepreneurs who reinvest profits in their own enterprise. The tax exemption for reinvested profit is a particularly important measure for small and craft enterprises, which generally dispose of little cash flow. A number of reforms have been implemented, simplifying tax returns and using new tools for resolving contentious issues for tax-payers. A 2003 Ministerial Decree allows for an enterprise, in case of non payment of tax, and in case of clear financial difficulties, to pay the amount due in monthly instalments, during sixty months.

The taxation regime was simplified in 2003 by reducing the number of taxes to five. With regard to the enterprise community, the reform involves the following: a 33% single rate of corporation tax; fiscal neutrality for surpluses; the abolition of the Dual Income Tax and the progressive elimination of the Regional Tax on Productive Activities. The reform envisages the establishment of different integrated tax concession systems for each of the community arrangements (R&D, SMEs, Aids and Regional Purposes, etc.). A specific *Integrated Aid Package* targets specific and simplified procedures for SMEs. As a result of improved quality in customer service, enterprises, especially small enterprises, have increased their online access to the Income Tax Agency's Web site during the last two years.

Labour market reform

The so-called “*Biagi Reform*” brought significant amendments to labour market regulations, in particular increasing its flexibility. The law involves: the implementation of a public-private employment agency to facilitate the matching of labour demand with vacancies; the introduction of intermittent labour (upon call), of shared labour (in pairs) and of accessory or odd labour; new rules for part-time jobs aiming to increase the employment rate for workers over 55. The law envisages the review and rationalisation of industrial relations including training; the apprenticeship contract and the new training and labour contract known as the “introduction contract”. A tax credit is available to employers who hire new employees with an open-ended contract, and the so-called “employment bonus” has been extended to 31 December 2006.

Administrative simplification

During 2002/03 the implantation of one-stop-shops throughout Italy progressed. During 2003, 236 000 authorisations were issued to enterprises in the 4 606 established one-stop-shops – located in more than 6 500 of 8 104 Italian municipalities.

Under discussion in Parliament is a proposed bankruptcy regulation involving for the first time, new simplified procedures for agricultural entrepreneurs and for small enterprises. The proposed reform aims to safeguard enterprises undergoing a crisis (including of a temporary nature) instead of punishing entrepreneurs. Greater trust is accorded to agreements between creditors and debtors, while judicial action applies to the institutional environment to avoid direct actions in enterprise management. The Customs Office of the Ministry of Economics and Finance has set up single offices to centralise the competences of Customs, of technical finance offices and of chemical laboratories.

Other fields of intervention

Changes in company law have provided enterprises with a series of tools to access capital: a variety of bonds with/without the right to vote. The variety and flexibility of financial bonds allow for the allocation of profits to employees from the company or from the subsidiary company, by issuing special categories of shares to be allocated individually to employees. Employees of companies or subsidiary companies can also be given financial tools which are different from shares, or be given property rights or holding rights (except for the vote in the general assembly of shareholders). Concerning obligations, the possibility of issuing bearer bonds or registered bonds is envisaged for an amount up to twice the capital stock. Moreover, the limit can be removed if further bonds have been endorsed by professional investors.

New guidelines concerning industrial policy

New industrial policy guidelines envisaged by draft legislation before Parliament are aimed at fostering the administrative simplification and the dimensional growth of enterprises. The *Administrative simplification* provision allows for the replacement of a range of documents by a declaration of commencement of business, which allows an entrepreneur to commence business activity after 30 days. A provision concerning “*Enterprise dimensional growth*” allows SMEs undergoing merging processes to obtain large tax reductions. To qualify, the enterprise created from a merging process must have 35 or more employees and each of the merging enterprises must have at least 3 employees; the merging enterprises should have been operating in the same sector or in complementary sectors for at least 3 years; the legal ownership of the enterprise must remain unchanged for at least 3 years; and the merging process must take place between the date of enforcement of the decree and 31 December 2006.

Access to infrastructure

A major factor influencing a country's competitiveness is its infrastructure. By infrastructure is meant, not just transport, energy or telecommunications networks, but also infrastructures for the transmission and exchange of data on a vast scale. UMTS and broadband represent new frontiers and require the development of new networks for access and use. There are two aspects which merit analysis: the availability of basic infrastructure; and the availability of technological infrastructure.

Basic infrastructure

Basic infrastructure comprises transport networks (road and rail) and energy. With regard to the first element, Italy's position is considered to be generally satisfactory on the basis of indicators such as density of the relevant networks, and the quantity of goods transported on its networks. Italy has a widespread and widely used road and rail transport network. Concerning energy, Italy is in a rather difficult position, as a major importer of electricity.

Policies in support of the development of basic infrastructure are related to the government's commitment to carry out major road and railway works implemented by means of legislation, of 2001 and 2002, which respectively, define the objectives of these policies, and provide the necessary resources for such works, and includes the construction of the bridge crossing over the Strait of Messina. However, with regard to the

energy market, the liberalisation process continues and involves the full implementation of community directives. The policies launched concern:

- The liberalisation of the electricity market, and policies for guaranteeing an adequate supply with respect to present and future energy demand, the development of competitiveness, adequate service quality standards, and of increasing importance, reasonable prices.
- With respect to the gas market, all customers have been deemed eligible as of 1 January 2003 to access a regime of full market liberalisation.

A Law enacted in August 2004 regulates the overall reorganisation of the energy sector, determining the general energy policy objectives such as guaranteeing safety, flexibility and continuity of energy supply and promoting the functioning of the energy markets.

Technological infrastructure

Concerning technological infrastructure, the situation is quite diversified. While Italy lags with regard to the number of telephone lines, broadband lines and rates for the hiring of data transmission lines, Italy is, however, among the leading countries in terms of widespread use of mobile telephone services and close to the European average for the relative share of ICT investment with respect to gross fixed capital formation, and for Internet connection prices, although just below the European average for Internet host numbers. Policies are fully in line with European Commission objectives. In this respect, the main topics addressed by the government's policies concern:

- *The development of broadband*; in March 2003 a Memorandum of Understanding for the enhancement of broadband in the south of Italy was signed between the relevant stakeholders, the programme having the purpose to implement urban rings for broadband and aims to develop and combine the infrastructural network with public and private demand.
- *Guidelines for the digitalisation of the Public Administration*; a Directive gives specific importance to the digitalisation of the public administration and to the wide-spread use of information technology networks and ICT.
- The Electronic Register of Protests and of companies guarantees improved security and simplified procedures for enterprises; The electronic tax allows enterprises to pay stamp taxes online; The Electronic Identification Document and National Services card are tools for identifying citizens online in order for using public administration services online; e-Procurement comprises a set of technologies, procedures, operations and organisational procedures to acquire goods and services online; The Digital signature proposal pursues three lines of action: dissemination of digital signature in the Public Administrations' system; secure access to applications and services through the digital signature; and initiatives in support of specific categories of users not belonging to the Public Administrations to use the digital signature.

Development of an entrepreneurial society and culture

Italy attaches high importance to education for entrepreneurship, and has introduced a regulation for an alternative school-work schedule as a training method for secondary education and for vocational training. The flexible schedules aim to guarantee youth aged 15 and over the possibility to finish the entire training cycle until they are aged 18 by means of alternating education with work. They can also be implemented in simulated

enterprises in laboratories. The schedules require close cooperation between educational institutions and enterprises and favour a “learning by doing” approach.

The Electronic Network of Simulated Training Enterprises (IFS www.ifsitalia.net) is a project coordinated by the Italian Ministry of Education, University and Research (MIUR) and involves about 8 000 high school students. In June 2004, 477 Simulated Training Enterprises were in operation and a further 280 is foreseen for 2005 involving a total of 12 000 students.

The Italian Patents Office and the Tagliacarne Institute, in cooperation with MIUR, the Italian Confederation of Industries and the European Social Fund (ESF), continues to promote the Master INSPRINT training schedule, involving a total of 1 520 hours articulated in three phases (classroom, project work and stage). The programme aims to train experts in the field of intellectual property for innovation. Within the SME programmes, the SMEs themselves created two manuals on the use of the industrial property tool.

The 2000-06 Regional and National Operational Programmes of the ESF finance actions that give priority to SMEs. Also through the ESF, the Ministry of Labour and Social Policies supports the development of a system to strengthen the supply of continuous training by testing innovative models and best practices, most of which are geared to SMEs.

A goal for 2004 was the implementation of a new financing tool for continuous training, the “Fondi Paritetici Inteprofessionali per la Formazione Continua” (FPI) (*Interprofessional Joint Funds for Continuous Training*), managed by the social partners and financial sector, for the benefit of enterprises.

The IN training programme for information technology and the English language deserve mention. It was addressed to 60 000 young unemployed persons aged between 16 and 32 from eight regions in Southern Italy and was implemented in 2001-03 with a final phase envisaged within the enterprise.

Programmes for the promotion of women’s entrepreneurial training and to develop assistance and consulting services for women’s small enterprises continued in the regions in 2003, through the use of both regional and central resources. In 2003, the Ministry of Productive Activities approved new programmes involving an overall financial commitment of EUR 15 million. According to the new guidelines, the programmes fall within three areas of action: information-orientation, entrepreneurial training and management assistance. Eligible parties must be committed to a monitoring and evaluation exercise.

Fostering women’s entrepreneurship

In addition to the above-mentioned measures concerning training, several laws (regional and European) are addressed to women who wish to start a business: these include the NOW project, *New Opportunities for Women*, which in the course of 4 years has financed over 70 projects and the national programme (based on Law 215 of 1992) which is the main supporting tool of the central government in favour of women’s entrepreneurship, which is addressed to small enterprises mainly managed by women. Contributions for facilities amounting to 50% of investments (60% in case of investments in disadvantaged areas) are awarded; for services the contribution ranges between 30 and 40%. The contribution operates in a *de minimis* regime and an enterprise cannot receive more than EUR 100 000 in a period of three years. 50% of the grant is reimbursable on the basis of a three year plan and with a 0.5% interest rate. The following are eligible for

support: investments for business start-ups; purchase of pre-existing businesses, carrying out of innovative enterprise projects, acquisition of services.

Access to finance

During 2003 the definition of rules for easy access by small craft enterprises to financial support for investment in depressed areas was completed, the amount of support established at EUR 123.5 million for 2004. In industry, tourism and trade, 4 117 programmes for SMEs were supported during 2003, with investments totalling EUR 9 250 million, in respect of which grants amounting to EUR 2 064 million were awarded. Likewise in 2003, equity capital contributions were made in the textile, clothing and shoe industry, for enterprises organised as a consortium that implements training projects or projects for the promotion of young stylists.

The *Plan for Digital Innovation of Enterprises*, also in 2003, includes a measure *Venture capital and capitalisation of new innovative enterprises*, an innovative finance tool to promote the access to risk capital of new innovative enterprises and of SMEs. This is accomplished through the granting of public financial loans to banks and financial intermediaries, aimed at acquiring temporary and minority stocks. Programmes for the development of productive processes, products and services particularly in the field of information and communication technologies fall within the scope of these actions, i.e. innovative development programmes with high technological impact.

The consolidation of *business angels* networks in Italy since 1999 has been a particularly encouraging development, with at present 12 networks (BAN) in operation. When the first implementation phase was completed, some BANs interrupted their activity and adopted a new operational structure along the lines of Anglo-Saxon models: involving “syndication of angels” and “angels investing funds” by operators of formal venture capital (VC). The integration of some BAN activities within the whole value chain of venture capital is also to be noted. Venture Capital operator consortiums, including university and traditional incubators, were created geared to the launching of innovative enterprises.

The 4th EBAN Congress “Business Angels and Seed Capital Finance: A Key to Access Entrepreneurship in Europe?” took place during the Italian presidency of the EU in November 2003, and was attended by 350 participants from Italy and abroad, and supported by the Ministry of Productive Activities.

Access to global markets

The system of support for the internationalisation of Italian enterprises has been undergoing a thorough re-organisational process during the last few years, mainly due to the administrative and political decentralisation processes, and to the devolution of decision-making. Sub-central levels, especially Regions, are progressively playing a greater role in many aspects of economic and social policies and influence the allocation of public resources to agriculture, industry and services and internationalisation.

In 2001 and 2002, attempts were already made to reorganise the decision-making and administrative structure of Italy's international economic policies at the levels of central State structures and foreign networks of other administrations (such as the Ministry of Foreign Affairs, the Ministry of Productive Activities and the agencies under their surveillance). In 2004 a law decree was approved, giving an annual reference framework to

agencies and public institutions operating in the field of enterprise internationalisation and support to exports. The Department for Internationalisation of the Ministry of Productive Activities was tasked with the definition and management of general promotional policies, in compliance with new institutional guidelines, and support of internationalisation initiatives.

The first task concerns the pin-pointing of annual “Guidelines for the promotional activity” to provide a reference framework to institutions and public agencies carrying out activities to internationalise the productive system. Thereafter, the implementation phase includes programme and sector arrangements that the Ministry undersigns with regions and trade associations. These arrangements, having a duration of 2 years, respond to the need to interconnect state activities with those carried out by territorial agencies and by the entrepreneurial world, in order to provide a more uniform and effective image of the Italian system. The second task concerns the management of internationalisation financial tools with a view to supporting concrete projects and integrating different initiatives for projects in favour of enterprises, with particular focus on SMEs. Despite the tough budgetary context, the resources allocated in support of internationalisation was higher in 2003 than in the previous year (EUR 25.5 million and EUR 24.7 million, respectively), reflecting the priority given to this issue by the government. Regional Offices for Internationalisation, covering almost the entire country, aim to provide public services and tools (promotional, financial, insurance tools) in support of internationalisation. These offices are established on the basis of agreements between the Ministry of Productive Activities and individual Regions, and involve a range of stakeholders (chambers of commerce, trade associations, banks, etc.). Five new operational protocols were signed during 2003 (Basilicata, P.A., Trento, Veneto, Liguria, Lombardy regions).

E-commerce

In 2003, the Ministry of Productive Activities and the Ministry for Innovation and Technologies approved a Plan for the Digital Innovation of Enterprises, envisaging a series of actions – ranging from economic-financial actions to institutional, environmental, regulatory, organisational and management interventions – to promote the organisational innovation process of SMEs through extensive use of ICT solutions. The following is a summary of the level of implementation of the 2003 Plan.

Economic and financial measures include:

- Thematic call for tenders for SME innovation aimed at improving SME efficiency by applying ICT to business organisation; EUR 112.8 million was allocated.
- Thematic call for tender for R&D concerning the evaluation of 80 submitted projects that are nearing completion; the minimum value per single project amounts to EUR 6 million.
- A tax lever to enhance innovation, first applied in 2003 as a tax abatement on R&D investments, exports, listing on stock exchange.

Framework measures include:

- Disseminating a culture of innovation is a pillar of the Plan: this measure was implemented by scheduling 17 workshops in late 2004 aimed at promoting e-business within companies; also the “Oscar” rewards best e-commerce companies (for Business to Consumer) in previous two years.

Regulatory measures include:

- Law on industrial property.
- Courts specialised on Industrial property matters.
- Reorganisation of Italian Patents and Trademarks Office – through a project concerning electronic registration of trademarks and patents in close cooperation with the United States Department of Commerce.
- Regulatory action to foster technology transfer: involves drafting of regulations in close cooperation and in agreement with the private sector and the public research sector.

Certain rules have been decided and others are being examined with a view to introduce a number of principles: i) allowing universities and public research centres to acquire ownership of rights from results of publicly funded research; ii) envisaging facilitation aimed at the establishment of offices in charge of dealing with technology transfer within universities; iii) giving preference to Italian and European SMEs when licenses for exploitation of inventions are assigned; iv) providing assistance for setting up patent clusters; v) providing intermediation services between universities and companies; vi) studying various ways to help universities protect and defend patents both in Italy and abroad; vii) facilitate the realisation of important inventions.

Organisation management measures include:

- Fostering cooperation among ministries whose competences affect innovation: the Institute for Industrial Promotion (IPI) has the task to ensure that measures are well monitored.
- Socio-economic partnership: comprising the major sector associations and stakeholders.

Innovation and technology

In the framework of the initiatives envisaged in the “Plan for digital innovation within companies”, particular attention is given to technology transfer from research centres to the productive system for the innovation of traditional industrial sectors and for the growth of technology-intensive sectors.

In this context, the *Italian Network for the Dissemination of Innovation and Technology Transfer (RIDITT)* was launched in 2003, aiming to enhance technological skills and available resources in industrial innovation and to foster integration processes between private and public operators of the innovation national system. To this end, the RIDITT network, managed by IPI, provides the operators (companies, universities, research centres; Science and Technology Parks, policymakers at regional and national level) with information, training and technical assistance services. The information services of the network may be accessed through the Internet portal www.riditt.it. RIDITT technical assistance and training services aim to match demand for and the supply of technology as well as support the establishment of private-public partnerships for industrial innovation on a sectoral and/or technological basis. RIDITT launched projects aimed at networking entrepreneurial associations and technological centres in the following sectors: footwear, textile/clothing; automotive; and biotech sectors. Furthermore, RIDITT provides services aimed at encouraging internationalisation of innovation centres also via the International Association INSME (International Network for SMEs, www.insme.org).

Initiatives aimed at facilitating company access to information, know-how and technologies have also been launched at regional level, e.g. Piedmont (Diadi), Lombardy (Questio), Veneto (Comunità Veneta della Ricerca) and Friuli Venezia Giulia (Innovation Network).

Establishing innovative networks and clusters of technology-intensive companies through the creation of *Technology Districts* was endorsed by the MUIR 2002 strategy aiming to replicate the successful experience of the industrial districts by promoting territorial entities which are systemically grouped and characterised by technology-intensive products and services. Through technology districts it will be possible to enhance cooperation between scientific and technological players and companies that can develop competitive research projects so as to obtain major returns in terms of innovation for the entrepreneurial society, to be achieved through both private and public funding. The goal is to achieve internationally recognised excellence in research, innovation, and technological entrepreneurship skills.

In October 2004, eleven Technological Districts were promoted, their activities being mainly in wireless applications (Piedmont), molecular biomedicine (Friuli Venezia Giulia), biotechnologies (Lombardy), ICT (Lombardy), advanced materials (Lombardy), polymeric materials and compounds (Campania), mechatronics (Emilia Romagna), microelectronics (Sicily), nanotechnologies (Veneto), integrated smart systems (Liguria) and aerospace technologies (Lazio).

Concerning intellectual property, in addition to the aforesaid *Patents and Trademarks Office*, and regarding the computerisation process included in the Plan for Digital Innovation, local bodies, Chambers of Commerce and entrepreneurial associations have been particularly pro-active throughout the country promoting awareness-raising and promoting patents within the SME sector through special support measures and assistance services provided by the *PatLib Centres*.

Networks, clusters and partnerships

The industrial district is the main form of company clustering in Italy. The first formal step aimed at framing the industrial districts into a national legislation was the National Law No. 317/1991 (“National actions for innovation and the development of SMEs”) which gives the Region authority over policies regarding the districts, and requires the regions to identify some districts based on a set of indicators fixed by decree of the Ministry of Industry (Ministerial Decree enacted two years later, on 21 April 1993, known as “Decreto Guarino”). Subsequent laws, notably the 1999 “Second Bersani Law”, have simplified and made the identification of districts more flexible as the Regions may directly select them. The industrial districts chosen by the Regions are continuously changing in compliance with the reference regulation. As of September 2004, 161 Industrial Districts were selected in 12 regions out of 20 Italian regions. They include those that were selected by the Veneto Region based on the Regional Law of 4 April 2003 No. 8 that changes the methodological approach: first of all the industrial districts change their names to *Production Districts*. Furthermore, each *Production District* is characterised by a cluster of integrated companies and by public players. The new definition as *production districts* includes companies, public players, sector associations of different areas, thereby following a more flexible definition of territory base (it is no longer a matter of territorial contiguity of companies, which may now also belong to the same production district even though they are located in different areas).

Likewise the notion of territorial clustering is changing to the idea of a network: the Lombardy Region has selected the so-called *Meta-districts* along with the traditional industrial districts. The objective of the Regions was the identification of major production areas likely to be the drivers of the region's development. The *meta-district* is a system that is not necessarily characterised by territorial contiguity and in which companies are connected to one another through knowledge-based links.

Japan

SMEs in the economy

SMEs play a very important role in the Japanese economy and society – as evidenced by their share in the total firm population, the shipment volume for which they are responsible, and the employment they generate. Data for 2001 show that SMEs numbered 4.7 million in that year, and accounted for 99.7% of all firms (excluding the primary sector). SMEs employ 30 million persons corresponding to 70.2% of total employment. In 2001, SMEs accounted for 51.2% of manufacturing shipment volume, 64.4% of wholesale sales, and 72.1% of retail sales. Overall, SMEs have drawn upon their resilience and creativity, resisting well during some difficult times for the Japanese economy. In recent years, however, the firm closure rate has exceeded the start-up rate.

Framework policies

SMEs are important as a source of new business and new employment and as a potential driving force for revitalising the economy. Accordingly, the Small and Medium Enterprise Basic Law was amended in December 1999, the first definitional amendment in 26 years, and set forth the basic policy philosophy of “developing and growing a wide range of independent SMEs for greater economic vitality”. Under the amended law, the main priorities of SME policy are: to promote innovation in SME management and encourage the creation of new businesses; to strengthen the education and training foundation of SME managers; and to facilitate adaptation to social and economic changes. The new Basic Law also raised the maximum capitalisation allowed.

SME policies and programmes

The Japanese economy is experiencing a recovery driven by exports and capital investment. Although the business sentiment of SMEs has been recovering steadily overall, delays in recovery are observed in some areas and business categories. In this economic context, it is necessary to ensure the revitalisation of Japan’s economy and the creation of job opportunities by comprehensively enhancing financial and other support for SMEs and also by providing strong support to SMEs for meeting the challenges they face in entering new markets. To this end, SME measures will be implemented in the future by the Ministry of Economy, Trade and Industry based on the following four principles:

- Revitalisation of the economy and the regions through “Support for SMEs taking up market challenges”.
- Training and utilisation of SME human resources.
- Support for the revitalisation SMEs and for the diversification/facilitation of SME financing.
- Revitalisation of measures for commercial districts and city centres.

Entrepreneurship

Because Japanese business conditions have been harsh for the last decade, as illustrated by the fact that more companies have shut down than have been started, comprehensive policies are being put in place, in addition to the provisions of the *Law to Facilitate the Creation of New Businesses*, to offer financing, personnel, information, technology, and other support for business creation and venture start-ups. The aim is to double the number of new businesses in five years. Specifically, efforts are being made to further enhance capital supply and other systems to directly and indirectly assist venture companies that may be short of collateral; to provide human resource support such as the provision of training opportunities, to support technology development such as assistance towards the funding of prototype development models; and to provide expertise and other management support such as through SME support centres.

Financing

So as to complement the role of private-sector financial institutions, the government financial institutions serving SMEs (the Japan Finance Corporation for Small and Medium Enterprises, the National Life Finance Corporation, and the Shoko Chukin Bank) aim to ensure smooth access to capital for SMEs. Specifically:

- The Japan Finance Corporation for Small and Medium Enterprises: This institution supplies the long-term capital SMEs need to develop their businesses and offers SMEs long-term, fixed-interest, low-interest capital.
- The National Life Finance Corporation: This institution offers primarily small, unsecured loans for very small companies.
- The Shoko Chukin Bank: This is a full-service financial institution with funds coming from the government as well as from SME co-operatives and other organisations that serve the co-operatives, their members, and other clients.

Lending levels for these three institutions (as of 31 March 2004) were: JPY 7.6 trillion concerning the Japan Finance Corporation for Small and Medium Enterprises; JPY 10.1 trillion concerning the National Life Finance Corporation; and JPY 9.8 trillion for The Shoko Chukin Bank.

The *Credit Complementation System* helps speed up financing for SMEs as the *Credit Guarantee Association* acts as guarantor for SMEs without sufficient credit or collateral when, for example, the same firm borrows capital from a bank or other financial institution. The *Japan Small and Medium Enterprises Corporation* then backs these guarantees. This system, which goes back 60 years, has been lauded not only in Japan but also in the international community at large. As of end March 2004, this system had a total of JPY 31.1 trillion credit guarantees outstanding.

Established in 1963, the *Small Business Investment Company* is a government policy institution engaged in investing in and otherwise supporting SMEs to promote the enhancement and sound development of SMEs' shareholder equity capital. The institution supplies capital by buying new stock issues, convertible bond issues, and warrant bond issues in respect of the funding needed for plant and capital investment at the early stage, R&D funding, and for other purposes. It also offers management consultation and other services upon demand to help the companies that it has invested in, grow their businesses.

Technology and innovation

Technological development of SMEs is also important for creating new businesses and promoting business innovation, and the SME Agency promotes technological development so that SMEs undertake various businesses or recruit staff in response to economic and societal demands. It also offers various supports such as a subsidy for technical R&D for the purpose of new utilisation and commercialisation, trying out new business areas, adding high value to products.

Specifically, the following activities are implemented:

- Integrated support from R&D to utilisation/commercialisation (Start-up support project).
- Setting up areas (metal mould, robot parts) selectively supported by government.
- Supporting joint ventures composed of SMEs, client companies and universities.

The above measures were, along with the *Small Business Innovation Research (SBIR)* system, established in 1999. Under this system, the government provides subsidies and other support for SME efforts to conduct and exploit R&D. Working to expand investment opportunities, this is a start-to-finish system setting financial support targets for SMEs and seeing the projects through to the utilisation of the technology. The amount of support designated to SME R&D was set at approximately JPY 30 billion for the 2004 fiscal year.

The *Law on Supporting Business Innovation by Small and Medium Enterprises* is intended to promote the creative development of SMEs and thereby contribute to the sound development of the Japanese economy by devising and implementing measures to support management innovation, and enabling SMEs to adapt to the changing economic climate. Business innovation is intended to achieve sharply improved management, and in particular i) the development and production of new products, ii) the development and provision of new services, iii) the adoption of new means of producing and selling products, iv) the adoption of new means of providing services, and v) the conduct of other new business activities. Regardless of industry sector, when specific SMEs, co-operatives, voluntary groups, and others draw up business innovation plans and the plans are approved by the national or a prefectural government, these approved plans are then eligible for subsidies, low-interest loans from government financial institutions, and preferential tax treatment, including lower taxes on plant and capital investment. The law came into effect in November 1999, and 15 099 business innovation plans had been approved by August 2004.

Consistent with this business innovation support, business innovation fairs are organised to publicise the business innovation efforts of companies whose plans have been approved, to introduce likely corporate partners to each other, to offer specialist information to SMEs attending fairs, to generate enhanced awareness, and thereby promote business innovation.

In addition, when industries, particularly hard hit by abrupt changes in the economic climate or other factors, are specified as designated industries, business associations and other organisations in the designated industries may draw up business foundation strengthening plans to reinforce the managerial foundations contributing to future management innovation by their member SMEs. When approval is received from the relevant Minister, the support measures for eligible firms can include low-interest financing from government financial institutions, preferential tax treatment including

accelerated depreciation for machinery and other assets, and support under the provisions of the Small Business Credit Insurance Law.

Management

The new SME support system was established to help SMEs solve the diverse array of management issues they face. Begun as an innovative concept bringing together support personnel from the private and public sectors versed in SME management issues, SME Support Centres provide SMEs with “over the counter” consultation, on-site professional assistance, business feasibility assessments, information services and training programmes. As of November 2004, there were 59 prefectural centres, 259 local centres and 8 national support centres. All of these institutions are endeavouring to provide one-stop service for SMEs.

SME Support Centres focus mainly on support for business creation and business innovation. In addition to providing management strategy, marketing, and other counselling services for those wishing to start new companies, they also send SME analysts, tax accountants, certified public accountants, and other expert consultants to assist SMEs, and can provide support for solving specific management issues faced by SMEs. SME Support Centres together handled approximately 218 500 cases in the 2003 fiscal year, providing on-site support expertise in about 30 000 cases.

The Institute for Small Business Management and Technology provides training for SME executives, management, technicians, and SME support personnel. It currently has 9 campuses nation-wide and provides training for approximately 14 000 people annually. In addition to offering practical training in a wide range of fields as well as management training for SMEs in an effort to promote managerial innovation, it also offers human resource development programmes for personnel of SME support organisations so that graduates can fully support SMEs.

Enhancing information access for SMEs is a government policy priority. By publishing annual reports on SME developments (e.g. the White Paper on Small and Medium Enterprises in Japan), the government strives to foster understanding of SMEs among both opinion leaders and the general public. Information diffusion instruments used are print media (e.g. a comprehensive guide to SME policy, pamphlets and leaflets), television broadcasts, Web sites and on-line magazines. The URL for the SME Agency is www.chusho.meti.go.jp/ (Japanese page) or www.chusho.meti.go.jp/sme_english/index.html (English page).

Export promotion

The SME Agency offers SMEs both advice and information to make it easier for them to expand their business beyond Japan’s borders. In a corporate match-making effort, the Agency also supports the provision of opportunities for Japanese and overseas SMEs to register with a common Internet database through JETRO and thus facilitate the widest possible range of business linkages and strategic collaboration. In addition, its business advisors offer consulting to help resolve the practical issues involved in creating international strategic partnerships.

In order to establish national or world market level reputation, the SME Agency comprehensively supports projects which the *Japan Chamber of Commerce and Industry* implements, by itself or by tie-up, with coordinating local enterprises. The Support

Project for Promoting JAPAN Brand provides support in terms of market research, invitations for expert, planning, development and evaluation of design and new products, participation in exhibitions both domestic and internationally, as well as support for the development of markets.

Korea

SMEs in the economy

In 2002 there were an estimated 2.9 million businesses in Korea, employing a total of 12 million persons. SMEs* (fewer than 300 employees) accounted for 99.8% of all Korean firms and 86.7% of employment. Micro firms (fewer than 20 employees), small firms (fewer than 50 employees) and medium firms (fewer than 300 employees) represented 88.6%, 8.3% and 2.9% of the total enterprise population, respectively.

SMEs continue their role as the backbone of the Korean economy, responsible for 42% of total exports (USD 162.4 billion) and half of value-added generated by the manufacturing sector. The SME share in manufacturing employment increased from 74% in 2000 to 79.4% in 2002. Similarly, the SME share in manufacturing output increased from 47.5% to 50.9% during the same period.

There are some 2.6 million micro enterprises in Korea, employing approximately 5.1 million workers and their share in total enterprise numbers and in total employment were 88.6% and 42.9%, respectively. Micro firms in wholesale and retail trades, hotels and restaurants, and transportation industries accounted for 64.2% (or 1.7 million firms) of these industries. Approximately one half of such micro firms were established in the previous 3 years while a quarter were established in the previous year.

Table 4.5. **SMEs in the Korean economy in 2002**

Classification		No. of companies (%)	No. of employees (%)
All businesses		2 953 124 (100.0%)	11 975 672 (100.0%)
Small and medium enterprises	Micro Firms	2 616 307	5 136 043
	(< 20)	(88.6%)	(42.9%)
	Small Firms	245 866	2 475 397
	(< 250)	(8.3%)	(20.7%)
	Medium Firms	85 998	2 773 580
	(> 250-300)	(2.9%)	(23.2%)
Total	SMEs	2 948 171	10 385 020
	(< 300)	(99.8%)	(86.7%)
Large firms		7 953	1 590 652
(> 300)		(0.2%)	(13.3%)

Source: Korea National Statistical Office (data refer to end-2002).

* Defined in terms of employees and paid-in capital or revenue that can vary depending on the industry sectors. For example, the criteria applied to the retail and wholesale industry are fewer than 100 employees and KRW 10 billion in revenue. On the other hand, for the manufacturing sector, SMEs are considered to have fewer than 300 employees and KRW 8 billion as paid-in capital.

Economic background

In barely four decades, Korea's industrial structure has been transformed from one characterising an agricultural economy to one on the threshold of a highly industrialised economy. During this rapid growth process, large enterprises have acted as locomotives for the Korean economy, while SMEs have steadily acquired the role of sub-contractors to large enterprises characterised by relatively low wages and relatively out-dated technologies.

However, the factors that enabled SME growth in the past are increasingly disappearing due to rapid changes in the global economic environment including: global outsourcing strategies by large enterprises; the emergence of strong competitors with low cost advantages; shortening product life cycles; and fierce competition brought on by market liberalisation.

These difficulties are quite well reflected in various ratios such as: the value added employment ratio; the output to employment ratio; the sales growth ratio; and the profitability ratio. Since the value added over employment ratio marked a record high of 73% in 1993, it has declined continuously to 68% in 2001. The output over employment ratio, peaking at 69.3% in 1993, declined to 64.8% in 2001 while that of Japan has been maintained at around 72% since 1982. More significantly, the ratio of sales growth and the ratio of operating income to sales has also shown a downward trend since 1985.

Framework policies

Korea's SME framework policies have reached a turning point. During the previous 40 years, they have focused on protecting SMEs' business territory from greedy large enterprises and increasing SME stability. Since July 2004, the policies have been undergoing a process of transformation towards more pro-competitive policies in order to foster entrepreneurship and SME innovation.

As the first clear message for pro-competition SME policies, a competitive bidding scheme will be introduced for SMEs in the government procurement system. This will replace the process where a contract was awarded in the past to an SME association under a single tendering scheme.

Korea's SME policy priorities aim to create the right business environment for SMEs, in which anyone with creative ideas and capable of dynamic efforts can start up a new enterprise and become a "small but strong SME", equipped with enhanced innovative capability and global competitiveness.

SME policies and programmes

Various SME policies were devised with the strong conviction that SMEs possessing vitality and creativity, will drive the Korean economy as a strong growth engine and job creator. Differentiated policy programmes according to SME types and growth phases are being applied in areas such as start-up, innovation, human resource development, finance and marketing.

Bankruptcy legislation

The government has improved bankruptcy laws to facilitate the exit and restructuring of firms that experience financial difficulties. Several fast tracks and less costly bankruptcy processes have been adopted for small firms. The government devised a unified bankruptcy law by integrating the three existing bankruptcy related laws and this is

currently awaiting parliament's approval. The unified bankruptcy law would allow stakeholders to choose an optimal bankruptcy process and would result in lower costs.

Administrative burdens

Korea has undertaken intensive regulatory reform to improve the business environment by streamlining regulations that govern business activities such as entry barriers (licensing and registration), price controls and other business regulations. In April 1998, Korea established the Regulatory Reform Committee (RRC) under the Prime Minister, empowered to review and repeal existing regulations. New regulations, necessary for environment and health reasons, require prior review and approval by the RRC. Since 1999, the RRC has repealed more than half (8 121) of all existing regulations and improved the quality of many others. 1 078 new regulations concerning the environment, safety and health, were introduced, having first been reviewed by the RRC.

The government has substantially streamlined administrative procedures required for start-ups that involve establishing a factory. In the past, 63 approvals (mostly regulations concerning land, environment, safety and construction) were required by 32 separate laws, involving a significant burden for firms. A unified factory establishment scheme was introduced, granting all necessary approvals for start-ups through a single application made to an SME unit in local government. These local SME units are required to complete the approval procedure along with the relevant administrations within 20 days once following receipt of an application. If no response is forthcoming within 20 days, the application is deemed automatically approved.

Tax incentives

Korea applies a comprehensive set of tax incentives for venture businesses and new start-ups. Income and corporate tax are reduced by 50% for six years. Assets acquired for new businesses are exempt from local acquisition and registration taxes for the first two years. Property taxes are reduced by 50% for the first five years. Stock option gains made by employees of venture businesses and start-ups are excluded from the income tax base, up to a maximum of KRW 30 million, provided that they are exercised within three years.

Enhancing entrepreneurship and facilitating start-ups

Start-up is an important economic activity that can, as a source of new ideas and innovation, generate dynamism in the national economy. The Korean Government has introduced various measures to promote entrepreneurship. To foster young entrepreneurs and create an entrepreneurial business climate, the government has been running various programmes such as: A Start-up Course; Start-up Clubs; the Bizcool programme for young people; and a Graduate School for Business Start-up. The administration is promoting a favourable business environment for start-up by:

- Removing or streamlining regulations and procedures that in the past hindered start-up activities.
- Providing the start-up agency service which handles start-up activities on behalf of the company.
- Offering the necessary office space and equipment for start-ups through Business Incubators (BIs) within universities or research institutes across the nation.

Entrepreneurship training programmes

The start-up course is a short-term training programme targeting would be entrepreneurs or new SME starters, designed to improve their management capabilities and raise the start-up success rate. Local universities and specialised institutions offer the course approximately 100 times annually. In addition to these, and so as to develop start-up specialists, five Graduate Schools have been running a 2 year entrepreneurship programme since 2003.

Entrepreneurship development programmes

To imbue teenagers with an entrepreneurial spirit and business mindset, 80 junior-high and high schools have implemented the “BizCool” programme. About 20 000 students participated in the programme and took a variety of case-oriented courses including self-management, business start-up, business administration, and finance.

The government also provides financial support to entrepreneur clubs in universities to apply their ideas to business. This programme is designed to train college students so they become entrepreneurs with creativity and a frontier spirit. Currently, 12 000 member students in 520 entrepreneur clubs are participating in this programme.

Business Incubators

Universities or institutes capable of supporting would be entrepreneurs or new SME founders, operate Business Incubators (BI). This programme is designed to increase the survival possibilities and promote the growth of newly established technology-oriented companies. Currently, there are approximately 300 business incubators across the nation, hosting approximately 4 000 SMEs. The housed SMEs are provided space for office or production, consulting services, marketing education and other kinds of support.

Financing

Those intending to start up an enterprise, or expand/restructure an existing business, will face the most frequent type of difficulty in accessing financing. This is mainly because banks require collateral before agreeing to extend a loan to SMEs, and their technology or business model is usually not appropriately assessed for underwriting loans.

The government provides direct and indirect financing support for SMEs to ensure that creative and innovative SMEs will not fail due to difficulties experienced in accessing financing. As indirect financing services, the administration provides credit guarantee services to SMEs that are ineligible for bank loans due to lack of collateral. This service allows them to borrow needed funds from banks through credit guarantee institutions such as KCGF (Korea Credit Guarantee Fund), KOTEC (Korea Technology Credit Guarantee Fund), and local KCGF offices. Eligible small business owners, enterprises in the start-up phase, technology-oriented SMEs and restructuring SMEs can also obtain loans from policy funds through the Small Business Corporation.

In efforts to support SMEs with direct financing from the market, the government plans to utilise venture capital and the KOSDAQ market. Promising SMEs can raise investment funds from venture capital companies or fund markets. The KOSDAQ market and a third market are other options for raising funds by the direct financing method from the market.

Technology appraisal securitisation product

Through this programme, the government helps SMEs obtain loans through the securitisation of the appraised value of their new technology. An institute that specialises in assessing technology estimates the monetary value, feasibility and marketability of a new technology. A financial institution may then offer a loan based on the assessment. This programme is significant in that SMEs with superior technologies can take loans from financial institutions without other backing collateral such as tangible assets which are usually lacking for high technology firms.

Account receivable insurance programme

The programme is designed to protect SMEs against management difficulties stemming from the failure to collect payments. This programme of insuring account receivables (sales on credit and notes receivable) was initiated in 2004, and is expected to ensure management stability of SMEs by preventing successive bankruptcies of endorsers of the commercial note.

Technology and innovation

In the knowledge-based economy, knowledge and innovation capabilities will determine the competitiveness of SMEs. In this regard, the innovation capacity of SMEs and their capabilities for utilising information technology and networks will be the key success factors of the Korean economy in the future. However, SME technology capabilities remain merely at 70% of the world's highest, and the ratio of their R&D investment to the total sales averages 1.5%, falling far behind that of large enterprises.

To strengthen SME innovation capabilities, the government is implementing various policies with a focus on the following:

- Fostering innovative SMEs that will further advance the technology innovation of SMEs in the longer term.
- Reinforcing networking of industry, academia and institutions.
- Promoting commercialisation of developed technology.
- Establishing the infrastructure of digitisation.

Various policy measures are being implemented to accelerate SME technology development. For example, the government seeks to increase to 10% of all manufacturing SMEs, the share of SMEs equipped with capabilities for technology development and innovation. Government ministries and institutions are also required to set aside a certain percentage of their R&D budget to support SME technology development (KOSBIR: *Korea Small Business Innovation Research*) and to provide support for R&D expenditure of SMEs capable of developing technology on their own. In addition, the National Defence and Electricity Company and others in the public sector have given assurance that they will purchase SME products through internal procurement.

In an effort to prevent superior technologies from remaining unused, *New Technology Commercialisation Funds* have been mobilised to fund the cost of facility investment and raw materials required for the commercialisation of new technologies. Various policy measures have been taken to reinforce networking among enterprises or among industry, academia and institutions. The measures include the *SME R&D Institute*, *Industry, Education and*

Research Consortium Project, SME Technology Training Programme and training of SME employees in association with universities and research institutions.

The government is also helping SMEs to enhance their productivity through such measures as: assessment of SMEs' capability for adopting ICTs; provision of consultancy services for innovative ICT adoption; and the establishment of IT infrastructure at SME productions sites.

New technology purchasing assurance

In an effort to help commercialise new technologies, public authorities including the Defence Ministry, KEPCO (Korea Electric Power Corporation), KOGAS (Korea Gas Corporation) are commissioning SMEs to develop a new technology with the assurance that they will purchase the technology-applied product for a certain period of time. As of 2004, 35 technology development projects are in progress under this programme. It is anticipated that an increasing number of public institutions will participate in this programme in the future.

