
**THE PROMOTION AND DEVELOPMENT OF
ENTREPRENEURIAL INITIATIVES FOR
EMPLOYMENT AND ENTERPRISE CREATION.**

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12.1 INTRODUCTION.

In order to analyze the entrepreneurial initiatives used to promote and facilitate employment development at the local level we have to: (a) review existing strategies, initiatives and institutions, policy measures/instruments and current advice in the field of entrepreneurship and business creation; and (b) to develop policy strategies and actions applicable to developing countries, EC Member States and former centrally planned economies.

To set the stage for analysis it is desirable: (a) to define the terms used and indicate the importance of entrepreneurship and small business to economic and employment development; (b) to outline the paths to entrepreneurship and business creation; (c) to provide examples of different types of entrepreneurial initiatives which are being used throughout the world; and (d) to identify the problems and issues relevant to promoting entrepreneurial initiatives and employment development at the local level.

**12.2 ENTREPRENEURSHIP IN LOCAL ECONOMIC AND EMPLOYMENT
DEVELOPMENT.**

12.2.1 DEFINITION OF TERMS

Economic development. Economic development is a process that facilitates economic growth and develops higher levels of activity in the future from available resources. Economist Albert Shapiro suggests that we need to help the people living in a community or area to "achieve a state denoted by *resilience* - the ability and willingness to experiment and be innovative; and *initiative taking* - the ability, desire, and power to begin and carry through useful projects." Preceding and

accompanying these characteristics "is diversity ... [providing] some measure of invulnerability to the effects of many unforeseen events and decisions."¹

- * **The goal of economic development is to create wealth and employment.** Wealth is the capacity to produce the goods and services people value - the items whose value is established by the market place, but also non-market goods and services such as a clean environment, justice, and public safety. In addition to providing income, employment provides a sense of self-worth and dignity to economically active individuals.
- * **Public sector activities play a vital role in entrepreneurial activity by establishing and enforcing rules and regulations and by investing in education and infrastructure.** These activities help risktaking individuals and public agencies to discover and develop better ways to use their resources to expand their productive capacity.
- * **Many traditional development policies such as industrial recruiting and public works programs have limited capacity to spur development or to create jobs.**
- * **Development policy is conducted in an environment of perennial conflict among consumers (purchasers of goods and services), employees, employers and resource owners.** Successful development strategies include not only the right policies but also ways to resolve or reduce the economic and political conflicts inherent in the policy-making process.²

Entrepreneurship. The dictionary defines an entrepreneur as "a person who organizes, manages, and assumes responsibility for a business or other enterprise" and "an employer of productive labour."³ Management theorist Peter Drucker describes entrepreneurs as people who perform the tasks of entrepreneurs in their career goals. The tasks of entrepreneurs include ongoing searches for new opportunities, responding to select opportunities and exploiting them.⁴ In a business context, several different kinds of entrepreneurs can be identified: (1) independent, high-potential business starters, often innovators or inventors; (2) new business starters within corporations, sometimes called entrepreneurs; (3) people who are self-employed, including artisans, craft persons, and professionals such as physicians, lawyers, and accountants; (4) acquirers and operators; deal makers and brokers; and (turnaround) specialists.⁵

The ILO notes that "in its broadest sense the term [entrepreneur] includes persons in work situations in large, medium and small enterprises, as well as those in cooperatives and government;

¹ Albert Shapero. "The Role of Entrepreneurship in Economic Development at the Less-Than-National Level." in Expanding the Opportunity to Produce: Revitalizing the American Economic Through New Enterprise Development, ed., Robert Friedman and William Schweke, (Washington, D.C.: Corporation for Enterprise Development, 1981), pp. 26-27.

² Roger Vaughan. Robert Pollard, and Barbara Dyer, The Wealth of States: Policies for a Dynamic Economy, (Washington, DC.: Council of State Planning Agencies, 1985), pp. 1-2.

³ Random House College Dictionary Revised Edition, New York, 1983, p. 442.

⁴ Peter Drucker, Innovation and entrepreneurship, New York, 1985.

