

LOCAL AUTHORITIES AND THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES: INTERNATIONAL EXPERIENCE AND GUIDELINES FOR BELARUS

P. Kozarzewski, M. Gorzynski, G. Badei, J. Tarasevich, E. Rakova **

Summary

The cooperation between local authorities and entrepreneurs is an important direction of development of small and medium enterprises (SMEs). Local authorities are able to determine the ease and the speed or (excessive) length and/or non-transparency of permission procedures, to set up tax rates, duties, and rent charges, and to define the possibilities of privatization of municipal property. Experience of other countries has shown that in the countries with a developed market economy, this cooperation is an important economic policy priority. The level of development of entrepreneurship and unemployment levels are in many respects determined by the policies of local authorities. This, for instance, proves to be the case in Poland and Germany.

As for Belarus, this cooperation is still very weak. Our publication refers to the experience of the cooperation between local authorities and entrepreneurs accumulated in Poland. Also, the analysis is extended to the situation in Belarus; the assessment of the potential and opportunities for the support of SMEs development by regional (and local) authorities is made. The final section outlines a number of policy recommendations on how could entrepreneurship be supported and SMEs' competitiveness enhanced by local authorities.

Contents

1. Introduction.....	2
2. Supporting SMEs' development: the experience of Poland	2
3. SMEs and local authorities in Belarus	4
4. Local authorities and regional business climate: the analysis of the micro-level data	6
5. Conclusions and policy recommendations.....	7

** Piotr Kozarzewski – expert of the CASE – Center for Social and Economic Research (Poland, Warsaw), piotr.kozarzewski@case.com.pl; Michal Gorzynski – expert of the CASE, Center for Social and Economic Research (Poland, Warsaw), michal.gorzynski@case.com.pl; Georgyi Badei – the Chairman of the Board of the Belarusian Union of Entrepreneurs and Employers; Janna Tarasevich – the Executive Director of the Belarusian Union of Entrepreneurs and Employers, bspn-dir@nsys.by; Elena Rakova – economist of the IPM Research Center, rakova@research.by.

1. Introduction

The experience accumulated by other countries, like Poland or Germany, shows that the role of local authorities for SMEs development is rather significant. This is because the quality of the functioning of the whole system of support of entrepreneurship is determined regionally and locally. For instance, the local authorities of Poland put a lot of effort to coordinate the system of SMEs development support and to increase its quality.

The 'quality' of the business climate in Belarus is to a great extent determined by the authorities at a national level, where the overall regulatory environment is shaped. However, many aspects are still governed by local authorities. The latter are able to set up local tax rates, to grant various permits, to exercise controls and to conduct inspections, to register new prices, etc. Also, their power to use and to privatize communal property, to provide information and consultation aid, etc., has to be particularly emphasized.

The publication consists of the following sections. The second section portrays the Polish experience in cooperating with and supporting of SME development by local authorities (gmins). The third section analyzes the power of local authorities in Belarus. The fourth section discusses some of the results of the research of the attitude of Belarusian entrepreneurs towards the policy of local authorities. In the final section, conclusions are made and economic policy recommendations are suggested on how the support for the development of SME sector in Belarus at the national and local levels.

2. Supporting SMEs' development: the experience of Poland

There is a considerable decentralization of authority in Poland. The power of administration at the regional (voivodships) and the local (gmins) levels is strong. Such decentralization implies that initiative 'from below', i.e. actions by citizens and their representatives, becomes of crucial importance. Moreover, liberalization of the economy and withdrawal of the state from the economy, along with reduction of its functions to 'rule-setting' and controls over observation of these rules have been among the most important directions of political-economy transformation. Therefore, the choice made has been to introduce self-regulating economic mechanisms that involve all economic actors.

There has been another important factor for SME development, namely an intention to expand the private sector at a maximum scale so it could become the major driver behind economic development of Poland. It had been planned since the outset that the government sector would be shrunk quickly not only by privatizing state enterprises, but also by decline of their output and the closure of many of them. Next, the rationalization of employment was planned to 'release' a considerable volume of 'excessive' workforce. Accordingly, the newly created private sector had been seen as a capable of compensating the sharply growing pressure on the labor market.

The support for the development of SME sector as well as self-employment has become one of the foundation stones of the new economic policies. Apart from liberalization on a broader scale, there have been some steps implemented to reduce the barriers to and costs of market entry for new economic actors. In order to achieve this, legal requirements concerning registration of new companies and individual entrepreneurs have been substantially simplified, while employees quitting state enterprises voluntarily had been paid six-month severance pay and granted a 18-months tax exemption in case of starting own business until the end of 1990.