E-manufacturing support programme

In order to enhance SME productivity, the government supports SME efforts to implement state-of-the-art manufacturing information systems. For building up the information infrastructure, SMEs are funded to adopt relevant software developments such as CIM (Computer Integrated Manufacturing), MES (Manufacturing Execution Systems), and POP (Point Of Production), and databases, into their manufacturing system.

One of the government's goals is to improve SME adoption of ICT and 30 000 SMEs are being assisted in this field. Enhancing managerial capacity for the adoption of ICT technologies is an important dimension of this goal, and the government expects that a more strategic support system for SMEs and more self-reliance among SME managers will help realise this goal.

E-commerce

The government actively encourages electronic commerce through a number of programmes and measures. Consulting services are provided to small businesses to help develop software solutions and to encourage SMEs to move into e-commerce business through B2B networks. In SME cluster regions, broadband Internet networks, such as VDSL and Ethernet, are being installed to assist SMEs to utilise software programs. In addition, the government operates *Korean Marketplace*, an Internet-based SME hub, to enhance international Internet trading. *Korean Marketplace* has assisted in producing the development of Web sites and catalogues for small export companies. Currently, it has established Web sites for 20 000 companies and Japanese or Chinese bilingual homepages for 1 700 firms. *Korean Marketplace* has also taken part in the *G7's Information Network (GIN)* (www.smipc.or.kr/html/info_g7.php), *ASEMConnect* (<http://asemconnect.smipc.or.kr/>) and *ASEAN+3 SME Network*.

Management: marketing and human resource

Efforts are being made to enhance SME competitiveness in overseas markets. By organising a training programme for marketing experts, the government is helping small businesses to develop their own marketing capabilities. For those small businesses with high quality products but with a low level of consumer recognition, the Korean

Government has awarded a Good Quality (GQ) certification to boost their sales. The government also encourage large corporations and SMEs to develop their business relationship to become more strategic in their nature.

Various efforts have been made to upgrade the quality of the SME workforce. The SME Training Centre, a public education institution, provides low-cost training services such as short in-house training for SME employees. Designed to improve on-site work skills of employees, the centre runs various training programmes covering production technology, IT/automation, quality assurance and digital technology.

Mexico

SMEs in the economy

There are approximately 2.9 million enterprises in Mexico, of which 99.7% are SMEs and which together generate 52% of GDP and 71.9% of total employment. Within the manufacturing sector, firms with fewer than 500 employees generate 66% of employment, firms with fewer than 100 employees account for 38%, and small firms (fewer than 50 employees) are responsible for 31% of employment in manufacturing.

Framework policies

Mexico's framework policies aim to achieve a highly integrated and internationally competitive SME sector, associated with balanced regional development. Current deregulation efforts focus on streamlining business regulations and reducing administrative response times. Nine ministries have reached agreement on removing or improving almost 50% of mandatory business formalities, and half of the agreed changes have now been implemented. The National Development Programme (NDP) has five principal objectives:

- To manage the economy responsibly.
- To improve the country's overall competitiveness.
- To generate an inclusive form of economic development.
- To achieve balanced regional development.
- To establish conditions for achieving sustainable development.

A major priority of the Mexican presidency is to create conditions favourable to employment generation and sustainable growth. The government places strong emphasis on SME development. The Entrepreneurial Development Plan (EDP) was created within the NDP and is a comprehensive programme aiming to improve enterprise competitiveness and to serve as a central axis of the government's new economic policy. The EDP requires that all enterprise stakeholders co-operate and develop joint strategies and actions in order to strengthen the productive sectors. The EDP objectives respond to the following challenges:

- Providing an economic, legal, and regulatory environment that promotes enterprise development.
- Facilitating access to financing for enterprises.
- Promoting entrepreneurial training, management and employee skills, to improve firm competitiveness.
- Promoting management, innovation, and technological development within enterprises.
- Developing industry in terms of specific regions and sectors.

- Restructuring and developing production chains in order to strengthen the domestic market and increase presence in external markets.

Policies have been designed to respond to SME specific requirements so as to create a conducive business environment. Achieving balanced regional development and generating quality growth that benefits society as a whole is a government priority so policies require the involvement of economic and government agents in providing support services – notably educational and research institutes, business and industry associations, and local governments.

SME Law for the Competitiveness and Development of SMEs

On 30 December 2002, the “Ley para el Desarrollo de la Competitividad de la Micro, Pequeña y Mediana Empresa” (SME Law for the Competitiveness and Development of SME) was published, its main objective being to promote national economic development by fostering SME creation, and supporting their feasibility, productivity, competitiveness and sustainability. The Law also aims to increase SME participation in domestic and international markets, in the framework of increasing productive value chains leading to employment growth and improved economic and social well-being.

“Rapid System for Enterprise Creation” (SARE)

In 2002, the Federal Government put into operation the “Enterprise Rapid Opening System” (SARE) to allow the opening within 72 hours of low-risk business operations. The usual necessary procedures for starting up a business have been reduced from five to two, for moral persons, and to one, for physical persons. To date, SARE was used to set up 685 businesses that did not present a public risk, and spanned 80% of economic activities. Enterprises have three grace months to complete other administrative procedures.

SME policies and programmes

Mexico implements a number of action plans involving policies and instruments that aim to create a conducive environment for SME development. These policies and instruments are applied in support of technological innovation, access to financing, human resource development and the provision of consultancy services. Because of the globalised economy, policies are required to assist SMEs in adopting technology, in improving SME competitiveness and productivity, in order to allow them to become world-class enterprises. The government views as a major challenge the need to create competitive SMEs that can take advantage of the free trade agreements that Mexico has signed. Therefore mechanisms of exchange and cooperation with other economies are fostered, as are collaborative schemes involving public and private sectors, and academic and research institutions. The EDP has established a number of strategies to face these challenges. These are described below.

The Mexican SME Observatory

The statistical information available concerning SME performance in Mexico is limited, diffuse and difficult to compare with data of trading partners. To address this problem, the Ministry of Economy with the support of the Inter-American Development Bank (IDB) has launched the SME Observatory, the objective of which is to generate quantitative and qualitative data relating to SME performance in Mexico. The establishment of the SME Observatory will lead to improved data availability, and in the

longer term, to internationally comparable statistics and indicators, which will allow a comparison of the performance of the Mexican SME sector with others. The main goals of the SME Observatory may be stated as follows:

- Generate quantitative and qualitative data related to SME performance in Mexico and, thereby, eliminate the existing shortfall in that respect.
- Improve and expand existing data, and develop internationally comparable statistics.
- Identify and take account of the business sector's needs, with the goal of developing appropriate policies for entrepreneurship development.
- Provide data consistent with the goal to conduct evaluations of the impact of the instruments, actions and programmes of the Federal Government.

Policy environment

A conducive environment for SME development implies that administrative, economic and financial conditions facilitate investment, promote industry and strengthen markets. The government's strategy is to create an environment where SMEs are inhibited only by their own limitations. The main lines of action of this strategy relate to the promotion of: i) a flexible fiscal system that involves low compliance costs for firms; ii) a legal framework for enterprises concerning foreign as well as domestic investment; iii) an integrated regulatory enhancement process that reduces the administrative burden on, and is attractive to SMEs; iv) improvement in the communications and energy infrastructures; v) reform of the labour market framework; vi) educational enhancement and fostering a new entrepreneurial culture; and vii) promotion of organisational change, and corporate social responsibility including environmental protection.

So that efficient and flexible solutions can make the best use of available resources, coordination among all the involved parties is a prerequisite. For this purpose, the National Council for Micro, Small and Medium Enterprises has been revived with the active participation of major industry associations, and is responsible for evaluating each programme according to its objectives and goals. Greater participation by the private sector is encouraged. The Council's evaluation recommendations are acted upon, being subsequently fully incorporated into the programmes.

The government attaches priority to: strengthening entrepreneurial organisations; recognising the role of local governments in economic development, in particular their ability to obtain the participation of social and economic actors; strengthening support service providers, *e.g.* chambers and councils, educational and technology institutions, financial bodies.

Access to financing

Access to financing as a lever for development is an essential element of the government strategy to encourage SME competitiveness. The Ministry of Economy, in coordination with local governments and development and commercial banks, encourages SMEs to seek risk capital, provides guarantee funds to allow SMEs access to loans, and fosters the establishment of non-banking intermediaries. It is government policy to create, adapt, and/or consolidate programmes that facilitate the access of micro, small, and medium sized enterprises to financing. In 2001, during National SME Week, Mexico's President announced the creation of the National Guarantee System that promotes collaboration between financial institutions and local governments. The Ministry of

Economy encourages collaborative agreements with international financial institutions to support enterprise development and strengthen the production capacity of SMEs. The guarantee scheme has improved credit conditions for SMEs through increased flexibility in dealing with requests, lower interest rates, better terms, lower sales requirements, and better response times, all of which have made credit more accessible.

Promoting entrepreneurship and skills for competitiveness

This action line seeks to strengthen a long-term vision within a global economic environment, promoting world-class competitiveness standards that generate strong and socially responsible enterprises. A number of public programmes such as COMPITE and CRECE have been strengthened and support funds are being provided through the SME Fund programme to assist entrepreneurial and human capacity building, enhancing the knowledge development and skills of entrepreneurs, managers and employees. Counsellor certification programmes that guarantee the quality of business consultancy and technical assistance have been established. Enterprise incubation programmes receive support from public and private education institutions, entrepreneurial organisations and local governments.

The Ministry of Economy strengthened the CONTACTO PyME information system, which is supposed to cover SME requirements in its diffusion of business information, as well as supporting the adoption of appropriate information technology applications. SMEs can acquire information concerning the market, their position with regard to their competitors, developments in standards, administrative procedures applicable to their activity, business opportunities, etc. CONTACTO PyME provides information on 117 government support programmes, as well as business tools, and offers technology and innovation support, and promotes access to markets and internationalisation. Originally intended to be a free online business directory of Mexican enterprises with business matching capabilities, its service offerings were extended in view of its success. New services include: quality assurance, export promotion, benchmarking and self-diagnostic tools, statistical information by sector and information on procedures and formalities relating to the Ministry of Economy. Although a formal evaluation has not yet been carried out, several user surveys have helped to modify the Web site's design and content.

Also the *First Contact Entrepreneurial Adviser Centre* (First Stop Shop) supports entrepreneurs through an integrated information service concerning procedures for starting up in business, Federal Government's support programmes, business opportunities geared to foreign trade (clients and suppliers products and services), and information on the free trade agreements.

The Business Information Centre provides information on government support programmes for SMEs and has recently been strengthened. Business link centres have been established so as to facilitate access to information and technological innovation for SMEs. These centres also provide training, technical assistance, advisory and business plan support.

Centres for enterprise development

The Ministry of Economy supports the installation of centres of enterprise development to create a network to provide support to training and services for SMEs, to improve their competitiveness. PROMODE promotes entrepreneur development through training and by upgrading knowledge concerning the operation of a business. The advisory services of the national system for enterprise incubation have been integrated as part of a

long term strategy for: incubator development; and the analysis and formulation of policies and strategies to stimulate and foster an entrepreneurial culture, an innovation culture and the creation of competitive SMEs.

Technology and innovation

The Technology Transfer and Technological Services for SMEs programme comprises two sub-programmes: Technological Forums, and the System for Technological Information Services (SISTEC). They both seek to link SMEs with the principal centres for applied research and technological development in Mexico, to identify technology issues and increase SME productivity. The rationale behind these programmes is that they will generate an improvement in the technology culture of SMEs and open an innovative communication channel between SMEs and technology solution providers to match specific technology issues; technological innovation exhibitions developed by SMEs; and technology services offered by research institutions, universities and government agencies. The SISTEC programme, available on the Internet, includes a database with information on 600 technological centres and institutes, and responds within 48 hours to queries.

The COMPITE (National Committee for Productivity and Technological Innovation) programme offers a four day consulting service in the form of a workshop. Production bottlenecks are detected and, if necessary, production lines and plants are redesigned, using various production-related methods. A group of workers, supervisors, production managers and if possible, the company's owner (usually seven to 15 people) participate. Consultancy services geared to opening access to markets are also provided. Business link centres offer technical support and promote SME adoption of information and communication technologies, guiding enterprises to adopt the highest quality productivity standards in the global market. Specialised consultancy and support services are provided under COMPITE. It is intended to establish productivity and technology link centres specialised in specific industrial activities, to help smaller enterprises to optimise their production processes. Such centres, having a sectoral mission, have the mission to be a technology supplier to SMEs which are part of domestic production chains.

The organisation of technology forums at national, regional, and local government levels is encouraged to promote an exchange between industry and higher education institutions, and at the same time encourage linkages between enterprises and academic and research institutions. In this way, SMEs should enjoy easier access to new technologies. The industrial expansion network will be supported by higher education institutions, research centres, and specialised organisations, in such a way that appropriate technological solutions are provided to SME needs in each region and sector. The Ministry of Economy applies a Programme of *Specialised Technical Advisors*, and these advisors will be part of the technology expansion network. The Ministry of Economy and the National Council for Science and Technology (CONACYT) created the *Sector Fund for Science and Technology for Economic Development* to finance innovation and development projects that offer technology solutions and technology transfer to enterprises, in particular to smaller firms. The CONACYT Web site includes information on successful beneficiaries.

Encouraging technology transfer between large enterprises and SMEs through the sub-contracting process is another priority, and support systems will be established for smaller enterprises that are suppliers for large enterprises, in the hope that SMEs acquire the relevant technologies.

The Sector Fund of Science and Technology for Economic Development fosters the adoption of new technologies, provides technical assistance, financing and capital contributions for the development and consolidation of technological projects. In 2004, the Fund approved supports for 62 projects amounting to a total of MXN 125.1 million, in contrast with to 65 projects supported in 2003 representing a total of MXN 202.5 million.

Regional and sectoral economic integration

The strengthening of production linkages is encouraged so that they might serve as triggers of regional development. This is expected to be accomplished by fostering enterprise association schemes, generating dedicated suppliers for trade and industry, and attracting manufacturing investment into regions and sectors. In support of these objectives of regional and sectoral integration, an SME Fund was launched. Regional and sectoral impact production projects are presented by entrepreneurs, productive organisations, local governments and other support service agents. Inter-enterprise strategic alliances are encouraged. An important part of this action line is the adoption of association schemes that promote manufacturing cooperation and complementarity and that respect existing competitive conditions between enterprises.

The *Supplier Development Programme* results from a collaboration agreement between government, banks and institutions aimed at: i) integrating SMEs into the productive, commercial and/or services chains of large business established in Mexico; ii) promoting contacts between large businesses and potential SME suppliers; and iii) linking qualified suppliers with development and commercial banks to meet their financing needs. Business interviews between SMEs and large enterprises are facilitated so that enterprises may have access to management counselling, financing and human resources development. In the supplier programme scheme, technical advice is provided by the purchasing party during the manufacturing process of samples, prototypes, pilot batches, etc. The programme's success depends on the interest of large enterprises in developing new suppliers and on how well the various SME programmes (public and private) are developed and integrated. The programme *Marcha Hacia el Sur*, launched in 2001 by the Ministry of Economy, aims to establish investment projects that generate permanent quality jobs so as to contribute to the development of specific regions. The programme identifies and promotes high impact investment projects, which receive support for labour force training, and for refurbishment and equipment of industrial infrastructure, according to the number of jobs generated.

The Ministry of Economy promotes the creation and consolidation of horizontal models of regional and sectoral articulation through inter-enterprise alliances with the aim to improve their competitiveness.

Export promotion

The government promotes exports by providing technical assistance, training and specialised consultancy services to SMEs in order to strengthen their production capability, support the design of export projects and increase opportunities to gain access to complementary guarantee funds that in turn make it easier to obtain financing. State

Centres to Promote Exports (PYMEXPORTA) have been set up, using standardised service and support procedures in order to:

- Increase firm productivity.
- Increase product competitiveness and adapt it to the market.
- Adhere to international provisions and standards.
- Provide information about promotion and distribution channels.

The Programme to Consolidate and Promote Exporting Goods, provides, *inter alia*, easy access to information on foreign trade. Extensive information on foreign trade is made available through the *Standards for Guidance for Exporters* and the Centres for Export Development.

The *International Event Programme* promotes SME exports by financially assisting their participation in international export-related events, fairs, exhibitions, export missions, Mexican product shows, etc. Enterprises are obliged to undergo a training process to qualify for assistance. Although no specific policy impact has been evaluated, annual results are analysed and fed back into the programme which is adjusted as appropriate. The Ministry of Economy also supports the development of infrastructure for the distribution and marketing of Mexican products in areas of high consumption potential. SMEs are assisted in taking advantage of niche markets.

The *Export Guidance National System* (SNOE) operates through guidance exporter modules (MOEs) implanted throughout Mexico in the offices of the Ministry of Economy, State Government, business associations and educational institutions, providing free guidance and customised advice, information and assistance for the selection of products having export potential and helping to determine the exporter potential of enterprises.

The Joint Commission for Export Promotion (COMPEX) is a programme involving public and private sector participation, that seeks to analyse, evaluate, propose and agree on issues relating to the export of goods and services. The programme promotes export policies in the face of increasing market globalisation. The programme also aims to reduce administrative barriers faced by exporting SMEs. The programme evolved from one which merely granted assistance (for dealing with export procedures) to its present form as a joint collaboration programme between public (local and federal levels) and private sectors (national enterprise organisations and chambers) having the broad aim of coordinating and agreeing on export promotion issues and alleviating administrative and technical burdens. Regulatory reforms can result from this process. The Unit of International Trade Practices (UPCI) will strengthen its actions to fight artificial market barriers to Mexican export products, and will also combat unfair trade practices by means of impartial, transparent and timely processes within the terms stated in the corresponding standards.

Netherlands

SMEs in the economy

In 2003 there were 768 000 companies in the Netherlands, over 99% of them SMEs while large firms accounted for only 0.8% of the total. The SME share in total business turnover was 50% in that year and their share in employment, 60%. Start-ups which peaked in 2000 at 55 000 and dropped to 44 000 in 2003, contributed around 7.5% to employment levels. About 6% of start-ups were engaged in exporting, compared to 13% of established businesses.

Framework

In December 2003 the memorandum *Action for Entrepreneurs* was sent to Parliament by the Minister for Foreign Trade. The memorandum addressed the state of entrepreneurship in the Netherlands compared with neighbouring countries and summarised 43 policy actions for stimulating enterprise to be implemented in the following few years. This memorandum constitutes the government's agenda for enterprise policy, comprising action plans for start-ups, growth, business transfers and business closure.

To monitor the effectiveness of this entrepreneurship policy the following indicators are used by the Dutch Government:

- *General indicator 1: Total Entrepreneurial Activity (TEA) index.* This indicator, published annually in the *Global Entrepreneurship Monitor*, shows the quantitative increase in the overall number of entrepreneurs (start-up companies) within the previous 42 months, those currently considering doing so, as well as the value ascribed to enterprise by society. In the Netherlands the TEA index decreased from 6.4% in 2001 to 4.6% in 2002 while a government goal is for the Netherlands to rank among the EU's top five countries by 2010.
- *General indicator 2: Number of entrepreneurs as percentage of the working population.* This is considered by the Dutch government to be a good indicator of the business climate in which enterprises are operating. Currently, within the EU, with 10% of the total working population classified as being an entrepreneur, the Netherlands is ranked in second place, but this high ranking is attributed more to a low exit rate than to a high inflow of new entrepreneurs.
- *Specific indicators to monitor the different action lines of the policy memorandum Action for Entrepreneurs.*

Enterprise and risk-taking are considered by the government to be insufficiently embedded in Dutch culture, too few individuals choosing self-employment as a career choice. Through its enterprise policy, the government aims to boost entrepreneur numbers and improve their calibre with the expectation of higher numbers of entrepreneurs deciding to grow their businesses. Start-ups are considered crucial for the Dutch economy

as innovating start-ups which develop new products and services tend to have the effect of encouraging established entrepreneurs to innovate also.

The regulatory business environment

Better regulation/reducing administrative burdens and administrative costs

In recent years, significant progress has been made in the area of better regulation in the Netherlands, especially with regard to the reduction of administrative burdens which are a costly barrier affecting SMEs most of all. The government presented comprehensive plans to Parliament in the second quarter of 2004 to reduce administrative burdens by 25% by 2007. These plans covering a wide range of regulations affecting business, and concerning all sectors of government, will involve the abolition of certain unnecessary regulations and streamlining and tightening of others. Of the target 25%, current proposals amount to a reduction of 18%, so additional areas for reduction are currently being explored. Special attention is being given to inter-ministerial cooperation projects, such as the creation of an inter-ministerial task-force for the reduction of administrative burdens arising from permit applications, and the improvement of efficiency through ICT use.

Part of the assessment procedure of the proposed legislation is a business impact assessment designed to identify the effects that the proposed government legislation will have on the business community. Other aspects which are addressed in the assessment procedure are the environmental effects and the effects on practicability and enforceability. The process for conducting these assessments is embedded in an instruction manual for legislators.

The regulation assessment procedure consists of two phases; the ministry responsible for the legislative proposal, carrying out the test in each phase. Tests are validated by the *Proposed Legislation Desk*, operated jointly by the Ministry of Economic Affairs, the Ministry of the Environment and the Ministry of Justice. The first phase, *Quick Scan*, concentrates on the validation of the choice of instrument, and whether the impact will be significant for the business community, the environment, its implementation and enforceability. In the second phase, a number of assessments are conducted. If the proposed legislation is found to have a potential impact on administrative burdens, it must also be submitted to *Actal*, the independent advisory council whose role it is to examine administrative burdens.

Reducing administrative costs

The Dutch government is seeking to reduce administrative costs in order to accelerate the time and reduce the costs involved in starting an enterprise. For this reason, a number of government institutions now combine their services in *one stop shops*, deemed to be responsible for a considerable reduction in administrative costs. The first version of the *national digital one stop shop* has been operational since end 2003, providing information from Chambers of Commerce and the Inland Revenue. Municipal authorities and other organisations are expected to also take part in the one stop shop and further expansion in the services offered are planned. At least 65% of government services for entrepreneurs are expected to be delivered electronically by 2007, available via the virtual *Business Desk*.

Development of an entrepreneurial society and culture

Education for entrepreneurship

An important action of the Dutch Government for creating a more entrepreneurial culture is through stimulating entrepreneurship via the educational system. A subsidy scheme enabled the development of more than 130 projects, during the period 2000-03, spanning all educational levels from primary school to university, its aim being to diffuse widely new “good practices” as well as existing programmes (such as *Young Enterprise Europe*). In support of its goals, several action lines, their emphasis mainly on vocational and higher education, were defined in a joint Action Programme of the Ministry of Education and the Ministry of Economic Affairs, and sent to Parliament in July 2004. They include, for the period 2004-07, the following:

- *Organisation of regional road shows*: These road shows are designed to present various good practices to school management, teachers and students, thereby encouraging enthusiasm for entrepreneurship and demonstrating how to implement programmes. In addition, regional networking between schools and business is encouraged.
- *From targets to performance contracts*: In order to accomplish the diffusion of “good practices”, various institutional policy actions towards schools, teachers and students are required. Recently, the Dutch government shifted its guiding philosophy with respect to vocational and higher education. Henceforth, certain national targets, ambitions and indicators are formulated with regard to entrepreneurship. Schools are free to indicate via performance contracts their targets (together with their regional network) and how they intend to reach them. Through annual monitoring, schools can compare their performance with that of others.
- *School as incubator/knowledge centre for entrepreneurship/start-ups*: Starting in 2006, the government will finance the establishment of incubators for schools in the vocational education sector. The incubators will provide information about entrepreneurship and starting a business, in close cooperation with, *inter alia*, chambers of commerce. In higher education the incubators will be more focused on supporting high-tech start-ups.
- *Inclusion of entrepreneurial skills in qualification structure and curricula*: Entrepreneurial skills will be included in new qualification structures for vocational education and also in teaching training. Entrepreneurship for teachers will be stimulated through apprenticeships in enterprises and through training. In higher education, the inclusion of entrepreneurship in the curriculum will not be mandatory, but instead stimulated through the performance contracts.

Policies and programmes for fostering women’s entrepreneurship

Approximately, 30% of Dutch entrepreneurs are women, the second highest percentage share in the EU. Dutch policy is geared to further enhancing this share and extending its scope to other economic sectors. Concrete measures during 2004 include the organisation of a trade mission to the UK for women entrepreneurs, the organisation of seminars, and a prize for the best women entrepreneur of the year.

Access to international markets

Because of a lack of knowledge, time and uncertainty, a large part of the export potential of SMEs is not exploited. In addition, there are those SMEs which are already active internationally, but which lack an effective strategy for internationalising their

activities. To address these issues, the Dutch government implements a number of programmes and measures:

- *Campaign for international trade*: This campaign consists of several media-activities (radio advertisements, direct mail marketing) and specific products for entrepreneurs who are starting to export (e.g. an export toolkit developed with chambers of commerce as well as advice provided free of charge by them). The campaign has also been associated with trade missions to the new EU member states.
- *Patent application for SMEs*: Protection of research and development results via patents is important for innovative SMEs, and especially for internationally active SMEs for whom protection of their innovative products is crucial for commercial success. However, patent applications, patent submission taxes and translation costs may be prohibitive for SMEs. For these reasons, the Ministry of Economic Affairs has extended the existing programme for exporting SMEs (*Programma export Starters op Buitenlandse markten*) offering the possibility to obtain a subsidy to assist with patent costs.
- *Programme on technical assistance in emerging markets (TAOM)*: The new TAOM-programme is available only to SMEs, its aim being to contribute to sustainable SME presence and development in emerging markets. The programme supports activities on knowledge transfer, management support and education.
- *Tariff suspensions for SMEs*: Temporary tariff suspensions (temporary lifting of import duties) and tariff quotas, totalling more than EUR 20 000 each year, allow the duty-free import of goods which cannot be supplied from within the EU (or cannot be supplied in sufficient quantities in the case of the tariff quota). The system is geared towards the processing industry within the European Union. Requests for tariff suspensions or tariff quotas are handled by the Ministry of Economic Affairs.

E-business

The use of e-business concepts by SMEs

In 2002 the Ministry of Economic Affairs launched the programme *The Netherlands Goes Digital* for stimulating ICT and Internet use by SMEs. Syntens, the agency administering the programme, offers companies the opportunity to participate in workshops and to obtain assistance from ICT advisors. Web sites and brochures are made available, providing information on benefits of the ICT use. The programme evaluation, conducted in 2003, showed that in the space of two years all goals for the 4-year programme had already been met, two-thirds of Dutch SMEs having Internet access and engaging in electronic commerce through the Internet (mostly bank transactions). So, with a view to refocusing the programme for the remaining period, consultations were held in June 2004 with entrepreneurs, academics, business associations and experts about future e-business concepts and developments. For its remaining lifetime, the programme will concentrate on subjects such as tracking and tracing, internationalisation and customer management. In addition, the programme will address those business problems encountered by entrepreneurs where ICT can offer solutions, and will also assist entrepreneurs with the implementation of e-business concepts. Syntens activities will be more customised to the individual enterprise and new instruments will be developed to correspond with the refocused programme.

Security on the Internet in the Netherlands

In July 2001 the Dutch Government published the “*Vulnerability of Internet*” policy paper (KWINT-nota), defining three roles for government in relation to the general public and SMEs: raising awareness, providing information and developing and stimulating measures for the safe use of the Internet. This has resulted in the following initiatives:

- “*Surf op Safe*” awareness campaign on Internet security: The campaign *Surf op Safe* is an awareness raising campaign aimed at the general public and SMEs, and concerning safer use of the Internet. It is a Dutch government project, but operates on the basis of a public-private partnership reaching a wide range of participants as well as various specific groups.
- National alerting service for viruses and computer security related incidents: The National Alerting Service, attached to the government’s Computer Emergency Response Team GOVCERT.NL, provides up to date information to the general public and SMEs, in the Dutch language, on the latest critical vulnerabilities and viruses. The service operates through a Web site, e-mail and SMS-text messaging, depending on how critical the problem is perceived to be.
- The public private “*Vulnerability of Internet*” programme (KWINT programme): This public-private programme was started in January 2002. Experts on network and information security from public and private sectors meet in working groups with representatives of target groups, and work together on measures to minimise risk associated with Internet use.

Subsidy for Electronic Communication (SEC)

The Subsidy for Electronic Communication (SEC) awards subsidies to projects that aim to develop innovative services via emerging electronic communication networks, thereby increasing the use of new networks. Cooperation among enterprises, including at least one SME, is required. At least EUR 1.4 million is granted annually, allowing approximately 17 projects to start.

The Holland Broadband Land Foundation Information

The purpose of this foundation, consisting of the main interested ICT-companies and sectoral organisations, is to increase transparency, to identify future directions, and to reduce risks in investment decisions. Efficient and effective dissemination of learning experience and other knowledge to market parties and government agencies will promote dynamism in the broadband market. A special focus is given to the information needs of SMEs.

Subsidy for service development: Kenniswijk

In 2004 and 2005 the subsidy for the development of innovative services will be nationally available, to all companies and non-profit establishments that initiate projects contributing to the creation of a consumer market of the future. In 2004, EUR 3 million was made available and EUR 3.5 million in 2005.

Access to finance

Small loans

A growing number of indications have been forthcoming concerning the decreasing availability to SMEs of small loans (under EUR 100 000-150 000). According to the findings of a study conducted on behalf of the Ministry of Economic Affairs, published in

September 2004, the problem is a serious one and the following suggestions were made for tackling it:

- The government SME guarantee scheme should be adapted to fit with the internal banking systems which are currently changing (partly as a result of Basel II) to more automated approvals of loan requests for small loans.
- The guarantee percentage for small loans (now two-thirds of loans up to a ceiling of EUR 100 000) should be raised.
- SME awareness concerning finance should be raised.

In 2003 the above-mentioned guarantee scheme was already modified in order to better accommodate small loans, in particular with regard to soft security.

Business Angels

The importance of Business Angels and other informal investors as a source of risk capital for SMEs is increasing as banks and venture capital are retreating from this segment of the market. The Ministry of Economic Affairs has announced the future launch of a measure, together with organisations active in this area, to promote business angels.

Innovation and technology

Inspired by the *Innovation Platform*, established in late 2003 comprising 20 representatives of business enterprise, science and government, under the leadership of the Prime Minister, much policy attention has been directed to the stimulation of SME innovativeness, in addition to the current knowledge transfer policy (e.g. through Syntens), instituted by government for the promotion of innovation in Dutch SMEs. To date this has resulted in the introduction of a new scheme for Innovation Vouchers for SMEs to be spent on public research, whether basic or applied. Furthermore, specific attention has been given to more intensive involvement by new and established SMEs to form Public Private Partnerships-R&D-schemes (e.g. by engaging higher professional education institutions and by extending research programmes to research and development programmes). A government study has been commissioned with regard to the possible introduction of a Small Business Innovation and Research Programme in the Netherlands, on the basis of the United States model. And further, new policy attention is also being given to new regional impulses for innovation policy. As far as the generation of new SMEs is concerned, in 2005 a new programme will be introduced to stimulate research spin off companies in all sectors, after review of various initiatives in the ICT and biotechnology sectors. This scheme also includes incentives for an active Intellectual Property Rights policy by public research. Last but not least, the Innovation Platform has recently advised on the necessary measures to dynamise the professional education chain, which will be in the interest of SMEs.

Skills acquisition and development

The programme *Profijt van MensenKennis* of the Syntens organisation is a programme which assists the entrepreneur to have his human resource management (HRM) policy professionalised. The aim is to raise the awareness of entrepreneurs of the importance of the human factor for growth and stability of his enterprise. The programme consists of a combination of group and individual awareness activities (training on the job, specialised meetings and personal advice for managers). Furthermore, clustering between enterprises is stimulated in order to encourage joint innovation activities between enterprises.

New Zealand

SMEs in the economy

Small and medium sized enterprises (SMEs) are a key source of flexibility and innovation and make a significant contribution to the economy of New Zealand in terms of employment, output and growth. There is no official definition of an SME in New Zealand. However, from a policy perspective, they are considered to be firms having the following characteristics: they involve personal ownership and management; they have few, if any specialist managerial staff; and they are not part of a larger business enterprise. As these characteristics are typically exhibited by businesses with fewer than 20 employees, New Zealand policymakers, academics, and business organisations usually define SMEs as enterprises employing 19 or fewer full-time equivalent employees.

In 2003 there were approximately 295 000 public and private sector enterprises in New Zealand;* 99% of these were private sector businesses. SMEs constitute the vast majority of all enterprises. Firms with fewer than 50 full time equivalent staff constitute 99% of New Zealand enterprises, account for 54% of total employment, and contribute 49.2% of total output in the economy. Firms with fewer than 10 full time equivalent staff constitute 92.5% of enterprises, account for 31.5% of total employment, and contribute 28.6% of total output. Firms with 5 or fewer employees make up 86% of enterprises, and contribute 21% of total output. Within the manufacturing sector, 91% of firms have fewer than 20 full time equivalent staff.

The number of SMEs increased by 4.9% between 2002 and 2003, following an increase of 2.7% between 2001 and 2002. As the increase in the number of SMEs was close to that for enterprises overall, the proportion of firms in the SME sector remained constant at 96.8% between 2002 and 2003.

Framework conditions and general business environment

The New Zealand Government's Growth and Innovation Framework (GIF), released in 2002, is designed to deliver the long-term sustainable growth necessary to improve the quality of life of all New Zealanders. The GIF underpins all economic policies, including those related to SMEs, to remove unnecessary growth impediments and ensure that they are well placed to take growth opportunities as they arise. The GIF consists of the following key areas:

- Continuing to strengthen the foundations of the economy. This includes a focus on providing a stable macroeconomic framework; an open, competitive micro-economy;

* Statistics drawn from Business Demography Statistics, as at February 2003, Statistics New Zealand. Generally defined as enterprises with greater than NZD 30 000 annual GST expenses or sales, or enterprises in a GST-exempt industry. See also Ministry of Economic Development *SME Structure and Dynamic*, Wellington, 2004.

building a modern, cohesive society; maintaining a healthy population; and sound environmental management. For SMEs, there is significant effort being made to reduce the cost burden on businesses and, in particular, finding least cost regulatory and non-regulatory approaches to achieving social, environmental, and economic objectives. Further improvements in the regulatory framework concerning competition and compliance are being made, as well as an increasing focus on issues related to property protection, insolvency law, securities market regulation and insurance law.

- Building effective innovation. This recognises innovation as the principal source of productivity improvement, and therefore, economic growth. This involves the following:
 - ❖ Strengthening the innovation system. The policy framework aims to encourage the generation of new ideas, ensure that these are effectively transferred to those who can add value to them in an environment that encourages entrepreneurial success and facilitates rapid business growth.
 - ❖ Developing, attracting and retaining skilled and talented people who are able to innovate and contribute to increasing overall productivity significantly. The policy framework has a medium-term objective of growing more talent and a shorter-term focus on strengthening industry training and attracting overseas talent to live and work in New Zealand. Supporting these efforts are policies that aim to make the most of the significant network of New Zealanders living overseas.
 - ❖ Increasing international connection. Being internationally connected is important for a small economy like New Zealand. International connection supports and encourages innovation, higher productivity, and economic growth through increasing exports, access to skilled people, capital, ideas and knowledge. The government is focusing on encouraging higher levels of foreign direct investment, improving trade promotion, and promoting a New Zealand brand focused on New Zealand's high levels of innovation.
- Adopting a proactive, partnership approach to working with firms within sectors that support innovation and build on New Zealand's competitive advantage. The government is facilitating public-private engagement with sectors that are capable of having a material impact on growth rates, in which New Zealand has a competitive advantage, and which contribute well to growing an innovative economy. The government works with sectors:
 - ❖ To resolve individual sector-specific issues such as skills or labour shortages, developing new fit-for-purpose regulatory solutions, or the overcoming of trade barriers.
 - ❖ To help develop comprehensive sector strategies and action plans for increased and sustained growth and innovation.
 - ❖ To guide the delivery of government services, for example, New Zealand Trade and Enterprise, the Foundation for Research, Science and Technology, and the Tertiary Education Commission.

The information and communication technology (ICT), biotechnology and creative industries sectors were identified for initial engagement when GIF was first released in 2002. These sectors were singled out because of their high growth potential and because their technologies and services enable significant activity across the economy generally (horizontal enablers of growth). Taskforces made up of private sector experts and business

leaders have since made recommendations to government on what might be required to realise each sector's growth potential and the potential of the respective technologies to boost innovation and economic activity, generally. Sector engagement will continue to be a key feature of industry policy in the future including further engagement with "vertical sectors" such as wood processing, niche manufacturing, food and beverages, and the horizontal enablers (e.g. ICT, biotechnology, design and screen production).

Strengthening infrastructure which includes transport (roads, rail, ports and airports), electricity, gas, telecommunications, and water infrastructure. The government's efforts are aimed at ensuring that businesses and consumers are confident that the infrastructure services they need now and in the future will be available at reasonable cost. This will enhance the role of infrastructure in promoting and supporting sustainable development.

The Ministry of Economic Development, in conjunction with the Treasury, the Ministry of Research, Science and Technology, and the Ministry of Foreign Affairs and Trade, is responsible for co-ordinating and monitoring the implementation of GIF. This is supported by a range of economic development agencies, including New Zealand Trade and Enterprise and the Foundation for Research, Science and Technology.

SME policies and programmes

The Ministry of Economic Development has the primary responsibility for providing policy advice on SME related issues with other departments responsible for policy in their particular areas of expertise (such as the Ministry of Research, Science and Technology in technology assistance). New Zealand Trade and Enterprise (NZTE) was established on 1 July 2003. It was formed from the integration of two existing crown entities: Trade New Zealand and Industry New Zealand. NZTE is a key element of the Growth and Innovation Framework (GIF) in terms of delivering, coordinating and aligning the delivery of services designed to implement GIF policy. NZTE's objective – to support the development of internationally competitive New Zealand business – derives from GIF's focus on internationalisation and the overarching objective to increase the long-term rate of sustainable economic growth. The main aim of the integration was to improve service delivery to enterprises, by making services less fragmented and aligning economic development programmes.

NZTE's focus is on the final outcome of improved international competitiveness and sustainable profitability of New Zealand businesses by serving as a one-stop entry point for a wide range of services for businesses across the spectrum including:

- Services for businesses starting-up and at an early stage of development.
- Services for businesses seeking to grow and internationalise.
- Investment services: NZTE has a specialised service for investors, providing New Zealand business with information as well as extensive networks for investors seeking existing and start-up New Zealand-based ventures with excellent future potential.
- Business Partnerships: Supporting companies working together in enterprise networks and regional and national clusters to achieve higher growth.
- Regional Development: Working with and funding regions to grow by encouraging them to focus on their regional advantages.
- Industry Capability Network: Providing access to government purchasing through a low cost, one port-of-call service.

- Fostering an Enterprise Culture: encouraging New Zealanders to have a positive attitude towards business success.

The regulatory business environment

Ensuring that regulation achieves its objectives while minimising as much as possible the costs for business and reducing current unnecessary costs on business remains a priority for the New Zealand Government. The government believes that it is also important to educate business and build capability on how to effectively manage compliance obligations. In order to achieve these objectives the government has undertaken a number of initiatives to educate and reduce costs for businesses, particularly SMEs. Some of the key initiatives that have been completed, begun or progressed in 2003/2004 include:

- A Ministerial Panel on Business Compliance Costs was appointed in December 2000 and reported back to government in July 2001, with 162 recommendations to reduce compliance costs for business. In July 2003, the Minister for Small Business announced that more than 80% of those 131 proposals agreed by the government in December 2001 have been implemented or are underway. The initiatives and projects undertaken in response to the panel's recommendations range across numerous government agencies and many pieces of legislation, such as employment relations, health and safety, accident insurance, local government and government statistics. The progress being made by departments in implementing the recommendations is being monitored.
- The Tax Simplification Programme is an ongoing programme to make tax compliance easier for SMEs, which is clearly having real impact according to the Business Compliance Costs Perceptions Survey of Massey University's New Zealand Centre for SME Research, released in August 2003. There is a Bill currently before the Finance and Expenditure Select Committee with some initial proposals. Other more complex issues currently being worked on by government officials are to be included in a Bill to be tabled late 2004.
- A dedicated SME Directorate has been established within the Ministry of Economic Development for the purposes of better understanding small business and to foster better delivery of government services to that sector.
- In October 2003, the government established the Small Business Advisory Group, consisting of nine members drawn from the business community with experience running an SME or having worked with SMEs. The Advisory Group provides a business sector view on the development of policy related to SMEs and advises the Ministerial Group on Small Business on any issues affecting SMEs, including compliance costs.
- The one-stop business portal (www.biz.org.nz) was launched in July 2003. The portal provides business with one-stop Web based information from a number of government agencies including Inland Revenue Department, Accident Compensation Corporation and the Department of Labour, and assists SMEs to find their way through compliance requirements more easily and provides useful information on good business practices.
- The Small Business Day Series: A national summit was held in Wellington on 13 February 2004, followed by 23 regional summits between 1 March and 13 May 2004. The series was designed to celebrate the importance of small business to New Zealand and to foster a closer working relationship between SMEs and government on a range of issues, including the compliance burden of regulation. The Small Business Advisory

Group provided a report to the government on the barriers to SME growth in New Zealand, based on feedback and comments received during the series. A copy of the report can be found on www.med.govt.nz.