⁵ K. H. Vesper, New Venture Strategies, Englewood Cliffs, N.J., 1980.

it can even be used in non-work situations, for example to denote a person who improves social and economic conditions in a local community."⁶

Informal Sector. In his 1991 Report to the 78th Session of the International Labour Conference, the ILO Director-General defined the term informal sector as follows: "The term 'informal sector' will refer to very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices; which operate with very little capital, or not at all; which utilize a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it. They are informal in the sense that they are for the most part unregistered and unrecorded in official statistics; they tend to have little or no access to organized markets, to credit institutions, to formal education and training institutions, or to many public services and amenities; they are not recognized, supported or regulated by the government; they are often compelled by circumstances to operate outside the framework of the law ..."⁷

Microenterprise. Though there is no simple definition for microenterprise, an Aspen Institute research project on microenterprise development in the United States defines microenterprise as "a sole proprietorship, partnership or family business with less than ten employees, generally does not have access to the commercial banking sector and can utilize a loan of under USD15,000."⁸ This definition is somewhat inclusive as most microenterprises have less than three employees. Many microbusinesses, perhaps the majority, are operated by only the owner; this has led to the frequent use of the term self-employment. The concept of microenterprise is generally associated with the informal sector. Some microenterprises are home-based service or retail operations that provide supplementary income to the proprietor. These businesses are difficult to regulate and monitor.⁹

Self-employment. The US Department of Labour defines self-employed people as those who work for profit or fees for ten hours or more a week in their own business, profession, trade or on a farm. The businesses operated by self-employed people may be called microenterprises because of their small size in terms of numbers of employees, sales, assets or other characteristics. Although the terms microenterprise and self-employment are used interchangeably, self-employment refers to the status of business owners while microenterprise refers to very small businesses.¹⁰

⁶ ILO: The Promotion of Small- and Medium-Sized Enterprises, International Labour Conference, 72nd Session, 1986 (Geneva, ILO), p.4.

⁷ ILO: The dilemma of the informal sector, Report of the Director-General (Part I), International Labour Conference, 78th Session, Geneva, 1991, p.4.

⁸ "Definitions." 1992 Microenterprise Briefing Packet, The Aspen Institute. The Self-Employment Learning Project Directory, compiled by the Self-Employment Learning Project of the Aspen Institute, in collaboration with the Association for Enterprise Opportunity, provides a current profile of the scope and characteristics of current micro-enterprise programs in the United-States.

⁹ Jacqueline Novograts. Hopeful Change: The potential of micro-enterprise programs as a Community Revitalization Intervention, New York: The Rockefeller Foundation, June 1992, p.3.

¹⁰ "Definitions." 1992 Microenterprise Briefing Packet, Washington, D.C.: The Aspen Institute.

Some other points should be made about self-employment: (1) self-employment has global application and is relevant to both industrialized market economy countries and developing countries; (2) it is very important in both urban and rural areas; and (3) according to a report by the International Labour Office (ILO), some organizational forms such as worker participation (and even large-scale worker buy-outs) and profit-sharing schemes "verge on self-employment."¹¹ Although the ILO report does not cover cooperative-type joint-stock enterprises and workers' cooperatives, it does accept that they have some intriguing and potentially significant implications for employment policy.

A distinction should also be made between self-employment and wage employment. Some fundamental characteristics distinguish them. The earnings of the self-employed are considered to be a return on their invested capital as well as their labour, entrepreneurial skills and risk-taking whereas the earnings of wage-employees are solely a return for their labour. In contrast to most wage-employees, self-employed people have considerable independence. They control the use of their labour and time, are responsible for economic decisions and bear the risk of failure. Though the self-employed are likely to face reduced earnings and loss of capital, and perhaps increased competition from former employees entering self-employment during times of recession, the wage-employees may be laid off or discharged.¹²

Small-scale enterprise (SSE)/Small and medium-sized enterprise (SME). The SSE sector, or SME sector as it is sometimes called, is difficult to define because official definitions of small enterprises vary and there are ambiguities in the terminology. One study of small businesses has identified more than 50 different definitions in 75 countries.¹³ According to an ILO report on training entrepreneurs for small business creation, SSEs are generally more labour-intensive than larger organizations. SSEs include small but relatively modern manufacturing industries and organized non-manufacturing activity such as construction, transport, and trading, and traditional or "informal" activity.¹⁴ Another ILO report on the promotion of small- and medium-sized enterprises defines them "in the broadest sense of the term":

"covering modern enterprises of up to 50 people, family businesses engaging three or four family members, cottage industry, partnerships, companies, cooperatives, sole ownerships, micro-enterprises and self-employed workers in the informal sector of the economy. Additionally, the sector includes non-manufacturing businesses engaged in small building construction, transportation, maintenance and repair services, trade, etc. Generally speaking, reference to SMEs will focus on enterprises in which the major operational and administrative management decisions normally lie with one or two people"¹⁵

¹¹ ILO. The role of cooperatives in the promotion of employment and income in the rural and informal sectors, Report 3, Meeting of Experts on Cooperatives, Geneva, 29 March-2 April 1993 (Geneva, 1992), p. 4.

¹² Ibid.

¹³ Philip A. Neck and Robert E. Nelson. (eds.). Small enterprise development: Policies and programmes, Management Development Series No. 14 (Geneva: ILO, 1977), p.8.

