

INTERNATIONAL APPROACHES TO FOSTERING SMEs

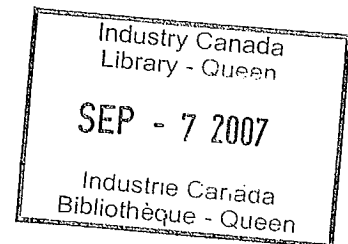
A Scoping Study

for

Small Business Financing

Entrepreneurship and Small Business Office

Industry Canada



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Small and Medium Enterprises in Canada

Small and medium-sized enterprises (SMEs) play a vital role in the Canadian economy. Almost half of all working Canadians are employed in enterprises with fewer than 100 people.¹ Between 1979 and 1989, businesses with fewer than 50 employees created 81 percent of all net new jobs in Canada.²

As Canada's economy restructures, it is imperative for all businesses to change and adapt to an evolving competitive environment. For those SMEs poised to make important investment decisions, the question of financing is critical. The source and availability of that financing can determine the success or failure of the growth prospects of that firm. This is particularly true if the firm is in a non-traditional line of business (e.g. so-called assetless firms).

There is concern, in both the political and business arenas, that Canadian small and growth businesses are not able to obtain sufficient funding from traditional lending sources, specifically the banks. One recent book on small business, for example, advises entrepreneurs that "banks should be at the bottom of the list when you are looking for funds. The high cost of borrowing can drain the cash flow of a young business....The big institutions can call in their loans or freeze your line of credit with little warning, just

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1996 B47¹ Yvon Gasse, "Importance of the Small and Medium-Sized Enterprise in the Canadian Economy", *Journal of Small Business and Entrepreneurship*, Vol. 11, No. 3, April 1994, pp. 4-11.

² Ibid., p. 4. Gasse's statistics come from *Small Business in Canada*, 1991 (Ottawa: Government of Canada, 1993).

because of a change in their lending practices."³ A 1990 academic study concluded that there is empirical evidence for observations that small firms are disadvantaged in terms of debt finance: they face higher interest charges and restricted access to funds.⁴ A number of Parliamentary committees have been struck to examine the issue of bank lending to small businesses, and to address possible solutions.

Similarly, smaller firms face significant hurdles in the capital market when they attempt to raise equity. Studies have shown they are often precluded from the new issue market by high fixed costs and "the unwillingness of institutional investors to take small holdings".⁵

In this world, it is vital that Government understand the various approaches that have been taken internationally to funding SMEs and to fostering SME growth. It is important to understand how other industrialized and industrializing economies -- where SMEs importance mirrors the Canadian experience -- are coping with the public policy questions that surround financing and supporting SMEs. If traditional debt and equity markets are not meeting the needs of small and medium-sized businesses, what is the answer to their funding requirements? Are there alternatives? And how involved should Government be in facilitating funding, particularly in the current fiscal climate?

³ Ron Knowles and Debbie White, *Issues in Canadian Small Business* (Toronto: Harcourt, Brace & Co., 1995), p. 97.

⁴ Kevin Keasey and Paul McGuinness, "The Return to Alternative Sources of Finance", *Small Business Economics*, Vol. 2, 1990, p. 214.

⁵ *Ibid.*, p. 214.

The following literature survey demonstrates that governments world-wide are sensitive to this issue in their own economies, and have developed a variety of programs to compensate for the financing gap and market inequities that exist for small firms. While most of these involve government intervention in the market, some of the most critical programs for SME success do not involve money, but rather the imparting of information. Mentoring, networking and advice support emerge as critical for the success of SMEs.

International Approaches to Fostering SMEs

It has been fifteen years since David Birch, an American researcher studying long-term job generation in the U.S. economy, announced that "whatever else they are doing, large firms are no longer the major providers of new jobs for Americans". His study claimed that it was small firms, in fact, that were responsible for most new jobs.⁶ A storm of controversy was triggered by his study. To some extent it continues, in that economists and policy-makers continue to argue over the extent of net job creation of small and medium enterprises (SMEs) and what is happening in various industrialized economies to account for the apparent shift from large to smaller enterprises. Yet the phenomenon -- the increasing importance of SMEs across the industrialized world -- is unmistakable.

