COMPARATIVE INTERNATIONAL SME SUPPORTS

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EXECUTIVE SUMMARY

- The importance of small and medium enterprises (SMEs) has gained a higher and higher profile in recent years because of the increasing recognition of the vital role they are playing in national economies around the world.

- This in turn has sparked a heightened interest in understanding the role that governments can or should play in encouraging the SME sector, whether through financing, mentoring and advice programs, networking programs, or manipulation of the environment in which SMEs do business.

- This paper illustrate the type of SME support structures – beginning with an emphasis on SME financing – that are in place in major OECD countries.

- While most government programs initially focused on the provision of SME financing, recent trends have been to buttress these with the provision of mentoring and advisory services. These seem to be among the most critical factors in early SME success.

COMPARATIVE INTERNATIONAL SME SUPPORTS

The importance of small and medium enterprises (SMEs) has gained a higher and higher profile in recent years because of the increasing recognition of the vital role they are playing in national economies around the world. This recognition has followed the realization that such fundamental changes as market globalization and the ongoing evolution of technology have irrevocably changed the way economies operate, goods and services are produced, and people work. Both in the developing world – where investment is increasingly replacing aid as the preferred vehicle for successful development – and in the developed world, where increasing numbers of people are not only working for small but for micro-enterprises, the health of the national economy is increasingly seen to be related to the health of the SME sector.

These factors have resulted in an expanding interest in understanding the role that governments can or should play in encouraging the SME sector. This role can be anything from direct or indirect SME financing, through mentoring and advice programs, through networking programs amongst SMEs and between SMEs and their larger corporate and industrial cousins, or manipulating various aspects of the environment in which SMEs do business (taxation levels, paperwork requirements, one-stop regulatory shops).

Countries have begun to keep data on their SMEs, to encourage studies which examine what kinds of public support bring the greatest results, and to collect comparative material, especially in the form of "best practices", on the kinds of public support that have been put in place.

Financing has perhaps been central among the concerns of governments wishing to create a healthy SME environment. This concern stems from the recognition that conventional debt financing is frequently difficult for SMEs to obtain, and that not all SMEs whose bank or trust company financing applications are rejected are burdened with failure-bound business and management plans. While demand for credit does not necessarily exceed supply, there exists a greater appetite to borrow credit than there exists appetite, on the part of conventional funders, to lend it. In part this is due to the changing nature of small business, in the sense that much of it is knowledge-based, or assetless – high-technology-based enterprises whose collateral exists primarily in the brains and abilities of their personnel – and who therefore find themselves suspect by traditional lenders because they haven't sufficient traditional collateral. Conventional lenders don't have the expertise to judge the prospective chances of these types of businesses, and are wary of them. Moreover, conventional lenders are wary of would-be entrepreneurs who have never owned a small business before, and many of them are in this position.

Another key issue is equity financing. Studies have shown that, at a key point in its development, a fledgling small business should begin to move to equity financing if it is to remain financially healthy. And here is the second conundrum, because while there appear to exist substantial numbers of informal investors, or "angels", the difficulty is in matching angel dollars to appropriate SMEs. Nor have stock exchanges proven easily accessible by SMEs, largely due to the sheer cost of providing the information necessary for registration.

As Canada seeks to retune its SME financing tools, and the regulatory structure governing its financial institutions, it is worth looking at SME support programs in place in other OECD nations. This paper concentrates on providing a picture of the major SME supports in place in France, Germany, Britain, Italy, the European Community (as a supra-structure), the United States, and Japan. Canada's fellow members in the G-7 were chosen because their economies have the greatest relevance for Canada. The EC was added to illustrate how it sees its role as important in encouraging SME growth and health. Italy's case in interesting because SMEs account for such a large percentage of the country's employment, and because its approach to SME financing and support is both fundamentally different from that of its largest EC co-members, but simultaneously illustrative of a key theme.

These governments all make provisions for loans or loan guarantees to small business; some of them emphasize equity financing in their efforts to encourage the venture capital route; others promote a version of the American NASDAQ – the exchange for small enterprises. While many countries use financing support systems that have been in place for years, these continue to be retooled and updated. Most of them have come to recognize that financing efforts are significantly more successful if combined with other support, particularly in the form of advice and mentoring.

A recent French study vividly makes this point: 81 percent of the small businesses that received ongoing advice and mentoring are still operating five years after their establishment. This applies to only 48 percent of businesses that were created without ongoing advice.