Here comes a *first characteristic* of the Polish system of support of entrepreneurship: a greater emphasis on startups and the stimulation of entrepreneurial attitudes and market mentality in society writ large rather than the support of the existing economic actors. Despite the radical changes in the Poland's economic situation over the last fifteen years that drastically reduced the need for a further permanent increase in the number of private economic actors, the above-mentioned characteristic is still meaningful. Nevertheless, this is not to say that the system's function has not been changed at all. There is a growing importance of supporting innovativeness since

this is one of the pillars of growth of competitiveness of the Polish enterprises at a current level of development of the domestic and the world economy.

A *second characteristic* of the Polish system is that it is largely shaped 'from below', by the activities of local and regional self- and public administration, institutions of higher education, private foundations, enterprises and entrepreneurs, and even individuals. Central authorities (currently it is the Polish Agency for Enterprise Development) have put considerable effort to co-ordinate the system of support for entrepreneurship and to increase its efficiency. However, the quality of the whole system is largely influenced by how efficient regional and local levels are. Policy initiatives emanating from the center could be very promising and strategically-oriented, but in practice they could only be capable of supporting the system, and not securing the efficient functioning of the business environment institutions at a local level.

A *third characteristic* (that largely results from the second one) is a multi-dimensionality of the support system and the absence of strict unification. Organizations and structures that provide support for business are created if there is a demand for them. In addition, financial, organizational and other considerations play their roles. As a result, various actors, both private (entrepreneurs, educational institutions, etc.) and state/public ones (like institutions of higher education, the Academy of Sciences, local self-government, public administration, etc.) take part in the creation and management of these organizations and facilities. What is important is not the ownership structure or subordination to either public body, but the tasks that an organization is aimed to fulfill at.

All these characteristics prescribe the specific role of local authorities in supporting the development of small and medium-sized business. Self-government bodies at the local and regional levels are not provided with legal obligations to support private entrepreneurship. From a legal point of view, local authorities are only responsible for registration of new companies. Self-government bodies make decisions about project startups and on participation in them. Regional public authorities (Voivodes' Boards) also take part in these projects.

It appears that in Poland there is no singular model of support for entrepreneurship by local and regional authorities. But at the same time, local authorities are keen to support entrepreneurship in practice. This is because the latter facilitates the dynamic development of a region, increases the level of living and helps to address socially important issues, such as unemployment reduction. The opportunities for obtaining and spending the funds provided for development of entrepreneurship by the central budget and international organizations also play their role. In reality, there is a number of directions that local and regional authorities follow to support entrepreneurship:

- Dissemination of knowledge and skills (provision of consultancy aid and education of entrepreneurs and SME employees);
- Transfer and commercialization of new technologies;
- Provision of financial assistance: loans and guarantees provided for individual entrepreneurs and newly created companies;
- Consultancy and technical aid, provision of premises;
- Promotion of cluster creation.

In order to make the above-mentioned directions to work successfully, regional and local authorities take part in organization and funding of the following facilities:

- Regional Development Agency that renders services for entrepreneurs in such areas as information (on funding opportunities, participation in international projects, commercial partners, exports, sources of new technologies and the like), firm development, skill upgrade, etc. and the coordination of support granted by the central authority. Such agencies exist in all voivodships;
- Educational and Consultancy Centers (organizations that deal with education and retraining). There were 280 of them in 2004;
- Technology Transfer Centers that are created, as a rule, jointly with institutions of higher education. These centers deal with marketing and selling of innovation technologies (29 centers);
- Technological parks: their task is to create conditions for innovation, development of new technologies and their dissemination and commercialization (commercial use) (12 parks);

- Business-incubators: these are organizations that ‘breed’ firms. In other words, they promote the creation of new companies (53 business-incubators);
- Loan and Guarantee Funds (76 and 57, respectively);
- Industrial parks: these are the special premises (including infrastructure) left out of restructured or liquidated enterprises and other affiliated premises that are used as an ‘area’ to conduct economic activity by small and medium-sized enterprises (15 parks);

The above-mentioned facilities are established and funded by the public authorities in close partnership with institutions of higher education, self-governing economic bodies (chambers of trade and commerce, associations of entrepreneurs, and the like) and, more recently and also more frequently, private firms.

In addition, local self-government bodies exert influence onto the entrepreneurial climate by simply executing duties assigned to them by law. This influence is manifested when new companies are registered, local tax rates (like real-estate tax) are set up, building and sale permits are granted (e.g. goods restricted for sale, like alcoholic beverages). Although legislation delineates the rules and procedures of registration and permits provision rather well, local authorities have a certain room for maneuver. Specifically, registration could be organized in a more or less convenient way; construction activity is dependent upon site development plans approved by local authorities, etc.

