



The RSA

North East branch

**Breaking down the barriers to
business**

David Irwin

September 2005

The Royal Society for the encouragement of Arts, Manufactures & Commerce was founded in 1754 to encourage the development of a principled and prosperous society.

Currently, the RSA runs a programme of projects and lectures based around five manifesto challenges:

- encouraging enterprise
- moving towards a zero waste society
- fostering resilient communities
- developing a capable population
- advancing global citizenship

This paper is about encouraging enterprise.

In 1980, David Irwin co-founded one of the UK's first enterprise agencies, Project North East which achieved a number of firsts in supporting people to start and grow their businesses. In 2000, he was appointed as founder Chief Executive of the UK's Small Business Service taking responsibility for all of the British Government's support for small business. He left SBS in Spring 2002 and now works in the UK and internationally as a consultant in enterprise and economic development. Recent assignments have taken him to Nigeria, Ghana, Bulgaria and China. He is Chairman of Cobweb Information Ltd, a business that researches, publishes and markets business information.

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RSA north east

Breaking down the barriers to business

1. Introduction

Many people, all over the world, are thinking about or are starting a business, often in the informal economy. In Nigeria, for example, it is estimated that the informal economy accounts for 60 per cent of the total economy. The Shanghai district of Pudong has averaged annual growth for the last few years in excess of 19 per cent – largely on the back of hi-tech new starts. People start for different reasons – sometimes because they spot an opportunity, sometimes through necessity?

What are the barriers that discourage people from starting (finding an idea, finding the money, red tape, etc)? Many countries want to do more to encourage people to start in business and have well established support programmes. But how effective are they? What more can be done to encourage and support people who want to start in business? And what impact does a healthy small business sector have on the economy? In short, what are the key messages for policy makers?

2. Small businesses are important

2.1 Small business drives economic development

Entrepreneurship is seen as one of the most important drivers of local economic development. The World Bank, in common with other international donors, asserts that a vibrant private sector – with firms making investments, improving productivity and creating jobs – promotes economic growth and increases opportunities for poor people.¹ According to the World Bank website, their pro-SME policy “is based on the argument that, relative to larger firms, SMEs enhance competition, entrepreneurship, job growth and spur economy-wide efficiency, innovation, growth and poverty alleviation”.² Indeed, that is why, over the last five years, the World Bank Group alone has approved more than \$10 billion for SME support programmes.

The IFC has noted that the fall of communist regimes demonstrated that market economies desperately need SMEs and that they are currently the fastest growing segment of firms, often with productivity gains outperforming those of larger firms.³

All over the world, governments are extolling the virtues of stimulating and supporting a healthy small business sector. The vitality of the small firms sector makes a considerable impact on local competitiveness. In developed countries, SMEs typically account for 99 per cent or more of all firms.

In the UK, for example, there are now 4 million firms and only 7,000 employ more than 250 people. In most countries SMEs comprise at least 99 per cent of all firms. In the UK, small and medium sized firms employ 12 million people and contribute over 50 per cent of private sector activity. SMEs are flexible, innovative and responsive. Since World War II, 50 per cent of all innovations, and 95 per cent of all radical innovations, have come from new

¹ World Bank, “Doing business in 2004” IBRD/World Bank

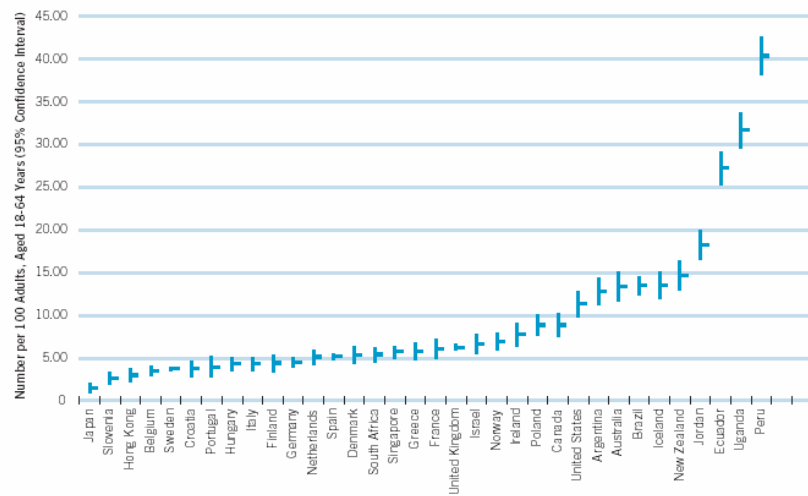
² See <http://rru.worldbank.org/PapersLinks/GlobalResults.aspx>

³ Klein, M, writing in ‘IFC 2004 Annual Review: small business activities’, World Bank

and smaller firms⁴. Smaller firms tend to be more productive.⁵ They are a crucial part of the supply chain – providing materials, sub-assemblies and services to larger businesses and distributing goods to customers. And as economies increasingly come to rely on “knowledge workers”, and large firms increasingly “stick to the knitting” rather than pursue vertical integration, then small firms are likely to become more important. Economies with a high proportion of SMEs will be more resilient to external shocks and will be more likely to have more firms which grow into larger businesses. Furthermore, stimulating the creation of more SMEs enables nations to grow a solid middle class.