⁶ David Birch, "Who Creates Jobs?", *The Public Interest*, Vol. 65, Fall 1981, pp. 3-14, cited in Zoltan Acs and David Audretsch, "Has the Role of Small Firms Changed in the United States", in Acs and Audretsch, *Small Firms and Entrepreneurship* (Cambridge: Cambridge University Press, 1993).

In 1989, *The Economist* reported that "Despite ever-larger and noisier mergers, the biggest change coming over the world of business is that firms are getting smaller. The trend of a century is being reversed. Until the mid-1970s, the size of firms everywhere grew; the numbers of self-employed fell. Ford and General Motors replaced the carriage-maker's atelier. Safeway and W.H. Smith supplanted the corner shop. No longer. Now it is the big firms that are shrinking and small ones that are on the rise. The trend is unmistakable – and businessmen and policy-makers will ignore it at their peril."⁷

Studies began to be carried out to determine the nature and veracity of the anecdotal evidence. Data banks on SMEs began to be kept in many countries. And, although some of the more outrageous claims of SME dominance and job creation fell victim to hard examination, it became obvious that this phenomenon was real. Economies of scale still exist, but there have been other reasons why SMEs have flourished, through the boom years of the mid-eighties and the recessionary years that followed. Although the reasons vary from economy to economy, a 1996 OECD study reports that "SMEs employing fewer than 100 employees accounted for between 40 and 50 percent of the total employment in many countries, including Austria, Belgium, France, the Netherlands and the US, even rising to around 70 percent in Italy. In Japan, SMEs employing fewer than 300 employees are estimated to represent about 80 percent of total employment."⁸

⁷ *The Economist*, January 21, 1989, pp. 73-74.

⁸ OECD, "An Overview of the SME Financing System in Major OECD Countries" (Paris: OECD Workshop on Financing of Newly Emerging Private Enterprises in Transitional Economies, 1996), p. 5.

The public policy debate that has accompanied the rising importance of SMEs has focused, in large part, on whether sufficient debt and equity capital is available to SMEs, whether in their start-up or growth phases, and what role government should take in facilitating that financing. A wide and growing literature is available on the subject, much of it in English. It is apparent from a survey of this literature that governments are taking a relatively activist approach to fostering SMEs, and that a fair amount of study has been undertaken to gauge the progress of that intervention.⁹

It is furthermore apparent that the complaints of a lack of sufficient financing available to SMEs in Canada – complaints which have prompted continued Parliamentary Committee investigations of bank lending practices – are common to SMEs in most other economies as well. These problems are apparent where both debt and equity financing are concerned, for different reasons. Debt financing tends to be used to fund start-ups and expansion; equity financing for expansion. Banks and other private lenders tend to be conservative where lending to SMEs is concerned, leery as they are of the high risks involved. SME entrepreneurs are often unwilling to share control of the new company that frequently is part of a venture-capital deal.¹⁰ Venture capitalists are often almost as nervous of high risk as bankers.¹¹ The cost of participating in capital markets (supplying the required risk-related information) and the costs of transaction, are prohibitively high for

⁹ Among other sources on this, see publications of the European Observatory for SMEs and numerous economic journals, notably *Small Business Economics*.

¹⁰ European Observatory for SMEs, *Annual Report 1994*, p. 140.

¹¹ *Ibid.*, p. 140.

most SMEs.¹² All these factors result in a financing "gap" for SMEs, and in a world where SMEs offer significant benefits to the economy, many policy makers have concluded it behooves them to intervene in order to narrow the gap.

Many studies have indicated that the gap results, in large part, from lack of significant information. Banks (and lending non-banks), venture capitalists, and capital market investors simply don't know how to distinguish between sound SMEs and unsound ones. Entrepreneurs frequently don't have the funds or the know-how to evaluate and communicate the degree of risk entailed in investing in their enterprise.