¹⁴ Kenneth Loucks. Training entrepreneurs for small business creation: Lessons from experience, Management Development Series No. 26 (Geneva: ILO, 1988), p.1.

¹⁵ ILO: The Promotion of Small and Medium-Sized Enterprises, International Labour Conference, 72nd Session, 1986 (Geneva, ILO), p. 4.

12.2.2 ENTREPRENEURSHIP AND EMPLOYMENT CREATION IN INDUSTRIALIZED MARKET ECONOMY COUNTRIES.

It is important to understand the role of entrepreneurship, small business and microenterprise development in the economy. Researcher David Birch conducted long-term research on job generation in the United States in the early 1980s and found that large firms are no longer the major providers of new jobs for Americans. Rather, he discovered that most new jobs - some 80 percent - originate in small firms.¹⁶ Although other scholars have challenged his findings, a number of subsequent independent studies based on different statistical methodologies have converged towards a similar conclusion. Between the mid-1970s and the early 1990s, small firms have generated substantial numbers of new jobs.¹⁷

Another myth which has been dispelled by recent research is that the jobs created by small firms pay low wages. A 1993 study in the US found that during 1987 to 1992, firms with fewer than 100 employees added a net 5,864,000 jobs, of which 85 percent paid average or better wages. During the same period, large firms lost a net 2,320,00 jobs, and 96 percent of them were high-paying.¹⁸ The strong job-creating performance of small companies was concentrated in 5 to 10 percent of all businesses; there 350,000 firms accounted for 70 percent of all new jobs. Job-creating small firms were also innovative, able to adapt quickly to changing market conditions, and were found in a broad cross section of industries.¹⁹

Scholars have found that small business job generation has occurred in most industrialized market economy countries. Through their research, we now have a far better understanding of the economic role that small firms and entrepreneurship play. Among the findings:²⁰

- Firm size has shifted from large firms to smaller ones.
- Firm growth rate decreases with firm size and firm age.
- The small-firm share of employment is growing faster in the goods-producing sectors than for the economy as a whole.
- Small firms are at least as innovative as large firms on a per employee basis and generally have the innovative advantage in high-technology industries.
- Small firms face binding liquidity constraints.
- Most new manufacturing plants begin on a small scale.
- Firm survival is related to size and age. New firm start-ups as well as new plants tend to have a lower rate of survival than established firms. However, roughly 40 percent of new

¹⁶ David Birch. "Who Creates Jobs." The Public Interest, 1981. pp. 3-14.

¹⁷ Zoltan J. Acs and David B. Audretsch. "The Social and Economic Impact of Entrepreneurship. Chapter 3 in D.L. Sexton and J. D. Kasarda, eds. The State of the Art of Entrepreneurship, Boston, 1992, pp. 46-47.

¹⁸ "Pay Bonus: Small Firms actually improve the US wage picture." Wall Street Journal, May 4, 1993, p.1.

¹⁹ Ronald Rosenberg. "Fast Track: Small companies big on new job creations." Boston Globe, May 5, 1993. p. 48.

²⁰ Acs & Audretsch. op. cit. pp. 48-52.

firms survive at least six years, and nearly 47 percent survive in manufacturing. Also, about 60 percent of the persons entering self-employment are still in business 10 years later.

- Small firms produce a greater share of new jobs in the US and at least a proportionate share of new jobs in Europe where job generation has been less dramatic. In Europe, substantial job losses by large firms have dominated the employment statistics and offset the employment gains of smaller firms.
- One of the most striking findings in the US is that small firm turbulence (simultaneous entry and exit) is more than one-third greater under the entrepreneurial regime than under mass production. Small businesses create new jobs by a dynamic process of expansion and contraction - births and deaths - within the small firm sector, resulting in firm failures and at least temporary job displacement and unemployment.

Many scholars have concluded that entrepreneurship and innovative small firms have contributed significantly to employment creation and economic development in America and Europe during the past two decades; and in America they have compensated for the decline of traditional industries.²¹

The importance and relationship between entrepreneurship and employment creation was reiterated at the summit meeting of the EC leaders in Copenhagen in June 1993. Jacques Delors, president of the EC Commission, told the EC leaders that European economies are becoming uncompetitive - that output will decline 0.5 percent this year and that unemployment will reach 12 percent in 1994. Prime Minister John Major of Britain noted that the US economy created four times as many new jobs in the 1980s as the EC economy did, even though economic growth was roughly equivalent.²²

12.2.3 ENTREPRENEURSHIP AND EMPLOYMENT CREATION IN EASTERN EUROPE

While Western economies have restructured their industries into smaller production units, the average size of establishments increased dramatically in Central and Eastern European countries under communism. Scholars studying the economic impact of entrepreneurship in former communist countries have observed that centralized planning caused the high degree of industrial concentration. Furthermore, the "virtual obliteration of small firms and entrepreneurship has deprived Eastern European countries of a key element to industrial restructuring and technological progress. Therefore, a crucial ingredient of restructuring in the Eastern European economies involves generating a vital base of entrepreneurial activity."²³

²¹ Ibid, p. 53.