Recent research indicates that the propensity to start a business differs greatly between countries, and even between regions within a single country. The Global Entrepreneurship Monitor is a cross-national assessment of entrepreneurship. Their Total Entrepreneurial Activity (TEA) index is a way of comparing levels of entrepreneurship internationally. In their 2004 study, which covered 34 countries, the TEA index ranged from 1.5 per cent (Japan) to 40 per cent (Peru). The average across all countries was 9.3 per cent. The UK achieves just 6.3 per cent. Its TEA rate, and its rank, has been fairly consistent over the five years that GEM has been reporting. But if entrepreneurship is going to be important in the future, arguably, the UK should do more to promote the concept of entrepreneurship.

Figure 1: Total Entrepreneurial Activity



Source: GEM, 2004

The GEM research appears to confirm the view that entrepreneurship is responsible for much of the business world’s innovation and competitiveness. They are less certain of the relationship between entrepreneurship and economic growth but they do suggest that entrepreneurship makes a positive contribution.⁶

⁴ See, for example: Timmons, J, “New Venture Creation”, Irwin & Schramm, CJ, “Building Entrepreneurial Economies”

⁵ Luetkenhorst, W, (2004) “Economic development, the role of SMEs and the rationale for donor support: some reflections on recent trends and best practices”, UNIDO

⁶ Acs, ZJ et al, “Global Entrepreneurship Monitor: 2004 Executive Report”, Babson College & London Business School

2.2 The enabling environment makes a difference

Carl Schramm, CEO of the US based Kauffman Foundation, argues that SMEs make a significant difference to economies.⁷ He notes that the US breeds a steady flow of new, high impact businesses, which “create value and stimulate growth”. They do not appear automatically, but instead appear because the US nurtures and encourages entrepreneurs. He suggests that, on more than one occasion, new businesses, and the new jobs that they create, have pulled the US out of economic slump. In particular, he argues that small businesses can lead to economic growth: he cites the companies spun out of MIT which, taken together, would now constitute the world’s 24th largest GDP. Whilst this might be rather ambitious for many countries, Schramm argues that economic growth could be achieved simply by establishing the conditions that enable entrepreneurs to flourish.

Starting a business requires that prospective entrepreneurs have the opportunity, the motivation and the skills. It requires an environment that is conducive to business (including, inter alia, ease of start up, supportive regulatory and tax regimes and competitive markets). This enabling environment, however, also depends on society recognising the role that business plays and welcoming, rather than shunning, entrepreneurs. Individuals are more likely to consider starting their own business if they are exposed to good role models – which usually means seeing peers starting in business rather than chasing after icons. And SMEs need access to financial and business development services.

2.3 A mixed economy

I am not arguing that economies can rely solely on small businesses, nor am I arguing that small businesses should be helped at all costs. However, changing working practices are likely to lead to fewer employment opportunities in larger firms, more out-sourcing, etc, so there will be a greater need for more smaller businesses.

The IFC stresses the importance of having a constant churn amongst SMEs, which they see as beneficial. New firms start – as many as two thirds cease within five years (though support during the start up phase can reduce this to one third); competitive firms grow and, maybe, one day become large firms. Small firms are not better than large firms – both are needed.

UNIDO asserts that “rewarding firms for being small is not the point of SME policies and support schemes. Creating a functioning ecology of firms is – where new ones can emerge, where existing ones can grow, where large and small can contract and work with each other depending on the requirements of the sector.”

In other words, both IFC and UNIDO are saying that governments should create the conditions to encourage more people to start in business and an environment which allows them to grow. After that, it is up to the entrepreneurs’ own ability.

Some countries do quite well at encouraging new starts. In the UK, for example, in 2004, there were about 500,000 business starts, though the total is expected to be significantly lower this year. However, almost as many businesses cease trading so there is a major challenge to encourage new entrepreneurs to seek out the support that is available.