Therefore, policy makers are increasingly understanding that intervening in the financing gap is not simply a question of making more funds available to SMEs, although that is certainly a part of it. Loans and loan guarantees are a significant element of many public schemes to foster SMEs, and many governments have set up specific institutions to dispense funds. But there is an increasing recognition that a critical element of SME support is the information and mentoring network to which it has access. Even at the micro-credit level, information and advice (mentoring) have proven themselves to be the most critical success factor in mitigating against high loan loss performance. The ability to seek and secure information over the initial two year period of a small business start-up is perhaps the most significant assistance an entrepreneur can obtain. Information support and mentoring are needed at every stage. Are the entrepreneurs with great ideas for small business aware of the funding alternatives available to them? Do they need advice on

¹² Ibid., p. 146.

management or expansion? Do they need help finding outlets for their products or services?

Both Germany and Japan are interesting cases. In both economies, public policy has favoured the development of large industrial complexes. Yet in both cases, the value of SMEs has been recognized, both as significant sources of employment, and also as suppliers for the large companies. In both economies, there is extensive government intervention in supplementing the private allocation of funds for SMEs. But critically, in both economies there are extensive support networks set up to help SMEs with the non-financial aspects of their business.

Japanese SMEs tend to carry significantly higher levels of debt than those of other industrial nations, yet they fail less often. In large part that is the result of the support networks that surround the SMEs.¹³ The German government's main SME funding technique is to borrow large amounts from private banks and then loan it back to SMEs (via loan banks) at rates which are below-market for the SMEs, but still higher than the rate at which it borrowed from the banks. In this way (although there is clearly an opportunity cost to the government of using the funds in this way), all parties are net winners.¹⁴ Yet in Germany as well, the key to SME success is in the support networks that surround the SMEs and give them advice on all business aspects.

¹³ Chris Czerkawski, "Debt Financing in Japanese Small and Medium-Sized Companies: A Challenge to the Western Entrepreneurial Environment?", *Journal of Small Business and Entrepreneurship*, Vol. 10, No. 4, July 1993, pp. 4-15.

¹⁴ Graham Bannock and Horst Albach, *Small Business Policy in Europe: Britain, Germany and the European Commission* (London: Anglo-German Foundation, 1991), pp. 27-28.

These support networks are not serviced by government, but they are facilitated by government. Advice comes from members of the private sector – often employees of large firms. Among the key aspects of the system is the notion that "networking" – putting small entrepreneurs in touch with the people in banks and large businesses who can help them – is something that can and should be organized. Other countries – Britain and Belgium included – have information support organizations in place as well.¹⁵ Comparative studies have shown that the more seriously and the better organized the support network is, the better the SMEs tend to do.¹⁶

Special support and funding programs are also frequently available for SMEs in the area of Research and Development. It is recognized that availability of expensive technology – and often the labour costs involved – are critical to the ability of SMEs to expand, modernize or specialize their businesses, whether to keep up with a transitional domestic economy or to be able to globalize and join the export market. Again, support networks that provide advice and an outlet for developed products and services are also

¹⁵ See, for instance, Sarah Vickerstaff and Kim Parker, "Helping Small Firms: The Contribution of TECs and LECs", *International Small Business Journal*, Vol. 13, No. 4, July 1995, pp. 56-70; also Gavin Creid and Lowell Jacobsen, *The Small Entrepreneurial Firm* (Aberdeen: Aberdeen University Press, 1988), for an explanation and evaluation of what are called Training and Enterprise Councils in England and Wales, and Local Enterprise Companies in Scotland. Information on the Belgium system can be found in "The Counselling of Growing SMEs in Belgium", *Journal of Small Business and Entrepreneurship*, Vol. 8, No. 9, October 1990, pp. 40-51.