²² Charles Goldsmith and Peter Gumbel, "EC. Its Competitiveness Waning, Argues Over Trimming Safety Net." The Wall Street Journal, June 22, 1993, p. A10.

²³ Acs & Audretsch, op. cit., p. 62.

12.2.4 ENTREPRENEURSHIP AND EMPLOYMENT CREATION IN DEVELOPING COUNTRIES

The role of entrepreneurship, self-employment, SSE, and microenterprise development in employment and economic development is of equal if not more importance to people living in developing countries. An ILO report on self-employment points out that over 130 million nonagricultural workers in the world are self-employed and many more agricultural workers are self-employed. Self-employment is increasing in areas where the capacity of public and large-scale enterprises to provide adequate wage-employment opportunities to those seeking work is insufficient. The self-employment sector may constitute about 50 percent of the total non-agricultural employment in developing countries and perhaps 15 percent or more in the industrialized market economy countries.²⁴

In most developing countries, the informal sector accounts for a large percentage of national economies. For example, in rural areas of Indonesia, Pakistan, Kenya, and the Philippines, from 28 to 38 percent of the people derive their primary income from trading, cottage industries, or other off-farm activities.²⁵ In urban areas, microenterprises often employ more than 50 percent of the local labour forces.²⁶

According to the 1992 World Labour Report, the informal economy, the employer of last resort, has become the "survival sector" in urban Africa. It currently employs an estimated 61 percent of the urban labour force, and during the 1990s it will be required to generate about 93 percent of all additional jobs in urban Africa.²⁷

An ILO report on the promotion of SMEs highlights the unique economic role of these enterprises in developing countries.²⁸ SMEs absorb a substantial share of the rural labour forces and create secondary employment over slack periods of the agricultural cycle. They provide employment and business opportunities for women and youth. They make important contributions to total manufacturing employment in urban areas; and they contribute to the balance of payments. In addition, SMEs:²⁹

- contribute significantly to the economy in terms of output of goods and services;
- employ upwards of one-half of the paid employment and have the capacity to employ even more;
- create jobs at relatively low capital cost, especially in the fast-growing service sector;
- provide a vehicle for reducing income disparities;
- develop a pool of skilled and semi-skilled workers as a basis for future industrial expansion;

²⁴ ILO: The promotion of self-employment, Report VII, International Labour Conference, 77th Session, Geneva, 1990, pp. 1-21.

²⁵ J. Ashe and C. Cosslett, Credit for the Poor: Past Activities and Future Directions for the United Nations Development Programme. New York: Policy Division Bureau for Programme Policy and Evaluation, UNDP, 1989, p.17.

²⁶ Ibid.

²⁷ ILO: World Labour Report (Geneva, 1992).

²⁸ ILO: The Promotion of SMEs, Report VI, Sixth Item on the agenda (Geneva, 1986), p.9.

²⁹ Ibid., pp. 9-10.

- improve forward and backward linkages between economically, socially and geographically diverse sectors of the economy;
- provide opportunities for developing and adapting appropriate technological approaches;
- offer an excellent breeding ground for entrepreneurial and managerial talent, the critical shortage of which is often a great handicap to economic development;
- lend themselves to industrialization policies favouring decentralization and rural development;
- increase savings and investment by local persons and other local sources by more effective use of scarce capital;
- increase mobility for improved development of natural resources;
- promote special subcontracting arrangements and act as ancillaries to large-scale enterprises; and
- adapt flexibly to market changes.

12.3 PATHS OF ENTREPRENEURSHIP AND SMALL ENTERPRISE DEVELOPMENT

According to ILO researchers Theocarides and Tolentino, recent empirical experiences suggest that effective entrepreneurship and small enterprise development (SED) have two objectives: (1) to create businesses; and (2) to expand existing enterprises. The successful achievement of these two objectives requires an integrated and holistic approach that comprises:³⁰

- the development of appropriate environments and free market policies;
- studies and strategies to match demand with local resource potentials for substantial, effective employment and business creation;
- cost-effective institutions and processes, including training and follow-up services;
- institutions that support the growth of existing businesses;
- credit and financial facilities; and
- national authorities to pursue and support policies and institutions for small enterprise development.