- The Good Regulation Project: The Department of Labour is currently leading an inter-departmental project, with involvement from the Ministry of Economic Development, that will examine how SMEs and regulators interact. The aim is to develop an understanding of how to improve those interactions so that costs are minimised and the purpose of regulations is achieved.
- Strengthening and review of the Regulatory Impact Statement (RIS) and Business Compliance Cost Statement regime: Since the introduction of the regime in 1998, the government has continued to strengthen and refine the regulatory impact analysis process in order to improve transparency and encourage more robust regulatory decision-making. In particular, the government has introduced a requirement that departments attach a Business Compliance Cost Statement to all Cabinet papers seeking regulatory decisions with compliance cost implications for businesses, and that these statements be formally reviewed for adequacy of disclosure. The RIS regime was reviewed in 2001 and a further review is due to be undertaken in late 2004. There are a number of further changes to the regime being discussed by Ministers, including altering the mandate for formal review, all of which will serve to improve the robustness of regulatory impact analysis in New Zealand.
- Work on benchmarking New Zealand's regulatory regime: A project is currently underway which is aiming at developing better measures/indicators of on-going performance in compliance costs reduction and ensuring that New Zealand is at the leading edge of world-best practice.
- Initial development of a Regulatory Portal: The Ministry of Economic Development is currently in the initial stages of developing a Regulatory Portal for the use of the wider public service. There is currently a wealth of institutional knowledge, a variety of tools and considerable guidance material available on regulatory policy and decision-making overseas and within some New Zealand government agencies. However, this information is scattered across different organisations and countries, is often piecemeal, contains gaps, and is inaccessible to most policy-makers. This has meant that there is often insufficient, accessible, in-depth guidance for analysts in New Zealand on best practice approaches to regulatory practice and policy development. The Portal will be a single source of access by pulling together all the relevant information and guidance as a coherent and user-friendly toolkit for policy-makers. It is intended to be easily accessible and widely-used by those involved in the development of policy. It is hoped that work on alternatives to regulation, consultation and identification of the costs to business within the Portal, will encourage more innovative approaches to issues which will facilitate business growth and minimise costs.

Access to infrastructure – the local dimension

Efficient and reliable infrastructure services raise productivity by reducing the costs of production, increasing the attractiveness of New Zealand as a location for investment, and facilitating the flow of ideas, goods and services, and people. New Zealand's geography, together with its small and dispersed population, makes reliable provision of infrastructure services difficult and costly. Even a small risk of supply disruption adds

substantially to the uncertainty that firms face. The government recently undertook New Zealand's first *Infrastructure Stocktake*, in response to concerns raised about the quality of New Zealand's current stock of infrastructure. This was completed in May 2004, and the key message from the Stocktake was that New Zealand's infrastructure is in reasonable shape. A number of national and local infrastructure concerns were highlighted. No new issues that might pose a serious barrier to growth and sustainable development were identified. The main concerns identified in the Stocktake include:

- Electricity security of supply.
- Lack of investment in electricity transmission.
- Road congestion in some areas, especially Auckland.
- Water allocation issues.
- Poor drinking water quality in some areas.

These concerns are already subject to existing government work programmes.

Rapid technological change has led the government to develop an integrated framework that provides direction and context for all Information Communication Technologies (ICT)-related government policy for the medium term. While New Zealand's performance is strong in a number of ICT areas (including high uptake of ICT, good international reputation in creative digital content, access to advanced technology, an open, transparent regulatory environment, and world-leading e-government services), many SMEs are not globally connected. New Zealand's Digital Strategy is designed to address this and other weaknesses, as well as setting out New Zealand's vision of becoming a world leader at using ICT to realise its economic, social and cultural goals.

Infrastructure is a major part of New Zealand's growth strategy and the government is prepared to commit funds to address current and future infrastructure needs. The government has increased its commitment to infrastructure investment from an average of NZD 800 million per annum (over the period 1994 to 2000) to NZD 1.1 billion per annum over the 2001 to 2008 period. In particular, government funding for land transport has been doubled for the next ten years to NZD 18.7 billion – the most significant transport package in decades. This commitment moves New Zealand one step closer to achieving its goal of providing world-class infrastructure, and in doing so, facilitate growth and sustainable development.

Development of an entrepreneurial society and culture

In January 2002 NZTE implemented the *Promotion of an Enterprise and Business Culture* programme to foster attitudes and values which are positive towards business activity and business success, in order to provide a supportive social and cultural climate for entrepreneurs. This programme promotes the following:

- A culture in education where business is seen as a positive contributor to society and a worthwhile career aspiration for students.
- Students developing enterprising attitudes and behaviours and business-relevant skills.
- A climate which recognises and reinforces business success among existing and potential business.

- A social culture which positively supports entrepreneurial activity and business success at a range of levels, in primary, secondary and tertiary education, in the business sector and the wider community.

This programme consists of the following components:

- Research into New Zealanders' attitudes, which informs the other components of the programme, and in conjunction with evaluation of the programme, inform changes to the programme and its spread of activities.
- Development of core values under the heading Brand New Zealand.
- A communications campaign, which involves clear positive messages about the importance of entrepreneurship, business success, exporting and the value of internationalisation, which is targeted at current attitudes and based on solid research, and is communicated to several audiences through a number of activities and channels. The campaign includes:
 - ❖ Production and airing of television programmes which demonstrate and celebrate creativity, innovation and entrepreneurship.
 - ❖ Support for industry sector awards.
 - ❖ A general communications programme to celebrate and recognise business success, to profile inspirational role models, to increase the number of media articles.
 - ❖ Development and roll-out of an innovation event and expo, to showcase New Zealand's creativity and innovativeness, provide the opportunity for economic leverage, generating sales and highlighting the potential career opportunities beyond the traditional view.
 - ❖ Develop and support advertising that celebrates business success, and promotes *Brand New Zealand* domestically.
- An Enterprise Culture Skills and Activities Fund (ECSA) which selects and funds enterprising activities in schools and new businesses. Activities are to develop an enterprise culture in education and to develop enterprising skills and attitudes in students and businesses. Preference is to be given to activities which: promote positive "can do" attitudes and "enterprising" behaviour among students; are linked to curriculum outcomes; attract support from teachers and other stakeholders; and apply different approaches to delivery.

NZTE is participating in the Ministry of Education's review of the school curriculum. It is developing an enterprise education resource programme that includes the study of entrepreneurship, innovation, production, promotion and distribution of goods and services, and wealth creation, for the existing Technology and Social Sciences curriculum for primary and secondary schools. Delivery of the resource will be interactive and innovative. Trial implementation is planned for Term One in 2005, with full roll-out in Term Three of 2005.

The impact of NZTE's entire *Promotion of an Enterprise and Business Culture* programme will be evaluated in mid-2006.

The Growth and Innovation Advisory Board is a private sector Ministerial advisory group appointed by the government in May 2002 to provide an independent perspective on growth and innovation issues. The Board recently completed research into growth culture, that is, research into how New Zealanders think and feel about economic growth, and how

to help them see how economic growth is relevant to them. This research is a first step toward developing a picture of how New Zealanders view growth, how they are already contributing to it, and what scope there is to create greater value from this.

The Ministry of Economic Development will be undertaking further research to develop a better understanding of entrepreneurial culture in New Zealand and the role of government, including: linkages between culture and economic performance; New Zealand's relative position in terms of its cultural norms; and the process by which culture evolves over time.

Policies and programmes for fostering women's entrepreneurship

Data from both the census and the Household Labour Force Survey show that females make up a relatively small proportion of the total number of employers and self-employed. However, the discrepancy between male and female participation in these types of employment is significantly smaller now than it once was. Between the 1966 and 2001 censuses, the proportion of employers and self-employed made up by women has more than doubled. Women have gone from comprising 9.9% of total employers to 29.8%, and have moved from 11.2 per cent of the self-employed to 31.1%. In 2001, 1 in 7 women in New Zealand were self-employed, compared to 1 in 4 men. The majority of self-employed women are aged 35-55 years and work in the Auckland region. Self-employed women earn less than their male counterparts, with only 17% earning over NZD 50 000. Reasons for self-employed women having lower average incomes include the large number that have no qualifications, and a greater proportion of women working part time, operating smaller enterprises and being concentrated in a narrower range of occupations.

Women are a target group for NZTE, but few services are available that are specifically targeted at women. Examples of the targeted services include the Wellington Women's Loan Fund, the WISE Women Network Trust, The Angel Fund and funding and services through the Maori Women's Development Incorporation.

The key areas of work underway that will impact on women's entrepreneurship are:

- The 2004 Action Plan for New Zealand Women, which includes developing initiatives to enhance sustainable business growth among businesses owned and operated by women. This includes the Women in Enterprise project which aims to gain a better understanding of the characteristics, motivations and barriers to women in SMEs and a study of Maori women and collectively-owned Maori assets.
- A project to improve management and business capability that will include issues around diversity.
- Ensuring that the evaluation framework for NZTE's foundation and growth service includes gender-based assessment against outcomes and service effectiveness.
- Developing ways to increase the uptake of NZTE's Enterprise Development Grant by women business owners and operators.
- A study led by the Ministry of Women's Affairs on the Economic Well-Being of Pacific Women in New Zealand.

Access to international markets

At a macro level, a successful conclusion to the Doha Round of global trade negotiations is New Zealand's top trade priority. Closer economic partnerships with key

trading partners can also open up important new opportunities for New Zealand companies and in a shorter timeframe than through the WTO. In addition, New Zealand actively explores regional opportunities for trade and economic cooperation, including under APEC. The New Zealand Ministry of Foreign Affairs and Trade (MFAT) is the principal agency responsible for New Zealand's trade policy and international negotiations. Close engagement and alignment of the priorities of the Ministry of Economic Development, NZTE, and MFAT, and consultation with New Zealand businesses, ensures New Zealand businesses maximise the economic benefits from trade negotiations and relationships.

At the SME level, New Zealand's small domestic market means that businesses – of which a high proportion are very small firms – must often begin engaging with international markets when they are smaller and at an earlier stage of development than equivalent businesses in larger countries. This raises a number of key issues and challenges including limited information on other markets, clients and technology developments; the high fixed costs of internationalising; a lack of international awareness of New Zealand's capability and brands, products and services; and a lack of commitment to international market development in periods of high domestic demand. The requirement to build scale quickly presents significant challenges also in accessing finance and skilled and experienced people.

In this context, support for SMEs – primarily through NZTE – tends to focus on business training, technology assistance, information dissemination, and facilitating the formation of networks and clusters. NZTE is committed to improving the international competitiveness and sustained profitability of New Zealand businesses. The agency seeks to develop internationally-oriented businesses by encouraging more New Zealand firms to think global and to help them engage in international markets for the first time, or improve their engagement through deeper and broader international relationships. To achieve this NZTE currently provides a wide range of services to businesses, including:

- Training and business capability building, including the enterprise training programme.
- Generic, online information about other markets.
- Customised research, market intelligence and advice.
- Online mechanisms for identifying new opportunities, including *MarketNewZealand.com* and *Project Link*.
- Identification of business partners, including through potential partner contacts and information, company checks, and an inward buyer programme.
- Opportunities to visit markets, through a market visit programme, trade missions and events consultancy services.
- A Growth Services Fund which offers support for high growth potential firms to purchase external advice, expertise, and market development services, on a 50:50 co-funding basis.
- An Enterprise Development Fund (described in section on “Skills acquisition and development” below).
- Promoting and facilitating high-quality FDI through the work of Investment New Zealand.

The GIF package in the government's 2004 Budget contained new initiatives to be introduced over the 2004/05. Of particular relevance is a new Market Development Assistance Scheme to encourage integration of more New Zealand firms into global

markets by facilitating the creation, development and broadening of global markets for New Zealand goods, services, intellectual property and know-how.

Improving the enabling environment for SMEs in New Zealand is an ongoing process. Some recent examples of initiatives in this area include:

- TELARC Ltd., an operational arm of the Testing Laboratory Accreditation Council (established by the Testing Laboratory Registration Act 1972), has developed the Q-Base Code to provide a step-by-step approach for SMEs to become ISO 9001 accredited.
- The New Zealand Government will introduce an insolvency law reform bill into Parliament in 2005 which proposed the adoption by New Zealand of UNCITRAL model law on cross-border insolvency. Adoption would help all firms, including SMEs, which are creditors of insolvent companies to achieve fairer and more efficient protection of their interests.
- There have been enhancements to the Customs electronic programme to make it possible to lodge export entries via the Internet. New Zealand Customs Service Web site (www.customs.govt.nz) containing information on Customs legislation and procedures was launched in March 2002.
- The Ministry of Economic Development Web site (www.med.govt.nz) has been upgraded to APEC IPR (Intellectual Property Rights) Service Centre standard and patent information has been made more accessible through the Internet; on-line filing of trade mark applications has been introduced.
- Functionality and coverage of the Intellectual Property Office of New Zealand (IPONZ) Web site (www.iponz.govt.nz) have been expanded since 2002.

E-business

The New Zealand Government recently launched its draft Digital Strategy. The strategy provides an integrated, whole of government framework for existing and future initiatives to encourage the uptake and effective use of ICT across communities, businesses and central and local government. To date, the government has implemented a wide range of ICT-related initiatives, including the roll-out of e-government, promotion of e-commerce to business, ICT strategies for health, education and national heritage collections, community ICT initiatives, and legislative changes in communications and e-transactions. The strategy provides a direction for government policy for the next five years, and will ensure that ICT-related strategies and actions are coordinated and focused on the opportunities and challenges that New Zealand faces.

The strategy recognises that there are a set of necessary outcomes if New Zealanders are to harness ICT for economic and social gain. These six outcomes focus on:

- *Content*: giving New Zealanders seamless and easy access to the information that is important to all aspects of their lives.
- *Confidence and capability*: ensuring all new Zealanders will have the necessary literacy skills to maximise their opportunities using digital means in a secure, reliable and well-regulated environment.
- *Connection*: New Zealand will have an information and communications network infrastructure that provides the level of connection necessary to meet the high demands of the future.

- *Communities*: ICT will be an important tool for realising the social, cultural and economic ambitions of our communities and citizens.
- *Businesses*: New Zealand businesses in all sectors will have the necessary knowledge, management capability and access to content and ICT infrastructure to create innovative products and processes and increase productivity. One objective of the Strategy will be to reduce the compliance costs of SMEs in transacting with government. For example, tax payments and calculations, and statistical returns will be easier and cheaper to complete. This project will include profile-matching between government agencies so that when a business advises one governmental agency of a change in personal details, the records of other agencies will be automatically updated. The Digital Strategy will implement initiatives for SMEs to improve understanding and support action in the private and public sectors to address gaps in management capability in New Zealand. In addition, the Digital Strategy will implement an integrated ICT awareness and capability programme for SMEs to offer educational and capability development in a number of ICT streams such as managing change, infrastructure, business applications, telecommunications, e-business and safety and security.
- *The government*: information, service delivery and government processes will be integrated across agencies to ensure that the New Zealand government is responsive, citizen-centric and cost-effective.

The Digital Strategy and recommended action plans will be implemented over five years commencing from 2005.

Access to finance

Access to equity finance is recognised as an important focus of SME policy in New Zealand. Key initiatives to improve SME access to financing include the following:

Investment Ready: NZTE delivers programmes designed to assist New Zealand SMEs gain access to capital. NZTE's enterprise training scheme is available through 16 specialist regional providers who provide basic "investment ready" training as one of their training options to SMEs having little or no understanding of the capital raising process.

A more intensive programme is available called *Escalator* which is aimed at assisting business growth by providing innovative SMEs that need capital to expand, with the skills and assistance to pursue investment strategies. The programme comprises two components:

- *Investment Readiness Training*, which involves providing resources and workshop-based training on obtaining equity/venture capital.
- *Deal Brokering*, which involves assisting firms to assess the commercial potential of their ideas, boosting firms' capital raising expertise, and brokering equity capital raising deals up to NZD 5 million. Deal brokering services are provided by 4 accredited brokers to ensure the managerial and technical expertise of these intermediaries.

While training is provided free of charge, deal brokering services are subsidised up to a cap of NZD 22 000 per client. The services available include assistance with preparation and review of offer documentation, support with valuation and due diligence, recruitment of investors and independent directors, advice on management of intellectual property, and assistance with strategic partner negotiations.

Venture Capital Market: The government has invested NZD 100 million in the Venture Investment Fund (VIF). VIF is designed to accelerate the development of the venture capital market in New Zealand. This money is invested through 5 seed funds on a 1:2 basis with private venture capital funds with minor restrictions on how the money is invested. As an incentive, investors are able to buyout the government VIF share of the fund after 5 years for the invested capital plus the return of 5-year government bonds over the period. If this buy-out option goes unexercised, then the government shares in any losses or returns on money invested.

Growth Services Fund: SMEs that have significant growth potential may be able to access funding to prepare documentation to obtain finance. This funding is also available for a number of other activities and is provided on a 50:50 basis.

Angel Investment: In recent years the angel investment market in New Zealand has been developing rapidly. To support this, the New Zealand government has provided financial support to a number of initiatives in this area.

The Business Law Reform Bill which was enacted in April 2004 contained a number of amendments that will remove compliance costs for SMEs and amendments to the Securities Act 1978 that will make it easier for companies, in particular SMEs, to raise capital. For example, the Bill provides exemptions from the disclosure requirements of the Securities Act for offers made to wealthy and experienced investors and for investments made over a certain threshold, and relaxes the pre-prospectus advertising requirements so that companies can assess the level of public support for proposed issues of securities before incurring the expense of preparing the prescribed disclosure documents.

Innovation and technology

Technology and innovation policy in New Zealand has been driven in recent years by the government's Growth and Innovation Framework. The two primary agencies responsible for administering initiatives aimed at enhancing technical and innovative capacity in firms are the Foundation for Research, Science, and Technology (FRST), which reports to the Ministry of Research, Science, and Technology; and NZTE, which reports to the Ministry of Economic Development. FRST is the primary fund manager for research and development, and NZTE focuses more on business development (from start-ups to internationally successful exporting companies).

A suite of programmes under the Technology New Zealand (TechNZ) banner have been developed by FRST to support businesses to develop and adopt new technologies. There are four general programmes under TechNZ which provide assistance grants for firms:

- *TechLink:* assists companies in establishing their technology needs or developing their technology base.
- *Grants for Private Sector R&D:* supports the technological or technical development of new products, processes and services in SMEs.
- *Technology for Business Growth:* is targeted towards larger projects that move companies towards high added-value, high-margin, technology-based products.
- *Technology for Industry Fellowships:* enables students and experienced researchers to complete R&D projects in companies.

Together with these technology assistance programmes, the government also invests in strategic science and technology R&D programmes to enhance the long-term economic

competitiveness of New Zealand industry. For example, FRST operates a research consortia programme that supports private-public partnerships, between business and government enterprises.

NZTE assists in the development of companies through funding initiatives, many of which are focused on harnessing technology and innovation from SMEs. Initiatives include the Enterprise Development Grants (described in the section on “*Skills acquisition and development*” below) and the Incubator Development Programme which assists business incubators to provide start-up and early stage businesses with mentoring, business support, and practical business advice from incubator manager and experienced entrepreneurs.

Initiatives that build supportive networks for SMEs are another priority for New Zealand. Given the dominance of SMEs in New Zealand, it is particularly important for those businesses to work together to form critical mass, share information about market opportunities, allow technology transfer to develop and maintain networks with overseas partners and markets. NZTE offer several initiatives that support this, including the Cluster Development Programme which encourages, and assists cluster-based initiatives by building capacity and capability for collaboration and improved cluster development.

Skills acquisition and development

Management capability enhancement continues to be one of the primary goals of New Zealand SME assistance. NZTE’s enterprise training programme seeks to provide improved quality training and greater alignment of NZTE’s objective of internationalisation. Utilising 16 specialist training providers based in regions throughout New Zealand, existing general services have been complemented by a range of new initiatives including enterprise training, business mentoring, business incubators and a business clusters programme. Within the enterprise training scheme, specialist assistance is also provided to encourage Maori and Pacific Island business capability.

In addition, the Enterprise Development Fund is available to entrepreneurs, start-ups, existing businesses and groups of businesses funds mainly SMEs. Through the fund, Enterprise Developments Grants are offered to assist entrepreneurs and SMEs gain additional business skills and obtain external expertise and assistance in developing business projects. Funding is available for 50% of total costs to a maximum of NZD 20 000 per annum for businesses and entrepreneurs to engage the services of a business mentor for a period of time and undertake advanced management training. Also through the Fund, qualifying groups of businesses can receive Enterprise Network Grants to assist them build business capability or undertake international market development activity.

Norway

SMEs in the economy

In 2004 SMEs accounted for more than 98% of all firms in Norway. Firms employing up to four employees represented approximately 82% of all firms. In industries such as construction, real estate, wholesale and retail, financial services and primary industries, SMEs accounted for over 99% of businesses – slightly more than the share of SMEs in transportation and communications (98%), hotels and restaurants (98%) and manufacturing (96%). In the oil industry, SMEs accounted for about 89.5% of businesses. In transportation and tourism, firms with fewer than 20 employees accounted for slightly more than 94% of all firms. Overall, SMEs accounted for more than 62% of employment, and about 54% of economic turnover.

Framework conditions

In October 2003, the Norwegian Government launched a plan for a comprehensive innovation policy *From Idea to Value*, aiming at better coordinated and targeted efforts for innovation and generally improving the orchestration of SME policy. The plan is the result of broad cooperation between a number of ministries, and is officially issued by the Minister of Local Government and Regional Development, the Minister of Education and Research, the Minister of Agriculture, the Minister of Petroleum and Energy and the Minister of Trade and Industry.

The plan highlights five main policy areas central to innovation policy, including specific objectives and measures in each area: General conditions for trade and industry; Knowledge and competency; Research, development and commercialisation; Entrepreneurship – starting new businesses; and Electronic and physical Infrastructure. The Plan provides a comprehensive framework for future SME and entrepreneurship policy.

Taxation

The Norwegian tax system is based on the principle of fiscal neutrality between different industries, sources of financing, forms of business organisation etc. Fiscal neutrality is believed to contribute to an effective allocation of resources. The principle of fiscal neutrality implies that regulation should not discriminate between enterprises of different size. Norwegian business policy is less concerned with selective schemes like risk loans, guarantees and grants, than external conditions like tax reductions and reduction of administrative barriers. Therefore, the Norwegian tax system currently has few regulations specially designed for SMEs. In the ongoing efforts to reform the tax system no special tax provisions have been proposed for SMEs.

In 2002, the Norwegian Government introduced a tax credit scheme for R&D expenditures (SkatteFunn) intending to boost innovation and R&D expenses in enterprises.

The scheme offers a tax credit on 20% of annual R&D expenditure up to a maximum of NOK 4 million (approximately EUR 500 000). The limit for joint venture projects was set at NOK 8 million. If the R&D tax credit exceeds the enterprise's tax amount, an additional disbursement is supplied. Initially, the tax credit scheme was limited to small enterprises. As of 2003, the scheme was made universal, but with a tax credit of only 18% for enterprises that do not fulfil the EU definition of SMEs. During the first half of 2003, 2 500 projects benefited from the scheme.

Regulatory framework

In general, Norway has a consolidated and easily accessible stock of laws and subordinated regulations. During recent years, much effort has been put into repealing redundant regulation, and better regulation is considered an important issue.

There has been a continuous strong political focus on better regulation these last few years. The government has pursued a programme that aims to promote modernisation of the public sector. Reducing the burdens on businesses is part of this modernisation programme. In this work the *Simplifying Norway Action Plan* is essential. This Plan was launched in October 2002 and a second version was presented in 2003. A status report was published in 2004.

The *Simplifying Norway Action Plan* contains a list of various measures initiated by ministries and agencies across the government. Results from the first year show that the initiatives, with some exceptions, are making good progress. The Action Plan has a focus on the following main areas: i) an easily accessible regulatory framework; ii) improving the basis for decisions on new regulation (Business Impact Assessment Systems); iii) easing the burden of red tape/reporting obligations; iv) improved regulation on targeted areas.

As of 2004 all enterprises will be able to do all of their reporting electronically. The transition to online reporting is the most important action in order to reduce the burdens related to reporting obligations. All government agencies can receive reports online from industry as from the end of 2004. More sophisticated modes of online reporting, including automatic data collection from enterprises' internal systems and through the use of "dialogue forms" are promoted.

The government has established a "Simplification Forum" which will be the central contact point between the business sector and the Minister of Trade and Industry in the government's work to reduce administrative burdens for business enterprises. Most of the business organisations and several other organisations are represented in this forum, together with officials from the government.

Labour market conditions

The government puts strong emphasis on the fact that a well-functioning labour market, which does not unnecessarily hamper the occupational or geographical mobility of manpower, may contribute to increased innovation and desirable adaptation within business and industry. The overall labour force participation rate in Norway stands at about 75%, and can be described as relatively high. There are however, about half a million, or one sixth of the labour force, on various transfer-schemes. Disability pensioners make up 63% of these recipients.

A public committee (the Employment Law Committee) appointed by the government has performed a review of the Working Environment Act and adjoining legislation relating

to employment. The government is planning to propose new employment legislation in 2005, but simplification of overtime provisions has already been implemented.

Compared to employees, the self-employed have fewer social entitlements. This is expected to influence an individual's decision about whether or not to become self-employed. This applies for example to benefits related to having children, which may affect female self-employment in particular. Therefore, as of July 2003, the government has granted the self-employed the right to receive certain maternity benefits – calculated pursuant to the same provisions as applying to sickness benefits.

SME policies and programmes

Creating an entrepreneurial culture

Realising that attitudes to entrepreneurship and innovation are shaped at an early age, the educational system is a cornerstone in the government's ambition to promote an entrepreneurial culture. In May 2004, the government launched a national *Strategy for Entrepreneurship in Education*. In this plan, the government puts forward several new and concrete initiatives designed to promote education and training for entrepreneurship. The strategy addresses the entire educational system from primary school to college and university, as well as teacher training.

Well-established cooperation existed between the Ministries of Trade and Industry, Education and Research, and Regional Development and Local Government during recent years in order to achieve a more co-ordinated and comprehensive policy in this area. The strategy for entrepreneurship in education was developed in cooperation between the three mentioned ministries.

The government also focuses on presenting success stories and celebrating successful entrepreneurs as positive role models. Participating in awards ceremonies and supporting various entrepreneurship awards and competitions is a priority.

Entrepreneurship

Based on results from the annual GEM (*Global Entrepreneurship Monitor*) reports, it is evident that Norway has a fairly high level of entrepreneurship. Most of it is opportunity-driven, rather than based on necessity, and female participation rates in entrepreneurial activities remain relatively low. Relatively low unemployment and a well-established system of social benefits, including substantive unemployment benefits, weigh in on the potential entrepreneur's decision making. The government is constantly working on improving conditions for entrepreneurship.

In March 2003, the government presented a proposal to Parliament relating to the priorities and organisation of the public support system for innovation. The document, endorsed by Parliament in June 2003, gave priority to the following areas: Research and know-how, start-up and commercialisation, and internationalisation. The government wishes to target specific groups in order to enhance innovation in Norway: entrepreneurs, young enterprises, innovation systems, SMEs with ambitions and potential for growth, researchers and R&D institutions.

As of January 2004 four previously separate institutions were merged. These were: The Norwegian Industrial and Regional Development Fund (SND); The Norwegian Trade Council (NTC); The government's Advisory Board for Inventors; and the Norwegian Tourist Board. The new entity, *Innovation Norway*, is expected to create synergies in

working with entrepreneurship and innovation as well as internationalisation. Moreover, it offers users a better and more coordinated access to the full spectrum of public support measures for business.

Innovation Norway offers expertise and funding to enterprises in their early stages of development, and is prepared to take greater risk than other funding institutions. *Innovation Norway* manages a wide range of financial schemes to support SMEs.

Since 1998 one national and five regional seed capital funds have been established with the aim of providing “patent capital” and competence to projects involving high risk at an early stage. The funds are provided on a 50/50 basis between subordinated loans from the government and a mixture of equity and subordinated loans from investors. The total capital base of all these funds is about EUR 93 million. The government also provides some risk-relief to private investors through a loss-fund. The funds have a portfolio of about 150 projects.

The government has decided to establish four additional regional seed capital funds. When fully capitalised, these funds will in total have a capital base of EUR 200 million. These funds are not yet operational. Also, the government has proposed to establish three national seed capital funds. These national funds will have a total capital base of EUR 120 million.

Innovation and research

New combinations and new uses of existing knowledge are of key importance to innovation. Effective utilisation of the knowledge and competencies available in regional, national and international innovation systems requires close interaction between various players. The 2002 amendments to the University and University College Act have accorded these institutions a greater responsibility for cooperation with the rest of society and working life, and for the increased application of scientific methods and findings within industries.

Since 2002, the Norwegian Act concerning rights to employees’ inventions has been amended, resulting in patent rights being given to the university rather than the researcher. As a consequence of this, the universities of Oslo and Bergen have decided to establish their own Technology Transfer Offices. The Technology Transfer Offices will manage, refine and sell the universities’ rights to research results suitable for commercialisation, and thereby contribute to technology transfer.

The Norwegian Fund for Innovation and Research, established in 1999 with income from the petroleum sector, has made increased investment in research possible. The fund has now exceeded NOK 32 billion. The Norwegian Centres of Excellence scheme was initiated with funding from this source. In June 2002, 13 centres were selected, based on international peer review. The subjects chosen reflect a wide variety, ranging from civil war and linguistic development to brain cells and oil reservoirs. The main rationale behind funding centres of excellence is to improve quality in Norwegian research. The government is due to present a new *White Paper on Research* to Parliament early in 2005; the last White Paper on research was presented to Parliament in 1999.

E-commerce

The government will pursue an active and coherent policy for electronic commerce in order to strengthen the international competitiveness of Norwegian business and industry,

increase the efficiency of society as a whole and create new business opportunities. The government's approach is based on a market-driven development of electronic commerce based on corporate and consumer demands for products and services. Where the government intervenes, the process shall be fully transparent and undertaken in dialogue with the parties concerned. Regulations will be neutral in relation to technology and not restricted to specific technological solutions.

Electronic commerce is still at an early stage of development, but changes are expected to occur rapidly. In this situation, the government considers it important for the parties to find their roles. Framework conditions laid down through regulations must be flexible and adapted to developments. The government's view is that a combination of government regulation and self-regulation by participants will contribute to establishing confidence in electronic commerce. The public sector will promote electronic commerce with a view to increasing the efficiency of public procurement and will thereby be a prime mover behind its development.

Poland

SMEs in the economy

Small and medium-sized enterprises (SMEs), which in Poland are defined as those employing up to 249 persons, have been performing a vital role in the economy since the beginning of the social and economic transformation.

They account for 99.8% of the total number of Polish enterprises and over 95% of them employ 9 persons or fewer. The importance of this sector to the Polish economy is best illustrated by its contribution to GDP, which for a number of years has remained on a level close to 50%. By way of comparison, the SME sector accounts for about 68% of total employment and for about 63% of total income, and slightly less than 44% on investment.

It is notable that for a number of years, the best performing enterprises in Poland are to be found among medium-sized enterprises, i.e. employing from 50 to 249 persons, as well as the larger firms in the group of small enterprises. The smallest firms, very dependent on local demand, experience the most difficulty in accessing external financing and are the most vulnerable in times of recession.

A study of the survival rate of enterprises, carried out since 1995, reveals that the first year of activity is the most difficult for entrepreneurs. During this period about 40% of firms, on average, close down. The most frequent bankruptcies or suspension of activity was noted in trade companies, as well as in hotels and restaurants. The most stable situation is found in manufacturing, construction and transport companies. Enterprises which successfully completed the first year of their activity appear to stand greater chances of success in the future.

SME policies and programmes

As mentioned, SMEs enjoy a dominant position in terms of their numbers, providing jobs for several million Poles, generating half of GDP in Poland, and making an important contribution to economic development. However, SMEs encounter a growing challenge as a result of globalisation processes and the internationalisation of enterprises. In most cases they are unable to meet this challenge alone, and consequently need appropriate support action by the government. The aim of measures implemented by the government is to encourage entrepreneurial business activity with a view to expanding employment, improving competitiveness and enhancing the capacity of SMEs to operate on the European Single Market. Such measures are implemented through legal, organisational, information, training and financial instruments in four major areas:

- Support to projects aimed at enterprise development.
- Improvement of the legal and administrative framework for SMEs.
- Development of the institutional framework.
- Support to integration of firms and their operations on international markets.

The most important measures for entrepreneurs implemented by the government include support for facilitating access to knowledge, specialised advisory assistance on how to run a business and develop a company, as well as offering financial support for entrepreneurs in their adaptation and diversification efforts, and for engaging in new undertakings.

Entrepreneurs can obtain information and advisory services, free of charge, concerning basic aspects of running their business. Such services are provided by Consulting and Advisory Points throughout Poland.

Entrepreneurs can be given financial support for improving the quality of their products and services, obtaining quality systems management certificates, as well as environment and safety management, developing exports, implementation of innovations and new technologies, and investments.

The new regulation concerning the freedom to undertake business activity provides for broader economic freedom, a simpler registration process of companies and elimination of procedural barriers.

Another action area concerns the development of an efficient institutional framework for enterprises. In Poland the system comprises the Polish Agency for Enterprise Development, a governmental agency, and a network of the National System of Services for SMEs, supervised by that agency. It also includes Regional Financing Institutions, which co-operate with the agency.

To facilitate entrepreneur access to external financing a system of loan and guarantee funds has been developed. In addition, support is provided for the development of other forms of financing, such as venture capital funds and seed capital, which are not yet very widespread in Poland.

Trends in innovation policy

Entrepreneurship policy in Poland is developing in close co-operation with innovation policy. Poland is now at a turning point of its history in an effort to improve its position and importance in the global context. Its success will depend, *inter alia*, on the innovativeness of the Polish economy and its ability to rapidly adopt new technological and management ideas and their transformation into business success.

According to recent European innovation data, the level of innovativeness in Poland is still rather low, but catching-up. Using a set of quantitative indicators, the position of Poland is found to be slightly above the performance of Portugal and Greece and slightly behind Italy and Spain.

In recent years visible progress has been made with regard to enhancing innovativeness, although some structural problems remain. As in some other countries, the so called National Innovation System (NIS) and its component R&D sector exhibit many organisational weaknesses thus impeding the full use of its potential. There is a relatively large number of scientific institutes with various structures, often functioning under a sub-system inherited from the past, which do not operate within one coherent strategy. For this reason their impact on the development of enterprises is only fragmentary and exhibits a low efficiency. For example, the Ministry of Economic Affairs and Labour supervises the network of 112 institutes which are geared to respond to the needs of industry and are supported financially by the state budget. However, the output of these institutions in terms of newly designed products and processes, granted patents, and sold licences is

disappointingly low in relation to the number of institutes and employed staff. A new Law, passed so as to improve the situation in this respect, is the Law on Innovation Activities and restructuring and privatisation of the R&D sector.

The major weakness of Poland's innovation policy from the European perspective concerns low R&D expenditures as a percentage of GDP. According to official statistics for 2002, this indicator amounted to 0.59%, a long way off the 3% level formulated in the Lisbon strategy.

Recent initiatives and developments concerning the National Innovation System

Before EU-accession Poland had developed a strategy approved in 2000 by the Council of Ministers and entitled *Increasing the innovativeness of Poland's economy until the year 2006*. However one major problem was that most of the planned actions and instruments supporting innovation could not be implemented because of the public budgetary situation.

In 2003, the State Committee for European Integration implemented a *Sectoral Operational Programme: Regional Development Strategy 2004-2006* and it became clear that a considerable share of its work on increasing the innovativeness of the Polish economy will be dealt with by regional self-governments in the form of Regional Innovation Strategies (RIS). However, most regional self-governments do not have sufficient experience to prepare such strategies and implement them. Assistance came from the European Commission and Poland's Ministry of Science and Information Technology. Out of the total 16 voivodships, 5 voivodships were advanced in implementing their own strategies by end 2003, while the other 8 voivodships were about to start the realisation of the RIS and only 3 voivodships were still only at the stage of formulating their strategies.

In this way Poland is approaching a model in which regional innovation policy is shaped and implemented on two levels:

- At the national level with the Ministry of Economic Affairs and Labour and to some extent Ministry of Science and Information Technology. The main implementing agency is the ARP (Agency for Industrial Development) and the PAED (Polish Agency for Entrepreneurship Development).
- At the regional level by means of the RIS – Regional Innovation Strategies – which are to be prepared by *Marshall Offices* as executive bodies of regional self-governments.

Therefore, co-ordination and cohesion of this policy on both levels will be important.

One of the actions on the national level was creating the Innovation Centre FIRE as the Foundation supported by the ARP (Agency of Industrial Development) and Ministry of Economic Affairs and Labour. The mission of the Centre is to promote and support the establishment of innovative companies by creators of new technical inventions that have a high market potential. The support of the Centre does not consist of direct financing for the new ventures but rather in their preparation in such a way that direct commercial financing from commercial banks, foundations, etc., would be forthcoming. Professional support given to a new innovative firm will help strengthen the company in the first years of its activities, help it achieve independence, and avoid errors that could lead to bankruptcy.

The activities of the Centre cover, among others, such basic issues as identification and selection of projects, building of a network of partners, organisation of financing for

selected projects and public relations. In 2003 the Centre concluded the first agreements for the implementation of a number of promising projects and the next round of agreements are currently being negotiated.

Discussions are also underway regarding the future shape of the Polish National Innovation System (NIS). For example, in the framework of a pre-accession programme “Strengthening government policy and institutional cohesion to enhance the innovativeness of the Polish economy” a number of research studies were undertaken and workshops were held with participation of Dutch private sector experts and representatives of Polish governmental institutions, regional self-governments, business and professional organisations, scientific and academic circles.

One of the outcomes of the project was the recommendation that Poland should improve its governance of innovation policy, especially in terms of its structure. More specifically, it was proposed to establish a special Council of Innovation. In this context, it was pointed out that similar Councils exist already in some EU countries, including Finland, the Netherlands and Portugal. It was also suggested that the competences of such a body should not be limited to raising innovation awareness. It should also play a co-ordination role with the capacity to formulate strategic goals.

With regard to the membership in the Council, it has been recommended that the Prime Minister should chair its activities, whilst its members should include the representatives of the Council of Ministers responsible for the development of economy, research and education, managers of innovative companies and successful scientists.

Direct and indirect assistance for SMEs

Direct assistance for SMEs takes the form of grants awarded for information and advisory services and investments (for example, purchase of new machines and equipment). In 2003, PAED funded nearly 10 000 grants for SMEs. Entrepreneurs may obtain co-financing for the following types of activities:

- Company development.
- Export development.
- Implementation and certification of quality management systems.
- Introduction of new technologies and innovations.
- Acquisition of finance.
- Occupational health and safety.

Adoption of new technologies is particularly important for the development of the SME sector, and a loan programme with this in mind was introduced in 2003. Moreover, PAED organises an annual competition “Polish Product of the Future” under the auspices of the office of the Prime Minister. The aim of the competition is to promote and disseminate innovative technologies, as well as to facilitate their application and adoption by industry.

Indirect assistance for the SME sector includes the following activities:

- Expansion and enhancement of the loan and guarantee fund system for SMEs through increasing the capital of these institutions.
- Providing financing for the network of Consulting and Advisory Centres, ensuring free access to information for entrepreneurs and start-up businesses.

- Co-financing of training for small enterprises and their employees, organised by universities and other educational institutions, as well as by non-profit training organisations.
- Co-operation with regional and local government in the field of preparation and evaluation of programmes for development of the SME sector.

Portugal

SMEs in the economy

SMEs represent about 99.9% of the total number of enterprises. They are responsible for 3 out of every 4 employees, and 7 out of every 10 euros worth of output produced in Portugal.

In fact, SMEs represent the core of the Portuguese economy, although this is not always widely acknowledged. One of the reasons why, in the past, there was a non-proportional influence of their interests, in the shape of some public policies.

The government is paying increased attention to the special needs of smaller enterprises and new regulations include positive discrimination on critical issues towards SMEs, in order to increase leverage of some legal frames.

Some relevant initiatives, specially directed to SMEs were included in the Operational Programme for Economic Activities (POE) and details have been mentioned in the previous editions of this publication. At the end of 2003, this Programme was reformulated, retaining most support measures, but focusing more strongly on innovation and R&D, by reinforcing partnerships with elements of the Scientific and Technological System. This new programme, PRIME will be running until 2006. New relevant initiatives, promoted by public or private agents will be mentioned here, some of which are linked with PRIME.

Human resources

SMEs continue to experience a lack of skill, which is a major handicap for increasing their competitiveness. SMEs are, to a great extent, family enterprises, where management functions are performed by the owner, frequently without adequate training for the challenges of new open markets or for meeting competition from their rivals.

Workers are also poorly trained in the use of new technologies and not so motivated for innovative methods. Some of the principal needs of SMEs are experienced in this area.

Some initiatives that are implemented, such as the programme for stimulating job offers, was launched by the Ministry of Employment a few years ago and still active, are complemented by some measures included in PRIME, which have the aim to support the improvement of skills.

In the training area, mention should be made of the approach undertaken, specially by universities through programmes oriented to enterprise owners or alternatively, through more specific training programmes, geared to insert young people into an active working life. Some specific technological areas, such as ICT, are more usual, but areas, such as management, logistics or marketing, have also been targeted.