What follows is a survey of the main planks of the SME support systems of a number of OECD countries, in particular, Canada's G-7 counterparts. Emphasis is placed on SME financing, but, as will be seen, most countries see non-financial advice as a key component of a solid SME support structure.

SURVEY OF VARIOUS COUNTRY SME SUPPORTS

CANADA'S G-7 PARTNERS

FRANCE[1]

Recent French SME supports built on an existing base of government institutions that have been lending to SMEs since the inter-War period, through a system of direct loans and loan guarantees. These include the Crédit Nationale (CN) and the Crédit d'Equipment des PMS, both established to help finance SME capital investment.

Recent retooling of the SME support system has as its goals the encouragement of SME start-ups, the provision of ongoing advice and support for the first five years, and the encouragement of job creation.

Advice is a key issue: A 1995 French study found that 81 percent of businesses which received advice are still operating five years after establishment; this is true for only 48 percent of businesses created without advice.[2]

This illustrates the importance placed on ANCE, the Agence Nationale pour la Creation d'Entreprises that was created in 1979. Its mission is to promote the SME fabric in France through start-ups and development, the reopening, and the transfer of businesses.

- Its programmes are designed to: provide public information, technical support, financial advice, methodological advice, engineering expertise, access to informational and advice networks in order to increase the viability of new start-ups.

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[1] Information concerning country SME supports was drawn from a variety of sources. Primary among these are: *Best Practice Policies for Small and Medium-Sized Enterprises* (Paris: OECD, 1995 & 1996);); André Letowski and Henri LeMarois, *Business Start-Ups in the EC: Support Programmes* (Berlin: CEDEFOP, 1994); and OECD, *An Overview of the SME Financing System in Major OECD Countries* (Paris: OECD, 1996).

[2] "Financing Guarantees for SMEs and Business Creation Policy in France", *Best Practice Policies*, 1995, p. 26.

• It includes a national network of advice and information, *Chances*, with over 650 offices. This network brings together advisory institutions and professional organizations, territorial bodies and local development organizations, liberal professions practices, consultancies, banks, and management specialists.

• Public money also underlies the "boutiques de gestion" that operate in some 100 cities. These are private, non-profit businesses specializing in counselling and training business starters. More than half of their financial needs are covered by public funds; the rest comes from client businesses.

Another key part of the French SME support system lies in the financial subsidies and direct aid set up by the Ministry of Economy and the economic departments of Industry (SAEI), especially via the loan guarantees of SOFARIS (the French Company for Financing Guarantees for SMIEs).

SOFARIS was set up in 1982 to unite and manage most of the guarantee funds existing at the time. It is a flexible, decentralised organization with 12 regional offices. Business creation is a priority; the business creation guarantee fund accounts for 17.5 percent of guaranteed funds.

• It also runs (as of 1993) a SME investment fund and a SME permanent capital fund (to provide additional working capital).

• SOFARIS guaranteed more than FF 40 billion to SMEs from its inception to the mid-90s: 17.5 percent for start-ups; 20 percent for transfers; and 62.5 percent for development.

• SOFARIS procedures consist of an application submitted by the lending bank; risk is shared 50/50 by the bank and SOFARIS, except for start-ups, where SOFARIS guarantees 65 percent of the loan.

• Over the first 10 years of its existence, SOFARIS guaranteed the funding of roughly 24,000 businesses, three-quarters of which are industrial or provide services to industry. The remaining quarter are trade-oriented, craft trades, construction, or public works enterprises.

The Women's Initiative Guarantee Fund, managed by the Institute for Social and Economic Development (IDES), was created in 1989. It guarantees 60 percent of loans on businesses directed by a woman, and can cover working capital and investment needs of businesses created, acquired or developed by women.

Finally, the Ministry of Industry began investment aids for industry in early 80s to help traditional industries (steel and mining) adjust to changing economic conditions.

- These schemes were called the PPR (Plan productique regional) and FRI (Fond de redeveloppement industriel) and then, re-evaluated, extended to whole country under name of FDPMI (Fonds de developpement des PMI). Their aim is to help SMIEs improve their level of technology and competitiveness.

- Evaluations have shown that firms that have received aid have maintained jobs and even increased employment. Aid schemes linked to job creation alone appear to have the potential to be counterproductive (they rule out job maintenance applicants, deter applicants from applying, and result in penalties imposed if jobs are not created). However, the French experience demonstrates that aids to facilitate technological modernisation of SMIEs apparently boost employment.