So, I would argue:

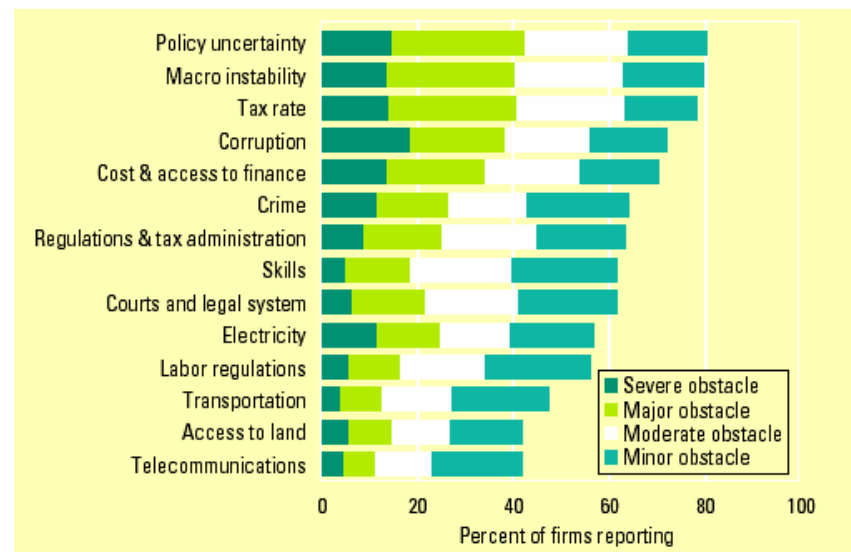
⁷ Schramm, CJ, (2004), “Building entrepreneurial economies”, Foreign Affairs, Jul-Aug

- Entrepreneurship may not lead to economic growth (though it is quite likely that it may) but, in any event, economic growth leads to entrepreneurship and the creation of new businesses;
- New businesses create new jobs and are distributors of wealth;
- In developing countries, economic growth is essential to reduce poverty: the World Bank argues⁸ that, with rising populations, economic growth is the only sustainable mechanism for increasing a society's standard of living and subscribes to the view that "this can only be achieved by creating a good investment climate which, in turn, drives growth by encouraging investment and higher productivity";
- Increasing levels of indigenous entrepreneurship make places more attractive for other investors to want to do business: research by Fortune and Andersen⁹ on what makes cities good places to do business shows that the key factors are pro-business attitudes, entrepreneurial activity and good supply of managers – so increasing levels of local enterprise are likely to lead to increasing attractiveness as a place for inward investment as well;
- A key requirement to stimulate economic growth, including encouraging businesses to transfer from the informal to the formal economies, is to make it easier for businesses of all sizes by doing everything possible to create an enabling environment.

3. Barriers to enterprise

A survey by the World Bank of 26,000 firms in 53 countries as part of its investment climate assessments has identified a number of constraints regarded as important by business as shown in the figure below:

Figure 2: Barriers to enterprise



Source: WDR 2005

The World Bank's WDR2005 notes that a good investment climate encourages firms to invest by removing unjustified costs, risks, and barriers to competition.

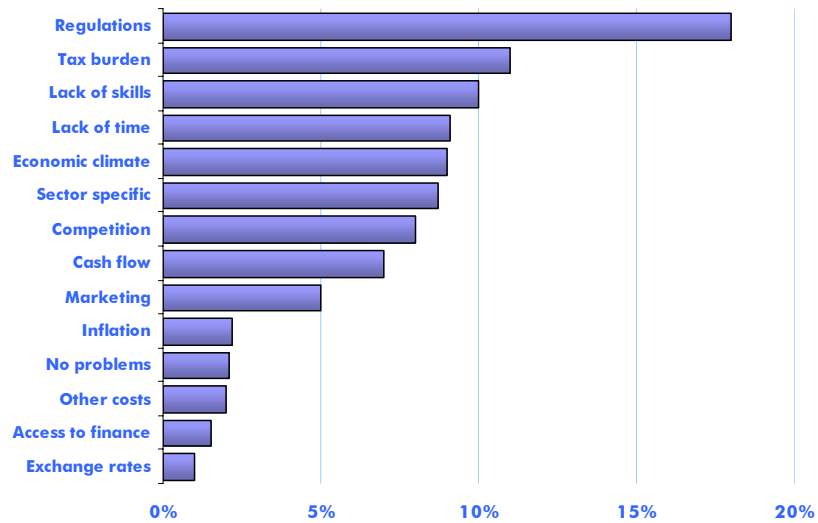
⁸ World Bank, "World Development Report: 2005"

⁹ Report originally seen at www.arthuranderson.com; see Fortune 27 Nov 2000 for summary

The report encourages all countries to reduce red tape, make government regulation more predictable and secure property rights.

In the UK, surveys of people in business confirm the view that regulation, red tape and the tax burden are the most important issues. Perhaps surprisingly, finance is only perceived as a minor issue. However, surveys are almost always of people who are already in business.

