

SME POLICY CHALLENGES IN TRANSITION ECONOMIES

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INTRODUCTION

- Transition?
 - Term misleading if taken to mean a process of transformation towards target of market economy
- Variations in the nature & pace of change between countries
 - Former Soviet republics
 - New member states of the EU
 - China
- Entrepreneurship needs to be understood in its social context (Davidsson, 2003).
 - government policies and actions are a key element in the social context for entrepreneurship

KEY THEMES

- Need to adopt a broadly based view of what constitutes policy i.e. policies affecting the nature and pace of SME development rather than SME policy
- A key role of government is its influence on institutional development
- Developing market oriented institutions has proved to be one of the most challenging aspects of the reform process.

THE SME POLICY CONTEXT IN FORMER SOVIET REPUBLICS (e.g. Belarus)

- Businesses are set up, survive and, in a few cases grow, despite government BUT numbers are small and their contribution to economic development limited
- Environment includes limited privatisation; regulation involving frequent inspections; frequent changes in laws, decrees and regulations; price controls; inefficient banking system; laws not always enforced with SOEs.
- Government claims to support small businesses (e.g. through the creation of an appropriate legal environment for business; the provision of soft loans; & the establishment of an advisory infrastructure) BUT few actions are implemented

SME POLICY CHALLENGES IN FORMER SOVIET REPUBLICS

- The process of market reform requires a fundamental change in the role, type and behaviour of public institutions, as well as the establishment of new forms of governance.
- This reflects a need for government to replace its roles as planner of resource allocation, price setter, owner and financier of enterprise activity through subsidies and transfers; with that of regulator and facilitator of private enterprise activity
- To achieve this requires a commitment to institutional capacity building, at the national and sub-national levels,

THE SME POLICY CONTEXT IN NEW MEMBER STATES OF THE EU

- The SME sector was one of the sources of dynamism during the pre-Accession period, creating a demand for institutional change
- Direct policy support for SMEs was not a priority during the pre-Accession period
- The process of Accession has contributed to institutional and policy development, driven by:
 - the need to meet the conditions for EU entry
 - desire to have the conditions in place to enable access to EU Structural Funds
 - The centrality of entrepreneurship to the EU's Lisbon Agenda

SME POLICY CHALLENGES IN NEW MEMBER STATES OF THE EU

- Building institutional capacity e.g. in government; in business support organisations ; membership organisations; consultants; trainers
- Reducing the regulatory burdens on business, particularly at start-up
- Establishing effective dialogue with entrepreneurs in a context where there is no recent tradition of self governing organisations
- Building market oriented, 'SME friendly' innovation systems
- Filling the 'institutional hole' at the regional level

THE SME POLICY CONTEXT IN CHINA

- SMEs have been one of the driving forces in China's recent economic growth
- National policy to support SMEs is relatively recent. In 2000, State Council urged govt at various levels to adopt “*Effective measures to strengthen SME support especially high-tech SMEs and those innovative SMEs, which can develop new products, improve products quality and fill gaps in the market*”.
- Law on SME Promotion (2003) provided the legal basis for government involvement
- One of the main policy initiatives by central government has been the creation of a network of approx. 2000 loan guarantee agencies

THE SME POLICY CONTEXT IN CHINA

- The SME Promotion Law also made provision for state intervention in the field of business development services, although actions in this area have so far been rather limited.
- Current national SME policy objectives in China are
 - to improve the environment for SME development and
 - seek to increase employment in SMEs, as well as their wider contribution to China's economic and social development.

THE SME POLICY CONTEXT IN CHINA

- Regional variations in SME development are enormous, which not surprisingly is mirrored in the development of the market for business services
- The emphasis on decentralisation and local experimentation with reforms means that private sector development has been greatly influenced by local conditions, including attitudes of local government towards the role of the market.
- For most of the reform period, private enterprise has developed without clearly defined property rights, leading to collusion between local governments and enterprises & the use of rent-seeking behaviour

SME POLICY CHALLENGES IN CHINA

- Developing effective business development services in areas where the market is weakly developed
- Reducing time and cost of starting a business
- Building on existing informal support mechanisms e.g. sources of finance
- Promoting hi-tech enterprises by increasing access to venture capital; improved IPR protection;
- Accommodating private entrepreneurship in a socialist market economy

CONCLUSIONS

- The scale and scope of the challenge facing SME policy makers in transition economies is enormous
- The SME policy challenges vary at different 'stages' of market reform
- Empirical research in 'transition' economies demonstrates the institutional embeddedness of entrepreneurship
- Transition economies represent a fascinating laboratory for those interested in policies for entrepreneurship and SME development