GERMANY[3]

The German approach has been to respect market mechanisms while providing a structure for SME loans – including advice and control over the composition of SME financing. Germany continues to follow the structure of SME-building that has been in place since the days of post-War reconstruction, but supports have been modified to deal with the challenges of reunification. Interestingly enough, the integration of the five new *Länder* have a critical ingredient in common with the challenge of funding high-technology knowledge-based firms: both are problematic for conventional lenders because of their lack of hard collateral.

Key German institutions are:

• The DAB (Deutsche Ausgleichbank, or German Compensation Bank): The DAB provides guaranteed loans to SMEs through their regular banks. Resources are publicly owned, stemming from post-War reconstruction loans.

• The KFW (Kreditanstalt für Wiederaufbau, or Reconstruction Loan Corporation): The largest public law bank, belonging to the federal government and the *Länder*, the KFW lends to SMEs through their regular banks (except for export financing). It backs SMEs and new technological companies by taking out long-term capital shares in the company, which encourages banks to grant supplementary loans that can, in turn, be 90 percent guaranteed with public funds (central government and *Länder*).

The KFW has worked hard – and successfully – to adapt these measures to the new *Länder* of eastern Germany, in order to promote SMEs where lack of security would have been an obstacle to their obtaining loans and investment.

KFW's key components have included low financing costs, long-term fixed interest rates, a high contribution to financing, and the availability of funds from the start of investment. The programs have a large say on the companies' cost structure, liquidity, and reliability of expenditure, therefore reinforcing their capacity to invest.

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[3] Primary sources include *Best Practice Policies for Small and Medium-Sized Enterprises* (Paris: OECD, 1995 & 1996); *Business Start-Ups in the EC: Support Programmes*; and *An Overview of the SME Financing System in Major OECD Countries*.

KFW has also started to raise funds in the capital market, benefiting from tax reductions for Assisted Areas. It channels these funds into new *Länder* companies as real equity, in order to improve the capital structure of the companies in a sustainable way.

• The TBG (Technologie Beteiligungs Gesellschaft): The TBG is a venture capital company whose role is to encourage the establishment of new technology companies. Set up by the DAB in 1989, it takes dormant equity holdings (without intervening in management) in technological SME start-ups, only becoming active in the event of partnership with another venture capital company.

• Regional KGG (Credit Guarantee Associations), divided into four branches – trades, commerce, industry, and agriculture – counter-guarantee the loans granted by the banks to the SMEs through a system of burgschaftsbanks. They are themselves supported by public money, the professional associations and the *Länder*. The burgschaftsbanks have strict application procedures which examine business plans and the owner's documentation of professional affiliations. The application must pass the scrutiny of a committee of elected industry representatives.

Additionally:

• Private banks administer these loans to SME start-ups, but they are generally open to loan requests because of the strict training and filtering performed by agencies such as the Chambers of Industry and Commerce, the Chambers of Trade, and the professional associations. These agencies provide counselling, advice and help in compiling financial dossiers. They also provide vocational training and hold exams for potential SME trade operators. Once these agencies have pronounced a project viable, its chances of finding funding through a private bank are very good.

• The *Länder* themselves provide training and consultation for SMEs, through a variety of programmes.

• The RKW (Board for the Rationalization of the German Economy), begun in 1990, has an elaborate programme of assistance, consultation and training for SMEs, especially in the five new eastern *Länder*, as do the Employment and Qualification Companies, which ensure that wage and training costs of new SMEs in the new *Länder* are borne for a two-year period by the German Ministry of Labour.

• Private consultants, who assist in the preparation of business implementation and growth plans and the provision of other advice, are supported by the government in order to lower their costs so that SME owners and operators will take advantage of them.

UNITED KINGDOM[4]

Key elements of SME support are found in the British Loan Guarantee System, buttressed by an extensive network of advice and support organizations.

The Loan Guarantee Scheme (LGS) is funded by DTI (Department of Trade and Industry). Begun in 1981 and revised in 1993, the LGS provides loan guarantees of 70 - 85 percent to banks for SMEs that have been unable to find conventional debt financing. It is not intended to compete with, or replace, normal finance and therefore is not designed as a cheaper form of funding. Borrowers must pay a premium to the DTI.

- The scheme is intended both for start-ups, and for established businesses.

- Loans have a floor of £5,000 and a ceiling of £250,000 over the loan period of two-seven years. Certain SMEs are ineligible (i.e. local services, the funding of which would result in the exit from the market of existing competitors).