¹⁶ See, for instance, "Networking by External Support Agencies and Financial Institutions: Evidence from Different Financing Arrangements in Two European Regions: West Midlands, UK and Baden-Wurttemberg, Germany", *The International Small Business Journal*, Vol. 13, No. 2, January 1995.

important elements of fostering SMEs in this area. Germany's Innovation Centres -- which exist throughout the country -- are examples of successful communities of SMEs involved in the development, production and marketing of high quality technological products and services, and which have access to an extensive network of commonly-used facilities and advisory services.¹⁷ Examples of other schemes can be found in the Netherlands and Belgium.¹⁸

What follows is a series of examples of public programs -- generally with some form of government involvement -- available to foster SMEs in a variety of industrialized and industrializing nations. This is not a comprehensive list but it serves to illustrate the types of approaches that various governments take in supporting SMEs. Most of these programs have come into being over the last fifteen years, once it was recognized that SMEs play a large and growing role in employment -- and net employment growth -- in the various economies. As can be seen, the programs break down into the following types: government-sponsored loans and loan guarantees; non-financial support such as mentoring, networking, and marketing; R&D and new technology-oriented programs; and support for other financing arrangements, such as encouragement for venture capital

¹⁷ See Rolf Sternberg, "The Impact of Innovation Centres on Small Technology-Based Firms: The Example of the Federal Republic of Germany", *Small Business Economics*, Vol. 2, 1990, pp. 105-118.

¹⁸ See Marten van den Berg, Asje van Dijk, and Noé van Hulst, "Evaluating a Dutch Scheme for Encouraging Research & Development", *Small Business Economics*, Vol. 2, 1990, pp. 199-211. Also Jean Pierre Segers, "Region-Specific Technology Policy in Belgium: The Significance of New Technology Based Start-Ups", *Small Business Economics*, Vol. 4., 1992, pp. 133-139.

schemes or secondary equity markets on the NASDAQ model. They are described briefly, country by country.

United States

Importance of SMEs

- SMEs are responsible for almost half of US total employment.

Measures to Foster SMEs

- Government financial assistance programs include the Small Business Administration (SBA), Farmers Home Administration (FHA), and Economic Development Administration (EDA).¹⁹
- The SBA provides loan guarantees for fixed and working capital, and, under the Small Business Innovation Research Program, R&D grants are available to SMEs, supported in part by NASA.
- Small Business Investment Companies (SBICs), regulated by the SBA, borrow money from the SBA to provide venture capital for investment in small businesses.²⁰
- The NASDAQ securities market has proven a successful means of raising equity capital, which is being copied in the UK and Europe.²¹

United Kingdom

The Importance of SMEs

- Contribution of SMEs to total British GDP has increased from 19 percent in 1963 to 24 percent in 1990.²²

¹⁹ OECD, "An Overview...", p. 11.

²⁰ OECD, "An Overview...", p. 12.

²¹ OECD, "An Overview...", p. 28.

- An increase of 50 percent in the number of businesses employing under 200 people between 1980 and 1986.²³
- Nearly 50 percent of all British non-government employment in 1989 was in firms of fewer than 100 employees.²⁴

Measures to Foster SMEs

- Tax measures: small-firm corporation tax reduced from 42 percent to 25 percent by the Thatcher government.²⁵
- Loan Guarantee System:
Department of Industry guarantees 70 to 85 percent of a bank loan up to £75,000, repayable in 2-7 years. (A 2 percent insurance premium is charged on the guaranteed amount of the loan.)²⁶
- CoSIRA:
The Council for Small Industries in Rural Areas is a source of loans and advice to small businesses in unpopulated areas of the country.²⁷
- 3i:
Jointly owned by the Bank of England and clearing banks, 3i is an equity participation scheme that provides loans for management buyouts.²⁸

²² Graham Bannock and Horst Albach, *Small Business Policy in Europe* (London: Anglo-German Foundation, 1991), p. 56.

²³ HM Treasury, 1989, cited in Alan Hughes, "Industrial Concentration and Small Firms in the United Kingdom: The 1980s in Historical Perspective", in Zoltan Acs and David Audretsch, *Small Firms and Entrepreneurship* (Cambridge: Cambridge University Press, 1993), p. 15.

²⁴ Sarah Vickerstaff and Kim Parker, "Helping Small Firms: The Contribution of TECs and LECs", *International Small Business Journal*, Vol. 13, No. 4, July 1995, p. 56.

²⁵ Hughes, *Ibid.*, p. 15.

²⁶ OECD, *An Overview of the SME Financing System in Major OECD Countries* (Paris: OECD, 1996), p. 16.

²⁷ *Ibid.*, p. 17.