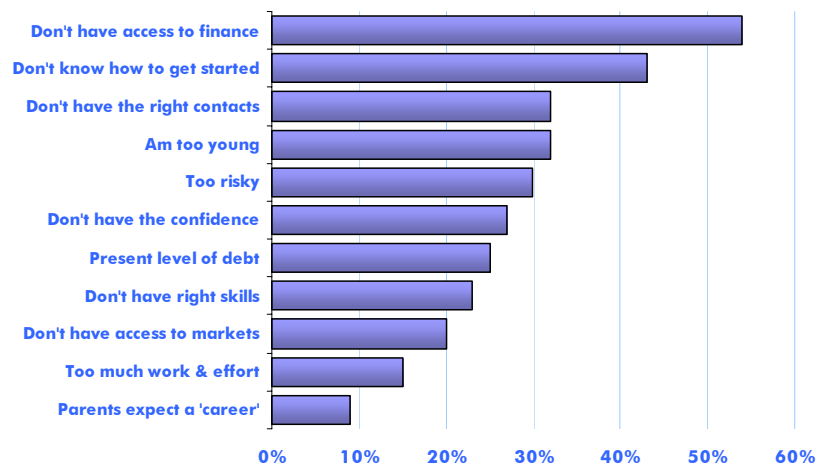
Figure 3: Businesses' most important problems (UK)



Source: NatWest/SERTeam Quarterly Survey of Small Business in Britain, 2005, Q1 (UK)

Research amongst people who have not yet started reveals a different set of problems – with finance being top of the list. The problem is most acute for young people and for women, usually because they have little track record and little or no savings or collateral. A survey in 2004 in the UK amongst young people who had not (yet) started in business suggested that access to finance was the biggest barrier.

Figure 4: Barriers to young people starting in business



Source: NOP Survey for Enterprise Insight, 2004

There are, I think, three key barriers:

- Societal attitudes
- The enabling environment and
- Access to finance

And, to varying degrees, these seem to be the barriers all over the world.

4. Societal attitudes

4.1 Society's perceptions of entrepreneurs

Over one third of fictional crime on television is committed by entrepreneurs. The perception held by too many people is that all entrepreneurs are like Del Boy. UK society does not appear to value entrepreneurs in the way that it values footballers and pop stars. The salary paid to Rio Ferdinand, recently renegotiated to £100,000 per week, dwarfs the earnings of almost everyone who runs their own business. It is the entrepreneurs who create the country's wealth – and without whom there'd be no money to pay Ferdinand – and yet it is the entrepreneurs who are resented for being successful or stigmatised when they fail. Perhaps that is why people in the UK are more risk averse than in many other countries.

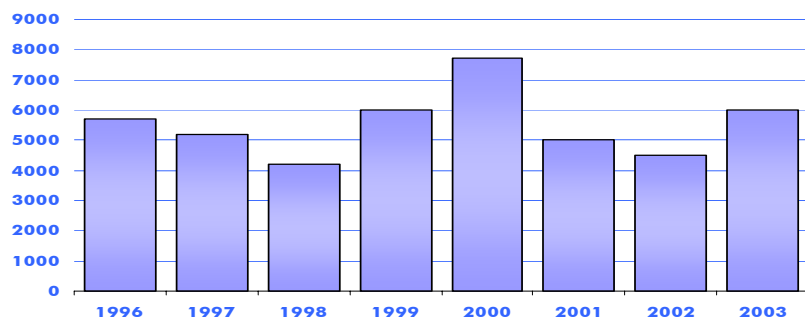
Research by Business Dynamics suggests that as few as 34 per cent of school students in their target age range of 14-19 have a positive impression of business. However, this rises to 98 after participating in a Business Dynamics programme. Interestingly, and despite the apparent low esteem in which they hold business, their research also shows that 35 per cent of 14-19 year olds would like to set up their own business but have no idea where to start.

4.2 Graduate starts

There is some evidence that the businesses that are the most successful, create the most wealth, create the most jobs, and are most likely to survive are started by graduates.

Research by Dr Richard Roberts of Barclays Bank¹⁰ offers an estimate of the levels of graduate starts – 6,300 in England and Wales in 2003, an improvement on the two previous years, although not as high as 2000.

Figure 5: Graduates starting a business



Source: Richard Roberts, Barclays Bank, 2004

Whilst there are annual variations, the trend is static. If one ignores 2003, recently the trend has been downwards.

¹⁰ Roberts, R, *Current & Future Trends in Graduate Enterprise – A Banking Perspective*, ACCA-NCGE seminar, 'Financial challenges facing graduate entrepreneurship', 2004

It seems that far fewer graduates start in business in the UK compared to the US. Warwick Business School, in their recent Study of SME Finances,¹¹ reports that the highest levels of qualifications for 13 per cent of owners were undergraduate degrees; and for an additional 10 per cent postgraduate degrees. In the United States (US Survey of Small Business Finances, 1998) the equivalent figures were 33 per cent and 19 per cent respectively.

4.3 Government encouragement

Ever since the Bolton report in the early 1970s, governments have experimented with new ideas and new programmes to encourage more people to think about starting in business. The latest is LEGI: the Chancellor of the Exchequer announced a Local Enterprise Growth Initiative (LEGI) in the 2005 Budget to support enterprising activity and the creation of sustainable communities. Around 80 areas meet the criteria and it is expected that 30 will be funded. The LEGI will be worth more than £50 million in 2006-07, rising to £150 million per year by 2008-09. Successful areas can expect anything between £2m-£10m per annum over the next 5-10 years.