These authors suggest that successful entrepreneurship and small enterprise development depend on two primary factors: (1) **an enabling policy environment**; and (2) **the identification of economic and business potentialities**. They argue that a number of constraints in the policy regulatory environment hinder entrepreneurship and SED in many countries. These constraints are: political climate; economic and business climate; social and psychological environments; monetary and credit facilities; educational policies, training and advisory services; sectoral support; technology and guidance; social safety standards; and legal environment.

In their view, the best way to change the policy environment is "a participative approach which aims at creating joint and collaborative efforts between governments and the private sector to remove constraints and develop strategies for small and medium enterprise development."³¹ Because the traditional sectors in many developing countries may not be able to absorb the present and future unemployed, methodologies and institutions need to be developed to identify untapped

³⁰ S. Theocarides and A. Tolentino, Integrated Strategies for Small Enterprise Development: A Policy Paper. SED/19/E (Geneva, ILO Small Enterprise Section, 1991), p.1.

³¹ Ibid., p.7.

human, economic and cultural potentialities.³² Thus, efforts should be made to identify demand opportunities, gaps in the production system, and the availability and advantage of local resources (products, raw materials, skills, traditions, etc.) that could be used as the basis for creating new enterprises and industries.

A consultative group convened by UNIDO in 1989 to consider the promotion and development needs of SMEs, and also identified a number of constraints and problems that entrepreneurs and SMEs face. The consultation concluded that:³³

- firm national commitment and will are required to create environments conducive to the growth of SMEs;
- appropriate national policies are urgently needed for the growth of the SME sector;
- non-governmental organizations such as associations of SMEs, chambers of commerce, groups of producers, and federations of cooperatives have a vital role to play as key agents of change through institutionalized interaction with governments;
- a coherent national program of action to develop entrepreneurship is crucial to the development of the SME sector, including inter alia, the suitable reorientation of programs and policies for education and training to stimulate self-employment, the creation of small enterprises, and the growth of an entrepreneurial culture;
- modernization of the SME sector with a view to improving productivity and quality is urgently needed;
- collective research and development efforts for the SME sector are needed;
- institutional support is needed to develop marketing and sales promotion strategies and schemes and to collect and analyze market information;
- better financial support mechanisms are needed for SMEs; and
- coordinated financial and technical assistance for SMEs is needed at the national level to ensure favourable conditions for welcoming investors.

12.4 AN OUTLINE OF ENTREPRENEURIAL INITIATIVES

The work of Theocharides and Tolentino represents a policy level attempt to promote an integrated or holistic approach to entrepreneurship and small enterprise development. In addition to policy efforts designed to reduce environmental constraints, a number of programmatic approaches and specific initiatives and actions can be taken to promote and foster entrepreneurship and SED. These efforts can be promoted and fostered on a community-wide basis or on a more limited or sectoral basis.

During the past two decades, many countries, communities and groups of people throughout the world have attempted to develop and implement entrepreneurial initiatives to foster entrepreneurship and employment and enterprise creation. While an impressive range and variety of initiatives have been developed, no listing of them is available to others seeking new ideas. Consequently, it is useful to identify and describe a few of the representative types and range of entrepreneurial initiatives that have been developed and promoted in order to provide a framework for this discussion and to help us design more effective strategies for local employment and economic development.

³² Ibid., p.9.

³³ Report: Consultation on Small- and Medium-Scale Enterprises Including Cooperatives, Bari, Italy, 9-13 October 1989, (UNIDO: Vienna, 1989), pp. 6-20.

In general, there are three broad approaches to entrepreneurship and SED development:³⁴

1. **changing the environment** - focusing on laws and regulations, fiscal incentives and infrastructural facilities;
2. **training and consultancy programs** improving entrepreneurial, managerial and business competence; and
3. **promoting an entrepreneurial culture** - designing programs to make specific communities more entrepreneurially oriented.

The range of entrepreneurial initiatives and actions may include:

- **initiating community assessments** that assist communities to undertake community revitalization. Community assessment is the careful analysis by local people of their current and prospective challenges and opportunities - and then carry out revitalization efforts on a systematic basis;
- **creating new institutions and collaborative networking programs** such as flexible manufacturing networks and service systems to encourage and facilitate collaboration and inter-firm cooperation;
- **establishing community development corporations, community businesses, and community cooperatives** to indirectly or directly create jobs or provide services in a community;
- **starting common facility centers or common facility cooperatives** to increase the labour productivity of entrepreneurs and artisans in a particular industrial sector;
- **institutionalizing the process of entrepreneurship** to expand enterprise and employment generation;
- **establishing entrepreneurship training programs** which focus specifically on the identification and training of micro- and small business entrepreneurs;
- **introducing new ownership structures** such as worker's cooperatives, ESOPs and cooperative stock companies;
- **establishing business incubators and innovation centers** to incubate new enterprises;
- **initiating programs which allow the capitalization of unemployment insurance benefits for enterprise creation**;
- **creating financial institutions** such as credit cooperatives and development banks to make credit and venture capital more readily available to microentrepreneurs and small businesses;
- **providing information, management training, and advisory services** to SSEs and SMEs;

³⁴ "Integrated Approaches to Entrepreneurship Development." Chapter 2 in New Initiatives in Entrepreneurship Development, Proceedings of the ICPE/ILO/INTAN Workshop (Kuala Lumpur, 19-22 August 1991), p.4.