- The Enterprise Allowance Scheme:
Developed in the mid-eighties to encourage unemployed people to start their own businesses. Applicants must have £1000 of their own money, and are paid £40 per week for a maximum of 52 weeks.²⁹
- Training and Enterprise Councils:
Initiated in 1988, these councils serve as information and advice intermediaries between small firms, public sector initiatives, and private sources of financing (venture capital firms or banks).³⁰
- The Unlisted Securities Market, established in 1980, was replaced in 1995 by the Alternative Investment Market (AIM), modelled on the US NASDAQ system to provide an alternative equity market for SMEs.³¹

Federal Republic of Germany

Importance of SMEs

- Firms of fewer than 100 employees account for more than half of all non-agricultural private sector employment.³²

Measures to Foster SMEs

²⁸ Ibid., p. 17.

²⁹ Ibid., p. 17.

³⁰ Vickerstaff and Parker, "Helping Small Firms", pp. 56-70; also Gavin Creid and Lowell Jacobsen, *The Small Entrepreneurial Firm* (Aberdeen: Aberdeen University Press, 1988), pp. 61-77; David Deakins and Toby Philpott, "Networking by External Support Agencies and Financial Institutions: Evidence from Different Financing Arrangements in Two European regions: West Midlands, UK and Baden-Wurtemberg, Germany", *International Small Business Journal*, Vol. 13, No. 2, January 1995.

³¹ OECD, pp. 30-31.

³² Michael Fritsch, "The Role of Small Firms in West Germany" in Acs and Audretsch, *Small Firms and Entrepreneurship*, p. 39.

- Loan programs whereby the government supplements the loans of the private sector in order to correct the borrowing handicap faced by SMEs. Effectively, government-guaranteed (or public) banks borrow money cheaply and loan it out (profitably) at rates well below the market interest rate.³³ In 1990, for example, the Kreditanstalt für Wiederaufbau (KfW) lent DM4.9 billion, and the Deutsche Ausgleichsbank (DAB) lent DM217 million.³⁴
- Capital assistance can be provided for equity participation schemes for up to DM300,000 in federal funds, comprising about 15 percent of the total investment.³⁵
- Venture capital firms investing in small business can borrow at concessionary rates when refinancing up to 75 percent of the equity stake.³⁶
- Savings-Linked Promotion:
Where entrepreneurs commit themselves to saving over a period of time to start up a business, the government will contribute 20 percent of the amount saved, up to DM10,000.³⁷
- R&D Promotion:
Grants can be made specifically for the development of technology; equity stakes are made in emerging technology companies.³⁸
- Promotion of New Technology-Based Firms (NTBFs):
A particular federal scheme, called Promotion of Technology-Oriented Start-Ups) targets small firms based in technology-intensive growth industries. Initial financial support is supplemented by Innovation Centres, a series of local communities, like high tech industrial parks, intended to contribute to

³³ Bannock and Albach, *Small Business Policy in Europe*, p. 28.

³⁴ OECD, *An Overview of the SME Financing System in Major OECD Countries*, p. 18.

³⁵ Ibid., p. 19.

³⁶ Ibid., p. 19.

³⁷ Ibid., p. 19.

³⁸ Ibid., pp. 19-20.

the development, production and marketing of high quality technological products and services, and to contribute to the growth of the NTBFs.³⁹

- **Advice and Networking:**

A strong support network is assured to German SMEs because of the advanced nature of links between banks, educational institutions, and the public sector. All manufacturing SMEs, for instance, belong to the Industrie-und-Handelskammern, which play a crucial role in disseminating information to both the SMEs and financial institutions, to the benefit of all.⁴⁰

France

Importance of SMEs

- SMEs account for almost half of total employment.

Measures to Foster SMEs

- The French government provides both direct loans and loan guarantees to SMEs.
- **Crédit Nationale and Crédit d'Equipment des PME:**
CN was established in 1919 and 1936 respectively to help finance SME capital investment. Loans amounted to FF73.3 billion and FF55.6 billion, respectively, in 1992.⁴¹
- **Société de developpement régional:**
Established in 19 regions to provide a network between local government, the chambers of commerce, local businesses, and banks. Loans of FF26.1 billion in 1992. The SDRs also list on the Paris stock exchange.⁴²

³⁹ Rolf Sternberg, "The Impact of Innovation Centres on Small Technology-Based Firms: The Example of the Federal Republic of Germany", *Small Business Economics*, Vol. 2, 1990, pp. 105-118.