4.4 Education for entrepreneurship

Arguably, though, we should be starting in the primary schools, inculcating concepts of entrepreneurship from an early age: according to research funded by the US based Kauffman Foundation, school and college students who take entrepreneurship courses are much more likely to become entrepreneurs.¹²

Some considerable effort is already put into this: Young Enterprise interacts with 250,000 school students each year; Business Dynamics has 81,000 school students participate in its initiatives. But there are some 10m school students taught by 560,000 teachers spread around some 30,000 schools – so the task is huge.

Ensuring that young people value entrepreneurship, learn some entrepreneurial skills and are exposed to businesses should all be delivered through the education system. In any event, as the knowledge economy expands and the nature of work changes, the skills that are needed to be an entrepreneur are increasingly also the skills that are valued by employers: self-reliant, pioneering, adventurous, creative, ambitious, independent.

The EU argues¹³ that entrepreneurship is a key skill and so enterprise education should become more prevalent in education. They would like to see administrations altering the curriculum to include enterprise education – as is happening in countries like Finland, Norway and Poland.

The EU notes, however, that measures beyond inclusion in the curriculum will be required to encourage enterprise, perhaps in the form of incentives to promote the teaching of enterprise and to ensure that the school environment is favourable to enterprise education.

Teachers should, as far as possible, use examples from business when they need case studies and examples for core teaching requirements such as maths and English.

¹¹ Fraser, S. (2005) Finance for Small and Medium-Sized Enterprises: A Report on the 2004 UK Survey of SME Finances, Warwick Business School

¹² Charney, Alberta & Libecap, Gary D, "Impact of Entrepreneurship", Kauffman Center for Entrepreneurial Leadership, 2002

¹³ EU "Action Plan: The European Agenda for Entrepreneurship", 2004

It is not surprising, and no criticism is intended, but most teachers do not have the skills or experience needed to be effective enterprise educators. The EU believes that teachers do not receive sufficient training on how to bring the concept of entrepreneurship into the classroom. They believe that there is insufficient exchange and dissemination of good practice and that by disseminating good practice to teachers, enterprise can be encouraged and many of the pit falls uncovered by early practitioners can be avoided. In particular, they think that it is necessary to explain why promoting an entrepreneurial attitude can be important, even in primary education.

There is considerable political commitment. In February, 2005, Gordon Brown observed that "If we are to have enterprise in our boardrooms it must start in our classrooms." But sometimes that political commitment is not translated into effective action on the ground.

Gordon Brown has suggested that every college and every university should be twinned with a 'business champion'. For education for entrepreneurship to be embraced generally by schools and colleges, there is a need for champions. It is not businesses that should be providing the champions, but the schools and universities themselves, so that they have someone with the responsibility to promote widely the importance of education for enterprise and to act as a resource.

4.5 It makes a difference

There are an increasing number of programmes intended to encourage students and graduates to consider starting a business and support them to develop the skills that they will need. There are competitions to encourage them to write business plans. And there is a growing range of support measures.

One consequence is that, at least according to Enterprise Insight, student entrepreneurship has improved from 0.9 per cent in 2003 to 2.3 per cent in 2004. But this is way below the already poor start up rate for the rest of the population.

5. Enabling environment

Arguably, the single biggest role for government should be to create an environment in which entrepreneurship can flourish.

Businesses all over the world complain that red tape and bureaucracy hampers their ability to work. So many countries are looking closely at what they can do to improve the enabling environment – to assist small businesses and to make their country more attractive for investors. In practice, most businesses recognise that governments have to regulate – to protect consumers, employees and the environment – but stress that they want the additional burdens to be kept to the minimum.

The enabling environment includes not only regulation and red tape but also tax policies, labour law, clear property rights, ability to enforce contracts and the opportunity to manage a business without having to engage in corrupt practices.

The World Bank stresses¹⁴ that:

- Countries that reduce regulatory burdens tend to enjoy greater rates of business growth. Moreover, businesses in countries that have not

¹⁴ World Bank, "Doing Business in 2005",

developed a comprehensive system for minimising regulatory compliance requirements tend to find it more difficult to grow.

- The payoffs from reform appear to be large, with estimates that an improvement in the ease of doing business from the bottom quartile of countries to the top could add two percentage points to annual economic growth, because businesses waste less time and money on unnecessary regulation and devote more resources to producing and marketing their goods and because governments spend less on ineffective regulation and more on social services; and
- Heavy regulation and weak property rights exclude the poor - especially women and younger people - from doing business: countries with simpler regulations can provide better social protections and a better economic climate for business people, investors, and the general public.

These conclusions are reinforced in the latest World Development Report.¹⁵ It argues that investment, innovation and business creation are hampered by corruption, over-regulation, weak contract enforcement and inadequate infrastructure.