- The lenders have responsibility for evaluating the schemes and applicants; loans may be made if the lenders feel that the project is commercially viable but does not meet normal bank lending criteria for a conventional loan (e.g. because of lack of security or track record).

- Since its inception in 1981, and as of 1995, 37,000 loans, to a value of £1.16 billion, had been made. Forty percent of these had defaulted, leading to an increased emphasis on training and support services, as outlined below.

A number of agencies specialise in promoting SME activity and in providing training and advice. These consist of the following:

[4] Sources include Sarah Vickerstaff and Kim Parker, "Helping Small Firms: The Contribution of TECs and LECs", *International Small Business Journal*, Vol. 13, No. 4, July 1995, in addition to the major OECD sources mentioned earlier.

• Local Enterprise Agencies (LEA): These are non-profit, independent, organizations created jointly by the public and private sectors. They provide informational and network support for SMEs.

• The Training and Enterprise Councils (TECs; England and Wales); Local Enterprise Companies (LECs; Scotland); Business Links (England): These networks of publicly- and privately-sponsored organizations manage training and business start-up programs, and serve as information and advice intermediaries between small firms, public sector initiatives, and private sources of financing (venture capital firms or banks). They also provide counselling, including diagnostics, innovative products, and development services.

Additionally, the following schemes exist:

• 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.

• CoSIRA: The Council for Small Industries in Rural Areas is a source of loans and advice to small business in unpopulated areas of the country.

• 3I: Jointly owned by the Bank of England and clearing banks, 3I is an equity participation scheme that provides loans for management buyouts.

The Unlisted Securities Market, established in 1980, was replaced in 1995 by the Alternative Investment Market (AIM), modelled on the U.S. NASDAQ system to provide an alternative equity market for SMEs.

Finally, Business Introduction Services are recent attempts to increase the effectiveness of venture capital for SMEs. These are a series of public and private initiatives to match informal "angel" investors to potential SME investments. These have received intense interest and attention in recent years. Various private networks exist (including the Venture Capital Report, the Local Investment Networking Company, and Capital Exchange), but public projects have been launched by DTI through various TECs, working in conjunctions with local chambers of commerce and LEAs. Thus far they have been deemed a success, and their growth is being encouraged.

ITALY[5]

Public SME support in Italy differs from other examples because a) it is highly targeted, and b) financial support is delivered directly by the government.

Fully 70 percent of Italy's total employment is provided by SMEs. Furthermore, Italy has a relatively high percentage of micro-enterprises: 47.5 percentage of its enterprises have between 1 and 9 employees; where the EC average is 29 percent. Furthermore, it found itself facing high levels of youth unemployment, particularly in the south of the country. In response, Law 44 was created in 1989 to provide "special measures for the promotion and development of youth enterprise in the Mezzogiorno (the south)".[6]

The Law 44 Committee (Comitato per lo Sviluppo di Nuova Imprenditorialita Giovanile) is responsible for the administration of Law 44. Among other things, it is responsible for:

- selecting new business start-up projects;
- providing support for motivated young entrepreneurs in terms of developing applications;
- providing new enterprises with technical assistance;
- arranging management and human resources training;
- verifying the technical and productive soundness of the financed SMEs, their management and continued viability; and
- Granting, directly, through the "Cassa Depositi e Prestiti", the financing provided for by the law.

• Young people between the ages of 18 and 35 are eligible for the programme. No collateral is necessary, but the programme has strict selection criteria (74 percent of applications are rejected). Successful applicants receive constant training and monitoring of their enterprises; financial and other benefits can be withdrawn if the applicants are not seen to meet pre-set standards.

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[5] Major OECD sources, as noted above. Also *Business Start-Ups in the EC: Support Programmes*.

[6] "Italian Law 44/86", *Best Practices*, 1997.

• The young entrepreneurs are "tutored" throughout the start-up and early phases of their businesses.

• Overall, the program has been seen as a success – 80 percent of the businesses survive over a four-year period, which is very high, particularly for young entrepreneurs – and has received ongoing funding.

• Italian banks are viewed as being extremely reluctant to provide start-up money, or to lend to businesses without collateral.

• Government funding is available for the expansion and growth of established SMEs in the centre and north.