⁴⁰ Deakins and Philpott, "Networking by External Support Agencies and Financial Institutions", p. 51.

⁴¹ OECD, pp. 17-18.

⁴² Ibid., p. 18 and p. 26.

- ANVAR:
Promotes SME R&D by giving grants of up to 50 percent of R&D expenditure.⁴³
- Crédit Foncier de France and Comptoir des Entrepreneurs are government financial institutions that lend mainly to SMEs. They loaned FF45.4 billion, and FF26.3 billion, respectively, in 1992.⁴⁴
- SOFARIS:
A government institution, established in 1982, specializes in providing venture capital to new SMEs.⁴⁵
- The *second marché* was established in 1983 to foster the equity market for SMEs. The European Association for Stock Data Automation Quotation (EASDAQ), a European equivalent of the American NASDAQ, is expected to begin operations in 1996, providing a more flexible equity market for SMEs.⁴⁶

Italy

Importance of SMEs

- SMEs account for 70 percent of total employment.
- Growth of relative importance of SMEs to Italian economy from mid-1970s, both due to decline in average firm size and net inflow, particularly in the North-East and centre of the country, of small firms.⁴⁷

⁴³ Ibid., p. 18.

⁴⁴ Ibid., p. 18.

⁴⁵ Ibid., p. 18.

⁴⁶ Ibid., p. 31.

⁴⁷ B. Invernizzi and Riccardo Revelli, "Small Firms and the Italian Economy: Structural Changes and Evidence of Turbulence", in Acs and Audretsch, *Small Firms and Entrepreneurship*, pp. 123-154.

Measures to Foster SMEs

- Government credit available, generally for capital costs — new installations or modernizing old ones, and for the cost of holding excess inventory.⁴⁸ Much of the capital for the explosion of SMEs from the 1970s onward was provided by private savings.⁴⁹

Netherlands

Importance of SMEs

- SMEs account for almost 50 percent of total employment.⁵⁰

Measures to Foster SMEs

- Innovation Stimulation Scheme (INSTIR):
Part of technology policy in the Netherlands, INSTIR is a scheme for promoting R&D which particularly favours SMEs. It is a government subsidy for the labour costs of R&D. In its present phase, firms can apply for a 30 percent subsidy of R&D labour costs. Although large firms can apply for the subsidy as well, it has proven to be particularly beneficial for SMEs.⁵¹

Belgium

Importance of SMEs

- SMES showing evidence of increasing proportion of employment.⁵²

⁴⁸ OECD, *An Overview of the SME Financing System in Major OECD Countries*, p. 20.

⁴⁹ Invernizzi and Revelli, "Small Firms and the Italian Economy".

⁵⁰ OECD, "An Overview of the SME Financing System in Major OECD Countries", p. 5.

⁵¹ Marten van den Berg, Asje van Dijk, Noé van Hulst, "Evaluating a Dutch Scheme for Encouraging Research & Development", *Small Business Economics*, Vol. 2, 1992, pp. 199-211.

⁵² R. Donckels and A. Courtmans, "The Counselling of Growing SMEs in Belgium", *Journal of Small Business and Entrepreneurship*, Vol. 8, No. 9, October 1990, p. 40.

Measures to Foster SMEs

- The PLATO Project:
A pilot project to encourage SME growth in a particular region of Belgium, and launched with financial aid from the European Community, PLATO is aimed at harnessing the advisory powers of large companies, and creating a network of SMEs as suppliers for large companies. PLATO aims at encouraging the growth of existing SMEs, particularly by increasing the professionalism of management.⁵³
- Region-specific technology policies:
Regional policies in Flanders and Walloon designed to promote the diffusion of new technologies in micro-electronics, biotechnology, robotics and information technology. Financing includes soft loans, capital grants and state guarantees for start-up and growth. Management and technical support, as well as assurance of public sector procurement for the completed product, are available to these SMEs as well.⁵⁴

Greece

Importance of SMEs

- SMEs represent 99 percent of business establishments; 63 percent of employment; 38 percent of the GNP; and 20 percent of exports in the Greek manufacturing sector.⁵⁵
- SMEs absorbed a substantial number of employees laid off by large firms during the 1978-1984 recessionary period.