Regulatory reform produces economic and social benefits. It fosters non-inflationary growth; boosts consumer benefits; improves the competitiveness of export and upstream sectors; enhances flexibility and innovation in the supply-side of the economy, reducing vulnerability to economic shocks; creates jobs; strengthens regulatory protection for health and safety, the environment and consumers.

Businesses can be helped in three ways:

- by governments deciding not to regulate about a specific issue;
- by governments taking care with the way that they do regulate when they conclude that there is no alternative; and
- by providing excellent information to businesses to help them comply with the least additional burden whilst minimising time and resources impact on business operations.

The British Government has regularly changed the mechanisms by which they seek to minimise the burdens of regulation. Proposals for regulation require a Regulatory Impact Assessment. The Better Regulation Commission (formerly the Better Regulation Task Force) offers opinion on all manner of regulatory requirements and the Better Regulation Executive (formerly the Regulatory Impact Unit) aims to encourage better regulation from government.

But they are still not succeeding to the extent that business would like. Celia Woolfrey, writing in the RSA Journal, highlights the high level of regulation and legislation¹⁶ and argues that keeping up with changes should be made simpler. According to the World Bank's Doing Business in 2005, the UK comes seventh for the burdens that it imposes on business.

One response is Cobweb Information's Red Tape Buster¹⁷ intended to provide small businesses with regular intelligence about changing red tape.

¹⁵ World Bank, World Development Report 2005

¹⁶ Woolfrey, C, "Get up and go", RSA Journal, Aug 2005

¹⁷ see www.ukredtafdebuster.com

6. Finance & business support

6.1 Access to finance is important

SMEs are unlikely to prosper without access to financial and business development services.

All commentators seem to agree that one of the most important barriers to entrepreneurship is access to finance. Ayyagari et al (2003) found that lack of access to finance was both “negatively and robustly” correlated to restraining the growth of the SME sector.¹⁸

It is worth noting that whilst finance is a pre-requisite for successful entrepreneurship, it is not sufficient just to improve access to finance. Businesses also need to address issues of management, marketing, financial control and much else.

Too often though, SME support is neatly segmented into access to finance and business development. Both are needed – and providing incubator workspace as well offers prospective entrepreneurs a really powerful combination of business support, raising success rates to as high as 87 per cent after years.

The problem exists at two levels: whether there is sufficient finance available from investors (including lenders) allied with the desire and skills to invest and whether prospective entrepreneurs can put together a sufficiently convincing case.

Prospective entrepreneurs need to be able to convince investors that they have a viable proposition and that they have the determination and tenacity to succeed. However, many have difficulty in defining clearly their potential customers and even more difficulty in providing good market research. And even when they do have persuasive evidence, they are often poor at communicating the message through a business plan – which is still the desired format for most investors.

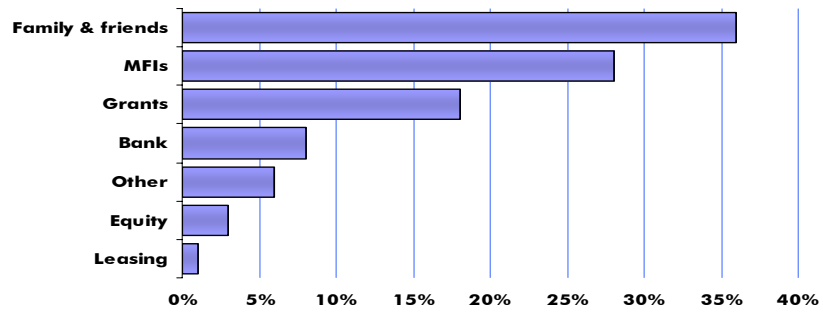
The problem is often compounded by the fact that many people who would like to start in business, especially if they are young, have little or no money of their own, no collateral and little or no track record. The consequence is that commercial sources of funding are reluctant to lend and, in many parts of the world, micro-finance institutions have sprung up to offer limited loan finance.

For new starts, the most likely sources of finance are savings, family and friends, micro-finance and bank debt, though a few entrepreneurs may persuade an angel to invest. And once businesses are up and running the banks are the most important source of finance.

A survey of Shell Livewire regional finalists is revealing. The biggest source of funding was family and friends. But micro-finance institutions (MFIs) were the second biggest source. There may be some element of younger people being able to access specific funds such as the Prince’s Trust, though they do claim that they will only help people who can demonstrate disadvantage. It does appear however those MFIs play an important role in enabling young people to start up.