- **using franchising as a strategy for SME promotion; and**
- **establishing technology transfer programs to make technology more readily available to smaller firms.**

An Appendix to this paper (to be published later) provides a sampling of the variety of approaches and programs being used for entrepreneurship and SME development in developing and market economy countries. It also contains descriptions of some of the more innovative entrepreneurial programs and initiatives.

12.5 PROBLEMS AND ISSUES IN DEVELOPING LOCAL ENTREPRENEURIAL INITIATIVES

Many questions and issues can be raised about promoting entrepreneurship and developing entrepreneurial initiatives as part of the strategies for local employment and economic development. Among those considered important for this work group's discussion are:

1. **Creating an enterprise culture that supports entrepreneurship.** What elements comprise an entrepreneurial or enterprise culture? What institutions in society contribute to the creation of an entrepreneurial culture? How can a community change the existing culture to one that is "more entrepreneurial"?
2. **Providing education and training for entrepreneurship.** What role does or should education and training play in entrepreneurship promotion and development? Does the educational system adequately prepare young people for business and entrepreneurship? What types of entrepreneurial training do prospective entrepreneurs need? Can the provision of that training be cost effective? What specialized organizations or institutions of higher education provide entrepreneurship training? How should the entrepreneurship training programs be financed and delivered? Do potential microentrepreneurs in the informal sector have training needs that are different from people seeking to start enterprises in the formal sector?
3. **Providing business assistance and advice.** What types of business assistance, management training, consultancy, and advice are needed to foster successful small business development? How can such information and assistance be made more readily available in cost effective ways to those who need it? What kinds of delivery mechanisms are needed to deliver such services? Should the same institutions provide information, small business advisory services, and managerial and technological development for small entrepreneurs?
4. **Overcoming financial barriers to entrepreneurship.** What barriers and problems do entrepreneurs and small businesses face in obtaining access to venture capital and credit for enterprise creation and development? How can these barriers be reduced and problems resolved? What role can or should local governments play in helping to overcome these financial barriers?
5. **Obtaining needed technology.** Given the rapid changes occurring in the world, and the proliferation of new technologies, how can new entrepreneurs and SMEs obtain the needed technology to become and remain competitive? Would the introduction of networking and inter-firm cooperation facilitate the provision of the necessary

technology? What role can local and regional governments play in encouraging and promoting these types of networking and cooperation?

6. **Creating a favourable business climate for entrepreneurship and SED.** What are the necessary or essential elements (political, legal, economic) of a supportive economic-business climate that increases entrepreneurship and SED activity? Is the political climate supportive of entrepreneurship and SED? For example, do governments recognize and encourage the SME sector? How important is a well defined legal system (laws establishing incorporation, establishment of ownership and liabilities, assessment of business and financial risks, enforcement of financial agreements, etc.)? What about other issues such as political stability, democratic institutions of the private sector, and regulatory procedures that are not overly complex and burdensome? Finally, how do you create a favourable economic and business climate coupled with a suitable social and psychological environment to encourage entrepreneurship?
7. **Economic and business potentialities.** Do sufficient business opportunities exist to support all the new small enterprises that need to be established to provide employment in the community? If not, should these issues and concerns be addressed as part of local economic development planning? How can local development policies be developed to identify potentialities and new market opportunities? What types of institutions or services may be needed to identify suitable business potentialities?
8. **Roles of government and the private sector in entrepreneurship development.** What should be the role of local government in the promotion of entrepreneurship? What should be the role of the private sector, non governmental organizations and other local groups in the promotion of entrepreneurship? How can government and the private sector work together more effectively in the creation of a favourable business climate and the promotion of entrepreneurship? Is community assessment an appropriate starting point for expanding entrepreneurship?
9. **Balancing social safety standards and entrepreneurship.** Is it possible to minimize the costs and eliminate the constraining of social safety standards for SED? Should small entrepreneurs be made to comply with social protection measures that do not consider their special needs and circumstances?
10. **Issues pertaining to Central and Eastern Europe.** What additional entrepreneurship and SED issues and problems dealing with privatization, the creation of a market economy, the absence of entrepreneurial cultures, the lack of support institutions need to be addressed in countries moving from command to market economies? When? Can strategies be developed to overcome these problems and address these issues? What types of assistance (from the international community, EC, ILO and other development organizations) would be most helpful to these countries in developing and implementing entrepreneurial initiatives for employment and enterprise creation?