QUADROS is a programme geared to support the employment of technicians (in management, economics and technology areas) by enterprises. Training incentives are also available.

Entrepreneurship

Portugal has a weak entrepreneurship performance. Among the main reasons are the following: the influence of cultural values, where there is a strong stigma on people who have failed and a corresponding fear to face business risk; and scarce coaching and financing opportunities for new starters, especially young entrepreneurs.

Access to finance and training are the most frequently used instruments to enhance entrepreneurship levels. Recently, Portugal has strongly focused on the first solution and a number of support measures have been put in place. Some of the more relevant measures recently adopted to reinforce access to finance include:

- SIPIE, included in PRIME Programme, provides support measures for small enterprises by fostering the creation or development of micro and small enterprises by strengthening and modernising their productive structures.
- Venture capital is one of the financing instruments used to support and reinforce competitiveness and capitalisation, acting as a catalytic element in fostering innovation by providing support to enterprises at early stages of their life or by creating mechanisms that mobilise assets, crucial for their productive activity.

Two types of financing support mechanisms for SME have been developed: the Risk Capital Syndication Fund; and Guarantee Mechanisms.

With regard to coaching, the provision of training actions for entrepreneurs has been increased through public/private partnerships. Such types of training actions are frequently offered by universities, by entrepreneurs, or in partnerships with Enterprise Associations, and are increasingly focused on young potential entrepreneurs.

Information and communication technologies

Following the “Internet Initiative”, several different actions have been aimed at increasing the use of the Internet by enterprises, public services and citizens. In 2004, some aspects of this initiative were redesigned in order to achieve more focus and efficiency.

In this context, the Broadband Initiative was launched. This is an umbrella for an integrated policy, focused on the use of broadband connections in public services (schools, fiscal, health, local and central administration), as well as households. Recently schools have been given the possibility to acquire computers, assisted by a fund created for that purpose. Citizens and enterprises are encouraged to use Internet facilities in their relationships with public services, benefiting from the absence of the distance factor and easier access to information. Public services at the same time, need to increase their services available online. A national programme for electronic procurement was approved at the end of 2003 and is being implemented by some government departments as pilot projects.

Better regulation

A new policy in terms of insolvency and recovery of enterprises deserves mention. In March 2004 a new Insolvency Code was launched, including a large range of measures aiming to reduce problems with legal proceedings that occur in situations of insolvency, notably by reducing the time spent during each process.

The principle of a “fresh start” is taken into account by the elimination of liabilities when, after some years, the debtor accomplishes the terms of the insolvency plan. The

debtor is then free to start again, without hindrance. Specific attention is also given to small enterprises, which benefit from simpler proceedings.

In the scope of regulation of economic activities, the industrial and distribution licensing procedures have been redesigned. The administrative burden has been reduced and time consuming procedures eliminated and streamlined: one single desk, and co-ordination of the entities involved in the process, were some of the instruments used for that purpose.

Innovation

Portuguese innovation indicators are not very favourable. However, in reality the situation is not so critical. There is a perception that typically, entrepreneurs do not seek innovative solutions if they do not perceive any reward for the risk taken. Innovative solutions are occasionally disguised in an attempt to hide these from their rivals and the result of this attitude is reflected in the absence of the innovation from their assets. It can be said that innovation has not sufficient visibility (formal and informal accounts), and is underestimated in the indicators. Even when fiscal benefits for R&D investments are available, experience shows that fiscal incentives are not yet well utilised in Portugal. A support mechanism that includes incentives to R&D, granted on the basis of fiscal credits is currently in operation. There are indicators that much remains to be done, and the Ministry of Economic Activities and Labour has launched several programmes including different lines of support geared to foster innovation within enterprises.

Of the support mechanisms connected to PRIME, the following may be mentioned:

- SIME Innovation, the result of the new orientation of PRIME, supports R&D projects aiming at the development of new products, processes or systems, as well as the upgrading of already existing ones. This programme includes additional benefits for SMEs and for projects with participation by partnership with R&D entities.
- Industrial research activities are eligible to participate.
- NITEC is a support system oriented to the creation of teams, inside enterprises, that perform Technological R&D. This system aims to create internal R&D skills in enterprises, fostering structured team work and also stimulating the increase of their skills.
- It aims, also, to reward efforts spent in conceiving, developing or embedding new knowledge and ultimately to foster the reinforcement of national enterprises by creating technological innovative products and services.
- Additional benefits are awarded to SME. Partnerships with R&D entities are eligible for major supports.
- The NEST (New Technological Based Enterprises) programme aims to give support to the creation of EBT (Enterprises Based on Technology) reinforcing their assets by access to financing and risk capital. This financial support may be linked with the QUADROS Programme, as mentioned earlier.
- IDEIA is a support programme focused on a consortium between enterprises and entities included in the National Technological and Scientific System. It is directed towards enterprises that sign a contract to achieve the development of a new product, process or service with one R&D entity. Actions on industrial research (development of new technologies, buildings new skills) and pre-competitive research (prototypes, pre-series and pilot-actions) inside enterprises are also included in the scope of IDEIA.

- The DEMTEC Programme provides financial support to pilot projects related to products, processes and technological innovative systems. This Programme aims to support projects that validate innovative solutions for industrial conditions, linked to new technologies, at a national level and demonstrates their economic viability.

Slovak Republic

SMEs in the economy

In December 2003, there were over 64 000 registered enterprises and more than 300 000 sole traders in the Slovak Republic. Between 2002 and 2003, enterprise numbers grew by 8.2% and the number of sole traders grew by 11.6%. SMEs accounted for 99% of all enterprises, and their share in employment amounted to 66%, growing by 7.3% in 2003, creating more than 90 000 jobs in that year.

Framework policies

The development of SMEs is a top priority for the economic development of Slovakia, in the viewpoint of the Slovak authorities. The basis for SME development is the creation of a friendly business environment, based on the simplification of legislation, removal of administrative and tax burdens, strengthening support infrastructure and improving access to finance. In 2003, the last EU pre-accession year, SME support policy was aimed at further improvement in the business environment in order to reach European Union levels and thus prepare Slovak SMEs to meet competitive pressure and prevailing market forces in the EU. In spite of the growing number of enterprises and sole traders and their important share in employment in 2003 there are still some continuing weaknesses characterising the Slovak economy, such as high health insurance and social contribution rates, insufficient law enforcement, administrative burdens, market distortions, price regulation, inflexible labour legislation and increase in regulatory burdens.

SME policies and programmes

The Slovak Ministry of Economy is in charge of SME policy and coordinates the various activities concerning SMEs. In 2003 these activities were aimed at strengthening SME competitiveness, particularly in relation to the accession of Slovakia to the EU. Slovakia is making determined efforts to create a business-friendly environment in order to attract foreign direct investment. Start-up procedures will be simplified and the legislative and regulatory frameworks will be strengthened. Labour costs rank as the second lowest in OECD countries and Slovakia is set to become in 2005 the top OECD manufacturer of cars per capita. Incentives for small businesses and the self-employed have been increased through sharp reductions in both corporate and personal income tax rates, through easing of the regulatory environment for businesses (reductions in administrative burdens, amendments to the labour code, legislation regarding investment incentives, draft legislation concerning e-business) and by adopting competition and public procurement policies that facilitate new firm entries.

The disproportionate development of the business environment, in a geographic sense, is a major problem. The Bratislava region offers the best conditions and opportunities for entrepreneurs but eastern Slovakia lags significantly behind. To deal with

this problem, the National Development Plan was elaborated in order to maximise the use of European Union Structural Funds. Slovakia is currently preparing the national mid-term SME support policy for the period 2006-13 based on the recommendations in the European Commission Green Paper, Entrepreneurship Action Plan, reports on the implementation of the European Charter for Small Enterprises and Reports on the State and Support of SMEs in 2003.

Important recent legislation and regulatory measures

A comprehensive tax reform was approved by Parliament in 2003 and a new Income Tax Act entered into force in January 2004. The main goals of the tax reform were to eliminate existing weaknesses and distortions in the tax laws and to tax all types of income more equitably. Direct taxation is intended to be completely neutral and reform is geared to switch the tax burden from direct to indirect taxes and to create a more conducive business and investment environment. A flat rate of income tax (19%) for all has been introduced. Many exemptions, tax reliefs, and special tax bases and rates have been abolished in the interests of simplification. A unified VAT rate of 19% took effect in January 2004 and starting in May 2004 the threshold for VAT registration was lowered pursuant to EU requirements to SKK 1.5 million (EUR 35 000) annual turnover for reasons of double taxation and the low revenue generated. The value principle was introduced with respect to real estate tax.

A new legislative framework has been put in place to improve labour market flexibility in line with the goals and objectives of the European Employment Strategy to promote the return to work of the jobless, and reduce the unemployment rate below 10% by 2010. Three factors are expected to help achieve this goal: a highly flexible labour code adopted in July 2003; improved labour supply to result from adopted reforms in social insurance and benefits schemes, and thirdly, increased labour demand resulting from the improved business environment, exemplified by recent successes in attracting notable foreign direct investment. Recent amendments to the Act on Commercial Register accelerated the process of company registration, making it possible to register and modify company registration in 5 working days. Responsibility for the accuracy of data was transferred from court officials to company representatives.

The Ministry has been developing the institutional environment for SME support, guiding the activities of the National Agency for Development of Small and Medium Enterprises (NADSME) as well as developing the Regional Counselling and Information Centres (RAIC), Business and Innovation Centres (BIC) and the First Contact Points (FCP). The Slovak Agency for Development of Investments and Trade (SARIO) was set up, having among its functions a one-stop shop service providing investors with comprehensive services from consultancy to finalisation of business projects. State aid programmes launched for the period 2000-05 are approved by the government, and implemented by the NADSME, the Slovak Guarantee and Development Bank, and the SARIO. The Minister of Economy regularly submits to the government progress reports on programme implementation, status of the business environment and on the implementation of the European Charter for Small Enterprises.

Financing

The Slovak Guarantee and Development Bank (SZRB) is a state financial institution specifically geared to the financial support of SMEs. The bank provides guarantees on credits (in particular in cases where entrepreneurs do not have the usual levels of collateral

required). The guarantee involves: risk distribution between SZRB, the commercial bank and the entrepreneur, one-off non-repayable contributions (for partial cover of interest or project investment costs); indirect and direct credits; and multi-sectoral support (e.g. urban, rural and regional development, agricultural production, housing construction, tourism, energy savings, etc.). SZRB supports venture capital financing and provides in co-operation with Innovationsagentur Vienna the programme *i²-Slovakia* – a bourse for Business Angels to seek and mediate contacts among companies having innovative projects and informal domestic and foreign investors. The bank also participates in financing the projects supported by the EU structural and cohesion funds.

A number of firms providing venture capital operate in Slovakia, and the Slovak Venture Capital Association has been established. State support of venture capital is carried out through the Seed Capital Fund and the Post-Privatisation Fund, the latter being particularly targeted to larger firms. Following the assessment of a pilot project of the Seed Capital Fund, a revolving fund has progressively been developed, capable of generating sufficient revenues to cover the cost of Fund administration and of paying investment losses or reinvesting generated revenues back into SMEs. In addition to these companies, the US Business Fund administering approximately EUR 10 million is in operation. To date, although it is being promoted, the business angels system remains relatively unknown in Slovakia.

The NADSME Support Loan Programme offers loans to a maximum of SKK 5 million, intended for SMEs in manufacturing, crafts, services or in tourism. The interest rate applied is between 7.55% and 10.8%. Overall, 1 180 loans were extended via selected commercial banks from the launching of the programme in 1994 until 31 December 2003, amounting to almost SKK 9 million. In 2003, 21 loans were granted, totalling almost SKK 100 million. As of 31 December 2003, a total of 777 loans (SKK 1 880 million) had been repaid.

Micro-loans are available to fixed and mobile capital assets, to rehabilitate operation premises, and to purchase the necessary stock and raw materials. Loan amounts available range between SKK 50 000 and SKK 800 000, with a maximum tenure of 4 years. In 2003, interest rates under the Programme were adjusted to correspond to market conditions and to the needs of SMEs, i.e. interest rates were reduced to 9% p.a. and 12% p.a. for capital investments and purchase of commercial goods and inventory, respectively. NADSME has been implementing the scheme since 1997 through regional advisory and information centres and currently micro-loans are granted by seven centres throughout the Slovak Republic. Funding for the scheme is provided by the European Union under the PHARE Programme. Overall, 834 micro-loans (totalling SKK 317.3 million) have been extended since the programme launch, with the average micro-loan amounting to SKK 380 000.

The Micro-Loan Programme has had a significant impact on employment in the regions and since its launch 1 342 jobs were created and 1 566 jobs maintained. The Micro-loans programme is highly appreciated by entrepreneurs, constituting as it frequently does, the only possible source of financing support from public funds, available for small enterprises. The Seed Capital Company makes equity infusions into SMEs and promotes start-ups and development of existing enterprises. Preference is given to projects in manufacturing industry, manufacturing services, and tourism. Altogether, 33 meetings of the Investment Board had been held by end 2003, reviewing 71 proposals for investments, approving 56 of them; conditionally approving a further 12, while 3 were turned down. Actual investments numbered 65 cases and concerned 28 companies. In total, almost SKK 150 million was invested into companies in the Seed

Capital Company's portfolio, SKK 82.2 million was invested into the equity of the companies, and SKK 67 million in loans.

Entrepreneurship

Regional centres organise workshops for individuals interested in starting a business. Workshops and training sessions are mainly concerned with preparing a variety of social groups (unemployed, young people, school graduates, women, etc.) for business operations. Included among the topics are the basics of computer technologies, drafting of business plans, etc. The workshops enjoy a considerable success rate – approximately 40%, and about the same numbers of workshop attendees find employment as those who start up in business.

In recognition of the vulnerability of SMEs, and the need to establish support infrastructure for them, the Ministry, together with regional representatives, decided to establish business and technological incubators, to provide entrepreneurs with appropriate premises, technical infrastructure, comprehensive counselling and training services, as well as with start-up capital. For companies that have innovative business plans, technological incubators offer specialised premises such as laboratories and testing rooms. With financial assistance from the PHARE programme, technological incubators were built or renovated in 2003 in Košice, Bratislava and Prešov and business incubators were established in Spiská Nová Ves and Roava. Currently, a network of 4 business and 4 technological incubators are in place throughout Slovakia, supporting newly established small enterprises within the respective regions.

The travel business sector is an area recognised to hold significant growth potential. In developed countries, this sector contributes to regional development as well as to the national economy, as reflected in gross domestic product. The *Tourism Development Grant Scheme* aims to improve services to enterprises and organisations in the tourism sector and improve the sector's competitiveness. Working together with foreign experts, the Tourism Development Grant Scheme was launched in the last quarter of 2003 following several months of preparations involving information collection and diffusion among the business community and training of co-operating organisations. Altogether 868 projects from enterprises and tourism organisations qualified for support. The programme is funded by PHARE, with a total of EUR 5.5 million in available funding.

The *Subcontractor Exchange of Slovakia (SES)* programme provides foreign companies with information and services when they seek partners for manufacturing and commercial co-operation, as well as supporting presentation of price bids, organisation of visits of foreign purchasers to potential Slovak suppliers, selection of appropriate sites for construction of operations and establishment of joint ventures or new companies in Slovakia.

Technology and innovation

The *Innovation and Technology Development Grant Scheme* aims to strengthen the innovative potential and economic development of enterprises from regions along the Slovak-Austrian border. The programme supports the building of technological business incubators in the Trnava and Bratislava Regions, and the initiation of cross border economic co-operation between Slovakia and Austria. The target group, being non-profit making organisations, are provided with programme information through a promotion campaign which preceded the programme launched in the last quarter of 2003. Five project applications were received within the given deadline. The programme benefits from

PHARE funds amounting to EUR 2.7 million (SKK 288.2 million) available for cross border co-operation between Slovakia and Austria.

The *Support Scheme for Purchase of Innovative Technologies and Setting up of Quality Management Systems* comprises the parts: *Quality and Innovative Technologies*, arising from the transformation of the state programmes *Implementation Programme of Quality Management Systems – QUALITY* and *Technology Transfer*. The scheme aims to strengthen SME competitiveness through the implementation and utilisation of innovations and quality management systems according to selected international standards.

The *Industry Development Grant Scheme* launched in the last quarter of 2003 aims to support the development of innovative products, raise production capacities or implement quality management systems in SME industrial enterprises to make them equal partners in the open and more competitive EU member state markets. The scheme launch was preceded by a media campaign and training of the concerned organisations, assisted by EU experts. In response to the call for project submissions, 307 projects were presented by entrepreneurs and business organisations. The programme is funded from PHARE sources, and has a budget of EUR 4.4 million (SKK 181.2 million) available. The Ministry of Economy established the Innovation Fund in support of innovation. Loans are provided to SMEs, up to a ceiling of SKK 5 million, repayable within 2 years.

Management programmes

Counselling and information services within the RAIC/BIC network are provided to SMEs and to selected groups interested in business (SG). These services are subsidised from the State Budget (SB). In 2003, the network of centres provided of more than 10 000 informative and professional consultations amounting to over 15 000 hours of consultation. Of the total, 3 800 were information consultations. SME support programmes and projects and those relating to start-ups and business expansion for SG, implemented by NADSME as well as others. Over 6 000 technical consultations were provided areas related to start up and to development of business activities. For the purposes of raising loans, whether from financial support schemes or from commercial sources, RAICs/BICs developed over 700 business plans and reviewed a further 81 plans. The centres' activities contributed to the establishment of 668 new enterprises, 1 638 new jobs, and helped maintain 1 371 jobs.

Training

Training for entrepreneurs and selected groups of people interested in business is provided through training courses and the managerial abilities of the SME sector are strengthened in a variety of areas. In 2003, SB funds were allocated for the training of entrepreneurs and others interested in business, the funds being spent by regional and business centres in the organisation of a total of 93 training courses for 1 240 participants. Training topics included: *Getting Prepared for Doing Business*; *Business Plan*; *Basics of Business*; *Course for People Starting up Business*; *Establishing My Business*; *Business Minimum*; *Use of Computer Techniques in Business*; *Computer-Your Helper*; *Basics of PC Work*; *Working with PC – Word*; and *Working with Excel*, *Computer Technology for Beginners*.

Export promotion

The Ministry of Economy provides support to assist SMEs gain access to foreign markets. Export promotion is also undertaken by the commercial sections of diplomatic

missions abroad. Since 1994 the Ministry of Economy has run annual competitions for the “Best Exporter of the Slovak Republic” in the SME category.

Regional programmes

At the regional level, programmes are implemented via an institutional support network comprising 12 regional counselling and information centres (RAICs) and 4 business and innovation centres (BICs) located throughout the territory of the Slovak Republic. The principal objective of the activities of RAICs/BICs is to help set up an SME network in the individual regions, in particular through the provision of counselling, information and educational services. Moreover, BICs also provide assistance for incubator companies, in the form of counselling and training services, review of business plans, mediation between domestic and international business contacts, lease of space and assistance for using information technologies. RAICs/BICs also participate in other activities and projects. For example, they co-operate with various associations, self-governments, regional and/or district labour offices, financial institutions, and have also been involved in cross-border cooperation projects.

The *First Contact Points (FCPs)* were created in Eastern Slovakia during 2002, with the aim to provide business entities and parties interested in doing business with a first contact and information about the business environment, opportunities for doing business and available support in Slovakia’s regions. During the first year, the FCPs organised over 1 500 hours of information services for more than 1 400 SMEs and others, almost 4 000 hours of consultations and advisory services for over 1 000 clients; 53 workshops and training courses for more than 600 participants, and co-operated in 128 projects. Apart from these activities, the FCPs also co-operated closely on regional development with towns and villages in their respective regions, co-organised exhibitions and fairs within regions, and participated in publishing materials focusing on regional promotion.

Spain

SMEs in the economy

SMEs in Spain represent 99.8% of all enterprises, while micro enterprises (sole entrepreneurs and firms with fewer than ten employees) represent 94% of the total. The sector as a whole accounts for roughly 78% of total employment. Spanish SMEs are smaller in size than their European counterparts, and register lower participation rates in sales and foreign trade, indicating a weaker competitive position and a limited presence on foreign markets. They also employ, proportionally, a larger share of the national workforce.

Most SMEs operate in the service sector, mainly in real estate business, hotels and catering and the retail distribution of food and drinks, although in recent years growth has been fastest in the construction industry. Since 1995, the number of SMEs grew by half a million productive units, corresponding to 22% growth in 1995-2003, the last two years of this period being the most intensive in SME creation.

Institutional framework of SME policies

In the government's restructuring in April 2004, a new Department, the Ministry of Industry, Tourism and Trade was set up, taking over some of the responsibilities of the former Ministry of Economy and the former Ministry of Science and Technology. The Directorate General of SME Policy (www.ipyme.org) is part of this new Ministry, under its General Secretariat for Industry. The reorganisation also brought about a new direction for SME support policies in the framework of the broader industrial policy strategy. The goal is to support the Spanish productive system by using all viable means to improve firm competitiveness, in line with the latest EU and OECD guidelines. The innovative capacity of firms is seen as central to these endeavours, and will be addressed by action on two fronts: i) the encouragement of greater research activity by firms in the cutting-edge segments of the economy; and ii) achieving the rapid dissemination of technology and key knowledge throughout the business sector. Another priority is to promote new sources of external economies: clusters, networks, technology centres and other advanced services. As the present government has only recently come to power, the actions and policies described herein have yet to reflect this new direction, and tend to be a continuation of those set forth in the 2002 edition of this publication.

Overview of policy developments affecting SMEs and entrepreneurship

The regulatory business environment

One-Stop Shops: This is a joint initiative between government and the chambers of commerce aimed at assisting entrepreneurs to launch new business activities. It comprises the establishment on chamber of commerce premises of integrated outlets providing full start-up information and advice. Since its launch in June 1999, a total of 31 have been

created throughout Spain, supporting the creation of almost 20 000 companies and generating around 35 000 jobs.

The New Enterprise Law: The New Enterprise Project (www.circe.es) has become a reality. The Project, led by the Directorate General of SME Policy, serves as a good example of coordination between different government departments and agencies involved in new firm creation. This corporate form was introduced in 2003 by the New Enterprise Limited Companies Act (Ley de la Sociedad Limitada Nueva Empresa), which entailed a series of amendments to the Limited Liability Companies Act. The reform provides: i) a legal framework enabling a simplified corporate regime especially suited to small companies; ii) simplified, streamlined administrative formalities, which can now be completed online using a Single Electronic Document (Documento Único Electrónico, DUE); this has brought a substantial reduction in the time needed to incorporate a business; specifically the average lead-time to new firm creation is up to 15 times shorter when compared to the traditional method, which can take approximately 60 days; iii) a simplified accounting system geared to the characteristics of small enterprises. A total of 2 616 New Enterprise Limited Companies had been incorporated by September 2004.

Better regulation: Bankruptcy legislation underwent a root-and-branch reform in 2003. The new system takes an innovative approach with regard to the priority it gives to business survival and the conservation of jobs, and to the safeguarding of workers' rights.

Development of an entrepreneurial society

Nurturing the enterprise spirit through the education system

The Directorate General of SME Policy has been working to foster entrepreneurship in partnership with the Ministry of Education and Science and the Autonomous Communities, with important advances achieved to date. One such advance, dating from 2003, is the implementation of a solid, unified framework for the teaching of enterprise in the school system, which builds up sequentially from primary to *bachillerato* (upper secondary) levels. This more active approach should give young people greater confidence in their own skills and knowledge. In recognition of teachers' key role in instilling the entrepreneurial spirit among the student body, regulatory provisions have been supplemented by the preparation of didactic and informative materials to aid them in their labours (Teachers' Guide, Business Laboratory, information booklets). Moreover, certain Autonomous Communities are preparing additional optional subjects, such as the introduction by Asturias of the "Young European Company", and the plan by Castilla y Leon region to make this option part of the curriculum for the school year 2005/06.

Policies and programmes for fostering women's entrepreneurship

Micro-loan schemes are being rolled out for female entrepreneurs and business owners to help alleviate difficulties businesswomen face in securing long-term finance or undertaking new investments. The schemes facilitate women's access to finance under advantageous conditions, without the need for additional guarantees, while providing them with personalised advice and technical assistance in getting their business projects off the ground.

The Institute for Women's Issues (Instituto de la Mujer), attached to the Ministry of Labour and Social Affairs, promotes female entrepreneurship through various programmes such as the *Entrepreneurial Support Programme for Women* and the *Management Programme for*

Women Entrepreneurs and Potential Women Entrepreneurs which provides information and advice to women with a business idea or a going venture. The *Training Programme on Business Management* offers general training and lasts 300 hours, including 200 hours of individualised tutorials.

Access to international markets

The internationalisation of Spanish SMEs is a policy priority. Within the Ministry of Industry, Tourism and Trade, the Spanish Institute for Foreign Trade (Instituto Español de Comercio Exterior, ICEX) has a number of programmes and action plans aimed at internationalising Spanish firms and promoting their products and services on foreign markets. Special mention should go to the *External Promotion Initiation Plan* (PIPE 2000) which has enabled a growing number of Spanish SMEs to engage in international trade and/or internationalise their operations based on a rigorous analysis of their export capacity and potential. By the end of July 2004, almost 3 400 SMEs, including manufacturers of industrial products, consumer goods, agricultural and food products and services, had benefited from the plan, which expects to meet its target of 5 000 SMEs served by the end of 2006.

The Spanish Export Credit Insurance Company (CESCE) launched the 100 Policy for Small and Medium-Sized Enterprises, an export credit insurance policy specifically designed for SMEs. During the past five years, this policy has provided SMEs with a total of EUR 700 million in insurance cover. The 100 Policy includes: low-cost global coverage of exports throughout the world; solvency testing of all customers with exemption from paying the costs of study for the top ten categories; advice on the appropriate instruments for operating in different countries; simplification of administrative formalities. The risks covered are: commercial risks, taking in both *de facto* insolvency (longstanding payment arrears) and *de jure* insolvency (bankruptcy or receivership) of national or foreign private debtors and their guarantors; political risks – a ban or cap on hard currency exports, non payment by government purchasers, catastrophic or extraordinary risk, war, revolution or similar events in the countries covered by the policy. All SMEs with exports not exceeding EUR 1.2 million and which maintain a regular flow of sales to different markets are eligible for the scheme.

The programme Self-Diagnosis for SMEs: Access to New Markets, available on the Directorate General of SME Policy Web site (www.ipyme.org), was launched in December 2001 to give SMEs a tool for analysing their internationalisation potential and to date has registered 17 000 hits.

E-business

E-Commerce Strategic Action

E-commerce action has been classed as a “Strategic action” within the Action Plan for the Advancement of the Information Society launched under the PROFIT programme. The aim is to promote the development of applications and services based on ICTs for integration within companies’ business processes and their work and organisation methods.

Strategic action in the e-commerce field also targets the development of company support systems and services incorporated into horizontal or vertical portals. The implementation models most prized are partnerships between various companies, as well as the involvement of the top players in each sector which draw smaller companies in their

wake, and client-supplier links spanning different business sectors. Examples of this type of portal are those created for the construction (www.obralia.com) and automobile (www.anfac.es) industries, or the horizontal services portal (www.tractes.com), all of which consolidated their offerings in 2003.

Local Business Centres Network

The Local Business Centres Network (www.redcnl.com) was launched in 2001 to create a critical mass of companies in different sectors to generate new B2B markets. In late 2003, it comprised 21 Local Business Centres in fifteen Autonomous Communities, working in close cooperation under a shared methodology. In its first years of operation, the Network has enlarged on and strengthened the functionalities initially targeted and the range of B2B services and solutions delivered to SMEs.

The government will continue its drive to dismantle administrative barriers through the medium of ICTs, with particular attention to the areas of tax and social security.

Access to finance

Work is progressing in Spain to facilitate SME access to existing sources of finance (by reducing costs, extending repayment terms and providing guarantees) and to promote new financing facilities and instruments.

Ordinary loans: The ICO-PYME (Official Credit Institute-SME) facility provides financing, under preferential conditions, for investment projects undertaken by SMEs in Spain. Repayment terms may be five or seven years, with grace periods of one and two years respectively. Fees are not charged. The cost to SMEs is the six-month EURIBOR +0.50% (if a floating rate is chosen) or the ICO benchmark +0.50% (a fixed rate for the duration of the loan). Loans are extended through banks and savings banks and are available to SMEs for investment in fixed assets, tangible or intangible, with a financing ceiling of 70% of the net investment project. A total of over EUR 21 million (1996-2004) was granted under this facility.

Participatory loans: As part of the search for new SME financing instruments, ENISA (Empresa Nacional de Innovación, S.A.) has, since 1997, been developing participatory loans which are a financing instrument lying halfway between venture capital and a traditional loan. It is a subordinated loan, i.e. it ranks behind ordinary creditors in payment priority; is a long-term loan with a long grace period; its interest rate is indexed to business profitability; subject to an upper and lower limit; and, no additional guarantees are required other than those provided by the business project itself and the experience and expertise of the management group behind the enterprise. Between 1997 and 2004, ENISA closed 102 such transactions for a combined EUR 19.5 million, which helped finance EUR 55.84 million investments. Companies with 10 to 49 workers and over 7 years operating history accounted for a large share of transactions (48.5%) as well as receiving 40% of funds.

Mutual Guarantee Companies: The Spanish guarantee system comprises Mutual Guarantee Companies (Sociedades de Garantía Recíproca, SGRs) which are entities with a mutualist structure providing guarantees to lending entities for loans granted to SMEs. It also includes the public refinancing company CERSA (Compañía Española de Reafianzamiento, S.A) which shares the risk of outstanding loans. The state-controlled CERSA, under the aegis of the Directorate General of SME Policy, helps SMEs to overcome difficulties in raising finance for innovation projects, with particular attention to early-stage enterprises. Refinancing is provided to SGRs under agreements that specify a

different percentage coverage depending on the SME characteristics and the assets being financed via the guarantee operations. The risk taken on under SME guarantee schemes exceeds EUR 3.1 million, and has allowed 35 000 firms to raise the finance they need, 91% of them micro or small enterprises.

SME loan securitisation: The SME loan securitisation process runs as follows: Credit entities assign loans from their balance sheet to a special purpose vehicle (securitisation fund FTP), and use the liquidity obtained to grant new loans to other SMEs. The fund then issues bonds that raise the income needed to pay banks and savings banks for the assets transferred. In this way, financial entities can enlarge their liquidity without taking on additional debt, and secure the cash to grant new loans without increasing their balance sheet assets. Meanwhile, SMEs get the opportunity to tap into capital markets, which in the case of the Euro area stand out for their liquidity and depth. The securitisation funds created will be backed by a government guarantee. This facilitates bond placement by assuring holders that they will collect. The amounts of the loans securitised under the scheme since its 2000 inception are as detailed below:

Table 4.6. **SME loan securitisation amounts (2000-04)**¹

	2000	2001	2002	2003	2004	Total
Number of funds established	3	3	6	9	11	32
Amount securitised ¹	1 560.15	548.71	2 714.56	5 302.80	8 764.00	18 890.22
Amount guaranteed by government ¹	1 176.50	417.91	1 802.50	1 803.04	1 803.04	7 002.99

1. EUR million.

ICO micro-loan facility: Spain's Official Credit Institute (Instituto de Crédito Oficial, ICO) set up this facility at end 2002 to provide small loans to micro enterprises or individuals lacking the background to qualify for loans through traditional financial system channels: women, people aged over 45, the disabled, immigrants, etc. The maximum allowable is EUR 25 000 to finance up to 95% of the planned investment. EUR 15 million has been lent under this facility expired end 2004, in 815 transactions leveraging a total investment of EUR 25 million.

Venture capital: Though not yet operating on a scale comparable to that of European counterparts, the venture capital industry in Spain has made extraordinary strides over the past five years, expanding 34% in cumulative terms between 1997 and 2002 (14 points ahead of the European average). Among the measures taken by the government to stimulate venture capital activity was the creation of a legislative framework providing tax benefits to venture capital entities, which has proved supportive to the development of existing companies and encouraged new public and private providers into the market.

Innovation and technology

The Promotion of Technical Research Programme (PROFIT)

PROFIT is the primary management instrument for scientific research and technological development policies. The guidelines for the programme are defined in the Plan for Scientific Research and Technological Development and Innovation 2000-03, and the follow-on Plan for 2004-07. The programme is arranged into nationwide schemes targeting selected scientific and technological areas (biotechnology, biomedicine, ICT, advanced materials, etc.) and priority business sectors, whether industrial or service

oriented (aeronautics, the automobile industry, the information society, etc.). Among the horizontal actions scheduled is a support scheme for *Technological Centres*: non-profit entities engaging in R&D and innovation and providing technological services to the corporate sector, with SMEs as their principal clients. Another horizontal measure reinforces the guarantee system by providing public resources to refinance the collateral that SMEs need when seeking loans for technology projects.

In 2003, a total of 4 674 projects were submitted for assistance under PROFIT schemes, 74% being presented by firms, 62% from firms having fewer than 250 workers. In all, 2 595 projects received funding in 2003 including a number approved in previous years. The support totalled EUR 130.5 million in subsidies and EUR 693.2 million in refundable, zero-interest advances. 79% of the projects financed were in firms receiving EUR 93.5 million in subsidies and EUR 666.4 million in refundable advances. Among these projects, 1 089 (53%) were submitted by firms with under 250 workers, allocated EUR 44.2 million in subsidies and EUR 176.3 million in refundable advances. The PROFIT programme is supplemented by support schemes for R&D and Innovation activities organised within Technology Parks. These schemes are run by public law or non-profit organisations. Sixty-five projects were submitted in 2003, of which 28 were selected to share in the envisaged EUR 20.5 million funding. Assistance committed under this programme totalled EUR 33 million including projects granted in multi-year funding in previous years.

ENISA also lends selectively to technology-based companies, its loans being subordinate, long-term, and pay a floating interest rate depending on investment results and do not require any additional guarantees.

NEOTEC (New Technology Enterprises): This initiative, run by the Centre for the Development of Industrial Technology (CDTI), had the objective to create 200 new technology-based firms during the 2000-03 period. To this end, it has worked with venture capital entities specialised in providing early-stage finance for technology-based firms; cash prizes are given to the best innovation projects and loans are granted by the CDTI for technology development projects. Applications are evaluated from a technical and financial standpoint, and support depends on projects meeting the quality criteria laid down. Following the start-out and consolidation phase of 2001-02, NEOTEC continued its work through 2003 with the focus on entrepreneur training actions (9 applications accepted out of 33 submitted), the financing of NEOTEC projects (35 accepted out of 103 submitted, with CDTI providing EUR 9.5 million funding), the recruitment of venture capital investors and the setting up of the NEOTEC network. According to figures from the Spanish Venture Capital Association (ASCRI), investment channelled through NEOTEC accounted for 75% of all seed investment committed in Spain in 2002.

ICO-CDTI: The Official Credit Institute (ICO), in collaboration with the CDTI, has set up a finance line for investment projects involving technological innovation and R&D. Loans are obtainable through banks and savings banks, and the CDTI pays a EUR 450 subsidy for every EUR 10 000 granted, to be applied to the early repayment of capital. The scheme is open to all enterprises and covers investment in fixed assets, whether tangible or intangible, up to 70% of the net investment project cost, with a ceiling of EUR 1.5 million per beneficiary per year in one or several operations.

One initiative implemented in 2004 is a Bank Pre-Financing Line for research, technological development and innovation projects, giving eligible firms access to especially advantageous financing conditions including a repayment term of 7 to 9 years

and larger loan volumes, at zero interest, up to a combined ceiling of 60% of the project budget. The sole exception will be technological innovation projects where the funding ceiling is set at 40%. This facility, available through a number of financial institutions, will provide access to finance sources before project start-up. Innovating firms can receive a large advance on the CDTI funding for their R&D projects in the form of a preferential bank loan.

Plan for the consolidation and competitiveness of SMEs (2000-06)

This Plan, geared mainly to innovation in business techniques, is directed by the Directorate General of SME Policy and draws support and funding from different official sources; Central Government (62%), Europe (22%) and Autonomous Communities (15%). Its aims, resourced with a 2000-06 budget of EUR 300.5 million, are: i) to foster the development and increased competitiveness of SMEs; ii) to engage in fewer blanket actions, and instead seek more direct business involvement in the preparation and implementation of projects; and iii) to ensure that the projects deliver well-identified goods and services to SMEs.

Component measures span two main lines of action: the information society and innovation in business techniques. Regarding the latter, the plan provides for four support programmes relating to design, quality systems, inter-enterprise cooperation networks and process innovation, focusing mainly on the management and organisation of SMEs.

With the general aim of improving the performance of Spanish businesses – and under the direction of the Directorate General for SME Policy – the Spanish Agency for Design and Innovation (Sociedad Estatal para el Desarrollo del Diseño y la Innovación, DDI) undertakes activities ranging from economic incentives to cultural promotion, in order to encourage a more efficient and systematic use of design and innovation practices. DDI provides a platform for all design promotional activities developed in Spain operating at various levels: economic, through design centres and regional agencies for economic promotion; research and academic, through the universities; professional, led by designers' associations; and cultural, through museums and galleries devoted to design. Complementary to the work of these various agents, DDI develops: research on design and innovation practices; a national scheme of incentives to support SMEs in their first attempts to use design; some hands-on projects in traditional manufacturing activities, later used as tools for demonstration purposes; and exhibitions on design related topics addressed to society in general, and international activities to promote Spanish design.

Skills acquisition and development, including management training

Plan España.es: This plan for the advancement of the information society was approved for implementation in 2004-05. Part of its armoury is a unified action area for SME infrastructure, services and training under the *Pyme.es* banner. The plan comes under the general framework of the National R&D and Innovation Plan concerning the preparation and design of sectoral services and solutions, and is also articulated through the *Arte-Pyme* programme and *Red.es*. Agreements will be concluded with trade associations and large firms feeding business to SMEs in each sector, in order to reach the objectives set.

FORINTEL telecommunications training programme: Under the Action Plan for the Advancement of the Information Society, the Ministry of Industry is responsible for promoting the training of telecommunications and IT professionals, and helping workers re-skill for the changes brought by new information technologies. This was the objective behind the launch in 2001 of the telecoms training programme FORINTEL (www.min.es/forinel) which funds

expert and user-level training actions. Applicant numbers increased by 30% in 2003 and a total of EUR 12.6 million was assigned as support, EUR 8.5 million going to the user area. FORINTEL is co-financed by the European Social Fund and will run until 30/06/2006.

Internet for all (Internet para todos): This Ministry of Science and Technology initiative, framed by the Plan for the Advancement of the Information Society, seeks to bring Internet close to all Spanish citizens by organising basic introductory courses of 15 hours duration, on the premises of partner centres. The training programme comprises three levels and a practice module depending on the knowledge of the trainee, who receives a diploma on completing the training course, together with an “Internet user’s licence”. The idea is to equip all citizens with the minimum skills for using new technologies in general, and Internet in particular. The programme has a network of 730 partner centres throughout Spain, hosting training courses for the public. Over 160 000 persons have taken part, of whom 56.6% were women and 43.3% men.

Sweden

SMEs in the economy

New business start-ups and enterprise growth are of outmost importance for the Swedish economy. The SME sector is a vital part of the Swedish industry in this respect. More than 99% of all enterprises in Sweden are classified as SMEs, i.e. they have fewer than 250 employees. In 2002 there were about 553 000 enterprises in the industry and service sector. The majority of enterprises (94%) have up to 9 employees while about 5% have between 10 and 49 employees. Two thirds of enterprises have no employees at all. Altogether, the SME sector in Sweden accounts for 60% of total private employment (data from 2002). In 2002 the number of large enterprises was at the same level as in 1990. The number of SMEs, however, has increased continuously since 1990. The overall rate of increase in SMEs between 1990 and 2002 was 47%.

Another way to look at the importance of the SME sector is to focus on their relative contribution to the economy. In terms of turnover the SME sector accounts for 57% of the total turnover while their share of the total value-added in the Swedish economy is 58%. When it comes to investments the SME sector accounts for 66% of net investments* (data from 2001). We can thus conclude that the SME sector in Sweden is of major importance both in terms of employment and in terms of economic contribution. The economic contribution is about as significant as the contribution to employment.

Framework policies

Entrepreneurship, the creation of new enterprises and expanding existing businesses, is important for increasing economic growth and employment. The government's objective is to promote favourable institutional preconditions for SMEs in general. This includes activities to stimulate entrepreneurship, easy access to information and advice, better legislation and regulations, good access to finance and a consistent competition policy. Other prioritised areas are intellectual property law and company law.

The ambition of the government is to achieve policies as well as regulations that are general to all businesses but adapted to small businesses conditions. However, small businesses are exempted from regulatory obligations to some extent for example some regulations concerning employment and taxation.

The Regional Growth Programme is a tool for economic growth and renewal in all regional counties in Sweden. The Regional Growth Programme was launched in 2004. Each county in Sweden forms its own programme. The underlying principle behind the Programme is the formation of regional partnerships with representatives of municipalities, authorities, local business associations and universities within each

* Net investment = purchase value minus sales.

administrative region in Sweden. These partnerships have conducted analysis of the potential for and threats to economic growth and industrial development in their respective region. On the basis of these analyses, programmes of measures designed to take greater advantage of the opportunities identified have been formulated. Entrepreneurship is one of the focus areas of the Regional Growth Programme.