¹⁸ fAyyagari, M. T Beck and A Demirgüç-Kunt (2003), “Small & Medium Enterprises across the Globe: a new database”, World Bank working paper

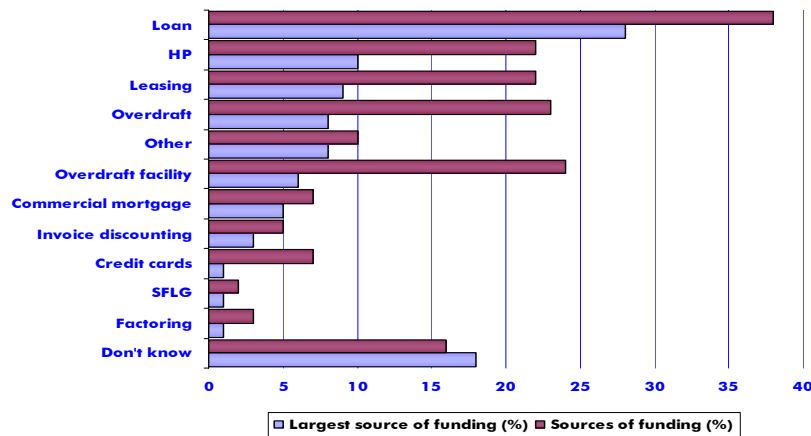
Figure 6: Sources of finance



Source: Survey by Shell Livewire on behalf of David Irwin

Once people are in business, as might be expected, it is the banks that are the most important source of finance.

Figure 7: Sources of finance for UK businesses

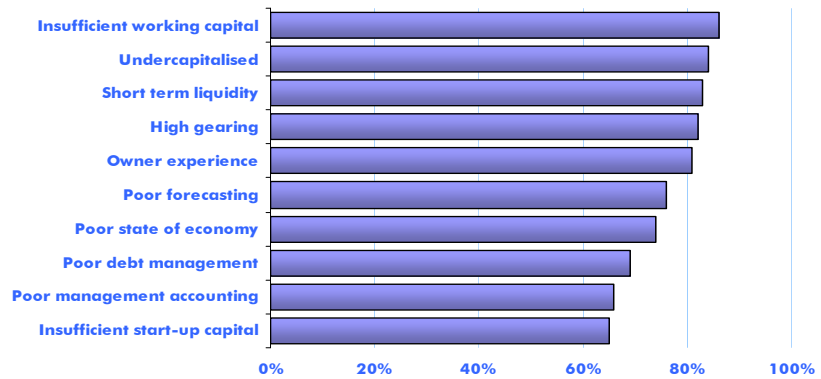


Source: Competition Commission, 2002

Nevertheless, many businesses are woefully under-capitalised. Birley and Niktari, in their analysis of the closure of 486 independent owner-managed businesses, interviewed accountants and bank managers about clients that had closed and the importance 87 possible reasons.¹⁹ It is interesting to note how many of these manifest themselves as financial issues. The results of this research confirm the view of many practitioners – that people starting in business need to learn how to manage their finances effectively. This might also suggest that access to finance is a factor that both inhibits start up and leads to the failure of fledgling businesses.

¹⁹ Birley, S. and Niktari, N, The Failure of Owner-Managed Businesses: The Diagnosis of Accountants and Bankers, ICAEW, 1995

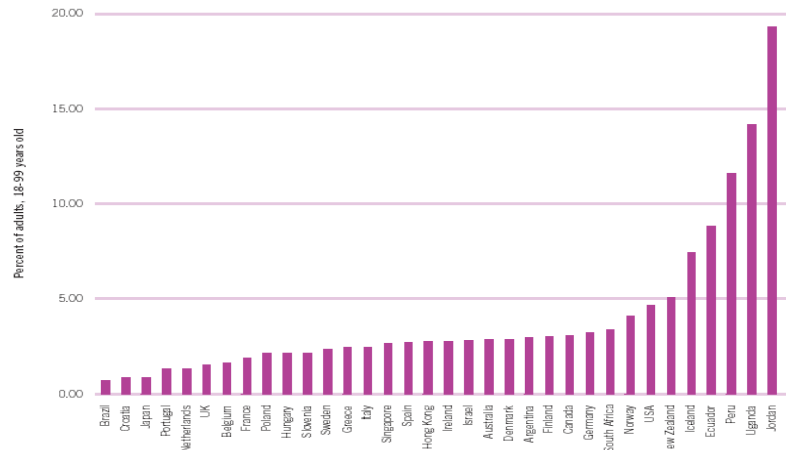
Figure 8: Ten most important reasons for failure



Source: Birley & Niktari, 1995

The Global Entrepreneurship Monitor Finance Report (2004) confirms the view²⁰ that close family members, friends and neighbours are the biggest sources of informal capital for start-ups. They observe that entrepreneurs typically have to provide two-thirds of the initial capital required.

Figure 9: Prevalence rate of informal investors



Source: GEM Finance Report 2004

6.2 Micro-finance

Micro-finance is typically small scale finance (typically <€25,000) provided to new and growing entrepreneurs often, though not always, by not for profit loan funds who have raised their capital from charitable and public sources in order to provide loans to entrepreneurs who would not otherwise be able to raise the finance that they need to start in business.