⁵³ Ibid.

⁵⁴ Jean Pierre Segers, "Region-Specific Technology Policy in Belgium: The Significance of New Technology Based Start-Ups", *Small Business Economics*, Vol. 4, 1992, pp. 133-139.

⁵⁵ "SMEs in Greece: Toward 1992 and Beyond", *Journal of Small Business Management*, Vol. 30, No. 3, July 1992, pp. 87-90.

Measures to Foster SMEs

- Government educational programs in place to help SMEs modernize and adapt to increased European competition.

Australia

Importance of SMEs

- 96.6 percent of Australia's non-agricultural enterprises are classified as small (employing fewer than 100 people).
- SMEs account for 56 percent of private sector employment, and 45 percent of total employment.⁵⁶
- SMEs account for over 80 percent of Australia's manufacturing exporters and 65 percent of its service exporters.⁵⁷

Measures to Foster SMEs

- Capital Gains Tax relief for small business.⁵⁸
- Grants for R&D, including for SME start-up capital.
- Enterprise Networking Program:
Established to encourage information exchange and networking among SMEs.⁵⁹

⁵⁶ Department of Industry, *Small Business in Australia*, cited in *Country Paper: Australia*, APEC SME Leaders Workshop for SME Policymakers, Osaka, Japan, October 1995, p. 1.

⁵⁷ National Investment Council, *Financing Growth: Policy Options to Improve the Flow of Capital to Australia's Small and Medium Enterprises* (Australia: Marsden Jacob Associates, 1995), p. 9.

⁵⁸ Ibid.

⁵⁹ Ibid.

Japan

Importance of SMEs

- The Japanese economy is more dominated, in terms of employment, by SMEs than any other major developed economy.⁶⁰ SMEs represent 80 percent of total employment.⁶¹
- SMEs play a vital role in the Japanese economy by behaving as subcontractors to the large industrial *keiretsu*, allowing for an efficient production system "wherein work is apportioned in an efficient manner, information costs are cut and technology is smoothly propagated".⁶²

Measures to Foster SMEs

- Japanese government intervention in the small business sector has been more extensive than in Western countries; not only in terms of financing, but also in terms of providing a complete structure (mentoring, financial and managerial advice as well as insurance and other related facilities) within which SMEs operate.⁶³
- Most significant policies to foster SMEs are centred at the Ministry of Finance, most significantly, an extensive system of financial assistance, involving long-term loans at low rates.⁶⁴
- Among the institutions established to dispense this assistance are mutual loan and savings banks (67 in 1989) -- which specialize in the provision of credit facilities for large instalment purchases; and credit associations (566 in 1989) -- which extend credit to small business at 1-3 percent lower than commercial rates.

⁶⁰ D.J. Storey, "The Financing of New and Small Enterprises in OECD Countries", SME Centre, University of Warwick, September 25, 1996.

⁶¹ OECD, "An Overview of the SME Financing System in Major OECD Countries", p. 5.

⁶² Chris Czerkowski, "Debt Financing in Japanese Small and Medium-Sized Companies: A Challenge to the Western Entrepreneurial Environment?", *Journal of Small Business and Entrepreneurship*, Vol. 10, No. 4, July 1993, p. 5.

⁶³ Czerkowski, "Debt Financing in Japanese Small and Medium-Sized Companies", p. 9.

⁶⁴ *Ibid.*, p. 9.