SME policies and programmes

Sweden's industrial policy covers a wide range of measures. It takes SMEs into account and focuses on how to strengthen Sweden's industrial and international competitiveness by promoting favourable framework conditions for growth and renewal. There are also some specific measures to target groups such as young people, women and immigrants. Entrepreneurship policy has attracted more attention during recent years. The awareness of the importance of networks and clusters has also increased. In June 2004 the Ministry of Industry, Employment and Communications and the Ministry of Education presented a strategy for improved innovation and competitiveness. The importance of knowledge, an innovative industry and innovative people is underlined in the strategy.

National entrepreneurship programme

In order to improve attitudes towards entrepreneurship and to stimulate a more entrepreneurial society, a national programme for entrepreneurship was launched in 2002. To be implemented over three years, the aim being to improve the entrepreneurial climate, stimulate positive attitudes towards entrepreneurs and to increase start-up rates. Several independent activities have been carried out to stimulate entrepreneurship for many years, but this programme is the first strategic and coherent action for entrepreneurship in Sweden.

The Entrepreneurship programme is run by the Swedish Business Development Agency (NUTEK) and focuses on three main areas: cooperation with the so-called regional partnerships; exchange between school and industry (working life); and developing and complementing existing programmes. A network of regional contact persons for entrepreneurship has been established. The purpose is to gain insight into the work that is being carried out at the regional level to promote entrepreneurship, and to create programmes that support a consistent and long-term structure to promote entrepreneurship in different regions. The work has strong links to the ongoing work with Regional Growth Programmes. This Entrepreneurship programme has also financed about 20 pilot actions. A new programme will be launched during 2005.

Other initiatives to promote entrepreneurship

Municipal Entrepreneurship and Technology Centres, KomTek, have been established in eight Swedish cities. KomTeks are financially supported by NUTEK and methodologically by the Swedish National Labour Market Administration. The aim of KomTek is to inspire young people (10 years and older) to look upon themselves as the engineers and inventors of the future. The centres will also be open to adults, which will turn them into meeting places for all categories of people interested in technology. While gender equality is important, some actions are targeted to girls.

Promoting women entrepreneurship is a priority for the Swedish Government. There have been many initiatives during the last ten years. One example is the network of business consultants for women. Experience shows that many women prefer to turn to

women when they require information, training and consultation in connection with starting a company. The network of business consultants for women is very active. The consultants discuss all kinds of business problems as well as how to combine family life with business ownership. NUTEK supplies training and exchange of experience for the business advisors and information spread by traditional methods as well as via an electronic network.

Regulatory reform

The SimpLex Team within the Business Division in the Ministry of Industry, Employment and Communications analyses all draft proposals of new laws and regulations on the government level. Every draft that can be considered to have consequences for small businesses has to pass SimpLex and a business regulatory impact assessment has to be made at an early stage. The regulatory impact assessment must be approved by SimpLex before the proposal for a new law or regulation is submitted to Parliament. The use of impact assessments shows a steady positive trend.

SimpLex focuses on three levels of regulatory making: the committees of inquiry, the government and the independent public authorities and agencies. The work is carried out through two main operations:

- Analysing new and revised regulation proposed by the different ministries.
- Training and advising officials from the ministries, authorities and committees of inquiry in better regulation from a small business perspective.

The impact assessment is based on the OECD's reference checklist for regulatory decision-making and is, strictly speaking, a small business cost compliance analysis. It is public and presented to Parliament as a part of the explanatory memorandum to the legislative act. The government is of course free to present a proposal to Parliament, which has severe consequences on small business, but the consequences must nevertheless be presented. As far as government ordinances are concerned, the assessment is a public document.

Two initiatives have been launched during 2004: the action plan to reduce administrative burdens; and the method for measurement of administrative burdens.

The action plan for reducing administrative burden: This is an action plan for reducing the administrative burden and was presented in 2004. 46 agencies and all ministries have delivered their proposals for actions to reduce administrative burdens on business. About 300 proposed actions will be presented. The actions will be implemented by September 2006 at the latest. The actions include for example, ICT-solutions (smart forms, etc.), repeal of old legislation, codification and different service solutions.

The method for measuring administrative burdens: This is a joint project together with the Netherlands, Denmark and Norway. The method used is built on the Dutch standard cost model. The first legislative area to be measured was VAT regulations. Three new laws are presently being measured (two tax laws and one accountancy law). By knowing the cost of different requirements in the regulation, it is easier to identify possibilities for simplification. A target for the reduction of burdens can also be set either for all legislation or successively, area by area.

Financing

Access to finance is one of the prerequisite for growth, development and creation of enterprises. The area is one which should be approached by private actors such as banks, ventures capitalists, business angels and other private investors. There is however a lack of capital in certain phases, for example, new-starters. Public capital will therefore be concentrated on the early and most risky stages of a company's development and be bridged in later stages by capital from a private actor (business angels, venture capitalists, banks, etc.). In order to address these problems, Sweden has taken measures to facilitate access to finance for entrepreneurs and SMEs. Some examples are given below.

Early stage financing: The initial phase of a technology-based project is almost always combined with high costs and high risks, if not pure uncertainty. That is why demand for governmental support is high in these projects. The Ministry of Industry, Employment and Communications appointed in October 2003, a negotiator to make suggestions to strengthen the early stage financing to technology based projects. The negotiator reported in June 2004 to the Ministry. The report included proposals for a new structure for public early stage financing, a new fund for commercial risk capital investments in early commercial stages and tax incentives for business angels. The new structure proposed is to be based on cooperation between the Technological Bridge Foundation, the Swedish Industrial Development Fund and VINNOVA, the Swedish Agency for Innovation Systems. The activity will be focused on financing and counselling to technology-based project in very early stages. The government has proposed that the structure should be implemented during 2005.

Innovation loans: ALMI Business Partner is a public company with its head office in Stockholm and 21 regional offices throughout Sweden. ALMI offers a combination of advice, business development services and supplementary financing. ALMI assists in the evaluation of technology concepts and products and contributes financially to some 2 500 innovations. This part of ALMI will be closely linked to the new organisation for financing and counselling to technology-based project in very early stages. ALMI also provides business loans (micro loans) and other financing for small enterprises.

Guarantee societies: A programme to support mutual guarantee schemes through regional guarantee societies has been developed by private actors. Support has been given from the government to improve information and support the start up of these societies. A number of guarantee associations have started and the government will support these activities during 2005.

Other measures/organisations: NUTEK has a programme for starting regional business angel networks. The programme started at the end of 2002. NUTEK has a coordinating and supporting role, e.g., to arrange seminars and develop tools like handbooks for the network. Besides the above-mentioned initiatives, Sweden has a broad range of schemes providing loans and guarantees for SMEs. These are managed and administrated by public owned agencies and foundations, such as NUTEK, ALMI Business Partner AB, the Swedish Industrial Development Fund and the Norrlands Fund.

Technology and innovation

Innovation and technology development are of high priority in Sweden. Many studies show that Sweden is in the forefront when it comes to investing in R&D. New technology and knowledge is often created in interaction with other companies, institutes and universities,

and stimulating the take-up of new technology and ideas is therefore important. In June 2004 the Minister for Industry and Trade and the Minister for Education launched a national strategy for innovation, “Innovative Sweden – a strategy for growth and renewal”, with the main aim to strengthen economic growth in enterprises and regions.

The innovation strategy is based on the fact that Sweden has a good starting position as a country for innovation. The conditions are however, changing as the economy is becoming increasingly global and knowledge-based. The fact that the population is ageing also puts pressure on the economy. The Swedish strategy has four priority areas. They are:

- Knowledge base for innovation: Action should be taken to:
 - ❖ Ensure that Swedish education and research are of world class.
 - ❖ Concentrate efforts in Swedish profile areas.
 - ❖ Utilise the opportunities of globalisation.
- Innovative trade and industry: Action should be taken to:
 - ❖ Strengthen the innovative capacity of existing SMEs.
 - ❖ Increase commercialisation of research results and ideas.
- Innovative public investment: Action should be taken to:
 - ❖ Use the public sector as an engine for sustainable growth.
 - ❖ Promote renewal and efficiency in the public sector.
 - ❖ Develop infrastructure that promotes renewal and sustainable growth.
- Innovative people: Action should be taken to:
 - ❖ Stimulate entrepreneurship and make the most of people’s skills.

Concrete actions based on the innovation strategy will be presented in government bills and elaborated in governmental commissions. The implementation of the strategy will involve various parties and build upon interaction and joint actions. To further develop the strategy and to discuss future actions the Minister for Industry and Trade has established an Innovation Council.

Other measures: Sweden has a large number of other measures in Sweden to stimulate the take-up of new technology and R&D results to strengthen the competitiveness of SMEs. Samples of measures are listed below:

- VINNVÄXT – Regional Growth through Development of Dynamic Innovation Systems.
- Incubator Programme.
- Techno-polls.
- Technology Links.
- Industrial Competence Centres.
- The National Cluster Programme.
- IT.SME programme.

Management

The Entrepreneur’s Guide (Företagarguiden), operated by NUTEK, is a Web-based portal for start-ups as well as established businesses. The Guide contains information and tools useful for the entrepreneur, databases concerning permits for different lines of business, funding opportunities for SMEs and start-up contacts etc. The Web site is

designed as an easy-to-navigate directory of useful links to relevant information supplied by about 80 government agencies and other public organisations in Sweden. Users may communicate directly with the authority by e-mail and get an answer from an expert within 48 hours. Subjects attracting the greatest interest are information on starting up a business, taxes, financing and employment regulations. In 2003, a range of municipality Web sites were created to enable users to start using the service directly as a Web service at their Web site. More than 1850 questions were answered personally by the service “Ställ en fråga” (“Ask a question”). See www.nutek.se/foretagarguiden for further information.

The Financing Database (Finansieringsdatabasen) is a database on the Internet (www.nutek.se/finansieringsdatabasen) which contains information about funding opportunities for enterprises. The aim of the service is to inform about the wide range of public and private finance opportunities, helping SMEs, start-ups, entrepreneurs and innovators to find suitable financing for specific ideas and projects. The service also helps users get a general understanding of how financial markets work and operate. An important objective of the service is to inform about the opportunities for SMEs to participate in transnational development projects.

The Swedish Companies Registration Office (Bolagsverket) has together with the Swedish Tax Agency (Skatteverket) launched their common one-stop-shop Web site for registration, www.foretagsregistrering.se. Since 1 April 2003, it is possible to file the necessary information to both authorities for registration of a new company (“enskild näringsidkare”) entirely electronically and signed with digital signatures. Furthermore, it is also possible to electronically file and sign information to the Swedish Tax Agency in order to notify changes within an already existing company.

The Web site, www.foretagsregistrering.se, can be used for registering the following types of company: enskild firma (sole trader), handelsbolag (trading partnership), kommanditbolag (limited partnership) and aktiebolag (limited company). The Web site also contains an interactive guide for choosing the legal form of a new business. This can also be used for teaching and spreading basic knowledge about the legal framework for companies. This service is a result of the project Kontakt-N, which was described in the 2002 SME Outlook.

Internationalisation/globalisation

The Swedish Trade Council provides information and support for Swedish enterprises in their business activities abroad in an effort to lower the barriers to entering international markets. The Council has targeted programmes to SMEs. Information on doing business abroad is available at the Web site www.swedishtrade.se.

Invest in Sweden Agency (ISA) is the government agency assisting and informing foreign investors about business opportunities in Sweden. Companies planning to establish or expand business operations in Sweden can obtain, free of charge, information and assistance from ISA and its regional and international network. The services included:

- Comprehensive information on business opportunities in Sweden, key business sectors and the Swedish economy.
- Tailor-made information and practical advice on how to proceed when setting up a business in Sweden.

- Introductions to relevant contacts among Swedish authorities, utility providers and professional service companies such as lawyers, accountants, relocation specialists and recruitment companies. For further information: www.isa.se.

The Euro Info Centre (EIC) network in Sweden provides information and advice to SMEs about the European Union, and how to do business on the EU internal market and take part in European projects. Through the European EIC network, consisting of about 300 offices, the EICs assists SMEs in finding business partners in the EU as well as in the candidate countries. In Sweden there are 15 offices or contact points which supply approximately 20 000 SMEs with information and advice each year, see www.euroinfo.se.

The National Board of Trade is the Swedish Contact Point for businesses encountering problems when exercising their rights in the EU internal market. The Board is obliged to handle the problems. The time limits for handling the complaints are strict. Within a week the complainant receives confirmation that the Board has received the complaint. The goal is that the problems should be solved within four months. The Board deals with the problems in close co-operation with other Swedish authorities and with other EU member states.

Switzerland

SMEs in the economy

SMEs (employing fewer than 250 employees) in Switzerland account for 99.7% of all enterprises and over 99% of manufacturing firms. Small enterprises (< 50 people) represent 97.9% of the total and 96% of manufacturing firms. About 88.4% of all firms provide employment for between one and ten persons. In terms of employment, SMEs account for 69.1% of total employment and 72.8% of manufacturing employment. Small enterprises employ 48.7% of the total and account for 45.6% of manufacturing employment.

Framework policies

Since 1999, the Federal Government has continued to pursue its programme of structural reforms. On the basis of an in-depth report on the main determinants of economic growth, the Swiss Government in early 2003 drew up a set of measures designed to underpin growth. The package of measures included the revision of the Act on cartels, which came into force in April 2004, as well as also the revision of the Act on the domestic market, submitted to Parliament in late 2004. These measures are intended to liberalise the domestic market with a view to combating the high prices of Swiss products in international terms and to raise productivity in the economy.

SME policies and programmes

During the second quarter of 2003, the Federal Department for Economic Affairs presented its policy in support of SMEs, and published an action programme which covers a broad array of projects ranging from e-government to reducing administrative charges. Switzerland is continuing its efforts to improve the quality of the legal and regulatory environment for business. Up to now regulatory reform has focused on:

- Speeding up procedures.
- Improving co-ordination between authorities.
- Increasing transparency of legislation.
- Reducing the number of regulations.
- Increasing the customer focus.

The majority of these measures came into force at the beginning of 2004. In particular, the Federal Council issued an administrative order specifying the time limits for processing applications. The authorities are now required to inform applicants of the progress of their applications in writing and within a reasonable time. The order leaves open the possibility, in sectoral legislation, of setting other time limits appropriate to specific conditions.

The *SME Forum* brings together SME owners/managers who scrutinise planned laws and orders from the standpoint of their compatibility with business efficiency. The Forum

advises the administration and proposes simplifications to formalities for SMEs. It has adopted official positions on numerous issues, *inter alia*, the liberalisation of the electricity market, the revision of the law on foreigners, the revision of the law on cartels, and the draft reform of business taxation. Within the administration, an impact study of regulation was carried out to improve the quality of legislation, by submitting laws to prior scrutiny for their economic implications. In concrete terms, all bills and draft orders must contain a chapter on their economic consequences. The following five points, which are mentioned in the Federal Council's directives, are examined:

- The need for and possibility of State intervention.
- The consequences for the various categories of stakeholders.
- The implications for the economy as a whole.
- Alternatives.
- Practical aspects of implementation.

The new law on value added tax (VAT) came into force at the start of 2001, the standard rate being raised to 7.6%. The amendments made to the law eased the administrative burden on SMEs, notably by raising the turnover thresholds up to which VAT can be settled on a simplified lump-sum basis. Another innovation is that new businesses can be awarded taxpayer status on the basis of a business plan, which enables them to deduct tax paid during the preliminary stages of start-up when they make heavy investments but do not have a high turnover. The tax authorities have also modified the rules so that invoices issued solely in electronic form can be accepted. Concerning income tax, the government commissioned a group of experts to draw up proposals for a system of taxation independent of the firm's legal form. These proposals will be incorporated in the reform of business taxation in 2004, the aim of which is to eliminate totally or partly the double taxation of companies and shareholders when profits are distributed.

Entrepreneurship

In September 2004 the Federal Council published a report on support for business creation. This report, which reviewed the various types of support in place or planned, was a response to numerous statements in parliament on the issue. Among these measures, mention may be made of the lowering of the minimum nominal share value of public companies from CHF 10 to one centime. Investment by pension funds in unlisted companies was made easier by a change in the rules of supervision, based on the "prudent investor" principle. A reform of the taxation of options was launched but has not yet been completed since it requires a revamping of tax law. Under the current system, options are taxed when they are granted, which is a disadvantage to employees in new enterprises since they have to pay the tax when their earnings are low. There is also a high risk that the enterprise will disappear and that the option will lose all its value. Following extensive preparatory work, the government put to Parliament in November 2004 a proposal to move to assessment by fiscal year, with a reduced rate to take account of the length of time the option is held.

As part of its e-government programme, the Federal Council instructed the administration to set up a business creation Internet site. The existing SME Task Force site of the Secretariat of State for the Economy (www.pmeinfo.ch) has been supplemented by a one-stop shop for entrepreneurs, and will be progressively expanded so as to constitute a portal for SMEs. These new means of communication now makes it possible to reach the

majority of enterprises. A survey done for the third time since 1999 found that two out of three enterprises use the Internet to communicate. The share of these users continues to increase. On the other hand, e-commerce is much less developed. Insofar as they constitute an important reservoir of productivity gains, the government is trying to encourage the use of these new technologies by providing the possibility of conducting transactions on line. An online basic business start-up form is available since February 2004 (www.pmeadmin.ch). Similarly, each enterprise will have a single identification number, which should facilitate their dealings with government departments. In the medium term, this project presupposes numerous changes at the administrative level.

One initiative of the Federal Innovation Promotion Agency CTI, *CTI Start-up*, promotes the establishment of enterprises in the high-tech sector. Newly acquired knowledge is used directly in the new enterprises. The focus lies on the especially difficult start-up phase of founding a company. The initiative qualifies new enterprises for venture capital financing and encourages the further development of their pioneering achievement in science by direct interaction with universities and colleges. Since 1996, more than 100 young enterprises obtained the CTI Start-up-Label which qualifies them for Venture Capital-funding status. In 2003 the CTI Label companies received about CHF 100 million financial investments. In 2004 CTI launched an initiative called *Venturelab* in order to promote entrepreneurship in Switzerland, working in close cooperation with CTI Start-up.

Financing

As elsewhere, Switzerland experienced a boom in the funding of start-ups at the end of the 1990s. Funds raised by venture capital institutions in 1999 were triple the level of the previous year, totalling one billion Swiss francs, the bulk of investment going to the preliminary stages of start-up. The amount reached CHF 1.5 billion in 2000. Since, as elsewhere, a very sharp fall has ensued; funds raised in 2002 totalled a little over 300 million, while the recovery that started in 2003 resulted in barely more than 500 million being raised. The relative lack of interest in funding new businesses was also reflected in the Swiss stock market which has closed its start-ups segment, incorporating it in the main listing.

The *Cautionnement des arts et métiers* is a credit guarantee system aimed primarily at traditional SMEs. It involves a network with a central office and ten independent regional co-operatives linked by co-operation agreements. Credit guarantees (up to CHF 150 000) are provided by regional co-operatives. In cases where higher credit is needed, the regional co-operative can apply to the central office for a further CHF 350 000 (CHF 500 000 in mountainous areas). The government covers 50% to 60% of losses (90% in mountainous areas). The heavy losses incurred in the second half of the 1990s resulted in an overhaul of the system. Commitments fell to about CHF 200 million, and were limited to regional and cantonal banks. The Federal Government has decided to refocus the various mechanisms. As regards to other regional policy instruments, Parliament in the second quarter of 2001 extended for a further five years the federal decree on redevelopment areas. This instrument, which can be used in part of the country, is geared at SMEs and is designed to help them diversify. Inter-firm assistance has been added to the existing range of instruments (guarantees, soft interest rates, tax reliefs), making it possible, for example, to support institutions that provide assistance to start-ups.

Technology and innovation

The Federal Innovation Promotion Agency CTI supports the transfer of knowledge and technology from academic institutions to industry, with the aim of integrating scientific know-how into the design of products and services – “Science to market” is its claim. The CTI funds and monitors innovative projects with high commercial potential that are run jointly by academic institutions and industry. Assistance can take the form of financial support or the provision of services and innovation management know-how. CTI Support is provided on the following basis: i) the key element is the bottom-up principle, whereby it is the entrepreneurs themselves that formulate their projects which must have a clear market application; ii) assistance for innovation is open to all disciplines, the CTI taking an all-round approach; iii) support is provided subject to a commitment by a private sector partner to bear at least 50% of the costs of the project, such a commitment being proof of market interest – the Confederation disburses the funds to academic institutions; and iv) the CTI works actively in promising areas by launching thematic initiatives and programmes of fixed duration, such as the Start-Up Initiative to promote business creation. For the period 2004-07, the CTI has appropriation commitments totalling CHF 390 million. In 2003/04 a number of new measures were launched dealing with the promotion of innovations comprising national and international aspects.

The “discovery programme” of the CTI is geared to the realisation of “radical innovations”, the support of new fields of business for SMEs, of start-ups and spin-offs and a quick conversion of basic research insights into market products and services. To reach this goal the CTI wants to strengthen the interface between basic research and research close to the market, and to fund medium-term and long-term projects as well.

An ageing population is a great challenge to society and social systems but it does also open up new opportunities for the economy. Since the beginning of 2004 the CTI-ISA initiative *Innovation for Successful Ageing* (ISA) has been targeting research and development projects which are expected to lead to innovative solutions in the market by taking account of the specific needs of older people; these innovations include new technologies, products and services.

Another priority is to boost international cooperation and to increase the number of projects having international participation. CTI's budget for 2004-07 covers nine main areas:

- i) CTI's core activity: supports the business innovation process by promoting applied R&D targeted to SMEs; ii) CTI supports the establishment and development of competitive applied R&D in universities; iii) *CTI Entrepreneurship*: promoting the establishing enterprises in the high-tech sector by *CTI Start-up* and increasing the entrepreneurial awareness through “venturelab” – an education and training programme in entrepreneurship; iv) *CTI Life Sciences/Biotech/Medtech*: to enhance the competitiveness of Swiss firms specialised in bio and medical technology; v) *CTI International: EUREKA*: participation in the European Research Initiative with a view to stepping up European co-operation in R&D and *Intelligent Manufacturing Systems (IMS)*: strengthening R&D co-operation between firms and research centres world-wide; vi) *CTI Micro and Nano Technologie*; vii) *IT and Communication Technologies*; viii) *Discovery projects* with high innovation and market potential; and ix) *CTI Innovation for Successful Ageing (ISA)*.

Some 4 000 projects have been assisted since 1986, generating R&D activities worth about CHF 2.5 billion. Over 60% of the costs were borne by the private sector, the

Confederation financing the remainder. Over 5 000 companies, 80% of which were SMEs, have taken part. In 2003, 750 project applications were filed. By 2007, the annual number of application is expected to exceed one thousand.

Management

Venturelab – Fast Track for Start ups. Venturelab is an initiative launched by CTI in order to promote entrepreneurship in Switzerland. It is carried out in co-operation with the federal institutes of technologies, universities and universities of applied sciences. Venturelab provides customised education tools to promote innovative young entrepreneurs and is expected to yield positive results in students for entrepreneurship. The initiative focuses on the best projects, accompanies them with professional consulting emphasising practice rather than theoretical concepts. This initiative is organised at a regional level. Approximately 1 500 students, and 500 entrepreneurs are expected to receive management training annually.

The Federal Law on Vocational Training of 1978, regulates training in industry, small crafts and trade. A revised Law came into force in 2004 comprising the following elements: an extension of its applicability to all trades (including health and social care); a form of basic training that provides for a lifelong learning process; better interaction between vocational and general knowledge; co-ordination of basic training and continued training; a more active role for the federal authorities; launch and encouragement of innovative measures, and alignment of training with measures in the labour market. These efforts primarily concern SMEs as almost three-quarters of all trainees receive their training in SMEs. It may be noted that two thirds of young people choose vocational courses. During the period under review, specialised higher education institutions (HES) continued to be set up. To begin with, vocational schools were grouped together into seven regional networks so as to co-ordinate courses better and to open up new possibilities for sandwich training (especially in the field of research). 17 000 students are currently enrolled in HES on 220 courses. The development of research in these practically oriented schools is very important for SMEs. The HES have a clear role to play in working closely with companies, supplementing academic research with training that is more relevant to SMEs.

Export promotion

Under the law on export promotion the OSEC Business Network Switzerland (OSEC), mandated by the State secretariat for Economic Affairs (SECO), provides information, and advice concerning foreign markets, and opportunities for companies located in Switzerland; and it advertises Swiss industries and services abroad. The international activities of OSEC include participation in, and organisation of, fairs, organisation of trade missions abroad, market analyses, advice and information on trade, and invitation of foreign buyers to Switzerland.

Export promotion activities abroad are carried out by the *Swiss Business Hubs* in priority countries (so far in 14 different countries) and by the Swiss representations in most of the other countries, where only limited services are offered.

Furthermore OSEC also collaborates with other governmental and private associations or organisations working in the field of trade promotion so as to coordinate the Swiss trade promotion network, *Business Network Switzerland*.

Other programmes

Within Switzerland's federal structure, the cantons are autonomous in certain respects, and federal law provides them with the authority to issue decrees which they may draw up within federal regulations. Their SME initiatives follow the pattern of developments in federal programmes and include the following: services for SMEs in the fields of information, brokerage and consultation; reduction in interest rates (for investments), interest subsidies and concessions; tax relief; specific, once-off contributions towards studies, pilot projects, subsidised purchases of real estate; credit guarantees; co-operation with the private sector (research institutes, consultants, accountants, insurance, companies, foundations). These measures are aimed principally at new and export-oriented companies. In addition to measures targeted at individual firms, financial contributions may be made to institutions and projects aimed at enhancing regional development potential.

Turkey

SMEs in the economy

SMEs constitute a major part of the Turkish economy, accounting for a large proportion of businesses and total employment. SMEs are defined differently by the various Turkish organisations involved in SME policies. The more restrictive definitions are those of KOSGEB, the Under Secretariat of Foreign Trade and Eximbank, which cover only manufacturing; the broadest definition is used by the Under Secretariat of the Treasury which uses the same definition as Eurostat. A priority of the State Institute of Statistics (SIS) is to compile and publish SME statistics based on a single definition aligned on that of Eurostat.

According to the most recent estimates, the SME sector, including services, accounted in 2000 for: 99.8% of the total number of enterprises, 76.7% of total employment, 38% of capital investment, 26.5% of value added, roughly 10% of exports and 5% of bank credit.

As of 31 January 2003, TESK (The Confederation of Tradesmen and Artisans of Turkey) had registered more than 2.76 million trade and craft enterprises. In the trade and industry sector represented by TOBB (Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey) enterprise numbers were estimated to be 1.2 million at the end of 2003. Only a small percentage of SMEs are in the manufacturing sector. According to SIS data, on 1 January 2001, 210 000 SMEs (1 250 employees) corresponding to 99.6% of the total number of manufacturing firms, and just over 1 million persons were employed by these SMEs (64.3% of the manufacturing total) making up 34.5% of the sector's value added. Manufacturing sector SMEs are broken down by industry as follows: metallic goods, 26%; textiles, clothing and leather goods, 26%; wood and furniture, 24%; food and drink, 13%; paper, 4%; other sectors, 7%. Generally, these enterprises are very small, averaging 4.8 employees for SMEs in manufacturing. For those SMEs having between one and nine employees the average is 3.1. Overall, micro-enterprises account for 95% of the total and 34% of Turkey's jobs.

Recent developments in SME policies

Policies in support of SMEs are accorded high priority in Turkey in view of the role they play in the Turkish economy. Turkey's SME policies are designed to:

- Strengthen the capital of SMEs.
- Provide credit opportunities for them.
- Raise their added-value, competitiveness power and technology utilisation.
- Open them to international markets.
- Help them create their own trademarks.
- Enhance their main-sub industry relations.

Restructuring KOSGEB

The Small and Medium Industry Development Organisation – KOSGEB – a semi-governmental institution affiliated with Ministry of Industry and Trade – was re-structured to ensure more effective service provision. New support mechanisms were developed in support of improvements in SME performance, technology utilisation, and for preparing SMEs to internationalise. Recognised best practices have been adopted and adapted to the prevailing conditions. Recent policy changes have increased KOSGEB support initiatives from 8 to 38 under 22 main headings, while administrative procedures which used to number 45 have been reduced to 5.

New legislation introduced

Regulation on Principles of the Establishment and Operation of Stock Exchange Markets Organised over-the-counter: This 2003 regulation, also known as SME Exchanges, provides for the establishment of SME markets, primarily for SMEs having growth potential, to improve access to SME finance.

Communication on Foundations of Venture Capital Investment Company: This 2003 initiative, prepared by the Capital Markets Board of Turkey, provides financial opportunities for entrepreneurs who need financial support to realise their investment ideas.

European Charter for Small Enterprises

The *European Charter for Small Enterprises* was endorsed by Turkey in April 2003. Its implementation is reviewed and coordinated by KOSGEB.

SME Strategy and Action Plan

Turkey's *SME Strategy and Action Plan*, in line with the European Charter for Small Enterprises, was prepared by the SME Study Group drawn from the Ministry of Industry and Trade, SPO (State Planning Organisation), Undersecretary of Treasury, Undersecretary of Foreign Trade, SIS (State Institute of Statistics), KOSGEB, Turkish Union of Chambers and the Confederation of Tradesmen and Artisans. The Action Plan, the overall goal of which is to support SME competitiveness, determines the policy measures needed for harmonisation with EU policies and the SME support measures to be funded under the Pre-accession Financial Co-operation Programme. The main structural problems facing Turkish SMEs are seen as: insufficient know-how, a low level of technology, and a disadvantaged financial environment.

Multi annual programme for enterprise, entrepreneurship and particularly for SMEs

Following a *Memorandum of Understanding* of December 2002, Turkey has become involved in this programme for the period 2001-05, and also in the sixth R&D and Technology Programme. As a result, nine Euro-Info Centres will be established in Turkey.

New laws introduced under the studies of Coordination Council for Improvement of Investment Environment

A number of studies are underway concerned with the need to improve the business environment for SMEs.

The *Law Amending Turkish Trade Law, Tax Procedure Law, Stamp Duty Law, Labour Law and Social Insurance Law*: With the aim to create a business and investment environment where

unnecessary bureaucracy is eliminated, legislation is simplified, use of ICT by SMEs is ensured, best business support is provided, and access to finance is simplified will both increase entrepreneurship and help attract foreign direct investment.

The *Law Amending Turkish Trade Law, Tax Procedure Law, Stamp Duty Law, Labour Law and Social Insurance Law*. It is passed in June 2003. It is now possible to conclude business start-up formalities within one day and in one centre – resulting in a reduction of the number of procedures from 19 to 3, and a dramatic reduction in the time involved, which used to take at least 2.5 months. Trade registration officers can now access via Internet the Ministry's company registration database.

Law on Foreign Direct Investments: This 2003 Law provides opportunities to investors and is a significant improvement in the legal framework concerning foreign direct investment. Foreign investors may now invest directly in Turkey and be treated on an equal footing with local investors. Moreover, foreign investors can transfer abroad, independently by banks or private finance institutions, net profit, dividend, disposal, liquidation and indemnity, etc. They may also apply to national or international arbitration or other means of dispute settlement when the conditions foreseen in the relevant legislation occur and when parties agree to this. Companies, already established, are also covered by this legislation.

The knowledge-based economy

Turkey accords special attention to issues of: access to original product designs, the establishment of a well-functioning R&D system; the promotion of R&D expenditure by both the private sector and the public sector; and increasing manufacturing competitiveness through improvements in its technological infrastructure. *Law on Technology Development Zones*: This law was enacted in order to develop the science and technology infrastructure in universities and in public and private research institutions. Various facilities and incentives are provided for enterprises operating in these zones. In addition, the Turkish Technology Development Foundation provides support, both financial and technological, for the promotion of technologically innovative projects of industrial institutions and supports the education and advisory needs of SMEs. *Technology Development Centres*: these are being set up to support technology-oriented SMEs which have high competitive potential. Twelve technology development centres are currently in operation. *KOBINET*: This is an information network which assists Turkish SMEs to present their products worldwide and to use electronic commerce.

Turkish industrial policy

Turkey's industry policy approved in September 2003, was prepared by the State Planning Organisation and involves the participation of a number of relevant institutions. Its aims are to: i) increase exports; ii) promote investment; iii) increase technological capacity and promote R&D; iv) increase quality and productivity; v) enhance labour force skills; vi) foster entrepreneurship and SME development; vii) provide sustainable development by establishing organised industrial zones, industrial estates and industrial zones; and viii) establish a competitive environment.

SME policies and programmes

A *Draft Law on SME Definition* compatible with the EU SME definition has been prepared. Until now, KOSGEB considered SMEs to be enterprises in manufacturing industry

having up to 150 employees: 1-50 workers (small enterprises) or 51-150 workers (medium sized enterprises). KOSGEB was established in 1990 to promote SME innovation and technological capability, their efficiency and competitiveness, thereby increasing their contribution to the national economy. KOSGEB provides development services and support programmes to SMEs in the fields of information dissemination, financial guidance, technology development, export promotion, regional development and entrepreneurship development. Services and programmes are provided through: the *Market Research and Export Promotion Centre*, *Regional and Local Development Centres*, *Entrepreneurship Development Centre*, *Training and Consultancy Development Centre*, *Financial Development Centre*, *SME Economic and Strategic Research Centre* (all of them in Ankara) together with *Enterprise Development Centres (GEMs)* and *Technology Development Centres (TEKMERS)* which operate throughout the country.

KOSGEB started a reorganisation process in 2003 based on: an analysis of the efficiency of existing KOSGEB supports; an examination of best practices aiming to serve SMEs by equivalent organisations in developed countries; and taking into account recommendations from 600 SME-related organisations in Turkey. As a result, KOSGEB now has responsibility for the following functions: developing SMEs' technological capability; improving SME training and access to and use of information; providing appropriate financial mechanisms for SMEs; and improving SME management infrastructure. KOSGEB has introduced a service policy that includes: providing qualified and readily available services to SMEs in order to help them produce goods and services to high quality standards at low prices, and to utilise advanced technologies; and help eliminate obstacles confronted by SMEs in domestic and foreign markets. As a result of the reorganisation, the number of KOSGEB supports was increased from 8 to 38 under 22 headings and bureaucratic procedures were simplified. KOSGEB allocated TRL 160 trillion (approximately USD 33 million) to support services in 2003, which corresponds to 86% of its budget. Approximately 10 000 SMEs have benefited from this amount.

KOSGEB introduced a programme to screen 40 000 SMEs in order to better understand the sectoral and regional developments of SMEs and to determine the support types which best suit their needs. Focal points will be established throughout Turkey, and the development of the participating SME will be monitored continuously, and the KOSGEB expert responsible for that enterprise will be evaluated. The performance of KOSGEB will be assessed on a quarterly basis.

KOSGEB performs a wide variety of research, analysis, planning and programme support functions including at the regional and sectoral levels. These functions include the provision of: marketing services; quality control assistance; technology support and development; information and training; business organisation services; assistance for participation in domestic and international fairs; preparation of R&D documentation and publication of results; patent, industrial design services; preparation and maintenance of an electronic commerce Web site.

Information dissemination, e-commerce and business co-operation services

Euro-Info Centres are a focal point for SMEs to access information related to technical, financial and commercial matters, as well as information related to various institutions and organisations abroad. The *SME Information Exchange Network – KOBINET* system (KOBINET www.kobinet.org.tr) has been established to promote electronic commerce among SMEs and their rapid access to information necessary for international business

cooperation. Information concerning 20 000 SMEs is available, e-mail addresses are provided free of charge and Web sites are designed in 7 different languages. In support of e-commerce use by SMEs, KOSGEB provides assistance in four steps: basic infrastructure; access to information; encouraging e-commerce; and e-commerce with the aim of exporting. SMEs are encouraged to avail of relevant EU programmes. Information on public tenders and on EU regulations is provided.

Technology development services

SMEs and Entrepreneurs aiming to develop high value-added products and advanced technological manufacturing systems together with innovation-related projects are supported by KOSGEB. A large number of *Technology Development Centres*, called *TEKMERS*, have been set up on University campuses. Business incubators, shared services and facilities as well as a range of physical and intangible support services are provided to entrepreneurs. Altogether, 19 such incubators exist. In areas where *TEKMERS* are not yet established, similar services are provided to SMEs through a programme called *Technology Incubators Without Walls*.

Financial support services

KOSGEB's financial support services for SMEs were re-structured as *Finance Centres* using new financial models in cooperation with other institutions, providing information on domestic and international finance sources. The *Financial Information Bank* was set up to provide funds to the Credit Guarantee Fund Incorporation for use in SME loan guarantees by banks investing in the *KOBI Ins.* Low interest loans are available. Since 2003, TRL 110 trillion was used by 1 700 manufacturing SMEs.

Entrepreneurship services

The KOSGEB Centre of Entrepreneurship Development has been given the following tasks: promote entrepreneurship and foster an entrepreneurial culture; remove obstacles in the regulatory environment affecting entrepreneurship; promote co-operation between entrepreneurs and organisations and institutions that provide support to entrepreneurship (networking); and develop and implement support instruments for entrepreneurs, including training, consulting, business incubators and start-up capital.

Market research and export promotion services

Research services and export promotion programmes administered by the *Market Research and Export Promotion Centre* are designed to increase SME exports. Services provided to SMEs include: information dissemination, research and guidance, setting up cooperation with international commercial organisations, design and application of development programmes designed to ensure bilateral or multilateral commercial activities for Turkish SMEs with their counterparts in other countries. Two extensive development and support programmes involving financial assistance are applied for SMEs which are informed, guided and encouraged to participate in international and domestic fairs and in the *Export Aimed Business Trip* programme for selected promising markets. Cooperation with international and commercial organisations of other countries is also undertaken for the benefit of SMEs.

Regional and local development services

Regional and Local Development Services are provided with the aim of reducing regional differences and contributing to balanced development, increased enterprise competitiveness, and improved employment potential of regions thereby reducing outward migration. Specialised common facilities workshops having modern and advanced plant and machinery are supported with a view to promoting the adoption of new production systems by SMEs. Likewise, common purpose laboratories are supported to assist SMEs improve product quality as well as design services for projects of small industrial estates as well as consultancy services geared towards the modernisation of SME premises and machinery. Various types of information and guidance (regional, industry, product, feasibility studies) are available.

Laboratory Centres provide technical services including ISO 9002 certification to SMEs. Various consultancy services are provided to SMEs to resolve issues related to production quality, management systems, human sources, technology adaptation, exports, marketing strategy, etc. Approximately 1 000 consultants are included in the KOSGEB database. Quality improvement services are provided to ensure that SME production conforms with international standards and quality assurance systems. New and existing SMEs receive training support.

Economic and strategic research services

KOSGEB established the *SME Economic and Strategic Research Centre* to make projections for its SME support services, to monitor new trends and developments, and forecast future trends – for various sectors of manufacturing industry. Also, reports will be prepared concerning the provinces of Turkey, industrial sectors and selected countries as well as reports on global strategic issues. The Economic and Strategic Research Centre will inform policymakers on the role of SMEs in the economy, and will inform decision-making on resource allocation concerning KOSGEB's SME support programmes.

Through KOSGEB, SMEs are provided with international supervision services, ISO 9002 certification, and technical expertise and supervision services, in particular for export goods.

International coordination in KOSGEB

KOSGEB's International Relations Coordination Group, established in 2003, aims to: internationalise SMEs; coordinate and promote KOSGEB activities having an international dimension; and coordinate private business trips, fairs and international conventions. The Group also carries out national coordination of the *EU Multi-annual Programme for Enterprise and Entrepreneurship, 2001-05*.

Monitoring and evaluation of KOSGEB services

KOSGEB established a new department to monitor the large number of programmes it administers and to evaluate their effectiveness. Data collected from SMEs, NGOs, KOSGEB Centres about the support models used, are analysed, and surveys are carried out. Evaluated and survey results are used for enhancing the efficiency of support services, increasing their benefits for SMEs and for developing new services.

United Kingdom

SMEs in the economy

The United Kingdom has approximately four million SMEs (including businesses run by the self-employed). 99% of them employ fewer than 50 people, and these small businesses provide 46% of private sector employment and 38% of turnover outside the financial sector. About 97% of firms in manufacturing employ fewer than 50, and around 98% employ fewer than 100. Less than 1% of manufacturing firms employ more than 500. About 53% of manufacturing employment is accounted for by firms with fewer than 250 employees, and just over one-third by firms with more than 500 employees. SMEs generate 36% of manufacturing output, while firms with more than 500 employees generate 54%.

In 2002, 176 000 businesses registered for VAT and the same number de-registered. SMEs are the main creators of new jobs and play an equally important economic role in the different constituent parts of the United Kingdom.

Framework policies

The overall aim of the Department of Trade and Industry (DTI) is to increase prosperity for all by driving up productivity and competitiveness through successful businesses, world-class science, and innovation and fair markets. All DTI work on these objectives is relevant to SMEs, but in recognising the key contribution that an active small business sector can make to them, the DTI also has specific targets to help to build an enterprise society in which small firms of all kinds thrive and achieve their potential:

- An increase in the number of people considering going into business.
- An improvement in the overall productivity of small firms.
- More enterprise in disadvantaged communities.