EUROPEAN COMMUNITY[7]

Aware of the critical and growing importance of SMEs to the European economy, the EC has put in place a number of measures since the early 1990s to encourage SME start-up and growth. These include coordinated efforts to collect data on SMEs and the success of SME support measures in various countries, as well as various financial and networking measures that are meant to supplement individual country efforts.

• The European Investment Bank, which has existed since 1958, has, since late 1994, begun to subsidize loans to SMEs which intend to create jobs. In its first six months, it allocated loans to 2,100 businesses, 96 percent of which went to SMEs with less than 250 employees. The success of this program is being carefully monitored.

• The European Investment Fund was created at the same time, its aim to grant loan guarantees for projects that would contribute to a trans-European network, and SMEs in particular. Begun with capital of ECU 2 billion, it can extend guarantees for up to ECU 16 billion. Its purpose is to offer financial guarantees through existing financial intermediaries, but it is considering moving to equity participation in SMEs.

• The theme of non-financial support runs through EC support mechanisms as well. Support exists, through regional centres, in the following areas: advice and innovation (including technological and management advice), information on all aspects of financing (guarantee funds, start-up capital, participatory loans, mutual guarantee societies, hire-purchase, and factoring), and internationalization (exporting collectively or individually, marketing and standards advice).

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[7] European Commission, *Activities in Favour of SMEs and the Craft Sector* (Luxembourg: Office for Official Publications of the European Communities, 1995).

JAPAN[8]

SMEs play a more important role in Japan than in any other major developed economy. They are responsible for fully 80 percent of total employment.

At the same time, they are seen to play an integral role as subcontractors to the large industrial *keiratsu*, allowing for an efficient production system "wherein work is apportioned in an efficient manner, information costs are cut and technology is smoothly propagated."[9] Furthermore, they are seen to play an essential role within the social and socioeconomic fabric, as will be seen.

These factors dictate how SME policy has been developed and is delivered. The central thrust of public SME support is designed to "narrow the gap" between the advantages gained by the large industrial corporations, and their smaller compatriot businesses. It is a problem that is examined holistically. The programs are delivered in a centralized fashion from the Ministry of Finance, and include mentoring, financial and managerial advice, insurance and other related facilities, as well as financing. The key element of the program is an extensive system of financial assistance involving long-term loans at low rates. Among the institutions established to dispense this assistance are mutual loan and savings banks, which specialize in the provision of credit facilities for large instalment purchases, and credit associations, which extend credit to SMEs at 1-3 percent lower than commercial rates.

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. Local offices provide guidance in the form of managerial practices and financing strategies. Prefectural governments also promote modernization schemes through advice, loans, and tax concessions.

The Shoko Chukin Bank, organized with government participation, provides working capital and capital investment loans to SMEs which belong to its member cooperative associations.

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[8] Primary Sources include OECD, *An Overview of the SME Financing System in Major OECD Countries; Best-Practice Policies for SMEs*, 1995; and "Outline of Small and Medium Enterprise Policies of the Japanese Government (Tokyo: MITI, 1995).

[9] OECD, *An Overview of the SME Financing System in Major OECD Countries*, p. 5.

The Finance Corporation for Small Business (FCSB) makes long-term working capital and capital investment loans available to SMES that have not been able to obtain conventional financing. It does this both directly and through commercial banks which act as its agent in areas where the FCSB does not have its own offices. Loans for capital investment are generally for 10 years, and working capital lons for five to seven years. Collateral or guarantees are necessary to obtain a loan. The People's Finance Corporation (PFC) performs much the same function as the FCSB, but for even smaller SMEs. It also lends both directly and indirectly, up to 10 years for capital investments and five years for working capital. A loan requires more than one guarantor, but collateral is not necessary.

• Guarantees can be provided by Credit Guarantee Corporations, which do their own investigations into the viability of the SME before deciding whether to agree. This removes the due diligence requirement from the lending body. Funding for the credit guarantee system comes from local and national governments.

• The Venture Enterprises Centre, supervised by the Ministry of International Trade and Industry (MITI), guarantees loan projects for R&D-oriented companies without requiring collateral. These loans are up to 8 years, and a guarantee fee of 2 percent of the guaranteed amount is also required. If the project is successful, the Centre may claim between 5 and 50 percent of the guaranteed amount as a "success fee".