- The Shokochukin Bank, organized with government participation, facilitates the financing of co-operative societies of small business and specializes in serving SMEs.
- Ministry of Finance loans are supplemented by financial assistance from the prefectural governments. These latter also have organizations which lease equipment and guarantee loans for small companies.
- Small business investment companies provide equity capital.
- Local offices provide guidance in the forms of managerial practices and financing strategies. Prefectural governments also promote modernization schemes through advice, loans, and tax concessions.⁶⁵
- Co-operative institutions exist to reduce excessive competition or handle insurance or other co-operative activities or facilities.
- The Venture Enterprises Centre, supervised by the Ministry of International Trade and Industries, guarantees loan projects for R&D-oriented companies without requiring collateral.⁶⁶

Singapore

Importance of SMEs

- Recognized in late 80s as playing an important role in supporting Singapore-based multinationals, SMEs have also been recognized as being a stabilizing force in the economy for their own sake. They have been dubbed the "second wing" of the Singapore economy.⁶⁷

⁶⁵ Ibid., p. 9.

⁶⁶ OECD, *An Overview of the SME Financing System in Major OECD Countries*, p. 14.

⁶⁷ Tan Thiam Soon, "A Pragmatic Approach to SME Development in Singapore", *The Journal of Small Business and Entrepreneurship*, Vol. 11, No. 2, January 1994, pp. 38-45.

Measures to Foster SMEs

- The SME Master Plan, a co-ordinated series of initiatives, was designed to provide some government assistance to technologically upgrading and developing SMEs, and to encouraging MNCs to provide counselling and advice for them, as well as to developing a system of chambers of commerce and industry organizations.⁶⁸
- The SESDAQ, modeled on the American NASDAQ, was launched to provide a secondary securities market for small companies.⁶⁹
- ENDEC (The NTI-Peat Marwick Entrepreneurial Development Centre) has begun to play a transformative role in building the SME sector of the Singapore economy as it provides counselling and programs in developing and upgrading entrepreneurial skills.⁷⁰

Israel

Importance of SMEs

- Became more significant after the influx of Soviet Jews in 1990, along with the need to create employment.⁷¹

Measures to Foster SMEs

- Revolving Loan Fund:
Aimed at specific towns, these are funds for capital expansion for existing businesses, from a combination of government and private bank sources.

⁶⁸ Ibid.

⁶⁹ Dennis Ray, "Entrepreneurship Support Programs in Singapore", *Journal of Small Business and Entrepreneurship*, Vol. 8, No. 2, January 1991, p. 53.

⁷⁰ Tan Teck Meng, "ENDEC Contribution to Small-Business Development", *Journal of Small Business and Entrepreneurship*, Vol. 10, No. 1, December 1992, pp. 47-59.

⁷¹ Daniel Felsenstein, "Assessing the Employment Effectiveness of Small Business Financing Schemes: Some Evidence from Israel", *Small Business Economics*, Vol. 4, January, 1992, pp. 273-285.

Employment creation schemes are an important part of eligibility for the funds.⁷²

- **Capital Grants for Rural Areas:**

These funds are distributed in rural areas by a quasi-governmental body, the Rural Settlement Department of the Jewish Agency, and complement government grants, guaranteed loans and tax breaks to small business. Living in a rural area entitles entrepreneurs to an automatic US\$35,000 grant; further assistance is dependent upon employment creation criteria.⁷³

Conclusion

This survey of the literature is not intended to be exhaustive, but rather to illustrate the types of programs and approaches taken internationally. As can be seen, an aggressive approach to fostering SMEs is being adopted by policy-makers in numerous countries. The importance of SMEs, and the barriers they face in succeeding, are similar in Canada to other countries. Canadian SMEs may well benefit from variations on the theme of some of these support programs. The question remains as to which programs might be worth adapting to the Canadian economy. The literature suggests strongly that public intervention in the form of facilitation of information support, as well as direct and indirect funding, has direct and positive results in the success of small and medium-sized ventures. It further suggests that, as important as financing is, equally critical are the information and non-financial support networks that provide SMEs with the know-how that is vital to their growth and success. Many of these programs are facilitated or coordinated by government,

⁷² Ibid., p. 276.

⁷³ Ibid., p. 278.

but are administered wholly by, or in concert with, private industry. Particularly given the tight fiscal circumstances, such programs are worth deeper investigation. Further study would be needed to identify which types of support programs -- financial and non-financial -- might best be incorporated into the Canadian public policy agenda, particularly in the present hard fiscal times.

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