The DTI and the *Small Business Service* (SBS, an executive agency of the DTI), are central to the delivery of the UK Government's SME policy and the promotion of "Think Small First" across all government activities. The SBS is recognised as the centre of expertise for SME knowledge and understanding in the UK Government. The SBS played a key role in developing the government action plan for small business (published in January 2004), which is based around seven strategic themes that were identified as drivers for economic growth, improved productivity and enterprise for all.

SME policies and programmes

The independent *Small Business Council* (SBC) continues to advise the Secretary of State for Trade and Industry on the needs of existing and potential small businesses and reports on the effects on small businesses of the activities and potential activities of government. The Council consists of 23 members (most of them small business owners) who represent

a wide range of business sectors, ethnic groups and all regions in the UK. Through the work of its sub-groups the Council explores areas such as access to finance, workforce development, regulation, rural issues and the work of the SBS. The Council makes annual recommendations to government through its annual report.

The SBS was launched in 2000 to work with the public, private and voluntary sectors to make the UK the best place in which to start and grow a business. The SBS is instrumental in taking forward the government's vision of an enterprise society in which:

- Many more people, regardless of their background, have the desire, skills and opportunity to start a business.
- Everyone with the ambition to grow his/her business is helped and supported.
- A supportive business environment makes it easier for all small businesses to respond to government and access its services.
- There is greater use of the Internet and e-commerce by smaller businesses.

The SBS, through the network of Business Link Operators, offers assistance to those wishing to become self-employed or start up their own business and for employers with up to 250 employees. From April 2005 the eight English *Regional Development Agencies* (RDAs) take over responsibility for the network of 45 Business Links that provide information, advice and access to experts on all issues relating to starting up and running a business. SBS will retain responsibility for the Business Link brand.

Since the devolution legislation in 1999, which established the Scottish Executive, the Welsh Assembly and the Northern Ireland Assembly, increased responsibility for economic development has devolved to these institutions and more regional-specific programmes have been implemented.

In England, eight RDAs were created in 1999, covering all regions except London, to provide a regional focus, including for small firm programmes, and co-ordination of economic activities. Wales, Scotland and Northern Ireland all have their own arrangements, pre-dating devolution. In Scotland, *Business Gateway*, launched in 2003, provides support to new and start-up small businesses, and provides four core programmes covering business information, business start-up, business growth and high-growth. Highlands and Islands Enterprise (HIE) provides information and advice to businesses through its "First Stop" campaign.

In Northern Ireland, support to small businesses is provided mainly through *Invest Northern Ireland* and its local network. In Wales, the *Business Eye/Lylgad Business* service, sponsored by the Welsh Assembly Government and managed by the Welsh Development Agency (WDA), provides an easy-access entry point for all business support enquiries, and its remit covers new, existing or potential businesses.

Regulatory reform

The UK Government has significantly strengthened its systems to control the regulatory burden in the UK. It has, for example, carried out the following:

- Established the independent *Better Regulation Task Force* (in 1997) to advise on action to ensure that regulation, and its enforcement, meet the five principles of Good Regulation, Proportionality, Accountability, Consistency, Transparency and Targeting.

- Established the *Ministerial Panel for Regulatory Accountability* to take a strategic overview of the regulatory system and to call Ministers to account for new regulation and their performance in addressing the burden of existing regulation.
- Issued a revised guide to Regulatory Impact Assessment (RIA), building on the lessons learned since the launch of the previous guide.
- Appointed *Ministers for Regulatory Reform* to drive forward the better regulation agenda throughout government.
- Enacted the *Regulatory Reform Act*, giving the government a powerful tool to simplify or get rid of over-burdensome, overlapping, over-complex or outdated legislation.
- Compiled a *Regulatory Reform Action Plan* of over 260 proposals for improving existing regulatory regimes and reforming the public sector.
- Introduced the *Enforcement Concordat*, promoting a business friendly, balanced and consistent approach to enforcement. 96% of local authorities have adopted the Concordat voluntarily.

Other actions include: simplifying rules and assisting business compliance by transferring the Contributions Agency to the Inland Revenue and introducing a payroll assistance scheme; and working with European partners to ensure simpler, more effective EU regulations. The SBS continues to fund *Small Business Europe*, the UK's SME representative office in Brussels which helps influence the policy process at the EU level as early as possible. About 40% of new legislation with a non-negligible impact on UK businesses originates at the EU level, so the UK (and other EU member states) continues to press for better regulation at that level.

The SBS and the Cabinet Office continue to work to ensure that all new policies and regulations are designed and implemented in a way that minimises the burdens on small businesses. The introduction of the *Small Firms Impact Test* in 2003 was a significant step forward, ensuring that the views of small business are considered both at the initial stage of policy making and at the point when it is decided to proceed with regulation. The SBS has developed a database of more than 1 200 small businesses that are willing to engage with the government in this process. The SBS continues to assist government departments to consult small business prior to formulating policy and producing RIAs, and to work in partnership with small businesses and their representative bodies to ensure that their concerns about regulatory proposals are considered. SBS also works closely with government agencies, local authorities and businesses so that sensible national and local enforcement regimes are adopted. For example, SBS works with a network of *Local Business Partnerships (LBPs)* that complement the advisory role of Business Links by providing a forum for discussion on a range of regulatory and enforcement issues.

In Scotland, the *Improving Regulation in Scotland (IRIS) Unit* of the Scottish Executive continues to offer an open door for businesses. The Unit has worked on the strategic review of planning and the reviews of associated National Planning Policy Guidelines leading to a more efficient and modern planning system and continues to improve the use of RIAs. The introduction of a *Review Regulatory Impact Assessment* requiring a review of the original regulation within ten years of its introduction ensures that each regulation remains fit-for-purpose and its continuation justified. Furthermore, the introduction of the *Micro Business Test* ensures that the specific needs of very small businesses are taken into account in the development of Scottish policy. The IRIS Unit continues to develop its dialogue with the business community, through face-to-face meetings and seminars. The Unit also works

with local authorities and other regulatory enforcement agencies to improve the regulatory and enforcement environment for Business through its promotion of the *Enforcement Concordat*. The Concordat encourages constructive relationships between regulators and the business community in enforcement matters. *Business Gateway*, while building on the success of its predecessor, Small Business Gateway, provides access to public sector services (local and national) to all businesses in the Scottish Enterprise area.

The National Assembly for Wales is committed to the better regulation agenda and a principal tool for achieving better regulation is the regulatory appraisal. The appraisal should describe the issue that prompted legislation and compare options for dealing with it, including non-regulatory approaches. Costs and benefits of each option are identified and quantified as far as possible, to assist public debate. The impact of costs on businesses should be highlighted because regulations can often impose disproportionate burdens on them. All appraisals should include a competition assessment to determine the significant effect (if any) of the new legislation on competition in the market.

In Northern Ireland, the Department of Enterprise, Trade and Investment (DETI) has overall responsibility for taking forward the *Better Regulation Strategy* which seeks to reduce the regulatory burden on business and the voluntary sector. The Strategy includes review arrangements on RIAs; a micro-business test to assess the impact of any proposed legislation on businesses with less than five employees; a twelve-week notification period for new legislation; and the formal introduction of an Enforcement Concordat for Northern Ireland.

Financing

The UK Government continues to work to improve relationships between banks and small businesses and to enhance access to finance, and there have been several significant results over the past year. More businesses were enabled to apply for *Small Firms Loan Guarantee* (SFLG) through extended sectoral eligibility and increased turnover limits. Over 140 investments were made in nine *Regional Venture Capital Funds*, totalling over GBP 25 million, in line with targets. The *UK High Technology Fund* target to raise GBP 105 million from private sector investors alongside GBP 20 million of government investment was exceeded. Over GBP 124 million was committed to nine specialist venture capital funds, which have invested in over 150 technology-based UK companies. The government is providing capital, revenue and loan guarantee support to over 60 *Community Development Finance Institutions* (CDFIs) via the *Phoenix Fund*, which may consider other factors than collateral when making lending decisions. The government has published proposals to explore introducing a pathfinder round of *Enterprise Capital Funds* (ECFs) into the UK, subject to EU State Aid clearance. These ECFs (a variant of the US Small Business Investment Company programme) would be commercial funds investing private and public money in high-growth small companies seeking up to GBP 2 million of equity finance. ECFs are designed to reward success rather than reduce risk. The *Early Growth Funding* programme invests in amounts of about GBP 50 000 in small businesses with growth potential. Of the seven operational funds, six are co-investment funds, investing *pari-passu* with business angels and other private investors. The seventh fund, the Accelerator Fund, was created for promising, ambitious companies in southeast England.

The government's 2004 Budget contained further measures to promote a strong enterprise culture. The investment limit for Venture Capital Trusts was raised to GBP 200 000 and taxation relief doubled to 40% for two years. There was also a one-year increase in first-year capital allowances for small businesses to 50% to help them with

their cash flows and stimulate new investment. An extension to the qualifying costs for the R&D tax credit was announced, with expenditure on software, power (such as electricity used directly in R&D), water and fuel all qualifying, involving an additional GBP 35 million government support to R&D.

In 2002, the Scottish Executive announced a GBP 40 million *early-stage equity investment package* (for new and existing private sector-led equity funds) to address the shortage of funding below GBP 500 000. The package comprises the Scottish Co-investment Fund (SCF), the Business Growth Fund (BGF) and the Investment Readiness Programme (IRP). Scottish Enterprise administers SCF, but decisions on investments in individual businesses are a matter for Fund Managers who administer the individual funds. The BGF provides funds of between GBP 20 000 and GBP 100 000, repayable/redeemable over five years, for companies to obtain investment. The IRP helps growth businesses with the cost of developing proposals to a stage and quality at which they are likely to succeed in attracting equity investment.

The Xenos programme operated through Finance Wales is being developed to facilitate consultancy support of up to GBP 10 000 to assist SMEs to become more invest-attractive. Finance Wales has successfully assisted SME that are unable to raise sufficient funds from commercial sources, through a comprehensive suite of individual loan funds, ranging from small amounts to GBP 0.75 million equity investments. It also provides access to finance and commercial management expertise and networks for SMEs. In Northern Ireland, there are two locally-based funds operating with government participation which together provide equity funding for funding requirements ranging from GBP 50 000 to GBP 1 million.

Development of an entrepreneurial society and culture

The UK has many examples to offer of policies and actions to promote an entrepreneurial culture. The *Make Your Mark Start Talking Ideas* campaign is aimed at inspiring and encouraging 14 to 25-year-olds to be more enterprising. It is run by Enterprise Insight, a collation of business representative organisations and enterprise education/capacity-building bodies, with government support, with the focal point being the UK's inaugural Enterprise Week in November 2004: Starting in 2005, all 14 to 15-year-olds will receive the equivalent of five days of enterprise learning as part of their formal education. The *Enterprise Promotion Fund* is designed to support and encourage innovation in enterprise raising awareness, by funding a series of pilot projects to test new approaches and/or taking enterprise awareness messages into different communities. *Enterprising Britain* is a competition to identify the British Town or City of Enterprise, the intention being to champion best practice in policy-making and implementation at a local, regional and national level. The *Queen's Award for Enterprise Promotion* rewards individuals for outstanding contributions to the development and promotion of an enterprise culture in the UK, whether nationally or among particular communities. The *Routes into Self-Employment Review* has been addressing the issues of how well the UK's current benefits and tax-credits system is understood as a means of support for those considering self-employment.

Policies and programmes for fostering women's entrepreneurship

The policy context for the development of women's entrepreneurship in the UK was strengthened in 2003 with the publication of the government's *Strategic Framework for Women's Enterprise*, developed by the SBS in partnership with a range of public, private and

third sector organisations. It provides a collaborative and long-term approach to women's enterprise in the UK. Its vision is to create an environment and culture that encourages more women to start and grow businesses. It provides a summary of research findings, guidelines, practical advice and examples of good practice. The Framework identifies four key action priorities: business support provision; access to finance; childcare and caring responsibilities; and transition from welfare benefits to self-employment. Targets were set for a three-year period to 2006, relating to increased women's business ownership, including enterprises started by women from ethnic minority communities, and the numbers of women accessing business support services. Around 27% of total self-employed in the UK are women, and around 12% of SMEs are wholly or majority female-owned.

The UK has been collaborating with the United States and Canada in a *Trilateral Alliance on women's entrepreneurship*. Activities in 2004 have included a virtual summit and videoconference, resulting in a detailed report that highlights research findings, good practices and policy developments from each of the three countries. This collaboration linked into the *OECD Accelerating Women's Entrepreneurship Forum*, held in Istanbul in June 2004 in conjunction with 2nd OECD SME Ministerial Conference. A number of women's enterprise "good practice" programmes and initiatives have been identified throughout the UK, many of which have received funding from the innovative Phoenix Development Fund. More information on best practice examples can be found at www.prowess.org.uk.

The Small Business Service (SBS) and social inclusion

A principal theme in the government action plan for small business is to encourage more enterprise in disadvantaged communities and under-represented groups. This is part of a wider government agenda to address social exclusion, whether caused by lack of access (disadvantage) or a lack of resources (deprivation). From April 2005, RDAs in England will be tasked to respond to a Public Service Agreement to achieve more enterprise in deprived areas. They will seek to learn from such initiatives as Enterprise Areas and City Growth Strategies that focus on particular areas and seek to emphasise their economic advantages. Other initiatives being piloted are *Business Brokers* and the *Phoenix Fund*. The latter, launched in 1999, encourages enterprise in disadvantaged communities and in groups under-represented in terms of business ownership. Financial support is channelled through specialist business support providers and financial intermediaries. CDFI is one of six elements of Phoenix – the others (mostly in England) are: a Development Fund to promote innovative ways of supporting enterprise in deprived areas; a network of Volunteer Mentors to pre-start-up businesses and early start-up businesses; a Community Development Venture Fund; City Growth Strategies; and the Development Fund for Rural Renewal. The devolved administrations in Northern Ireland, Scotland and Wales are responsible for business support in their areas, including allocations of Phoenix money.

Technology and innovation

Developments over the last year include the following. The Office of Science and Technology and the DTI's Innovation Group established the *FP6UK support service* for UK-based organisations interested in submitting proposals to the EU Sixth Framework Programme. *FP6UK* provides support across the Framework Programme through a Web site, generic and theme-specific helplines, national contact point and other services. *Knowledge Transfer Partnerships (KTPs)*, which replaced *TCS*, are part-funded by government and enable

businesses to work in partnership with a university, college or research organisation to develop new products, services and processes. SMART has been replaced by the *Grant for Investigating an Innovative Idea* and the *Grant for Research and Development*. The prime aim of the former Grant is to help improve the productivity of businesses through the use of innovation. It is targeted at SMEs that have a specific innovative project idea but lack the internal capability to initiate and manage the innovation process required to implement their idea successfully. Applicants must examine their idea with a chosen mentor to assess their ability to implement it. Successful applicants will receive a grant of 75% of all mentor and consultancy costs up to a maximum of GBP 12 000. The *Grant for Research and Development* assists individuals and SMEs to research and develop technologically innovative products and processes, and is for one or more of four types of project: micro; research; development; and exceptional.

The Scottish Executive's SMART, SPUR and SPUR^{plus} Programmes assist SMEs to develop new, highly innovative products and processes. Scottish Enterprise's *Small Company Innovation Scheme* (SCIS) assists SMEs to develop new products and processes, and can offer help with market research and product launch activity. Equivalent support is available in the HIE area. The Scottish Executive has introduced SCORE (SME collaborative research), which supports projects involving pre-competitive activities in R&D, jointly undertaken between SMEs and public sector research bodies. The new SEEKIT (Scottish Executive Expertise, Knowledge and Innovation Transfer) programme assists public sector organisations such as universities and research institutes to fund projects that improve the ability of Scotland's science base to work with Business. Europe's first *Intellectual Assets* (IA) Centre has been introduced to advise Scottish businesses on IA management matters. The Executive also sponsors the *Innovators Counselling and Advisory Service for Scotland* (ICASS), an initiative that provides specialist counselling and advice for Scotland's inventors and small innovative companies.

In 2003, the Welsh Assembly Government launched its three-year *Wales for Innovation* Action Plan, already translated into useful actions. The *Wales Innovators Network*, a new scheme for lone inventors, was expanded to a team of five dedicated counsellors operating throughout Wales. Innovation grant schemes were evaluated and a new enhanced single innovation grant scheme, SMART Cymru, was introduced. The free independent *Design Wales* advisory service commenced development of a design action plan and held an international workshop to exchange best practice in design support for SMEs.

In 2003, a working group comprising Northern Ireland Government Departments and Invest Northern Ireland published a regional innovation strategy and associated action plan, *think/create/innovate*. The action plan was reviewed in 2004 and found to be on target. A further plan has been developed. A key objective is to encourage SMEs to become more involved in R&D and innovation activities. The SMART programme, organised on a competitive basis and a rigorous selection process, determines applicant eligibility and merit and has been instrumental in the success of main technology-based spin-outs and is one of the most effective programmes for encouraging innovation within early-stage technology businesses in Northern Ireland. SMART financial assistance has helped small companies and individuals carry out R&D leading to the creation of innovative products and processes. In 2003/2004 there were 16 SMART winners. Other key programmes assisting small businesses in Northern Ireland concern: product/process development; compete; start; design development programme; and KTPs.

Export promotion

UK Trade and Investment (UKTI) trade services offer support to companies based in the UK to achieve their export potential. For those exporting for the first time or businesses experienced in international trade expanding into new markets, UKTI helps develop export capabilities, provides expert advice, reliable data and professional research. UKTI has trade teams in over 200 posts worldwide and also helps businesses seeking to start or expand in the UK. Inward investment into the UK rose by 14% over 2003/04, and the UK remains Europe's main investment destination. The Action Single Market/UK SOLVIT Centre (ASM), located in DTI, assists businesses and citizens encountering Internal Market rights problems. An online database created by the European Commission, SOLVIT tries to resolve breaches of EU Rules speedily and without recourse to formal proceedings. Most problems are resolved through SOLVIT, and the remainder can be referred to the European Commission.

Scottish Development International (SDI), established in 2001, brings together activities of Scottish Trade International and Locate in Scotland. As a joint venture between the Scottish Executive and Scottish Enterprise, it aims to ensure that companies are able to realise the full benefits of trading in international markets. SDI provides generic and custom market research and knowledge to Scottish companies and delivers customised strategic market entry support. This covers a wide range of activities including the delivery of all government trade services in Scotland, tailored *Market Assistance Programmes* and assistance for companies on outward missions and attendance at exhibitions. In addition over 60 export support organisations operate as members of a network of 13 *Local Export Partnerships* set up across Scotland. Partnerships include Chambers of Commerce, Local Authorities, Local Enterprise Companies and enterprise networks, all of which aim to provide more effective support to local companies and ensure maximum impact from available resources.

Wales Trade International (WTI) is the overseas business support arm of the Welsh Assembly Government, helping Welsh companies to: access UKTI trade services; establish themselves overseas; forge business alliances worldwide; identify international business (including export) opportunities. WTI also runs an overseas events programme, with subsidies for eligible companies. *Invest Northern Ireland* provides practical help to businesses that are seeking to develop export markets.

E-business

The UK considers broadband as pivotal to providing a world-class infrastructure for e-business, public service delivery and online participation, and as having the potential to enhance productivity, improve competitiveness and open up new markets. The government has set in place a regulatory framework to ensure commercial decisions by private companies are aligned with the economic and social needs of the country. In particular, the government has worked towards ensuring that public sector investment in broadband infrastructure provides solutions for delivering best value broadband services to local communities, especially in areas less likely to attract commercial investment.

The UK is committed to putting into practice the principles contained in the OECD Guidelines on Network and Information Security and realising the concept of a “culture of security”. There is a strategy to improve the performance of government and the private sector, and new initiatives and public-private partnerships to implement that strategy are

being developed. In relation to the private sector, the UK's Information Security Breaches Survey helps direct the government's activities in this area, particularly in terms of security messages aimed at SMEs. Much of this work centres around the 7 799 suite of standards, where the UK has led the world. These standards help business implement best practice in information security management and increasingly provide the confidence consumers and suppliers require.

Where issues of dispute arise, the UK Government believes that Alternative Dispute Resolution schemes (e.g. ombudsmen, arbitration), including online schemes, may offer consumers low-cost, user-friendly alternatives to court action. The government believes that ADR can make a valuable contribution to consumer confidence in the field of electronic commerce.

Management

Business Link is the national network of local partnerships between the business community and the government that provides a route to professional information and advice for small business through a single point of access. The network comprises 45 operators throughout England and can be accessed nationally via a contact centre and a complementary Web site developed specifically to meet the needs of small business customers (www.businesslink.org). The Business Link network delivers Business Link branded services, including pre-starts, start-up and micro businesses together with established and growth potential businesses. It is also committed to tackling social inclusion issues and assisting in reaching the untapped entrepreneurial potential within the economy. Business Link services are delivered through *Personal Business Advisers (PBAs)* who analyse and diagnose the needs of the SME customer and encourage business owner managers to take a longer-term view. They work with SMEs to develop solutions that meet their needs by brokering access to the appropriate services delivered by other individuals and organisations. In brokering access to services the PBA acts as account manager for their SME client. Where services are not otherwise available the Business Link Operator may deliver these directly.

The UK's *Skills Strategy* includes a commitment to an increasingly demand-led system to ensure that skills delivered are the skills that employers of all sizes of company need. The employer-led *Sector Skills Councils (SSC)* are designed to be the key means through which employers in each sector come together to identify the skills they need for productivity and business growth. SSCs will enable SMEs to be heard. The SSC contract stipulates that each company will have a senior-level Board representative of the sector's structure and its elements across the UK, including small firms. *Employer Training Pilots (ETPs)* were introduced to encourage employers to invest in skills and qualifications, particularly for low-skilled employees. They are testing new ways to make it easier for local employers and employees to obtain the needed training. Evaluation shows that 70% of employers engaged in ETPs are small employers. *Foundation Degrees* are another route for raising skills levels. The *Small Firms Initiative* was launched to support small businesses to develop workforce skills using the *Investors in People* standard. This initiative is a partnership between the Learning and Skills Council, Investors in People UK and the SBS.

In Scotland, work-based training is provided through *Skillseekers* and *Modern Apprenticeships*, which are delivered by the network of local enterprise companies. Activity is underway with the Federation of Small Businesses to raise awareness of work-based

training and to help ensure that it is relevant and accessible to SMEs. The *Enterprise and Lifelong Learning Department (ELLD)* formulates policy on matters devolved to the Scottish Executive. The *Enterprise Network*, consisting of *Scottish Enterprise (SEn)*, HIE and their network of 22 private sector-led *Local Enterprise Companies (LECs)* delivers Ministers' objectives for economic development and skills development. The Minister of Enterprise and Lifelong Learning sets out strategic direction in *A Smart Successful Scotland* (January 2001), under three key organising themes for the Network activities:

- Growing Businesses – Scotland: a fast learning, high earning nation.
- Global Connections – Scotland: a globally connected European nation.
- Learning and skills – an emphasis on employability with every Scot ready for tomorrow's jobs.

The *LECs Network* works within the policy and strategic framework set by *SEn* and *HIE* but they have flexibility to adapt their approach in response to local need. Recent emphasis on a network-wide approach, whilst retaining a balance, local flexibility and accountability, is developing consistency in the range and quality of support services offered and making the network activities transparent.

In Wales, the *Wales Management Council* has, for raising the profile of management development issues, and working with other bodies, to draw up a co-ordinated management and enterprise strategy. Education Learning Wales is responsible for funding and managing "post-16 years" learning other than higher education, working closely with business to identify skills needs and support training programmes such as Modern Apprenticeships. Action is also underway in Wales to develop an *Investors in People (IiP)* strategy which should increase SME involvement in this standard, spread best practice, make better use of intermediaries in awareness-raising and ensure that business advisers have a comprehensive understanding of IiP and its benefits to business. Wales' Entrepreneurship Action Plan has made a significant impact during its first three years of operation, for instance by changing attitudes to entrepreneurship and tackling difficulties in starting up a business.

Invest Northern Ireland was established in 2002 through the consolidation of all of Northern Ireland's economic development agencies into a single service delivery mechanism. Invest Northern Ireland assists manufacturing firms to build their capability through a wide range of schemes. It also offers support to individuals wishing to become self-employed and to start new businesses. The services include business advice, training, ongoing counselling and financial support to businesses that already sell or have the potential to sell their products outside Northern Ireland.

The United States

SMEs in the economy

The dynamic small business sector is a vital part of the US economy. Small and medium-sized enterprises (SMEs), defined as firms employing fewer than 500, are a major engine for the economy, fill niche markets, are innovative, competitive, and remain industrious while facing a wide array of business conditions. Financial market conditions in the United States in 2003 were increasingly supportive of growth, with the second half of the year setting the stage for small business expansion and new business development. In effect, small businesses played an important role in leading the US economy out of recession. From 2002/03 GDP in the small business sector rose by 4.8% and by 8.2% in the 4th quarter of 2003 alone. Small business generates USD 4 trillion of annual economic output, 68 million jobs, one-third of foreign trade, and represents approximately 40% of total economic activity.

In 2003, small businesses represented about 99% of all employer firms with an increase of 0.3% from 2002/03. SMEs employed about half of the private-sector workforce, and generate between two-thirds and three-quarters of the net new jobs. In fact, from March 2000 to March 2001, small firms added 1.15 million net new jobs while large firms lost 151 000 net new jobs. Micro-businesses, those with less than 20 employees, account for 89% of all employer firms and 72% of newly established employer firms in 2001.

In the United States, small businesses account for 54.1% of goods-producing industries and 49.2% of service-providing industries. Labour-intensive industries, such as retail and services, are at the mercy of labour markets, which have held relatively steady. However, capital-intensive industries, such as manufacturing, tend to fluctuate with financial markets, resulting in a 4.8% decrease in overall manufacturing employment over 2002/03. While this effect was evident in large manufacturing firms, which are more cyclically sensitive, the small business firms have remained robust throughout the economic cycle of the past few years. From March to June 2004 alone, of the five major industries with more than 50% small business employment, there were 180 000 new jobs created with the following breakdown: leisure and hospitality services – 70 000; construction – 59 000; other services – 28 000; wholesale trade – 15 000; and natural resources and mining – 8 000. Given that small businesses are a majority of all businesses, the growth of the small business sector may be representative of the future growth for the overall US economy.

Framework policies: the regulatory business environment

The US Government recognises the pivotal role of small businesses in the marketplace, and the barriers that agency regulations can create. While small businesses are key producers in the US economy, they spend more money per employee to comply with regulations than their larger producer counterparts. In the past few years, the United States has taken significant steps towards a more small-enterprise-friendly environment.

Enacted in 1980, the Regulatory Flexibility Act (RFA) requires agencies to consider the cost effects of their rules and regulations on small entities, and examine alternatives that minimize the negative results. Continuous additions made to the RFA, as well as the development of the Small Business Regulatory Enforcement Fairness Act (SBREF) of 1996, have established and enforced written procedures and policies on how agencies measure the impact of their regulatory proposals on small entities, consider comments on proposed rules, make changes to their policies, and publish responses to those comments with the final rule. The agencies are also given periodic notification of rules, as well as training, on how to comply with the RFA.

Furthermore, the Federal Government acknowledges that state and local governments can also be a source of burdensome regulations. Model regulatory legislation was developed for use by states to emulate and build on the federal efforts. These state initiatives are showing results. One example of how states can fix one-size-fits-all rules involved a New York State Department of Motor Vehicles regulation for safety devices and road restrictions for trailers and towing. While intended to cover highway transportation, the rules covered farm equipment and imposed unreasonable mandates on farmers who hauled fertiliser spreaders across roads to reach different acreage. A needed change to this rule saved the New York farming industry as much as USD 120 million and was done without compromising highway safety. Other state and local governments are pursuing similar cost saving measures.

In the last two years, new Presidential Executive Orders have given a renewed incentive for agencies to give proper consideration and comply with RFA. Government-wide training began October 2003 and the most noticeable change is that agencies now request comments early in the rule development process. These new policies guarantee small business a seat at the table where regulatory decisions are made. In fiscal year 2003 alone, the US Small Business Administration's Office of Advocacy documented more than USD 6.3 billion in regulatory cost savings and more than USD 5.7 billion in recurring annual savings to small businesses through these regulatory flexibility efforts of federal agencies.

SME policies and programmes

The Small Business Administration (SBA) has long been the US Government's principal instrument for the design and implementation of policies for small business. The SBA was founded in 1953 and has the mission to aid, counsel, and protect the interests of small business, in order to help maintain and strengthen the US economy. A unique feature of the US small business system is the role played within government by the Small Business Administration. It actively urges government officials to consider the impact on small business of regulation and taxes and when necessary advocates or takes positions on issues. SBA analysts follow developments in economic, environmental, food and drug, health, industrial safety, government procurement, tax, and telecommunications regulations.

Development of an entrepreneurial society and culture

The United States has an extensive network of non-financial services for small businesses designed to encourage entrepreneurship and enhance management skills. More importantly, the United States has a pro-business culture that encourages risk taking and innovation, rewards success, and provides for the ability to recover from business failure. Training for business careers is a common pursuit of university students, and many

of the world's pre-eminent business schools are located in the United States. An array of assistance is provided at the local level through a large number of government and private-sector sources.

Skills acquisition and development

The US Small Business Administration and private sector partners make available technical assistance programmes, including training, counselling and mentoring, and information services to more than four million existing and potential small business entrepreneurs annually. This has especially been encouraged through the widespread use of the Internet, a low-cost and flexible method of reaching millions of SMEs. Assistance is provided online as well as in-person, and ranges from guidance on starting a business to export counselling. SBA provides grants to private sector-managed networks of 1 100 Small Business Development Centres, 105 Women's Business Centres and the Small Business Training Network which offers 80 free on-line courses as a virtual SME "university." In addition, SBA works with SCORE, a national network of retired and working entrepreneurs and corporate managers/executives working in 389 locations. These volunteers provide free business counselling and advice as a public service to all types of businesses, in all stages of development. A total of over two million entrepreneurs received business counselling and technical assistance this year through one or more SBA training programmes.

Three widely used Internet-based resources for SMEs are SBA itself (www.sba.gov/traning) and two private sector sources – the National Federation of Independent Business (www.nfib.com/page/toolsHome), with 600 000 members, and the Kauffman Foundation (www.entreworld.org). These are especially appropriate resources for SMEs; they can be accessed at the convenience of the business owner and are not linked to a fixed schedule or location. SBA's Web site receives several million "hits" per month.

In addition, state and local governments provide funding for an extensive network of community colleges, which provide academic and skills training for residents of the communities in which they are located. SME managers are able to use training programmes available in the community colleges to increase skill sets and seek training on business related topics. In 2004, the Federal Government provided USD 250 million in new funding to the states for the Community-Based Job Training Grants initiative. Funding will go to community colleges for partnerships between them, businesses, and workforce investment boards to expand training capacity and train more workers for high skill/high wage jobs.

Women's entrepreneurship

The United States has seen a significant increase in the number of, and economic contributions from women-owned SMEs. It is estimated that 30% of the firms in the US – 6.7 million – are majority-owned by women. These firms are growing in number at twice the rate of all businesses (23% versus 9% between 1997 and 2004). Further, employment in these women-owned businesses increased by 39% compared to 12% nationally, and revenues rose by 46%, compared to 34% among all privately-held firms between 1997 and 2004.

The SBA's Office of Women's Business Ownership (OWBO) and the National Women's Business Council (NWBC) are the only two federal offices focused specifically on women's entrepreneurship issues, and they are unique among OECD members. OWBO administers the SBA's grants to 105 Women's Business Centres around the country, and operates an

online information service, www.onlinewbc.gov. The NWBC is a federally-funded independent advisory body, comprised of individual women business owners and representatives of major women's business organisations, which provides advice and counsel to the President, Congress and the SBA – bringing the voices of the women's business community to economic policy discussions.

Access to international markets

In 2001, the total number of US firms exporting goods was 238 284, which is an increase of 111% from the numbers that were exporting in 1992. SMEs accounted for 97% of all US exporters, totalling 230 736. Companies with fewer than 20 employees comprised 69% of all US exporting firms in 2001. The SME share of US merchandise exports has recently hovered around 30%. (Unfortunately, there is no reliable data on SMEs exporting services). Export sectors dominated by SMEs are machinery, computers and electronic products, transportation equipment, wood products, apparel and printing products.

In 2001, 63% of all SME exporters had sales to only one foreign market, whereas 54% of large firms recorded sales to five or more foreign markets. Canada is the most popular export destination for SMEs, to which, in 2001, over 95 000 SMEs recorded sales to Canada. The top ten export markets for US SMEs are: Canada, Mexico, the United Kingdom, Japan, Germany, Hong Kong, Australia, France, South Korea and Chinese Taipei.

Government assistance to SMEs involved in international trade is widely available. Many state governments provide export assistance programmes targeted to small businesses. In addition, many states have overseas trade offices to help their small businesses with market research and local assistance. At the Federal Government level, about twenty federal agencies and departments, including the Department of Commerce, the Export-Import Bank, the Foreign Agricultural Service and the Small Business Administration, have export promotion services.

The Department of Commerce's *US and Foreign Commercial Service (USFCS)* promotes the export of goods and services from the US, particularly by SMEs, represents US businesses internationally and helps US businesses find qualified international partners. USFCS has over 100 domestic export assistance centres and approximately 85 posts overseas. These centres provide several services to SMEs, including: market research, market-entry strategies, international partner search, international company profiles, assistance in obtaining financing; and representation at trade shows. The Department of Commerce also runs the *Trade Information Centre*, which serves as the first stop in the Federal Government for companies interested in exporting and is a comprehensive resource on all export assistance programmes by the Federal Government agencies.

The *US Trade and Development Agency (TDA)* advances economic development and US commercial interests in developing and middle-income countries and supports the development of a modern infrastructure and a fair and open trading environment. The *Foreign Agricultural Service (FAS)* represents the interests of US agriculture and carries out market promotion. FAS has about 60 offices overseas in US embassies that help food exporters with marketing, assist them at foreign trade shows, perform advocacy activities in policy negotiations, monitor and report on market access and represent US companies in foreign customs disputes.

The *Export-Import Bank's* purpose is to facilitate the financing of US exports, which it accomplishes by absorbing non-payment risk, supplementing commercial finance and

meeting foreign competition. The US *Small Business Administration* (SBA), offers trade assistance programmes in four areas: education, technical assistance, risk management and finance. SBA has employees located in almost every one of Commerce's 100+ export assistance centres in order to help SMEs gain access to finance.

Coordinating all of the 19 agencies that provide export promotion services is the *Trade Promotion Coordinating Committee* (TPCC), an interagency task force, chaired by the Secretary of Commerce. The TPCC was created in the early 1990s to ensure coordinated and effective federal trade promotion and to develop a "National Export Strategy" (NES). The NES provides an outline of the US Government's plans for promotion of US business exports, with a strong focus on the needs of small business. The current National Export Strategy (2004) focuses on creating an export promotion strategy for China and developing commercial strategies that assist US companies in taking advantage of the recently negotiated free trade agreements (FTA), which can then be applied to future FTAs.

Electronic commerce

Global Internet usage has grown over 150% in the past six years, reaching 934 million users in 2004.¹ Internet usage in the United States has approached the saturation point with more than half the country having regular access to the Internet either via business or home connections. However, a study in 2000 indicated that while nearly all small businesses in the United States have computers, only 40% use them for business purposes.² The nature of use ranged from obtaining general information from the Internet (nearly all firms) to using e-mail (90%) to taking orders online (12%). Even fewer businesses used it for business-to-business transactions. This report also identified what it calls "inadvertent internationalisation" via the Internet. Many small firms, that normally consider themselves local businesses, are often surprised to find customers outside the US contacting them. Using the Internet as a vehicle to expand exporting is now a cost-effective option but concerns over identity theft, online fraud, protection of personal information, and different rules governing trade have limited the growth of international business via the worldwide Web. Although SMEs would potentially benefit from global market access using the Internet, there is still not widespread use. There is no clear evidence to indicate that the advantages of using cross-border electronic commerce outweigh the costs to adopt this technique for pursuing global business opportunities.

Following the dot.com bust, many US firms maintain an online presence, mainly for marketing purposes (just like government and academia do) yet these operations are not engaged heavily in e-commerce. The exceptions are online traders (such as *ebay.com*), online bookstores with diversified products (such as *amazon.com*), and the adult entertainment industry. Multinational corporations still dominate online commerce, thus the biggest boom in e-commerce remains between business-to-business (B2B). Business-to-consumer (B2C) e-commerce has been hindered by lack of trust in online transactions.

Another report, published in 2001,³ revealed that one-quarter of small businesses surveyed intended to invest in developing a Web site or Internet marketing during the year. 70% said they were using Internet for business research, and one-quarter were using Internet to find new customers and sell online. 44% said they made business purchases online. 60% believed their use of Internet would increase in the following year. Of those businesses with Web sites, 17% attributed total firm sales of more than 10% from their business Web site. E-commerce sales in the third quarter of 2004 accounted for 1.8% of total sales; a percentage

that has been rising steadily since 1999. An emerging policy issue is whether sales through e-commerce should be subject to taxes – on 19 November 2004, Congress acted to block state and local governments from taxing connections that link consumers to the Internet for the next three years.

The Federal Government views e-commerce as a growth engine for exports and international expansion, particularly among SMEs. The US Government has developed several outreach tools to help SMEs that wish to expand in international e-commerce, including: on-line market research; informational seminars on e-commerce related topics, including compliance with the Safe Harbor Agreement; and a guide for companies interested in using the Internet to export. These tools can be found at www.export.gov/infotech.

Access to finance

Many small business start-ups are self-financed. The number one source of capital for an entrepreneur in the United States is his or her home. Homeowners with equity in their home can borrow the funds they need to launch their enterprise. The majority of the Inc. 500 fastest growing companies in the United States were launched with less than USD 50 000, and the source for those funds is often the “home-equity line”, or credit cards attached to those home equity accounts.

Debt financing. For operating small businesses that eventually enter financial markets they typically turn to commercial banks for debt financing. Banks are leading suppliers of credit to small businesses, accounting for 54% of total traditional small firm credit used, according to the 1993 National Survey of Small Business Finances. In June 2000, commercial banks had USD 1.3 trillion in business loans outstanding (commercial and industrial loans and commercial mortgage loans), of which 34% or USD 437 billion were to small businesses (defined as loans of less than USD 1 million). Total business loans outstanding increased by USD 158 billion or 14% in 2000, while small firm lending increased by USD 38.5 billion or 10%.

Venture capital. The National Venture Capital Association, a non-governmental organisation, estimates that the value of venture capital financing zoomed from USD 20 billion to USD 100 billion between 1998 and 2000. In 2001, however, with the general slowdown in the US economy, venture financing fell to USD 38 billion. Much of this money went to growth businesses. In 2003, venture backed companies: provided 10.1 million US jobs, had sales of USD 1.8 trillion, and represented 10% of the US economy.⁴

An important source of equity capital that has gained significant importance over the past five years has been organised business angel networks. Angel investors continue to be the major source of the critical seed and start-up equity capital for entrepreneurial ventures.

Government role in venture capital. The Small Business Investment Company (SBIC) Programme is a public-private partnership that harnesses private capital with funds guaranteed by the US Small Business Administration, providing a much larger base of capital for entrepreneurs in start-up and growth stages. Serving as a link between US entrepreneurs and the venture capital industry, the programme fills the gap between the entrepreneurs’ need for capital and traditional financing sources.

In 2002, 4 004 financing operations were made with a value of USD 2.7 billion. 31%, or USD 841.9 million went to companies that were under 2 years old. The dollar value of financings declined nearly 40% compared with 2001. Since 1960, this SBA programme has

made 100 000 financings worth USD 30 billion. Past recipients of financing include many well-known large firms – which started out as small businesses – and include Apple Computer, Federal Express, Harman International, Intel, Octel, Peoplesoft, Staples and Sun Microsystems.

Licensed and regulated by SBA, SBICs are privately owned and managed venture capital funds that use their own capital, along with funds borrowed with an SBA guarantee, to make equity and debt investments in qualifying small businesses. Participating venture capitalists can supplement their own private investment capital with funds borrowed at favourable rates through the US government. Qualifying small businesses are able to receive equity capital, long-term loans, and expert management assistance. These businesses are defined as having a net worth of less than USD 18 million and an after-tax income of less than USD 6 million for the previous two years. The SBIC programme is structured to be self-financing over time by tax revenues generated annually from successful SBIC investments.

In addition, SBA has a large number of loan and loan guarantee programmes to assist small businesses with their financing needs. The *7A Loan Guarantee Programme* was established to provide guarantees that will facilitate lending to small business unable to secure financing on reasonable terms through normal lending channels. In terms of US Government small business lending in 2001, private commercial lenders using the Small Business Administration loan guarantee made almost 43 000 loans worth nearly USD 10 billion. The *Microloan Programme* aims to increase the availability of very small loans to prospective small-business borrowers. The *504 Certified Development Company (CDC)* programme provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. The *Disaster Loan Programme* offers financial assistance to those who are trying to rebuild their homes and businesses in the aftermath of a disaster.

Diffusion of innovation and technology to SMEs

In an economy as large as the United States, there are large numbers of information sources that SMEs can use to help build their innovative capabilities. The easy availability of Internet-based information has greatly improved the accessibility of information even to the smallest and most remote SMEs.