• The Small and Medium Business Investment and Consultation Company (SBIC): This was created in 1963 in order to help small business enhance their shareholder equity, and is intended to provide SMEs with risk capital that they could not find on their own. The SBIC provides some consultative services. The benefiting companies must intend to go public in the medium-term, prove the value of their business plan and growth potential, and possess sound management. Public support for personnel and management training is seen to be critical. Most Japanese SMEs are family partnerships and are not seen to be of the kind of structure to provide the son – who will inherit the presidency of the firm from his father – with the type of intensive and ongoing training that is provided employees of large firms. Therefore, this type of training is provided by SME colleges which are subsidized by government. Government provides subsidies for the construction of facilities, operating and personnel expenses. SME colleges function under government supervision, and offer training in all aspects of SME management.

UNITED STATES[10]

The U.S. has had a number of programs in place from the 1950s to encourage small business. The Small Business Administration (SBA) oversees the framework of these from Washington, but they are generally administered from decentralized offices across the country.

• SBA loans and, increasingly, loan guarantees, can be obtained from SBA offices across the country, intended for small business which have had trouble obtaining conventional funding. The SME owner applies for the loan guarantee through a conventional lender, which must certify financial soundness.

• One key SBA loan-guarantee program consists of loan guarantees to Small Business Investment Companies (SBICs), and is intended to provide venture capital in the form of both debt and equity financing to SMEs. SBICs are located throughout the country, and, in turn, invest in small business *either* through providing loans, or acquiring equity in them, or both. Some SBICs specialize in either debt or equity financing, and others do both.

• The program is intended to be a partnership between the private and public sectors. The SBA monitors SBICs to ensure their compliance with government regulations, but SBICs are private corporations responsible to their own management and boards of directors. The skill of each SBIC's management has proven to be critical to its SBIC's success.

• SBICs obtain their capital from privately-invested funds and long-term debentures guaranteed by the SBA. Each dollar of private capital is eligible for two-to-three dollars of long-term leverage in SBA-guaranteed debentures. This leverage may be exercised by the SBA issuing its own securities directly to the government or with a government guarantee. As of 1994, a new form of leverage was introduced, a participating security which can be used by SBICs to make equity investments.

• This programme is viewed as simultaneously a) providing SMEs with otherwise-hard-to-get venture capital, b) allowing venture capitalists to supplement

[10] Major OECD sources, as noted above.

their own capital with government guarantees, c) creating jobs, and d) broadening the tax base via the creation of successful SMEs.

• Other key SBA loan-guarantee programs are designed to enable a SME entrepreneur to acquire fixed assets, not working capital.

• The Small Business Innovation Research (SBIR) program, also administered by the SBA, is an R&D grant program in three phases. Grants can be obtained for feasibility studies, prototype development, and commercialization. This program is assisted by government agencies like NASA.

• Other government programs which benefit SMEs include the Farmers Home Administration loan program to rural SMEs, and the Economic Development Administration's program to establish new industrial parks in underdeveloped areas of the country.

HIGHLIGHTS OF OTHER COUNTRIES

Australia[11]

Almost 97 percent of Australia's non-agricultural enterprises are SMEs (employing fewer than 100 people), and Australia has invested significant policy resources in enhancing the business environment to encourage SME growth.

Measures include:

- Capital Gains tax relief for small business;
- Grants for R&D;
- The Enterprise Networking Program, established to encourage information exchange and networking among SMEs; and
- The establishment of a Pooled Development Funds program to provide patient equity capital to SMEs.

Netherlands

SMEs account for almost 50 percent of total employment in the Netherlands. A key component of Dutch SME support is its Innovation Stimulation Scheme (INSTIR), which makes government funds available for up to 30 percent of the labour costs of research and development.

Public policy efforts to support SMEs have centred around information campaigns to engender an entrepreneurial spirit, and to provide prospective entrepreneurs with advice and information. The 36 Chambers of Commerce, and 40 offices of the SME Institute (IMK) have been integrally involved in these efforts.

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[11] *Country Paper: Australia*, APEC SME Leaders' Workshop for SME Policymakers, Osaka, Japan, October 1995; also 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).

Financial institutions may obtain state guarantees for loans to SMEs involved in the commercial, industrial, and service sectors.

Belgium[12]

Launched with the help of the EC, the PLATO project has been aimed at harnessing the advisory powers of large companies and creating a network of SMEs as suppliers for large companies. PLATO concentrates on enhancing existing SMEs by providing training and networking for management.

In addition, regional policies in Flanders and Walloon promote new-technology SMEs (those involved in micro-electronics, biotechnology, robotics, and information technology). Financing includes loans, capital grants and state guarantees for start-up and growth. Management and technical support, as well as assurances of government procurement, are available to these SMEs.