The World Bank estimates that, world-wide, there are over 7,000 microfinance institutions (MFI), serving some 16 million poor people in developing countries, and there are many more in the developed world. The

²⁰ Bygrave, WD et al (2004), "Global Entrepreneurship Monitor: 2004 Financing Report", Babson College & London Business School

total cash turnover of MFIs world-wide is estimated at \$2.5 bn with \$7bn in outstanding loans and repayment rates of 97 per cent.

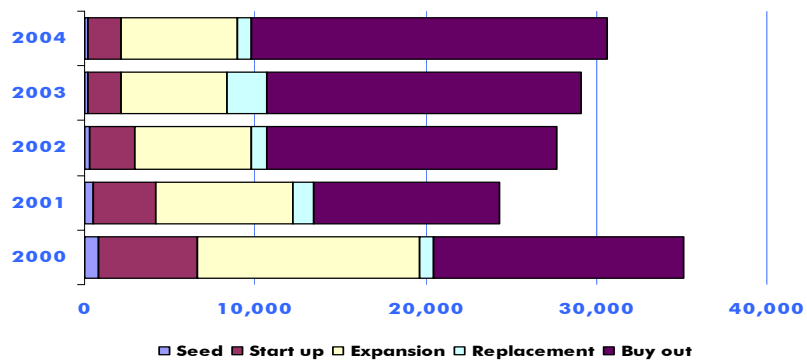
The amount of loan finance provided by micro-finance organisations pales into insignificance next to the loan finance provided by the banks. In the UK, for example, the Community Development Finance Association estimates that, in 2004, CDFIs had loan and investment portfolios of some £150m – dwarfed by bank lending to SMEs of some £45bn. However, MFIs can have an impact beyond their modest lending – by leveraging money from the banks. Indeed the MFI portfolio is estimated to have levered a further £160m. This requires that MFIs generate confidence in the banks that they are lending sensibly. The banks will often then treat the MFI loan as quasi-equity and lend on the back of it. They will also be reassured that the level of risk has been reduced if there is a business support organisation involved.

6.3 Venture capital

Venture capital and angel finance is often seen as a good alternative to bank lending. However, venture capital funds, or private equity as they now prefer to be called, are very picky: they look for strong management teams, proprietary intellectual capital, rapid growth and relatively high rates of return. They rarely support early stage development or ‘pre-revenue’ propositions.

In 2004, European venture capital funds invested around €30bn. However, just 0.7 per cent (down from 2.2 per cent in 2000) of that was invested as seed money and 6 per cent (down from nearly 17 per cent in 2000) was invested in start ups. Most investment is in buy outs – 68 per cent in 2004 (up from 41 per cent in 2000).

Figure 10: European venture capital investment (€m)



Source: EVCA (see www.evca.com)

GEM notes that fewer than one in 10,000 start-ups attract venture capital and suggest that educators and advisers put more emphasis on financing from entrepreneurs themselves and informal investors and much less on venture capital. They have calculated that financing from entrepreneurs and informal investors pumps 3.5 percent into the GDP of the GEM nations, compared to only 0.1 per cent for classic venture capital.²¹

²¹ *ibid.*

Figure 11: Classic venture capital as percentage of GDP



Source: GEM Finance Report 2004

The European Commission recognises that early-stage financing is a problem for many firms.²² It sees loan guarantees and micro lending as ways of providing small firms with access to finance. However, the EU emphasises the importance of sustainability of public sector micro loan programmes. Indeed, the Commission has published a report outlining ‘best practice’ in micro lending,²³ which they define as loans (including loans from banks) below €25,000. They note that “the insufficient supply of micro-loans is a major issue, in particular where business creators are unemployed persons, women or form part of ethnic minorities. Supporting micro-loan supply is therefore not only an issue of entrepreneurship and economic growth, but also of social inclusion.”

But finance is only part of the story. Businesses also benefit from advice, training, finance and workspace. There is increasing evidence that effective support, particularly in the early days of planning and starting a business, leads to greater likelihood of survival and growth. So business support organisations need to focus on the specific needs of individual businesses, to raise dramatically the quality of their business advice, to help prospective entrepreneurs raise the finance that they need, and to ensure, in so far as they are able, that the businesses can repay their investor.

7. Conclusion

Supporting small businesses is not primarily about putting in place, or improving, support mechanisms, though those are important. Rather, it is about recognising the important role that small businesses play in the economy. It is about an attitude of mind – in short, it is about thinking small first, rather than thinking small as an after-thought. It is about creating the conditions for entrepreneurship to flourish – and then relying on the innate entrepreneurship in all of us to make a difference.

David Irwin, 6 September 2005

²² Commission of the European Communities (CoECs) (2003) “Communication from the Commission to the Council and the European Parliament: Access to Finance of Small and Medium-sized Enterprises”

²³ CoECs (2003) “Microcredit for Small Businesses and Business Creation: Bridging a Market Gap”, DG Enterprise