Manufacturing

The *Manufacturing Extension Partnership* system advises thousands of small and medium-sized manufacturers each year on productivity, quality control techniques, product design and the means to identify and apply appropriate technologies. With 350 locations throughout the US, MEP is jointly funded by government (central and local) and non-government sources.

Agriculture

While not often considered in the context of small enterprise, the diffusion of technology to farmers has allowed the US to achieve world-class levels of agricultural productivity, facilitated the country's economic development, generated employment from rural areas to food processing industries, and is a major export sector. A widespread system of extension services diffuses knowledge of agricultural technology to hundreds of

thousands of small enterprise farm owners in a variety of fields such as biotechnology, genomics, nutrition, and sustainable development.

State level

With 50 state authorities, the US has diverse approaches to technological diffusion to SMEs. Among the more common interventions are business incubators, private sector partnerships with state universities, business and industry associations and state business development centres. The availability of financing for SMEs, including non-bank sources such as venture capital and individual (angel) investors, assures a vibrant environment for SME innovation.

Clusters

Technology-intensive SMEs are often characterised by association with research-oriented universities, especially in locations when they may access venture capital finance. While industrial clustering in the past was characterised by closeness to factors of production or markets, SMEs that require technological expertise often cluster for other reasons as exemplified by computer and related industries located along Route 128 in Boston, in the Silicon Valley near San Francisco, and the biotechnology industry near Washington.

Trade associations

There are thousands of industry and trade associations in the US with varying capabilities to work with SMEs to disseminate knowledge about technology and innovation.

Notes

1. Source: Computer Industry Almanac.
2. This study was conducted by the private-sector small business association, the National Federation of Independent Business, and authored by Jerome Katz, using 1999 data.
3. Dun and Bradstreet's "20th Annual Small Business Survey".
4. Source: Venture Impact 2004 by Global Insight.

European Commission

SMEs in the economy

SMEs play a highly important role in European Union countries. There are more than 23 million SMEs in the enlarged Europe and Europe's economic performance depends on them to a large extent. In the EU, they constitute the vast majority of enterprises (99.8%), provide almost 66% of employment in the private sector, while contributing to 57% of value added.

SMEs are a very heterogeneous group. For example, technology-based and highly innovative firms are a relatively small group among SMEs, but a group that is very important in terms of economic development, job creation and competitiveness. The average enterprise in Europe employs six people. Finally, the importance of SMEs, and in particular of micro-enterprises with less than 10 employees, also varies across industries. Some sectors like construction, the retail and wholesale trades and services to individuals tend to be dominated by micro enterprises, whereas transport and energy sectors are dominated by large enterprises and the typical manufacturing company is a medium-sized enterprise.

In 2003, the Commission adopted a new Recommendation on the definition of SMEs,¹ which replaced the previous definition from 1 January 2005. The revision takes into account economic developments since the adoption of the previous definition in 1996, such as price inflation and increases in productivity. The new definition also aims to clarify the typology of enterprises (a distinction is made between three categories: autonomous enterprises; partner enterprises; and linked enterprises) and brings it into line with the Directive on consolidated accounts. For the first time, the SME definition includes precise financial thresholds for micro-enterprises, thus recognising the essential role of the latter in the economy.

Framework policies

In the European Union, much of the policy environment of SMEs is determined under the competence of the member states. The intervention of the European Union complements that of member states, helping them to improve their performance, promoting good practices, and to a certain extent, providing direct support, *e.g.* through the intervention of the structural funds or financial instruments.

The main objectives of the EU enterprise policy are the improvement of the business environment and the development and growth of SMEs. This policy, which contributes to the implementation of the strategy to strengthen European competitiveness, initiated in Lisbon at the European Council of March 2000, builds both on the European Charter for Small Enterprises, which is a key instrument of political encouragement and follow-up and, at an operational level, on the Multi-annual Programme for Enterprise and Entrepreneurship, and in particular for SMEs.

European Charter for small enterprises

The Charter calls upon the member states and the Commission to take action to support and encourage small businesses in ten key areas and is a key instrument for promoting entrepreneurship and competitiveness in Europe. The open method of coordination has proved successful in the Charter context. This method, designed to help the member states develop their own policies, consists of fixing European guidelines for achieving specific goals within a defined timeframe, to be translated into national and regional policies by setting specific targets and adapting measures to local conditions. Experience shows that the member states are increasingly drawing inspiration from measures developed in other countries to improve the business environment. More information can be found at http://europa.eu.int/comm/enterprise/enterprise_policy/charter/index.htm.

Multi-annual Programme for Enterprise and Entrepreneurship

The Multi-annual Programme for Enterprise and Entrepreneurship² provides the legal and budgetary basis for the Commission to intervene in the field of SMEs and entrepreneurship. It consists of support to SMEs through the Euro Info Centre Network, financial instruments and a number of policy-related projects and activities being carried out jointly with the member states, in particular through the *Best procedure*, which consists of preparatory analysis and benchmarking exercises in a limited number of specific areas. The Commission has applied the Best methodology to a number of issues such as: education and training for entrepreneurship, including the creation of mini-companies, benchmarking the administration of start-ups, benchmarking the management of incubators, business support services, clusters and networks, guarantee and mutual guarantee schemes, and the promotion of entrepreneurship amongst women.

Structural Funds and other programmes

Many other policy areas also aim to improve SMEs' situations and competitiveness. In this regard, the largest programme in financial terms to benefit SMEs is constituted of the *Structural Funds* where most national and regional programmes co-financed by the Commission are putting emphasis on entrepreneurship and SMEs. For the period 2000-06, approximately EUR 21 billion, i.e. 11% of the financial resources of the Structural Funds, are identified as support actions for the modernisation and development of SMEs.

Other programmes have been designed in such a way that they either contained clear focus on SMEs or are in practice benefiting principally to SMEs, thus contributing to raising SME performance and competitiveness. This was the case for example in the areas of environment, energy, research, training and internationalisation. In most of these programmes, the EU dimension has brought added value, complementing national intervention and possibly bridging market gaps. It has also facilitated the exchange of experiences and the emergence of cross-border projects and innovative behaviour. An overview of recent "Community measures in favour of SMEs" can be found at http://europa.eu.int/comm/enterprise/entrepreneurship/sme_envoy/index.htm.

Finally, the Commission runs a database, named SMIE (Support Measures and Initiatives for Enterprise), which contains over 2 500 business support measures and 120 good practices from EU and EEA countries. The database is a reference and practical tool that facilitates comparative analysis, benchmarking and evaluation of support measures across Europe.³

SME policies and programmes

Development of an entrepreneurial society and culture

The European Union is characterised by a certain entrepreneurial gap. According to the latest edition of the *Flash Eurobarometer survey on entrepreneurship*, only four per cent of Europeans were involved in setting up a business in the past three years. Yet almost half of Europeans say they would prefer to be self-employed. Insofar as comparison with other OECD countries such as the United States is concerned, examples of good performance do exist within the EU borders, with Ireland and Greece coming very close to matching US performance. On average, however, EU citizens are less inclined to become entrepreneurs and more risk averse than their American counterparts.

An ageing population is likely to aggravate the entrepreneurial gap. The age group most active in setting up businesses today (between 25-34 years) will shrink in the coming decades. And as much as one third of all EU entrepreneurs, mainly those running family enterprises, are expected to withdraw within the next ten years. In addition, since many prospective entrepreneurs prefer starting a firm to taking one over, finding successors will be increasingly difficult.

Entrepreneurship Action Plan

As a first step to set the new agenda for entrepreneurship in Europe, the Commission published early in 2003 a *Green Paper on entrepreneurship*.⁴ Addressing all interested stakeholders, it raised ten questions regarding two fundamental issues for Europe: “How to produce more entrepreneurs” and “How to get more firms to grow”? As a follow-up to the Green Paper, the Commission adopted an *Entrepreneurship Action Plan*⁵ in view of the 2004 Spring European Council. The Action Plan, aimed to unlock the potential for entrepreneurship in Europe, focuses on five strategic areas:

- Changing the way society looks at entrepreneurs.
- Creating the conditions to encourage more people to become entrepreneurs.
- Allowing SMEs and entrepreneurs to play a full role in driving growth and enabling them to remain competitive.
- Improving the flow of finance to SMEs and entrepreneurs.
- Creating a more SME-friendly regulatory and administrative framework.

To transform these five Entrepreneurship Action Plan strategic areas into concrete results the Commission has defined nine so-called “Key actions” which are currently being implemented. These key actions aim among others at fostering an entrepreneurial mindset among young people, reducing the stigma of failure, facilitating business transfers, improving social security schemes for entrepreneurs, supporting women and ethnic minority entrepreneurs, facilitating cooperation between SMEs in the Internal market, fostering innovative clusters, simplifying tax compliance, etc.

The Commission’s Entrepreneurship Action Plan complements the European Charter for Small Enterprises, reinforcing it substantially as policies to support entrepreneurship and small businesses are often closely linked. Whereas the European Charter was of a top-down approach, the Green Paper and the Action Plan aimed at gathering in a bottom-up way all the reflections and recommendations regarding possible actions and decisions to support entrepreneurship in Europe in the years to come.

Moreover, the Commission has been keen to introduce entrepreneurship concerns within EU programmes. One example is the European Social Fund (ESF) which has made the promotion of entrepreneurship one of its objectives including, for example, the development of entrepreneurial skills or the transfer of technology to SMEs, and the *Education and Training 2010 Work Programme* in the framework of which entrepreneurship was defined as one of the basic competences to be acquired before the end of compulsory schooling.

Responsible entrepreneurship

The Commission has also continued its efforts to promote responsible entrepreneurship. The Multi-stakeholder Forum on Corporate Social Responsibility (CSR) completed its work and issued a report in June 2004⁶ which includes the outcome of the Round Table on SMEs together with recommendations for raising awareness, improving capacity and providing the appropriate enabling environment to promote CSR among SMEs. Moreover, the Commission has launched a pan-European awareness-raising campaign on CSR with a special emphasis on SMEs, with several events being organised across Europe in 2004 and 2005.

Fostering women entrepreneurship

Finally the Commission has examined the situation of target groups regarding entrepreneurship, i.e. young people, immigrants, women and specific forms of enterprises (crafts and small businesses, cooperatives, mutuals, etc.). As far as fostering women entrepreneurship is concerned, the Commission organised in 2003 a European Forum where support measures for women entrepreneurs and good practices have been presented. This has been followed by further work on access to finance for female entrepreneurs and by the integration of the good practices identified in the EQUAL programme of the European Social Fund. A women entrepreneurship portal, aimed at providing links to the Web sites of women entrepreneurs' representative organisations, networks, projects and events that relate to the promotion of female entrepreneurship, was put on-line in January 2005.

Regulatory environment

In the framework of the Better Regulation Action Plan, the Commission launched in 2003 a new *impact assessment procedure*. It aims to improve the quality of the regulatory environment and to enhance policy coherency. In line with the EU Sustainable Development Strategy, it covers a systematic assessment of the likely environmental, social and economic impacts of the Commission's proposals. Both positive and negative effects on businesses, including SMEs, are assessed within this framework.

One way of ensuring that legislation does not create additional burdens and costs is to consult businesses on new legislative proposals and on the application of current rules in order to better identify their impact. The *Interactive Policy Making initiative (IPM)*,⁷ launched in 2001, now offers efficient facilities to assess the impact on SMEs within a specific policy field.

The Commission also established the function of *SME Envoy*. The role of the Envoy is to be the main interface with the SME business community, listen to the concerns expressed by SMEs and to consider their specific interests and needs in EU programmes and policies, in particular through the screening of EU policy and the assessment of its effect on SMEs.

Through this function, the Commission clearly shows its commitment to improve regulation and put in place SME-friendly measures and policies throughout policy areas.

In the field of State aid, the *Regulation on State aid to SMEs* was amended in 2004 in order to implement the new SME definition and to extend the scope to include aid for research and development. Aid to SMEs satisfying the conditions in this Regulation are exempted from the *ex ante* requirement to notify the aid to the Commission. Furthermore, in 2004 the Commission revised the Community guidelines on State aid for rescuing and restructuring firms in difficulty with certain changes so as to impose less strict requirements for SMEs than for large enterprises.

SME financing

Improving access to finance is an important aspect of fostering entrepreneurship and SMEs in Europe. In addition, developing financial markets is a particular challenge in the accession countries because they suffer from a relatively low level of equity investments and bank lending.

To improve the conditions of bank lending, the Commission facilitated discussions about a code of conduct for credit institutions and SMEs. It has also produced a report on best practices in micro-credit which was discussed at a European micro credit conference organised by the Commission in 2004 with the objective to disseminate good practices in providing access to microfinance for SMEs and contribute to the emergence of a European micro credit industry in Europe. Finally, the Commission conducted a project on guarantees and mutual guarantees to increase understanding of the potential offered by guarantees as a mechanism for improving access to finance for SMEs and it organised Round Tables between bankers and SMEs to strengthen their mutual understanding, discuss good practices and pinpoint SMEs' specific problems. A study on asset-backed securities is also available.

Community financial instruments

On the operational level, the financial instruments of the Multi-annual Programme for Enterprise and Entrepreneurship (2001-05) (MAP) provides additional leverage to programmes targeted at the financing gap in early stage SME finance. Managed by the European Investment Fund (EIF), they are delivered via financial intermediaries to tailor financial instruments to the different financing traditions. Since 2003, new member states and candidate countries have had the possibility to benefit from these financial instruments.

The financial instruments consist firstly of the SME Guarantee Facility which is providing guarantees to banks to cover their SME loans, and additional guarantees to national and regional guarantee institutions. European guarantees have facilitated 200 000 SMEs in getting bank loans, the vast majority with fewer than fifty employees, for an amount totalling more than EUR 300 million since their launch. More than 20% of these companies are micro-enterprises. In the field of venture capital, the ETF Start-up Scheme provides equity to venture capital funds making early-stage investment in SMEs, while the Seed Capital Action supports the recruitment of specialised staff by seed capital funds, thereby reinforcing the capacity of the venture capital industry to cater for investments in seed capital. Nowadays, the reflection is about how to support the securitisation of SME

loan portfolios from banks as well as mezzanine finance and other instruments for the expansion stage of SMEs.

The European Investment Bank (EIB) finances SME investments indirectly via global loans. During the last four years, the EIB provided the EU partner institutions acting as intermediaries for those loans with a total of EUR 44 billion. SMEs represent the first priority of the global loan activity, particularly in assisted areas, and slightly under half of this amount benefited SMEs (around 90 000 businesses).

Finally, in the context of the revision of the Capital Adequacy Framework for banks (Basel II Agreement), the Commission commissioned a study on the effect of the agreement on SMEs and has funded the organisation of seminars throughout European countries between October 2004 and July 2005, while a guide on the subject will be published in 2005 to help SMEs prepare themselves for the new financial environment that should result from the Basel II Agreement.

Technology and innovation

SMEs are an important target group of the Sixth Framework Programme for research, technological development and demonstration activities (2002-06)⁸ (FP6) which supports European SMEs through two main routes. Firstly, SMEs participate in the priority thematic areas of the specific programme “Integrating and Strengthening the European Research Area”, and the target to allocate 15% of the budget to SMEs, i.e. at least EUR 1.86 billion, has been set. Secondly, SMEs are the main participants of the “Horizontal Research Activities Involving SMEs” programme, which aims at improving the technological capabilities and innovation capacity of SMEs with no or little research capacity, through support to SME consortia and industrial associations.

Within the *Gate2Growth* initiative, an Incubator Forum⁹ was launched in 2003 with the support of the Commission, and is a pan-European network of more than 70 university-based technology incubators. A broad range of activities, such as workshops, training sessions and cross-border secondment programmes, have been conducted to create networking opportunities between European technology incubators and to support the creation of good practices in the incubation. Moreover, the Commission has supported Innovation Relay Centres (IRCs),¹⁰ with 71 regional IRCs in 33 countries, whose role is to encourage innovation and trans-national technological cooperation, in particular to the benefit of technology-oriented SMEs.

Electronic commerce

In 2004, the *European e-Business Support Network* (eBSN) for SMEs¹¹ reached its initial target of bringing together information on 150 policy initiatives and several workshops have been organised to contribute to a concrete exchanges of best practices at operational level. Under the e-TEN¹² programme, calls for proposals have been launched by the Commission with the specific objective of increasing the use of e-Services by SMEs. These include access to government services, access to e-Business solutions and to new forms of business and commerce. Also the *eContent* programme (2001-2004) aims at stimulating the development and the use of the digital content, in particular by SMEs, and at promoting cultural and language diversity in Europe.

Networking and market access

The Euro Info Centre (EIC) Network is the main Community support network for SMEs across Europe.¹³ Their mission consists in informing SMEs on Community matters, this comprises for instance providing information about European programmes and promoting them; advising SMEs on the application of Community legislation, i.e. conformity assessment, applications for European funding; assisting SMEs in positioning themselves in the European market, i.e. helping businesses to export, to find trade partners or investment opportunities. Finally EICs are providing feedback to the Commission about the effects of European initiatives on SMEs. Based on a partnership with organisations already in contact with SMEs (i.e. chambers of commerce, regional development agencies, banks, etc.), the network accounts for around 300 centres and is present at regional level in all EU countries and candidate countries, while Correspondence centres are established in third countries.

As for trade policy, the Commission has the objective to improve market access to the benefit of EU businesses, in particular SMEs. In this regard, a new database has been created for the draft technical regulations notified in the framework of the WTO Agreement on Technical Barriers to Trade (TBT)¹⁴ together with an automatic alert system via an e-mail list allowing exporting SMEs to be aware of possible modifications of product related regulations in the countries of destination. In addition, Community's Trade Defence Instruments (TDI),¹⁵ which is the aim of, in particular, to remedy market distortions created from unfair trade practices by third countries, have been amended in order to increase transparency and legal certainty for economic operators, thus facilitating the use of these instruments by SMEs.

Skills development

The Copenhagen-Maastricht process aims to create a single European reference framework within which competencies and qualifications are made transparent, comparable, transferable and recognised. In that context, the adoption by 32 ministers of education and training of the Maastricht Communiqué in December 2004 provided recommendations about the targets to be reached in the field of vocational and educational training during the next years. In addition, the *Leonardo da Vinci programme* is a key instrument for the development of skills and lifelong learning in Europe. In 2003, Leonardo co-financed numerous transnational projects with the common objective to develop innovative training solutions targeted to SMEs' specific needs.

Finally, the Commission has set up an expert group to work on the issue of management capacity building for SMEs. This encompasses all the means through which an SME gathers and strengthens its knowledge and competences in the four main areas impacting a firm's profitability: accounting and finances, marketing and strategy, personnel development and last but not least organisational issues, including production and information and technology aspects. The final report of this group is due for 2005.

Notes

1. Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, OJ L 124, 20.5.2003, p. 36.

2. Council Decision 2000/819/EC of 20 December 2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005), OJ L 333, 29.12.2000, p. 84.
3. <http://europa.eu.int/comm/enterprise/smie>.
4. http://europa.eu.int/comm/enterprise/entrepreneurship/green_paper/index.htm.
5. http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan.htm.
6. http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/responsible_entrepreneurship.
7. <http://europa.eu.int/yourvoice/ipm>.
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15. http://europa.eu.int/comm/trade/issues/respectrules/tpi_en.htm.

Israel

SMEs in the economy

In 2003 there were about 383 500 businesses in Israel and 99% of them, some 381 000 businesses, were SMEs. SMEs employ one million employees, accounting for 44% of all employed in the business sector. Some 93% of all SMEs, employ fewer than 10 people; 47% (161 000) of the employees in the industrial sector work in businesses of less than 100 employees (total employees in the industrial sector – 320 000); 72% (225 000) of the employees in the trade sector work in businesses of less than 100 employees (total employees in the trade sector – 311 000); and 54% of the employees in the real estate and business services sector (accountants, lawyers, computer services, security and cleaning services, manpower, etc.) work in businesses of less than 100 employees.

Framework

It was not until the 1990s that SMEs received their proper status as the backbone of the economy, and started receiving suitable government support. Following the waves of immigration from the CIS republics in the early 90s, policy makers decided to deal with problems of employment and growth by supporting entrepreneurs and developing SMEs. The Ministry of Industry, Trade and Labour, MOITAL, together with the Israel Small and Medium Enterprises Authority, ISMEA (a non-profit association established at the Ministry's initiative in 1993) now work to actively promote the creation of an appropriate environment for establishing entrepreneurships, new businesses and for ensuring their survival and prosperity. They jointly act to remove barriers in the areas of financing, management and accessibility of information, as well as assisting in regulatory and bureaucratic problems.

In recent years, the government implemented entrepreneurship policy programmes which cut across various sectors and ministries.

A collaborative effort with Israel's Employment Service was recently initiated to expose employees of the Employment Service to the concept of business entrepreneurships, and with their help, to identify potential entrepreneurs from among registered job-seekers in the 73 Employment Service bureaus.

The new *From unemployed to entrepreneur* programme, aims to identify candidates such as professionals who are suited for entrepreneurships and provide them with professional training and supervision, both during the start-up phase and during the first year of the business.

Other programmes currently run by various ministries are: the tourism incubators of the Ministry of Tourism; the Ministry of Immigrant Absorption's Fund for the Self-Employed Immigrant; and the SMEs tutoring programme run by MOITAL jointly with the Ministry of Agriculture.

The measures implemented by the government to simplify framework conditions

The Israeli Government has made several initiatives towards the simplification of administration, which serves to benefit SMEs.

The Israeli e-government comprehensive initiative includes five phases aimed at facilitating civilian and business activities, while interacting with the administration. The five phases are based on principles of transparency, enhancing the services to the citizens, flexibility of the establishment to the individual needs, and promoting the business sector's performance. The phases are:

- Publishing governmental information.
- Communicating with citizens via e-mail and other electronic technology.
- Providing alternative methods to perform official activities.
- Personalisation of services.
- Complete organisational change, enabling a fully online service provision and performance of transactions.

As of July 2004, the Income Tax, VAT and Customs Administrations of the Finance Ministry are to be united.

The Business Licensing Procedure is currently under discussion in the Parliament in order to simplify the procedures.

Finally, the Ministry of Industry, Trade and Labour has initiated SME legislation, which aims to simplify framework conditions for SMEs in Israel.

Regulatory business environment

In order to enable SMEs to respond to the impact of new legislation, there is an obligation of maintaining a consultation process with all-relevant bodies, organisations and NGO's that could potentially be affected. Business organisations are involved in the law making process through lobbying activities. ISMEA is presently involved in legislation of a new Small Business Act which aims to regulate all aspects of SME activity. All new legislation, as well as newly adopted legislation, is highly visible, being published in the government's official Gazette and on the Internet.

Access to infrastructure – the local dimension

There are 23 Small Business Development Centres (SBDCs), ensuring a geographical deployment that is as broad as possible, providing coverage for all regions in Israel. The SBDCs are a one stop shop, that is, a single central address for the business owners or entrepreneurs offering services tailored to each applicant. There are many services provided by the SBDCs:

- Professional consultancies – the SBDCs locate and connect the business owner or entrepreneur with appropriate professional consultants, in a variety of areas: initial consultancy for assisting the decision to open a business; business consulting and assistance with preparing a business plan; marketing; financial; organisational and more. The nature and extent is tailored to each applicant. Within this framework, appropriate applicants who are the owners of existing businesses, can also take advantage of the Ministry of Industry, Trade and Labour's mentoring programme.

- Training – the SBDCs take part in carrying out and developing training activities such as courses and workshops, which are specifically adapted to SMEs and entrepreneurs. The topics offered include: establishing and managing a business; marketing; a course for new and small exporters; computing and the Internet; and e-commerce. In addition, the applicants have at their disposal a diverse range of study booklets in: marketing, labour law, multilingual business glossaries, guides for entrepreneurs in various fields and more.
- Finance Referrals – it is possible to receive assistance from the SBDCs with the application process for obtaining financing from one of the funds intended for SMEs, or on applying to other financing frameworks and banks.
- Information and guidance in addition to the databases located at the SBDCs for the benefit of applicants, the SBDCs have a great deal of information on relevant services operated by other agencies for the benefit of entrepreneurs and owners of SMEs.

Specialised centres

In 2004, in order to develop and promote industries, sub-industries and work processes, ISMEA decided to create industry-specific knowledge bases by setting up specialised centres that operate through the SBDCs. The aim of these centres is to: provide a more professional and focused service to business owners; to reserve the knowledge and information accrued in the assistance and support system; to deal with specific barriers in the relevant industry; and to network businesses in the same fields of activity.

The specialised centres make it possible to achieve the abovementioned goals, and meet a number of secondary goals, such as networking the SBDCs, networking business owners from the same fields throughout the country and developing tools and services that are unique to industries. Five specialised centres are presently operating including franchising, jewellery manufacture, and holistic medicine, and ISMEA is working to expand this number.

Innovative training

In 2004, ISMEA established six regional training centres to provide equal service to entrepreneurs and business owners nationwide, and to streamline the system. The new centres will be uniformly branded and marketed at a national level.

In addition to the centres, an e-learning system has been established. This will make it possible to bring respected lecturers to small and peripheral localities. In addition, this system will provide entrepreneurship-training services at a uniform level to these peripheral localities, as well as returning residents and potential immigrants, even before their arrival to Israel.

The Focus on special sectors

The government provides additional supplementary support to entrepreneurship in special sectors that go beyond regular activities and budgets. Among the sectors receiving special attention, are the following:

Encouraging women's entrepreneurship

Israel has realised the need to increase women's awareness to the existing available resources:

- MOITAL, together with ISMEA, regularly operate specialised courses, workshops and seminars designed for businesswomen and female entrepreneurs. There are also special courses to encourage women's entrepreneurship and to present options for working from home.
- ISMEA, in collaboration with local municipalities, operates business clubs designated for women.
- Programmes for promoting the employment of single parents (predominantly women). Since 2004, there has been a large influx of single parents into the job seeking population as a consequence of changes to the pension scheme. A current programme provides employers with incentives to hire single parents who may be receiving income support, and provides single parents with incentives to join the labour force. In addition, the programme works to remove barriers such as commuting to work and day-care centres for children.

The minority populations (Arabs, Druze and Bedouins)

The Ministry of Industry, Trade and Labour and ISMEA view the minority sector as a population group that requires special attention. ISMEA reinforces the activities carried out in this sector by supplying training sessions, information activity, surveys, mentoring programmes, and also by placing an emphasis on finding unique employment solutions that are suitable for the non-Jewish sector.

The ultra-Orthodox population

There is a shift in perception in the ultra-Orthodox sector (where women carry most of the burden of bringing in an income), regarding the creation of sources of employment and livelihood. ISMEA is working to encourage business entrepreneurship and to improve the competitive ability of SMEs in this sector. ISMEA places an emphasis on finding unique employment solutions that are suitable for the ultra-Orthodox sector.

Access to finance

The availability of financing is still problematic for SMEs in Israel. The difficulties stem from two major problems. Firstly, a discrepancy exists in the distribution of credit by lending institutions. Currently 80% of credit being granted is to 15% of the customers, and the remaining 20% is being granted to the remaining 85% of customers of which are mostly SMEs. The second issue is that Israel has been in a period of economic recession between 2000-04.

In September 2003, Israel revised the failing Working Capital Fund and has established a new State Fund for Encouraging SMEs. The fund was initiated with the goal of helping establish or expand small businesses in all branches of the economy. The revised model

has shown more success. Instead of using government guarantees, the ministry decided to use a bank deposit as a guarantee. The financing is prepared by commercial banks, the first to join the scheme being the *Otzar Hahayal Bank*, and by June 2004, the *Habeinleumi Bank* began offering loans.

Venture capital schemes in Israel

Many OECD countries aim to attract venture capital (VC) funds and enlarge the capital available to start-up companies. In the early 1990s the Israeli Government established the *Yozma* programme, designed to encourage the creation of a local VC industry. This was a very unique model that had a dramatic effect.

The programme aimed to attract foreign investors and the private sector to invest in start-up companies in Israel. This was accomplished through the establishment of a USD 100 million investment of the government venture capital company called *Yozma*. In 1992, prior to *Yozma*, although R&D was successful there was no VC. In addition, the marketing of the results of the R&D were unsuccessful, there were few Initial Public Offerings, no M&As and a lack of international involvement.

Ten years on, there are now 60 Venture Funds in the market, USD 10 billion has been raised by VCs, USD 17 billion has been made in M&A deals and Israel is second in number of companies traded on the NASDAQ. With the solution provided by the *Yozma* programme, the VC funds are now operated by the private sector, and the VC industry has raised approximately USD 10 billion in the last 10 years. In 2003, the Israeli government initiated a new *Seed Fund* programme based on the *Yozma* model, the aim being to help promote investment in seed-stage companies, through joint government-private sector participation.

Business support services in Israel

Government programmes

The provision of generous investment incentives, estimated to exceed 8% of GDP, has been an integral part of Israel's economic development from an early stage. These incentives have taken various forms, including schemes to encourage R&D for SMEs, grants, tax reductions, infrastructure support and training. Some incentives have been designed for all types of industrial projects, others for specific industries or activities. All the incentives however are on the basis of risk sharing. MOITAL also operates five programmes which utilise private sector consulting to assist firms in improving management skills, including: the *Business Tutoring* programme; the *Quality Management* programme; the *NITSOS* programme; and the *Marketing Tutoring* programme. In 2004, MOITAL initiated four new programmes in order to raise awareness of SMEs to the importance of industrial design as a key element to initiate innovation and help SMEs compete locally and internationally.

New programmes at the ISMEA level and at the local level by SBDC

The online investment bank YAZAM, currently serves as a unique meeting place for ideas and capital raising in Israel. This site, setup in 2003 by ISMEA, is designed to be user-friendly. In regular usage, entrepreneurs and investors can register, post business proposals and create cooperative business ventures. In 2004, a professional area called *Top Investor* was opened. In this area, business proposals can only be posted after being

examined by the SBDC, which serves as an initial entry threshold for examining the business and its owner.

The Internet site *2B in Israel* offers assistance and provides ongoing consulting to those looking to make “*aliyah*” or returning to Israel, either as a new immigrant or as a returning resident, and to establish an independent business in Israel. The site provides online information and advice in five languages.

Development of an entrepreneurial society and education

Israel is characterised by an entrepreneurial society. Studies show that factors such as army service and waves of immigration explain this phenomenon. The government is encouraging partnerships between universities/academic research institutions and the private sector, primarily in the field of R&D (*Magnet* programme). Examples of additional programmes, geared at different levels of education are: The *Young Entrepreneurs* programme providing education on entrepreneurship to high school children; The *Taasiyeda* programme, in collaboration with the Manufacturers Association of Israel, which teaches entrepreneurship to kindergarten and young school children; and partnerships between schools/universities and enterprises (e.g. high-tech companies and the Technion University; ORT technical high schools and private sector companies). These activities are undertaken without direct government involvement.

Innovation policy

The Israeli Government is dedicated to promoting innovation and scientific achievement on a national level. Schemes to encourage R&D and facilitate an innovative climate in Israel are implemented through different channels. Beside the schemes such as supporting industrial R&D by the Chief Scientist Office- MOITAL, which is the main policy tool in the domain of applied R&D, there are programmes geared to promote innovation at the SMEs level.

Programme examples include the Seed Fund, for start-ups in the Biotech sector, and the Incubators programme for the individual entrepreneur. Technology, industrial parks and business incubators in Israel are another OCS scheme to support innovative start-ups. The entrepreneur receives funding of 85% of the project’s budget, as well as administrative, managerial and logistical support.

Another programme, which encourages traditional sector SMEs to embrace innovation and creativity, is the NITSOS innovation programme. During the last five years, Israel has developed 24 methodologies to promote innovation and is using 11 of them regularly on the NITSOS innovation programme. The advantage of these programmes is that they create innovation within a short time, between 5 to 7 days of workshops directed at the top levels of management.

ANNEX A

Statistical Annex

Data Notes

1. In the tables included in this Statistical Annex, some size classes may differ for particular countries: For example:

Australia: The size class “50-199” is used instead of “50-249”; “100-199” instead of “100-249”; “200 and more” instead of “250 and more”; “200-499” instead of “250-499”.

Greece: Data for size enterprises with less than 9 employees are not available.

Japan: The size class “4-9” is used instead of “1-9” class.

Korea: The size class “50-299” are used instead of “50-249”. The size class “300 and more” is used instead of “250 and more”.

United States: The size class “10-99” replaces “10-49” and “50-99”.

2. Note that in the tables the sum of the different size classes may not always total 100%, for reasons of, *inter alia*, data availability.
3. The symbol “..” is used when a data is not available.

Table A.1. Distribution of enterprises¹ by firm size in manufacturing, 2001²
in percent

COUNTRY	less than ten	10-49	50-99	100-499	500+
Australia	72.6	21.8	2.8	2.2	0.6
Austria	69.0	23.3	3.3	3.8	0.6
Belgium	79.4	15.5	2.4	2.2	0.5
Czech Republic	89.2	7.6	1.5	1.4	0.3
Denmark	70.7	21.8	3.6	3.3	0.6
Finland	83.4	12.0	2.2	1.9	0.5
France	81.8	13.9	2.0	1.9	0.4
Germany	64.0	26.5	4.3	4.3	0.9
Greece	..	79.4	9.6	9.7	1.3
Hungary	86.0	10.4	1.6	1.6	0.3
Ireland	37.3	42.3	9.5	9.3	1.5
Italy	83.3	14.5	1.3	0.8	0.1
Japan	50.9	39.2	5.4	4.0	0.5
Netherlands	77.0	16.7	3.2	2.6	0.4
New Zealand	81.3	15.3	1.7	1.4	0.3
Norway	61.3	29.4	4.6	4.0	0.7
Poland	89.7	6.5	1.6	1.8	0.3
Portugal	78.9	16.7	2.6	1.6	0.2
Slovak Republic	45.8	34.2	7.5	9.9	2.5
Spain	77.9	18.9	1.8	1.2	0.2
Sweden	85.4	10.8	1.8	1.6	0.4
United Kingdom	71.7	21.0	3.5	3.2	0.6
United States	48.3	33.0		7.1	11.7

Notes: 1. Establishments for Australia, Japan & United States.

2. Or latest year available.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.2. Distribution of employment by firm size in manufacturing, 2001¹
in percent

COUNTRY	less than ten	10-49	50-99	100-499	500+
Australia	14.1	20.5	8.8	22.5	34.2
Austria	9.8	19.0	9.2	33.0	29.1
Belgium	11.6	18.9	9.5	25.5	34.6
Czech Republic	14.2	15.6	9.7	28.3	32.2
Denmark	7.6	19.1	10.4	28.0	35.0
Finland	8.6	15.4	9.1	24.4	42.5
France	11.8	18.9	8.5	24.5	36.3
Germany	7.0	15.1	8.7	25.8	43.4
Greece	..	26.6	12.5	36.0	24.9
Hungary	14.0	16.5	8.9	28.2	32.4
Ireland	3.7	18.4	12.6	36.6	28.7
Italy	25.1	31.2	9.9	17.4	16.4
Japan	10.8	28.4	13.3	27.3	20.2
Netherlands	11.2	23.3	12.6	29.0	23.9
New Zealand	19.1	24.2	9.3	21.3	26.1
Norway	8.7	22.9	11.5	29.1	27.8
Poland ²	19.4	12.8	9.7	31.5	26.6
Portugal	18.9	28.1	14.2	24.3	14.4
Slovak Republic	4.1	11.1	8.3	31.3	45.2
Spain	19.0	32.5	10.7	20.2	17.6
Sweden	11.1	15.2	8.7	21.7	43.3
United Kingdom	10.1	18.8	10.4	28.1	32.6
United States	11.0	25.7		14.5	48.8

Notes: 1. Or latest year available

2. Salaried employees for Poland

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.3. Distribution of enterprises¹ by firm size in manufacturing, 2002²
in percent

COUNTRY	less than ten	10-49	50-249	250+
Australia	72.6	21.8	4.1	1.5
Austria	71.0	21.8	5.5	1.6
Belgium	79.4	15.5	4.1	1.0
Czech Republic	89.2	7.6	2.6	0.7
Denmark	71.4	21.1	6.0	1.5
Finland	84.0	11.4	3.6	1.0
France	81.6	14.0	3.4	0.9
Germany	62.1	27.3	8.4	2.2
Greece	..	79.4	17.1	3.5
Hungary	87.2	9.4	2.7	0.8
Ireland	39.0	42.0	15.2	3.8
Italy	83.4	14.4	1.9	0.3
Japan	50.9	39.2	8.5	1.4
Korea	88.6	8.3	2.9	0.2
Netherlands	74.7	18.9	5.2	1.2
New Zealand	81.3	15.3	2.7	0.6
Norway	60.6	29.4	7.6	1.7
Poland	89.7	6.5	3.0	0.8
Portugal	78.9	16.7	3.9	0.5
Slovak Republic	44.2	32.7	17.2	6.0
Spain	78.4	18.4	2.8	0.5
Sweden	85.4	10.8	3.0	0.8
United Kingdom	71.7	21.0	5.9	1.5

Notes: 1. Number of establishments for Australia and Japan.

2. Or latest year available

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.
For Korea, the source data is: Korea National Statistical Office.

Table A.4. Distribution of employment¹ by firm size in manufacturing, 2002²
in percent

COUNTRY	less than ten	10-49	50-249	250+
Australia	14.1	20.5	17.8	47.7
Austria	10.3	18.9	26.9	43.8
Belgium	11.6	18.9	23.8	45.8
Czech Republic	14.2	15.6	25.5	44.7
Denmark	7.4	18.9	26.3	47.4
Finland	9.0	14.8	22.5	53.7
France	12.0	19.0	22.3	46.7
Germany	6.7	14.5	23.7	55.1
Greece	..	26.6	34.0	39.5
Hungary	16.1	16.5	23.2	44.2
Ireland	4.4	19.2	32.3	44.2
Italy	25.5	31.0	20.8	22.8
Japan	10.8	28.4	29.9	30.9
Korea	42.9	20.7	23.2	13.3
Netherlands	9.9	23.3	30.6	36.2
New Zealand	19.1	24.2	21.4	35.3
Norway	8.7	22.9	28.3	40.1
Poland	19.4	12.8	27.9	39.9
Portugal	18.9	28.1	29.3	23.7
Slovak Republic	3.5	10.0	26.4	60.0
Spain	19.2	31.9	22.6	26.2
Sweden	11.1	15.2	20.7	53.0
United Kingdom	10.1	18.8	25.8	45.3

Notes: 1. Salaried employees for Korea and Poland.

2. Or latest year available

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.
For Korea, the source data is: Korea National Statistical Office.

Table A.5 Distribution of output¹ by firm size in manufacturing, 2001²
in percent

COUNTRY	less than ten	10-49	50-99	100-499	500+
Australia	7.6	13.0	7.4	23.5	48.5
Austria	4.4	11.5	7.5	34.5	42.1
Belgium	6.0	12.6	7.8	24.4	49.3
Czech Republic	6.2	10.2	7.9	26.9	48.7
Denmark	6.5	14.0	8.8	27.1	43.7
Finland	4.4	9.2	6.3	20.9	59.3
France	4.7	11.8	6.2	21.1	56.3
Germany	2.7	8.0	6.3	23.7	59.3
Hungary	4.4	8.4	5.5	24.2	57.4
Ireland	1.0	6.2	6.9	45.3	40.6
Italy	11.7	23.5	10.9	23.0	30.9
Japan	3.6	15.7	10.8	32.7	37.2
Netherlands	6.0	14.8	8.9	30.0	40.3
New Zealand	9.2	15.7	10.1	29.3	35.6
Norway	6.5	16.9	9.7	33.8	33.2
Poland	9.7	9.4	8.5	28.9	43.5
Portugal	9.1	19.1	11.8	28.1	31.9
Slovak Republic	2.4	7.7	5.8	22.6	61.4
Spain	8.6	21.5	10.0	25.5	34.3
Sweden	5.4	10.8	7.2	20.8	55.9
United Kingdom	6.7	12.4	8.0	27.4	45.5
United States	2.1	10.6		12.1	75.2

Notes: 1. Turnover for Australia, Japan, Poland and United States

2. Or latest year available

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.6. Distribution of output¹ by firm size in manufacturing, 2002²
in percent

COUNTRY	less than ten	10-49	50-249	250+
Australia	7.6	13.0	16.1	63.3
Austria	4.6	12.7	25.8	57.0
Belgium	6.0	12.6	20.9	60.5
Czech Republic	6.2	10.2	23.0	60.6
Denmark	6.3	14.0	23.2	56.5
Finland	4.6	9.2	17.4	68.8
France	11.2	12.5	16.3	60.1
Germany	2.6	7.9	19.6	69.9
Greece	..	15.0	24.9	60.1
Hungary	4.4	8.4	17.0	70.2
Ireland	1.2	6.0	20.5	72.4
Italy	11.7	24.4	25.2	38.7
Japan	3.6	15.7	28.0	52.7
Netherlands	5.4	16.0	25.6	53.1
New Zealand	9.2	15.7	24.7	50.4
Norway	6.2	16.9	27.1	49.6
Poland	9.7	9.4	24.1	56.8
Portugal	9.1	19.1	27.5	44.3
Slovak Republic	2.6	6.7	18.5	72.2
Spain	8.9	21.5	23.7	46.0
Sweden	5.4	10.8	17.9	65.9
United Kingdom	6.7	12.4	21.4	59.5

Notes: 1. Turnover for Australia, Greece, Japan and Poland.