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[12] R. Donckels and A. Courtmans, "The Counselling of Growing SMEs in Belgium", *Journal of Small Business and Entrepreneurship*, Vol. 8, No. 9, October 1990; and Jean-Pierre Segers, "Region-Specific Technology Policy in Belgium: The Significance of New Technology Based Start-Ups", *Small Business Economics*, Vol. 4, 1992.

OVERVIEW:

BUTTRESSING FINANCIAL SUPPORT WITH MENTORING

Mentoring, or access to sufficient advice – particularly in the areas of marketing, production, and financial management, in the start-up phase of a business, appears to be one of the factors that most significantly affects the future success of a SME. Most G-7 countries take this link very seriously, and have built advice or mentoring mechanisms into their public SME support system. The following section accents key sections of the preceding survey of Canada's G-7 partners. In so doing, it highlights the importance of the connection placed by most of those countries between successful financing mechanisms and extensive non-financial SME support.

France

French SME support concentrates on SME creation. Financial subsidies, direct aid and loan guarantees are made available through the Ministry of Economy and the Department of Industry, and through SOFARIS (the French Company for Financing Guarantees for SMIEs).

ANCE (the Agence Nationale pour la Creation d'Entreprises), meanwhile, was created in 1979 to promote SMEs throughout France. Its national network of advice and information, *Chances*, operates 650 offices, providing information on financing, technical support, methodological advice, engineering expertise, and access to informational and advice networks, all to increase the viability of start-ups.

Complementing these measures, semi-private "boutiques de gestion" operate in 100 cities. More than half of their operating funds are provided by public money. Their purpose is purely to counsel and train business starters.

Germany

Some of Germany's key SME support institutions have been in place since the end of the second World War. The DAB (German Compensation Bank) provides loan guarantees to SMEs through their various banks, its resources still stemming from post-War reconstruction loans.

The KFW (Reconstruction Loan Corporation), which belongs to both the state and the *Länder*, lends to SMEs through their regular banks. It takes out long-term capital shares in SMEs, encouraging banks to grant supplementary loans that can be 90 percent guaranteed with public funds. The KFW has worked hard, and successfully, to adapt these measures to the five new *Länder* of eastern Germany, in order to promote SMEs where a lack of traditional collateral would have been an obstacle to their obtaining loans and investment. KFW's key components have been: low financing costs, long-term fixed interest rates, a high contribution to financing, and the availability of funds from the start of investment. In return for its investment, the KFW plays a significant role in determining the receiving SMEs' cost structure, which strengthens the SMEs as vehicles for investment yet further.

The TBG (Technologie Beteiligungs Gesellschaft) was set up by the DAB in 1989 to encourage the start-up of new technology companies. It takes dormant equity holdings in these knowledge-based firms, without interfering in management decisions. It only becomes active in the event of partnership with another venture capital firm.

The KGG (Credit Guarantee Associations) counter-guarantee SME loans granted by SMEs through a system of banks (burgschaftsbanks) which are sustained by public money and supported by professional associations and the Lander. They have strict application procedures which examine business plans and professional affiliation documentation. Applications must pass the scrutiny of a committee of elected industry representatives. Once this scrutiny is in place, private banks are reasonably accommodating of loan requests.

Private business consultants are subsidized by the government in order to make them attractive to SME owners and operators. They provide general advice, and assist in the preparation of business implementation and growth plans.

United Kingdom

The United Kingdom's Loan Guarantee Scheme (LGS), begun in 1981 and revised in 1993, provides loan guarantees of 70-85 percent to banks for SMEs that have been unable to find conventional debt financing. It is not designed to be a cheaper form of funding than conventional funding, and borrowers must pay a premium to the Department of Trade and Industry, which funds it. The scheme is intended both for start-ups and for established businesses. The lenders are responsible for evaluating the schemes and applicants. Since its inception in 1981, and as of 1995, 37,000 loans, to a value of £1.16 billion, had been made.

A critical component of the UK SME strategy lies in its system of training and advice councils, called Training and Enterprise Councils (TECs) in England and Wales, and Local Enterprise Companies (LECs) in Scotland. These networks of publicly- and privately-sponsored organizations manage training and business start-up programs, and serve as information and advice intermediaries between small firms, public sector initiatives, and private sources of financing.