(Presentation made by G.B. Hansen to the plenary session (Recommendations and Conclusions) of the Aarhus Meeting, acting as animator and reporter of Group 4's major findings.)

The Promotion and Development of Entrepreneurial Initiatives Group 4

Introduction: The title provided a broad framework for the work of our group. However, we (1) narrowed our focus to a manageable size, (2) identified several areas of major

concern, and (3) emphasized practical policy or action recommendations.

The work group concentrated on measures to stimulate the supply of entrepreneurs, which was defined to encompass entrepreneurial individuals, companies and groups. This included examining those factors which act as constraints upon entrepreneurial initiatives and on measures to ease the transition from wage employment or unemployment status to that of entrepreneur. The group were mindful that their recommendations should be comprehensive, covering the restructuring of mature industrial economies, the development of largely agrarian-based developing countries and the problems of central and eastern European economies coping with the transition from centrally planned to market systems.

Although the topics comprising this work group report are addressed as individual issues, in practice each topic is inextricably interlinked one to the other and must be approached at the policy level by a holistic rather than partial treatment. Policies should also be aimed at long term objectives and not established or abandoned for short term expediency.

I. Building upon existing entrepreneurial culture

All societies, no matter what their cultural settings, possess an innate talent for entrepreneurial initiatives. However, certain environments and structures encourage entrepreneurship while others discourage it.

The entrepreneur should be portrayed as a positive role model. Business failure should not be viewed as a social stigma, but reflect the risks of entrepreneurial actions.

Publicity and promotional campaigns should be launched and award systems should be created to enhance the image and esteem of entrepreneurs.

Educational systems should include entrepreneurial studies and self-employment as an integral component within the school curriculum. University and professional training programmes should stress entrepreneurship as a career choice.

The fiscal-taxation system should be modified to encourage risk taking.

Efforts should be made and policies implemented to seek out potential entrepreneurs currently working in large companies, universities, research establishments, etc. Policies should be introduced to ease the transition from employment to entrepreneurship. For example, portable pensions.

Policies should include talent scouting, innovation centers, science parks, etc., to foster closer linkages between universities and commercial enterprises.

II. Training in entrepreneurial skills

The training needs of potential and existing entrepreneurs have been somewhat neglected by the formal educational system. All entrepreneurs require competence in the preparation of business plans in order to submit financing applications to banks. They also require training in basic business skills such as marketing and accounting.

Entrepreneurs tend not to avail themselves of formal training programmes because of major constraints on their time. The training needs of entrepreneurs in central and eastern Europe were particularly acute because of the complete absence of training staff, materials and programmes. Local economic development organizations should develop bespoke training programmes for local entrepreneurs, operated on an open access basis. Materials should be developed using open learning and practical case studies. Entrepreneurial training programmes for central and eastern Europe should initially concentrate on the

training of trainers utilizing resources such as the secondment of retired western business persons for short term assignments in companies. In addition, resources such as ethnic relatives with entrepreneurial experience who live in western countries are a valuable and talented resource which could be tapped. Twinning mechanisms should be encouraged and fostered between western organizations such as university business school faculty's, local economic development agencies and local authorities.

III. Information and advice

The group concluded that there was a need for information and advice by those who were interested in becoming entrepreneurs and those who were engaging in entrepreneurship. At the same time, there was a great deal of knowledge and information available about entrepreneurial initiatives, including some innovative approaches to entrepreneurship which were being carried out in different settings around the world. The problem is one of making this information and experience available and accessible in timely and practical ways to those who need it.

Best practices and successful experiences of entrepreneurship development should be documented and widely disseminated in order to facilitate replication where applicable. This should include information about recent entrepreneurial initiatives such as collaborate networking; cooperative entrepreneurship; ESOPs, labour limited companies and cooperative stock companies; community cooperatives, community businesses and community development corporations; business incubators, cooperative and common facilities centers; and micro-lending and development programs.

Provision of "business advice nights" which operate on a drop-in mode and offer one-to-one counseling. Each locality should operate "enterprise agencies" i.e., agencies which offer first stage advice and information on starting up businesses, to include inter alia, legal structures, sources of finance, taxation issues, availability of local premises, market opportunities, required permits and approvals, etc. These agencies should link into and draw support from local government, higher education institutions and existing enterprises.

One innovative proposal was to entitle potential entrepreneurs to a voucher which they can use to purchase advisory services in the marketplace.