2. Or latest year available.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.7. Distribution of value added¹ by firm size in manufacturing, 2001²
in percent

COUNTRY	less than ten	10-49	50-99	100-499	500+
Australia	11.1	15.3	7.7	23.4	42.5
Austria	6.0	14.4	7.7	33.8	38.2
Belgium	6.1	14.0	8.2	24.8	47.0
Czech Republic	4.9	10.7	8.6	29.0	46.8
Denmark	6.6	16.1	9.4	27.0	40.9
Finland	5.3	9.5	6.4	19.2	59.5
France	7.8	15.4	7.0	22.7	47.0
Germany	4.0	10.6	7.1	24.2	54.0
Hungary	5.3	10.9	7.1	30.7	46.0
Ireland	1.0	6.2	7.6	53.4	31.7
Italy	15.0	27.4	11.4	22.5	23.7
Japan	5.2	19.4	11.5	31.5	32.3
Netherlands	8.8	17.3	10.2	28.7	35.0
New Zealand	11.7	18.2	9.2	34.8	26.2
Norway	8.0	18.6	9.9	30.6	32.9
Poland	0.8	13.6	11.5	35.1	38.9
Portugal	9.8	21.2	12.9	29.8	26.3
Slovak Republic	3.0	9.0	5.7	24.0	58.3
Spain	10.2	24.5	10.4	26.2	28.7
Sweden	6.5	12.6	7.7	22.6	50.5
United Kingdom	8.1	15.2	8.9	26.3	41.5

Notes: 1. Valued added at producer prices for Australia, Japan and New Zealand.

2. Or latest year available.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.8. Distribution of value added¹ in manufacturing, by firm size, 2002²
in percent

COUNTRY	less than ten	10-49	50-249	250+
Australia	11.1	15.3	16.5	57.1
Austria	6.2	13.7	26.3	53.9
Belgium	6.1	14.0	21.7	58.2
Czech Republic	4.9	10.7	24.5	59.9
Denmark	6.4	16.2	24.4	53.0
Finland	5.6	10.1	17.7	66.6
France	8.1	15.0	19.2	57.7
Germany	3.6	10.2	21.1	65.1
Greece	..	15.6	28.4	56.0
Hungary	4.8	10.2	20.4	64.6
Ireland	1.2	5.5	17.2	76.1
Italy	15.3	27.8	25.5	31.4
Japan	5.2	19.4	29.2	46.2
Netherlands	7.7	17.6	25.8	48.9
New Zealand	11.7	18.2	24.0	46.2
Norway	8.0	18.5	26.2	46.7
Poland	0.8	13.6	31.4	54.1
Portugal	9.8	21.2	29.0	40.0
Slovak Republic	3.2	7.3	20.2	69.3
Spain	10.3	23.6	24.2	41.9
Sweden	6.5	12.6	19.7	61.2
United Kingdom	8.1	15.2	22.6	54.1

Notes: 1. Valued added at producer prices for Australia, Japan and New Zealand.

2. Or latest year available.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.9. Distribution of enterprises¹ by firm size in selected services: Hotels and Restaurants², 2001³
in percent

COUNTRY	1-4	5-9	Micro enterprise (<10)	10-49	Small enterprise (<50)	50-249	SMEs (<250)	250+
Australia	67.6		67.6	28.2	95.8	3.7	99.52	0.48
Austria	72.0	17.2	89.3	9.8	99.1	0.9	99.94	0.06
Belgium	81.5	11.6	93.1	6.5	99.6	0.3	99.95	0.05
Czech Republic	81.4	14.1	95.5	4.0	99.5	0.4	99.96	0.04
Denmark	72.5	12.7	85.3	12.8	98.0	1.8	99.84	0.16
Finland	85.1	8.7	93.7	5.4	99.1	0.8	99.88	0.12
France	83.4	11.4	94.9	4.8	99.6	0.3	99.94	0.06
Germany	67.5	19.8	87.3	11.8	99.2	0.8	99.94	0.06
Hungary	84.9	9.3	94.1	5.3	99.5	0.5	99.93	0.07
Ireland	79.0	6.9	86.0	11.1	97.1	2.8	99.85	0.15
Italy	84.4	11.4	95.8	3.9	99.7	0.2	99.97	0.03
Netherlands	81.0	12.4	93.4	6.0	99.3	0.5	99.86	0.14
New Zealand	86.5		86.5	12.7	99.1	0.8	99.90	0.10
Norway	62.2	18.4	80.6	17.1	97.7	2.0	99.77	0.21
Poland	89.4	7.8	97.1	2.5	99.6	0.3	99.95	0.05
Portugal	86.4	9.2	95.6	3.9	99.6	0.4	99.95	0.05
Slovak Republic ⁴	39.5	..	..	27.4	..	5.3	..	..
Spain	84.5	10.4	94.9	4.5	99.5	0.5	99.94	0.06
Sweden	80.4	10.6	91.0	8.1	99.1	0.8	99.92	0.08
United Kingdom	45.4	29.6	75.1	23.0	98.1	1.6	99.72	0.28

- Notes:
1. Number of establishments for Australia.
 2. Code H55 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).
 3. Or latest year available.
 4. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC)* database. OECD, Paris.

Table A.10. Distribution of employment by firm size in selected services: Hotels and Restaurants¹, 2001²
in percent

COUNTRY	1-4	5-9	<i>Micro enterprise (<10)</i>	10-49	<i>Small enterprise (<50)</i>	50-249	<i>SMEs (<250)</i>	250+
Australia		19.7	19.7	37.2	56.9	23.9	80.8	19.2
Austria	27.7	20.5	48.2	33.2	81.4	13.5	94.9	5.1
Belgium	35.6	18.4	54.0	28.4	82.4	7.1	89.4	10.6
Czech Republic	39.3	24.1	63.4	18.8	82.3	9.7	92.0	8.0
Denmark	15.0	12.1	27.0	35.0	62.0	23.7	85.7	14.3
Finland	25.7	11.8	37.6	20.8	58.4	14.6	73.0	27.0
France	30.0	19.3	49.4	23.4	72.8	7.6	80.4	19.6
Germany	24.8	20.3	45.1	32.9	78.0	10.9	88.8	11.2
Hungary	38.9	14.9	53.9	22.3	76.1	11.1	87.2	12.8
Ireland	23.7	7.9	31.6	26.2	57.8	25.5	83.3	16.7
Italy	45.3	20.2	65.5	18.1	83.5	5.8	89.3	10.7
Netherlands	34.1	14.6	48.7	27.0	75.8	8.1	83.8	16.2
New Zealand		43.4	43.4	33.3	76.7	10.9	87.6	12.4
Norway	12.4	13.9	26.3	36.0	62.3	23.8	86.1	13.9
Portugal	46.3	16.5	62.7	17.5	80.2	8.8	89.0	11.0
Slovak Republic ³	20.5	..	..	28.2	..	27.2	..	..
Spain	36.8	17.6	54.4	21.8	76.2	12.2	88.4	11.6
Sweden	23.3	13.4	36.7	30.2	66.9	14.8	81.7	18.3
United Kingdom	9.9	14.2	24.1	25.3	49.4	10.1	59.6	40.4

- Notes: 1. Code H55 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).
 2. Or latest year available.
 3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.11. Distribution of enterprises by firm size in selected services: Restaurants, Bars and Canteens¹, 2001²

in percent

COUNTRY	1-4	5-9	10-19	20-49	50-99	100-249	250+	
Belgium	82.5	11.3	4.6	1.4	0.1	0.03	0.03	
Czech Republic	80.3	15.8	2.8	0.8	0.2	0.05	0.03	
Finland	86.1	8.7	3.2	1.6	0.3	0.13	0.10	
Germany	70.7	19.2	6.9	2.6	0.4	0.16	0.05	
Hungary	85.9	9.1	3.5	1.2	0.2	0.07	0.04	
Ireland	77.6	8.6	7.6	4.7	1.1	0.29	0.08	
New Zealand	85.5		10.8	3.1	0.4	0.08	0.08	
Portugal	87.6	9.0	2.5	0.7	0.1	0.03	0.02	
	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500+
Austria	76.4	17.2	4.1	1.8	0.3	0.13	0.03	0.02
Denmark	74.4	12.9	7.7	3.7	0.9	0.38	0.06	0.06
France	85.7	10.3	2.4	1.3	0.1	0.07	0.02	0.03
Italy	87.7	9.8	2.0	0.4	0.1	0.03	0.02	0.02
Netherlands	82.2	12.4	3.7	1.4	0.2	0.03	0.03	0.04
Norway	62.2	20.2	11.8	4.6	0.8	0.28	0.08	0.10
Poland ³	89.3	..	..	0.6	0.1	0.04	0.02	..
Slovak Republic ³	46.0	..	15.3	5.2	1.7	0.57	..	0.00
Spain	86.1	10.1	2.7	0.9	0.1	0.06	0.01	0.01
Sweden	82.2	10.6	4.6	2.1	0.3	0.13	0.03	0.04
United Kingdom	46.3	30.8	17.9	3.7	0.8	0.32	0.10	0.11
United States	41.3	19.1	17.4	19.7		2.07		0.39

Notes: 1. Code H552 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).

2. Or latest year available.

3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.12. Distribution of employment by firm size in selected services: Restaurants, Bars and Canteens¹, 2001²
in percent

COUNTRY	1-4	5-9	10-19	20-49	50-99	100-249	250+	
Austria	36.1	24.5	11.8	11.7	5.1	3.8	6.9	
Belgium	39.2	19.9	16.5	11.8	2.4	1.4	8.8	
Czech Republic	43.6	27.8	10.1	6.1	3.5	1.8	7.1	
Finland	30.5	13.2	9.8	10.2	4.5	5.2	26.6	
Germany	29.1	21.7	16.0	13.0	5.2	4.2	10.8	
Hungary	46.1	17.1	14.1	8.9	3.4	2.9	7.5	
Ireland	29.0	10.6	14.2	16.2	8.1	4.6	17.4	
New Zealand	44.7		22.0	13.6	4.3	1.8	13.6	
Portugal	54.3	18.7	9.4	5.9	2.4	1.0	8.4	
Sweden	28.1	15.8	13.8	13.7	4.7	4.6	19.3	
	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500+
Denmark	17.8	14.3	16.9	18.2	9.7	9.9	3.5	9.6
France	33.5	18.5	9.1	11.4	2.6	3.0	1.5	20.3
Italy	53.3	19.5	8.2	3.7	1.7	1.4	1.8	10.4
Netherlands	39.3	16.2	15.4	11.0	3.1	1.3	1.5	12.3
Norway	15.0	17.9	20.9	17.5	7.5	5.5	4.2	11.5
Slovak Republic ³	32.5	..	13.2	11.6	9.6	7.1	..	0.0
Spain	46.3	20.8	11.4	8.5	3.0	2.3	1.4	6.3
United Kingdom	11.0	16.0	16.7	7.9	3.7	3.5	2.4	38.7
United States	2.6	5.2	9.6	30.3		14.9		37.4

- Notes:
1. Code H552 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).
 2. Or latest year available.
 3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC)* database. OECD, Paris.

Table A.13. Distribution of enterprises¹ by firm size in selected services: Real Estate Activities², 2001³

in percent

COUNTRY	1-4	5-9	10-49	50-99	100+		
Austria	82.9	9.3	6.0	0.98	0.83		
Belgium	90.8	6.7	2.3	0.17	0.04		
Czech Republic	89.1	4.9	5.5	0.33	0.16		
Finland	91.8	4.2	3.7	0.16	0.11		
Hungary	88.8	6.1	4.3	0.48	0.29		
Italy	98.3	1.2	0.5	0.01	0.01		
New Zealand		99.5	0.5	0.02	0.01		
Norway	97.0	2.0	0.9	0.04	0.03		
Poland	83.9	..	..	1.40	..		
Portugal	92.2	..	2.0	0.16	..		
Slovak Republic	57.9	17.3	19.4	3.55	1.88		
Spain	90.7	6.4	..	0.13	..		
Sweden	95.2	2.4	2.0	0.29	0.24		
	1-4	5-9	10-49	50-99	100-249	250-499	500+
Australia		89.0	10.2	0.4	0.17	0.12	0.05
Denmark	96.9	1.7	1.3	0.1	0.03	0.03	0.00
France	86.5	8.9	3.8	0.3	0.29	0.07	0.03
Germany	93.0	4.2	2.5	0.2	0.10	0.04	0.01
Ireland	94.7	3.1	1.9	0.2	0.17	0.00	0.00
Netherlands	90.2	4.6	4.3	0.6	0.24	0.08	0.00
United Kingdom	85.3	9.2	4.6	0.4	0.30	0.10	0.08
United States	76.9	12.4		9.3		0.87	0.42

- Notes: 1. Numbers of establishments for Australia.
 2. Code K70 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).
 3. Or latest year available.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.14. Distribution of employment by firm size in selected services: Real Estate Activities¹, 2001²

in percent

COUNTRY	1-4	5-9	10-49	50-99	100+		
Austria	23.8	10.2	20.8	12.3	32.9		
Belgium	55.3	18.1	19.5	4.8	2.3		
Czech Republic	31.7	11.8	37.3	8.5	10.7		
Finland	35.0	13.7	35.1	5.3	10.9		
Hungary	41.4	13.1	21.1	8.6	15.9		
Italy	88.0	4.8	4.8	0.7	1.7		
New Zealand		78.9	14.0	2.2	5.0		
Norway	57.5	13.9	18.1	3.2	7.3		
Portugal ³	67.2	..	11.5	4.5	..		
Slovak Republic	15.2	10.9	32.6	20.0	21.4		
Spain ³	55.2	16.9	..	3.6	..		
Sweden ³	45.2	..	15.8	8.4	..		
	1-4	5-9	10-49	50-99	100-249	250-499	500+
Australia		51.8	26.9	5.4	4.0	5.2	6.8
Denmark	64.6	7.1	14.1	4.0	3.6	6.6	0.0
France	37.8	14.4	17.9	6.1	11.2	5.8	6.8
Germany	48.5	11.0	20.4	5.1	6.0	5.3	3.7
Ireland	64.5	9.0	13.5	4.6	8.4	0.0	0.0
United Kingdom	30.9	12.6	15.0	5.3	8.6	7.1	20.6
United States	17.1	11.7	31.3		17.4		22.5

- Notes:
1. Code K70 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).
 2. Or latest year available.
 3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.15. Distribution of enterprises by firm size in selected services: Renting of Machinery and Equipment etc¹, 2001²
in percent

COUNTRY	1-4	5-9	10-49	50-99	100+		
Austria	80.8	10.9	6.6	1.2	0.5		
Belgium	89.6	5.6	4.0	0.5	0.2		
Czech Republic	92.7	4.8	2.4	0.1	0.0		
Denmark	89.3	4.9	4.8	0.6	0.3		
Finland	91.8	4.5	3.1		0.6		
Hungary	91.1	4.8	3.5	0.6	0.0		
Ireland	87.8	4.5	6.3	0.9	0.5		
Italy	93.2	4.4	2.2	0.1	0.1		
New Zealand		96.0	3.6	0.2	0.2		
Norway	90.7	5.7	3.0	0.3	0.3		
Poland ³	94.7	..	..	0.3	..		
Portugal ³	85.8	..	5.6	0.6	..		
Sweden	91.5	5.1	3.1		0.3		
	1-4	5-9	10-49	50-99	100-249	250-499	500+
France	91.8	4.4	3.1	0.4	0.2	0.08	0.01
Germany	80.4	10.8	7.8	0.6	0.3	0.07	0.07
Spain	87.6	7.4	4.5	0.3	0.2	0.03	0.03
United Kingdom	70.1	13.8	13.8	1.3	0.7	0.14	0.22
United States	57.3	19.4		20.4		1.8	1.16

- Notes: 1. Code K71 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).
 2. Or latest year available.
 3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.16. Distribution of employment by firm size in selected services: Renting of Machinery and Equipment etc¹, 2001²
in percent

COUNTRY	1-4	5-9	10-49	50-99	100+		
Austria	20.5	13.4	26.8	15.8	23.5		
Belgium	43.4	11.3	25.5	12.7	7.0		
Czech Republic	49.7	18.7	27.6	4.0	0.0		
Denmark	24.1	9.6	27.3	11.5	27.5		
Finland	29.0	11.3	26.0	33.7			
Hungary	51.0	9.8	24.8	14.4	0.0		
Ireland	29.6	7.8	23.8	10.4	28.5		
Italy	54.7	11.6	15.2	3.0	15.4		
New Zealand		58.3	23.1	4.9	13.7		
Norway	33.4	13.2	20.2	7.3	26.0		
Portugal ³	32.6	..	28.4	11.3	..		
Sweden ³	46.8	..	22.1	..	..		
	1-4	5-9	10-49	50-99	100-249	250-499	500+
France ³	14.1	..	19.1	7.8	9.8	7.9	..
Germany	23.9	12.9	26.8	7.1	9.1	4.1	16.1
Spain	36.9	14.5	26.3	6.0	7.4	3.2	5.6
United Kingdom	13.4	9.0	23.9	7.5	8.8	4.6	32.9
United States	4.8	6.4	22.6			9.8	56.4

Notes: 1. Code K71 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).

2. Or latest year available.

3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.17. Distribution of enterprises by firm size in selected services: Computer and Related Activities¹, 2001²
in percent

COUNTRY	1-4	5-9	10-49	50-99	100-249	250+
Czech Republic	91.9	4.1	3.5	0.3	0.1	0.04
Finland	80.0	7.3	9.4	1.7	1.1	0.51
Hungary	92.3	4.9	2.5	0.3	0.1	0.05
Ireland	90.9	2.2	4.4	1.4	0.6	0.47
New Zealand	95.5		3.7	0.5	0.2	0.14
Poland ³	94.6	..	..	0.3	..	..
Portugal ³	82.5	..	..	0.7	0.9	..
Spain ³	82.6	7.2	..	1.0	0.7	..

	1-4	5-9	10-49	50-99	100-249	250-499	500+
Austria	87.0	5.6	6.0	0.8	0.4	0.1	0.08
Belgium	86.5	5.5	6.2	1.0	0.5	0.2	0.12
Denmark	84.2	6.4	7.4	1.1	0.5	0.3	0.14
France	81.0	8.1	8.4	1.3	0.8	0.3	0.19
Germany	75.8	10.3	11.2	1.4	0.9	0.3	0.18
Italy	86.1	8.3	4.9	0.4	0.2	0.1	0.05
Norway	85.2	6.5	6.5	0.9	0.5	0.2	0.11
Sweden	89.7	4.3	4.8	0.6	0.3	0.1	0.13
United Kingdom	89.7	5.0	4.4	0.5	0.2	0.1	0.04
United States	70.1	11.6	15.6		1.8		0.85

Notes: 1. Code K72 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).

2. Or latest year available.

3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.18. Distribution of employment by firm size in selected services: Computer and Related activities¹, 2001²
in percent

COUNTRY	1-4	5-9	10-49	50-99	100-249	250+	
Czech Republic ³	30.4	..	31.1	8.9	7.3	..	
Finland	9.4	5.4	20.6	12.1	18.1	34.2	
Hungary	49.8	12.6	17.8	7.2	4.3	8.3	
Ireland	27.6	4.0	16.0	11.3	10.6	30.6	
New Zealand	44.8		18.4	8.1	7.3	21.5	
Portugal ³	25.3	..	..	6.9	18.8	..	
Spain	13.4	5.5	..	8.1	13.2	..	
	1-4	5-9	10-49	50-99	100-249	250-499	500+
Austria	25.8	7.7	23.7	10.6	12.1	8.9	11.1
Belgium	21.2	6.4	23.1	12.5	13.3	9.6	13.9
Denmark	15.8	6.0	21.2	10.7	12.3	13.7	20.3
France	6.2	6.4	21.6	10.5	14.7	10.8	29.8
Germany	11.8	6.5	21.3	9.1	12.7	9.1	29.6
Italy ³	31.3	12.9	22.0	7.0	..	6.3	..
Norway	17.6	7.2	21.7	10.9	14.4	12.6	15.7
Sweden ³	21.3	..	20.2	7.9	9.6	10.1	..
United Kingdom	34.2	7.7	18.4	7.2	7.6	4.3	20.5
United States	5.1	4.1	22.8		16.9		51.2

- Notes: 1. Code K72 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).
 2. Or latest year available.
 3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.19. Distribution of enterprises by firm size in selected services: Research and Development¹, 2001²

in percent

COUNTRY	1-4	5-9	10-19	20-49	50+			
Finland	81.1	5.2	6.3	4.8	2.6			
Ireland ³	76.2	..	6.0	6.0	..			
New Zealand	85.8		3.6	3.6	7.1			
	1-4	5-9	10-19	20-49	50-99	100+		
Austria	67.7	11.4	8.6	7.3	2.7	2.3		
Belgium	54.6	26.0	8.0	2.9	2.7	5.9		
Czech Republic	73.8	5.0	5.0	7.1	3.4	5.8		
Denmark	65.3	10.7	8.5	8.1	4.1	3.3		
Hungary	91.1	4.3	2.3	1.4	0.6	0.4		
Italy	95.4	2.5	1.2	0.6	0.2	0.2		
Norway	58.2	7.0	5.2	10.8	11.7	7.0		
Slovak Republic	14.6	32.0	10.7	11.7	5.8	25.2		
Spain ³	85.1	6.4	3.8	..	1.2	..		
Sweden	88.7	4.8	2.6	1.9	1.1	1.0		
	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500+
France	77.4	8.0	5.4	5.2	1.8	1.5	0.4	0.4
Germany	70.5	9.1	11.2	4.5	2.6	1.3	0.2	0.5
Netherlands	80.7	6.2	5.2	3.6	1.3	1.3	1.0	0.7
Poland ³	57.9	..	1.8	7.9	10.2	9.1	5.4	..
United Kingdom	66.2	11.6	7.9	6.7	3.4	1.8	1.2	1.1
United States	52.7	15.6	10.9	13.4			4.4	2.9

Notes: 1. Code K73 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).

2. Or latest year available.

3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A. 20. Distribution of Employment by Firm Size in Selected Services: Research and Development¹, 2001²
in percent

COUNTRY	1-4	5-9	10-19	20-49	50+			
Finland	12.9	4.7	11.7	18.5	52.2			
Ireland ³	24.5	..	15.6	24.7	..			
New Zealand		5.2	2.1	5.1	87.7			
	1-4	5-9	10-19	20-49	50-99	100+		
Austria	5.7	4.9	7.4	14.5	10.3	57.2		
Belgium	6.1	8.2	5.8	4.6	10.7	64.7		
Czech Republic ³	3.5	..	3.8	13.7	15.7	..		
Denmark	4.2	3.9	6.7	15.5	15.8	53.8		
Hungary	38.0	8.3	9.4	11.6	8.4	24.4		
Italy	48.8	6.6	6.9	7.7	4.8	25.1		
Norway	2.4	1.5	2.2	10.4	25.5	58.0		
Slovak Republic	1.2	2.4	2.7	6.3	7.1	80.4		
Spain ³	16.6	7.7	9.2	..	14.5	..		
Sweden ³	18.7	..	5.9	9.8	..	..		
	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500+
France ³	3.6	..	5.9	13.0	10.6	18.3	9.8	..
Germany	5.8	3.3	8.7	7.7	9.5	11.3	4.1	49.6
Netherlands	3.5	2.7	3.9	4.8	5.4	9.4	12.4	57.8
United Kingdom	3.7	2.3	3.2	6.3	7.0	8.2	12.0	57.3
United States	2.3	3.0	4.2	15.8			21.1	53.6

- Notes:
1. Code K73 in International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).
 2. Or latest year available.
 3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2005), *Statistics on Enterprises by Size Class (SEC) database*. OECD, Paris.

Table A.21: Structure of enterprises by firm size in tourism, 2003¹

(percentage shares)

	1-9 employees		10-249 employees		250-499 employees		>499 employees	
	Travel Agencies and similar (includes tour operators)	Hotels	Travel Agencies and similar (includes tour operators)	Hotels	Travel Agencies and similar (includes tour operators)	Hotels	Travel Agencies and similar (includes tour operators)	Hotels
Austria	87.2	82.9	12.6	17.0	0.2	0.1	0.1	..
Denmark ³	91.7	82.7	6.2	15.1	0.5	0.1	..	..
Czech Republic	97.4	90.6	2.5	9.2	0.05	0.1	0.0	0.02
EU	..	92.9	..	7.0	..	0.1	..	..
France	85.7	85.4	13.9	14.5	0.1	0.0	0.3	0.0
Germany	88.4	76.4	11.4	23.4	0.1	0.1	0.1	0.0
Greece	94.1	17.6	5.9	58.8	..	23.5	..	0.1
Italy	93.0	87.0	6.9	12.9	0.1	0.0	0.0	0.0
Japan ³	..	74.9	..	22.6	..	0.5	..	..
Korea	88.1	97.5	11.6	2.2	0.2	0.2	0.1	0.1
Norway	83.1	65.0	16.6	34.4	0.1	0.5	..	0.0
Poland	..	94.2	..	5.7	..	0.1	..	0.1
Portugal	85.0	81.9	8.1	8.4	6.9	9.8	..	..
Spain	91.3	74.3	8.3	19.0	0.4	6.6	..	0.1
Slovak Republic	95.6	75.2	4.4	24.7	..	..	..	0.1
Switzerland	90.3	39.0	9.2	61.0	0.5	..	..	..
Turkey	90.0	..	10.0	..	..	..	..	..

Notes: 1. Or latest year available.

2. Denmark: 1-9; 10-199; >200

Japan: 1-9; <199; >200

Poland: 1-9; 10-249; >249

Portugal: 1-9; 10-19; >20

3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2004), Tourism Committee "Review of tourism industry restructuring: trends, dynamics and policies in tourism SMEs". OECD, Paris. www.oecd.org/sti/tourism.

Table A.22. Structure of employment by firm size in tourism, 2003¹

(percentage shares)

	1-9 employees		10-249 employees		250-499 employees		>499 employees	
	Travel Agencies and similar (includes tour operators)	Hotels	Travel Agencies and similar (includes tour operators)	Hotels	Travel Agencies and similar (includes tour operators)	Hotels	Travel Agencies and similar (includes tour operators)	Hotels
Austria	28.8	36.3	49.1	60.2	5.8	2.5	16.3	0.9
Denmark	..	53.0	..	47.0	..	..	..	..
France	27.5	44.4	36.3	45.1	5.0	2.5	31.2	8.0
Germany	37.1	24.6	50.3	71.3	4.8	3.5	7.8	0.5
Italy	53.2	45.0	35.7	48.6	5.8	1.8	5.3	4.5
Korea	47.9	58.9	41.1	16.4	9.2	14.6	2.0	10.1
Norway ³	27.2	11.7	61.1	77.2	11.7	9.0	2.1	..
Poland	..	20.5	..	45.3	..	34.1	..	..
Portugal	30.1	26.7	14.6	5.4	55.3	67.9	..	..
Spain	30.7	15.9	23.5	30.8	22.9	40.0	22.8	13.3
Switzerland	31.8	24.0	31.2	76.0	37.0	..	..	..
Turkey	75.0	..	25.0	..	..	..	..	..

- Notes:
1. Or latest year available.
 2. Denmark: 1-9; >10
Poland: 1-9; 10-249; >249
Portugal: 1-9; 10-19; >20
 3. The sum of the different size classes is not 100% for reasons of data availability.

Source: OECD (2004), Tourism Committee "Review of tourism industry restructuring: trends, dynamics and policies in tourism SMEs". OECD, Paris. www.oecd.org/sti/tourism.

ANNEX B

Istanbul Ministerial Declaration

Istanbul Ministerial Declaration

Fostering the Growth of Innovative and Internationally Competitive SMEs

Ministers and Representatives of governments participating in the OECD conference held in ISTANBUL on 3-5 June 2004,¹ (hereafter the Ministers),

RECOGNISING that small and medium-sized enterprises (SMEs):

- Are the dominant form of business organisation in all countries, typically accounting for over 95 per cent of the business population;
- Constitute an important dynamic element in all economies as they drive innovation, especially in knowledge-based industries; and
- Play a key role in driving sustainable economic growth and job creation while contributing to the social, cultural and environmental capital of nations;

ACKNOWLEDGING:

- That for SMEs and entrepreneurship to flourish there needs to be a conducive business environment where the rule of law is paramount; and
- That SMEs operate within distinct business cultures around the world, but that the economic and dynamic market conditions they face create similar challenges for the firm and how it prospers;

RECALLING the outcome of the first OECD Conference for Ministers responsible for SMEs on “*Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies*”, held in Bologna on 13-15 June 2000;

NOTING that the “*The Bologna Charter on SME Policies*” provides a frame of reference for the design of SME policies to contribute coherently to economic growth and social development, both in OECD countries and the rest of the world;

REAFFIRMING their commitment to working to put in place policies which support the development, growth and competitiveness of SMEs and to pursuing policy dialogue and cooperation among OECD countries and non-member economies;

1. The full list of adherents to the Declaration is provided at the end of the Annex.

RECALLING the “Future Actions” agreed upon at Bologna and **WELCOMING** those that have been undertaken to date, in particular:

- The analytical work of the OECD in preparation for this Conference of Ministers responsible for SMEs, in line with the recommendations of the Charter, which has focused on: entrepreneurship, including women’s entrepreneurship; access to financing; partnerships, networks and clusters; SMEs’ access to international markets; information and communication technologies and e-business; and promoting SMEs for development;²
- Practical outputs, including the development of a framework for strengthening evaluation of SME programmes and policies which should benefit both OECD and non-OECD economies; the creation of educational instruments for SMEs wishing to resolve e-business disputes on line; and the first steps towards the improvement of SME-related data and statistics;
- The launch of the “OECD Bologna Process” which brings together OECD and non-OECD economies for strengthened dialogue and co-operation to foster the entrepreneurship agenda and SME competitiveness at the global level, and encourages increasing co-operation between the OECD and other international organisations in this area;

The increased role of the OECD in providing a forum for sharing best policy practices in the area of women’s entrepreneurship, in partnership with the private sector; and

- Following a successful feasibility study, the International Network for SMEs (INSME) was set up on the initiative of Italy. INSME is a non-profit international association aimed at improving transnational co-operation and public and private partnership in the field of innovation and technology transfer to SMEs. INSME, which groups a number of OECD and non-OECD stakeholders, including governments, benefits from OECD sponsorship;

WELCOMING the second Conference of Ministers responsible for SMEs, jointly organised by the OECD and Turkey in **ISTANBUL** in June 2004, which has provided a major opportunity to extend the policy dialogue on enhancing *entrepreneurship and SME innovation* as drivers of growth in a global economy;

WELCOMING the participation of the business community through the Business Symposium, **NOTING** the recommendations endorsed at the Symposium, and **CONFIRMING** that these recommendations have been taken into account in the framing of this Declaration;

HIGHLIGHTING the benefits of exchanging views and experiences with regard to: strengthening entrepreneurship and SME innovation; policy tools for supporting innovation using an interdisciplinary approach; and ways to take advantage of international markets and to contribute to development; and

RECOGNISING that an important theme cutting across this discussion is the need to *build a culture of evaluation* in which programmes and policies are systematically reviewed in order to strengthen and improve those that should be retained;

2. The full list of OECD background documents is provided, for information, at the end of the Annex.

I. REAFFIRM the need to support the development of the best set of public policies that will foster the creation and rapid growth of innovative SMEs. This requires:

a) Policies and an institutional framework that contribute to a business environment

that is conducive to entrepreneurship and facilitates entry, growth, transfer of ownership and smooth exit of enterprises. These should be coherent at international, national, regional and local levels and should include:

- Stable macroeconomic policies and well-designed structural policies in areas that impinge on SMEs, such as competition, international trade and investment, financial markets, labour markets and education; and, as regards to developing economies, embedding private sector SME strategies in broader development strategies and poverty reduction programmes;
- Enabling regulatory frameworks, which are developed taking into account the needs of SMEs and facilitating their integration into the formal sector; tax systems that entail low compliance costs; the transparent and equitable application of rules and legislation; simple and transparent licence and permit systems; efficient bankruptcy laws and procedures; understandable and coherent product standards in world markets; clearly defined property rights; fair and reasonably priced dispute settlement procedures; and light, predictable administrative procedures;
- Laws and systems of governance that support the development and diffusion of new technologies in ways that enable and encourage SMEs to take full advantage of them, notably by strengthening the science-innovation interface; ensuring that intellectual property rights systems are coherent, easy to understand and used effectively; and promoting access to and use of quality information and communication infrastructure and promoting enhanced security and trust in the digital economy;

b) SME assistance and development programmes which are clear in terms of their rationale, objectives and beneficiaries. These policies and programmes should be:

- Based on sound research, empirical evidence, public-private dialogue and partnerships, and evaluated regularly for effectiveness and efficiency;
- Cost-effective and designed to encourage activity that would otherwise not have taken place and help SMEs overcome the effects of market failures, without unduly distorting market structures or creating barriers to competition;
- Designed to provide support to large groups of SMEs, including micro-enterprises, for example by helping them to: improve their management skills; obtain finance on reasonable terms; increase their capacity to compete for government procurement; have access to timely advice and information; enhance their ability to take full advantage of information and communication technologies; and improve linkages with other SMEs and large firms to encourage the emergence and development of innovative clusters;

c) Policies that contribute to mobilising human resources in order to promote entrepreneurship. This involves:

- Developing a culture that encourages entrepreneurship and recognises entrepreneurial success. The integration of entrepreneurship at all levels of the formal education system can facilitate this. Formal education should be

complemented by learning-by-doing activities and other practical workshops. This objective requires paying particular attention to teacher training programmes;

- Promoting the diffusion of training programmes and lifelong learning opportunities by stimulating market provision of such services and, where the need exists, providing hands-on focused courses funded by the public sector;
- Promoting women's entrepreneurship through the elimination of barriers to enterprise creation and growth, such as impediments to the right to hold property or to sign contracts, where such impediments exist, and by taking into account at the design stage the impact of SME-related policies on women's entrepreneurship;
- Mobilising disadvantaged groups. One way to pursue this objective is to develop policies and programmes which provide business support services targeted to these groups and disseminate information to those wanting to start and grow a business;

II. RECOGNISE that, while priorities in terms of specific elements of SME policies vary greatly among participants due to their differing stages of development, political contexts and institutional arrangements, several key themes stand out as being of particular importance:

- a) **The need to reduce barriers to SME access to global markets.** Policies should aim to encourage the smooth, cross-border growth of SMEs including in some instances through the promotion of business linkages between large enterprises and SMEs. This can be achieved by reducing administrative and legal burdens, by facilitating compliance by internationally active SMEs with multiple sets of rules and requirements (in areas such as intellectual property rights, product standards, financial market regulations and customs procedures), by promoting harmonisation – as appropriate – of rules and requirements in order to reduce the cost of such compliance, and by fostering – to the fullest possible extent – the development of alternative dispute resolution mechanisms;
- b) **The need to improve access to financing for SMEs on reasonable terms.** While SMEs' financing requirements differ at each stage of their development, policies should aim to ensure that markets can provide financing for credit-worthy SMEs and that innovative SMEs with good growth prospects have access to appropriately structured risk capital at all stages of their development. Policies should also contribute to increasing the managerial and technical expertise of those intermediaries whose role is to evaluate and monitor companies with a view to matching expanding small firms with investors;
- c) **The need to develop a strong "evaluation culture" in ministries and agencies responsible for SME policies and programmes.** Evaluation provides a means of ensuring that SME programmes remain cost-effective and adapt to changing conditions in a dynamic world. Ideally, evaluation would be mandated and budgeted for when programmes are designed, would be carried out by independent but informed evaluators, and would generate recommendations for improving and strengthening those programmes that should be retained;
- d) **The need to strengthen the factual and analytical basis for policy making so that policy makers can make decisions in an informed manner based on empirical evidence.** This requires both reliable and internationally comparable data and statistics on which analytical work can be based as well as cross-country comparative studies and longitudinal analyses which can assess the impact of economic forces and

developments on SMEs over time. The lack of an empirical foundation is particularly marked in the area of women's entrepreneurship;

III. **TAKE NOTE** with interest of the “**Regional Emerging Markets Technology Transfer Network – REMTECH**”, initiated by Turkey, which aims at integrating and promoting technology-oriented SMEs at global level in various strategic sectors, and **WELCOME** the intention to implement a pilot project in the field of automotive components, with the goal of developing technology transfers among clusters of specialised innovative SMEs in this market at the global and sub-regional levels;

IV. **COMMIT** to:

- Working co-operatively to achieve progress in reducing barriers to SMEs' access to international markets;
- Considering SME needs, including for simplified, streamlined and integrated administrative processes, when formulating new legislation, regulations and product standards;
- Assessing the effects of globalisation on SMEs and in particular examine issues related to SME access to financing and to support for innovation;
- Recognising and building on SMEs' role as engine for growth, employment and poverty alleviation, particularly in developing countries;

V. **ACKNOWLEDGING** that the OECD offers a global perspective and should capitalise on its access to sources of information and inspiration from around the globe, identifying good and innovative practices in areas of well-established interest to encourage the development of SME and entrepreneurship policies and initiatives that work, **INVITE** the OECD to consider:

- Strengthening its peer-review processes for specific thematic issues and policies affecting SMEs, and of the SME sector as a whole. Peer reviews would be carried out on a voluntary basis;
- Developing a robust and comparable statistical base on which SME policy can be developed. *The action plan emerging from the Istanbul Conference Special Workshop on SME Statistics* provides a good basis for this work;
- Enabling a better understanding of *international value chains* and the way in which SMEs can benefit from them;
- Identifying ways in which unnecessary *barriers to SMEs' access to international markets* can be removed, in collaboration with interested countries and other relevant international organisations and fora;
- Proactively disseminating the work it has carried out on best practices for the *evaluation of SME policies and programmes*, for example by working with OECD members and interested non-member economies and organisations to develop and test a handbook of best practices for evaluation of SME policies and programmes;
- Organising focused thematic workshops and conferences involving interested OECD members, non-member economies and international organisations with a view to making concrete progress in specific areas identified for analysis and policy action. One such conference could be focused on *financing SMEs* at all stages of their development, with a particular emphasis on innovative SMEs;

- Proactively disseminating OECD activities related to the development of *women's entrepreneurship*. This could be undertaken through the organisation of meetings and seminars, as well as training workshops, to enable the exchange, transfer and diffusion of best practices amongst member and non-member economies. The OECD-Istanbul Private Sector Development Centre can play a particular role in this regard.

List of Adherents to Declaration

- Albania ● Algeria ● Argentina ● Australia ● Austria ● Azerbaijan
- Bangladesh ● Belarus ● Belgium ● Bosnia and Herzegovina ● Brazil ● Bulgaria
- Canada ● Croatia ● Czech Republic ● Denmark ● Egypt ● Finland ● France
- Georgia ● Germany ● Ghana ● Greece ● Hungary ● Iceland ● India ● Indonesia
- Ireland ● Israel ● Italy ● Japan ● Jordan ● Kazakhstan ● Kenya ● Kyrgyzstan
- Korea ● Latvia ● Lithuania ● Luxembourg ● FYR Macedonia ● Malaysia ● Mexico
- Moldova ● Morocco ● Netherlands ● New Zealand ● Nigeria ● Norway ● Pakistan
- Papua New Guinea ● Poland ● Portugal ● Romania ● Russian Federation
- Senegal ● Serbia and Montenegro ● Slovak Republic ● Slovenia ● Spain ● Sweden
- Switzerland ● Chinese Taipei ● Tajikistan ● Thailand ● Tunisia ● Turkey
- Ukraine ● United Kingdom ● United States ● Uzbekistan ● Venezuela ● Vietnam
- European Community

OECD Background Documents

1. Fostering Entrepreneurship as a Driver of Growth in a Global Economy
2. Women's Entrepreneurship: Issues and Policies
3. Facilitating SMEs Access to International Markets
4. Financing Innovative SMEs in a Global Economy
5. Networks, Partnerships, Clusters and Intellectual Property rights: Opportunities and Challenges for Innovative SMEs in a Global Economy
6. ICT, E-Business and SMEs
7. Alternative Dispute Resolution (ADR) on-line Mechanisms for SME Cross-border Disputes
8. Promoting SMEs for Development
9. SME Statistics: Towards a more Systematic Statistical Measurement of SME Behaviour
10. Evaluation of SME Policies and Programmes

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SME and Entrepreneurship Outlook

Encouraging entrepreneurship and facilitating the rapid growth of innovative SMEs is an effective means of creating jobs, increasing productivity and alleviating poverty. Identifying and implementing the policies that can achieve these goals is an increasing priority for governments of industrialised and developing countries alike.

This publication describes recent trends concerning SMEs and entrepreneurship in OECD economies and beyond. It reports on a range of policy initiatives taken to enhance the vitality and competitiveness of the SME sector, which comprises over 95% of all enterprises and accounts for two thirds of private sector employment. Among the themes covered in this edition are:

- the need to reduce regulatory and administrative burdens affecting entrepreneurial activity;
- the increasing attention given by governments to entrepreneurship education and training;
- the need to ease SME access to financing, technology, innovation and international markets;
- the growing importance of women's entrepreneurship;
- and local policy issues.

This third edition also includes the Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs. Coming four years after the Bologna Charter on SME Policies, this Declaration is comprised of a set of policy recommendations and was adopted by Ministers and representatives of 72 governments at the 2 OECD Ministerial Conference on SMEs, held in Istanbul, Turkey, in June 2004.

The full text of this book is available on line via these links:

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