These also serve as centres for public Business Services, which are intended to be matching points for angel investors and appropriate SMEs looking for venture capital. Government attention in this area is relatively new, but it is seen as an important avenue for SME growth.

The Alternative Investment Market, modelled on the American NASDAQ, was launched in 1995 to provide an alternative equity market for SMEs, replacing the Unlisted Securities Market.

Italy

Fully 70 percent of Italy's total employment is provided by SMEs, and almost 48 percent of the country's SMEs are micro-enterprises with fewer than 9 employees (compared with an EC average of 29 percent). Italy's main SME support is Law 44, a program aimed at youth entrepreneurs in the south of the country, an area afflicted by particularly serious unemployment.

Italy's domestic banks have not been a source of debt financing for SMEs, so the government provides Law 44's financing directly to chosen firms via specially designated outlets, the "Cassa Depositi e Prestiti". Young people between the ages of 18 and 35 are eligible for the program. No collateral is necessary, but the program has strict selection criteria (only 26 percent of applicants are successful). Successful applicants receive constant training and monitoring of their enterprises; financial and other benefits are withdrawn if the applicants do not meet the standards set for them. The "tutoring" is labour-intensive, but successful: 80 percent of the businesses survive over a four-year period, and the program has received ongoing funding. This success rate approximates other benchmarks for "mentored" micro-credit facilities.

Japan

In Japan, SMEs are seen as an integral part of the economy and social structure. Responsible for 80 percent of total Japanese employment, they are viewed primarily as subcontractors to the large industrial *keiratsu*. The central thrust of SME support is designed to "narrow the gap" between the advantages gained by the large industrial corporations and their smaller compatriot businesses. Support programs include loan guarantees, mentoring, financial and managerial advice, and insurance. The key element of the financing program is an extensive system of long-term loans at low rates.

Mutual loan and savings banks specialize in the provision of credit facilities for large instalment purchases; credit associations extend credit to SMEs at 1-3 percent lower than commercial rates; prefectural governments supplement Ministry of Finance loans. A number of organizations, including the Shoko Chukin Bank, the Finance Corporation for Small Business, and the People's Finance Corporation, lend to SMEs that might otherwise not obtain financing. Loans are granted for up to 10 years. In some cases, more than one guarantor is necessary (and guarantees can be provided by Credit Guarantee Corporations), but not collateral. The Small and Medium Business Investment and Consultation Company is intended to provide SMEs with risk capital that they could not find on their own.

Public support for personnel and management training is seen to be critical, since most SMEs are family partnerships and do not allow for the kind of ongoing training that occurs in large corporations. Hence SME colleges receive extensive government subsidy, and SME personnel are encouraged to receive all manner of management and financial training from these facilities.

United States

Given the forgoing examples, the United States is perhaps unusual in its very lack of emphasis on public funding for training. The federal government's Small Business Administration (SBA) has been in place since the 1950s offering loans and, increasingly, loan guarantees to SMEs. In recent years, it has concentrated on expanding its loan guarantees to Small Business Investment Companies (SBICs), in order to provide venture capital in the form of both debt and equity financing to SMEs. The program is intended to be a partnership between the private and public sectors. SBICs, located throughout the country, obtain their capital from privately-invested funds and long-term debentures guaranteed by the SBA. Each dollar of private capital is eligible for two-to-three dollars of long-term leverage in SBA-guaranteed debentures. As of 1994, a new form of leverage was introduced in order to allow SBAs to make equity investments in SMEs. The SBA monitors SBICs to ensure their compliance with government regulations, but SBICs are private corporations responsible to their own management and boards of directors. SBICs may invest in small business *either* through providing loans, or acquiring equity in them, or both. The program is viewed as simultaneously a)providing SMEs with otherwise-hard-to-get venture capital, b) allowing venture capitalists to supplement their own capital with government guarantees, c) creating jobs, and d) broadening the tax base via the creation of successful SMEs.

CONCLUSION

As the importance of the SME sector to national economies has increased, so too has government emphasis on SME support systems. These systems are being continuously re-examined and re-evaluated as their strengths and weaknesses become apparent. Most OECD governments have some form of supplementary loan or loan guarantee mechanism in place; most place increasing emphasis on buttressing these with sufficient mentoring and advice programs. As the publication of program evaluations increases, so too will the ability of national governments to learn from each other's programs. While SME support structures, like all government programs, will always specific to each country's unique political culture and economy, it is always worthwhile for policy-makers to keep an eye on their international counterparts, particularly in such a rapidly evolving field.

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