IV. Improving access to capital

Access to appropriate finance was considered to be of fundamental importance in stimulating entrepreneurial activity. Many sound business propositions fail to materialize because of a reluctance by the banking system to provide equity finance to startup companies.

Investment finance could be classified into three categories:

- ⇒ *Startup and early stage financing--required* by potential entrepreneurs who often lacked collateral, or failed to present well prepared business plans.
- ⇒ *Seed capital--required* to realize concepts, develop prototypes, etc. This type of finance was often required to produce innovative products and services which are currently some way off the market.
- ⇒ *Venture capital--required* by existing companies to expand their operations or to diversify into new markets.

Measures proposed to increase the supply of capital included the following:

- ⇒ Establish a local development agency which directly provides risk capital or provides a basis for making it available to small firms and startups.
- ⇒ Capitalize unemployment benefits and/or substitute unemployment benefits for enterprise allowances payable to new startup enterprises and individuals who choose to become self-employed.
- ⇒ Introduce significant tax incentives for private investors in SMEs to equalize risks and rewards. These local private investors also represent a major (and important) source of advise and counseling for the companies they invest in.
- ⇒ Mobilize community funds through such institutions as credit unions.
- ⇒ Introduce government loan guarantees to reduce the risks of the banking sector. Encourage international finance agencies to directly provide (through an intermediary) investment funds for SMEs.
- ⇒ Encourage banking systems to be more responsive to local investment needs. Involve NGO's as intermediaries to provide credit for microenterprises, where loans are small and more costly to make and service.

V. Improving access to technology.

The group considered that developing economies and the economies in transition in central and eastern Europe required more information on and better access to appropriate technology. One proposal to improve access to information on up-to-date and appropriate technology was to utilise local libraries as a delivery mechanism.

Many examples were cited where new capital equipment had been purchased which was incompatible with local factor inputs and where the supply of spare parts was a serious constraint. There was a need for long term policies on the import of technology, spare parts and factors of production.

Proposals were put forward advocating the establishment of shared production and service facilities but caution was expressed, based on the reluctance of some entrepreneurs and SMEs to collaborate because of their attitude toward competitors and whether these facilities could ever be self-financing.

Due to the shortage of hard currency for the purpose of buying technology, the promotion of joint ventures in LDCs and CIS countries was one way forward.

Joint purchasing initiatives, including cooperatives organized for this purpose, were also seen as an opportunity.

VI. Provision of supportive infrastructure

The infrastructure/environment in which entrepreneurs operate can be supportive or disruptive. To be supportive the infrastructure needed to be responsive to the needs of entrepreneurs in the local community. Overly bureaucratic systems and repressive directives resulted in excess requirements for paperwork, licenses, customs procedures all contributing to excessive transaction costs which could include outright bribery. All these factors were considered real barriers to the development of an entrepreneurial culture. An efficient private sector requires an efficient public sector.

The establishment of a legal structure supportive of private enterprise and of clearly defined physical and intellectual property rights legislation were fundamental.

One of the critical factors was the open support, and political will for the support of entrepreneurial activities. This support should be clearly demonstrated at the highest level and be translated into action at every level of government.

VII. A supportive physical environment

This area was considered to be very important for the development of the private sector in central and eastern Europe. In particular, environmental degradation was seen as a barrier to the development of new enterprise (e.g., food processing) and a negative factor in the attraction of foreign joint ventures.

Entrepreneurial promotion and development should not occur at the expense of the environment.

Environmental legislation was seen as both a threat and opportunity to all countries.

Additionally, an appropriate physical infrastructure needed to be in place such as roads, airports, docks, etc. Of particular and increasing importance was the provision of modern telecommunications facilities, reliable power and other utility services.

VIII. Implementation

Responsibility should be clearly assigned for implementing policies needed to stimulate the effective supply of new entrepreneurs and to facilitate the growth and expansion of existing enterprises.

Wherever possible, services should be available from a single access point, a one stop shop. However, economies of scale might require a hub and spoke delivery mechanism.

The critical ingredients for the successful implementation of entrepreneurial development initiatives were considered to be the following:

1. An integrated approach to policy formulation and service delivery.
2. The trust and confidence of all key actors on the local economic stage.
3. Sound knowledge of the culture and motivation of the local population.
4. Strong political backing.
5. An investment orientation rather than a grant/subsidy system.

All activities and services provided should be subject to continuous evaluation using quantitative criteria such as cost-effectiveness, impact, and value for money. In addition, these should be subjected to a qualitative, normative evaluation to ensure that programmes and policies support non-discriminatory hiring policies, fair labour standards and environmentally sensitive actions.

July 2, 1993 memo to Joe Fazio about individuals or countries that might be interested in cooperative

projects.