3. SMEs and local authorities in Belarus

Solution to the problems of SME development and simplification of regulatory framework could be most efficiently found at a national level of authority. However, this does not mean that all of the problems related to the reduction of barriers to doing business and attraction of investment are dealt with exclusively at this level. Indeed, the unevenness of regional development can be explained ‘objectively’, i.e. by geographical location, resource availability (land and labor), and so on. Nevertheless, local authorities are capable of influencing the activity of commercial and public organizations and in many instances inform the practice of law enforcement what concerns the legislation adopted by central authorities.

Let us take a narrower problem, such as the state registration of startups. At a first sight, it appears that there is a unified procedure set up by a respective President’s Decree. However, research on the business environment in Belarus shows that the duration and costs of this procedure differ across regions of Belarus. Similar observations are recorded for other permission procedures.

Box 1. Permission procedures: a regional aspect

Local authorities occupy a particular place in the permissions provision system. In accordance with the existing legislation, they are provided with a rather extensive authority in that matter. However, the overall number of permits and regulatory acts concerning provision procedure are hard to count even by those employed by local authorities.

According to a survey conducted by the IFC in 2004, about 49% of the respondents have applied for permits to local authorities (of various sort). As for the frequency of applications across various regulatory bodies, this is the third result after the sanitary inspection (67%) and the fire safety bodies (58%); then go the labor safety inspection (29%), the energy safety (26%), and the environmental protection (25%). On average, 29 days are required to obtain a permit from local authorities¹.

In our view, it is possible to distinguish among six types of factors that local authorities could create and exploit to support SME development in Belarus: 1) legislative opportunities; 2) organizational and technical opportunities; 3) administrative procedures and their usage; 4) management and use of community property; 5) tax regulation; 6) control functions.

As for the first group, i.e. *legislative opportunities*, it has to be noted that, according to Art. 3 of the Civil Code legislation adopted by local authorities and self-government bodies are of a civil matter, i.e. regulating economic relations. On the one hand, it appears that local authorities do not have many opportunities. But on the other hand, local authorities are able to impact territorial de-

¹ The results of the research by the IFC are available at: <http://www.bel.biz/development/permits/?pid=5222>.

velopment by making decisions about location of production facilities and (to a certain extent) by regulating property rights, controlling the use of communal property, including its privatization and tenancy. At the same time, some adverse decisions made by local authorities have been recorded. These decisions concerns imposition of limits onto the free entry of goods produced in other localities, etc.

Organizational and technical opportunities imply that local authorities define the ways to influence the development of small and medium-sized business by using policy tools available to them. The list includes programs to support small-scale entrepreneurship, to set up special councils and commissions to deal with entrepreneurship, and the like. This block also includes the ability to create appropriate material and technical conditions for development of entrepreneurship. This function does not imply the provision of financial means, but instead the creation of infrastructural facilities to support small and medium-sized business, to provide training, and to exercise some other measures allowing to reduce the costs of investment projects carried out by entrepreneurs.

Administrative procedures and their usage: An illustrative example of the capability of local (regional) authorities is the creation of conditions for fulfilling a President's Order No. 74 'On Improving the Order of Setting Rental Fee for the Use of Land Owned by the State' issued on February 7, 2006. This regulation establishes that basic annual fees are set by local executive and regulatory bodies with a reference to cadastral valuation of land adjusted for special coefficients depending on the purpose of land use (Art. 1 of the Order). Some executive committees (e.g., of Minsk and Gomel *oblasts*) have interpreted this regulation as a signal to increase fees by 5–10 times. As a result, for a number of enterprises rent has become very problematic cost to cope with so that their economic activity had been severely threatened by this action.

Box 2. Administrative procedures, local authorities in Belarus and protectionism

There are some attempts recorded at a regional level that local authorities and producers to restrict intra-regional or (intra-*oblast*) competition by limiting the supply of goods from other regions. This is particularly valid for food industry. There are cases in Belarus like in Brest, where local retail trade has resisted the sale of beer produced in Minsk, or, in Grodno *oblast* locally produced breadstuffs have been sheltered against the ones produced in Brest; similar cases has been recorded in bakery, meat and dairy industry, ice-cream and macaroni, etc. In fact, in 2005 the Ministry of Economy has pointed to 81 facts of violation of the anti-trust law by enterprises and public authorities alike. In turn, local authorities often motivate their unwillingness to open up their markets for Belarusian producers from other localities by the existence of local companies producing similar output. Every enterprises and *oblast* where it is located physically are provided with administrative production targets 'from above' that have to be fulfilled. In fact, local authorities reproduce the policy of central authorities, also sheltering domestic producers from imports on a broader level.

The use of communal property is an important tool to influence SME development. Unfortunately, Belarusian legislation imposes certain limits on the interest of government and local self-government bodies in economic units. In accordance with Cl. 4, Art. 63 of the Civil Code, these bodies are not allowed to have stakes in economic units (unless otherwise stated by the legislation). But in other areas, like privatization, situation is different. If a local Council capable of conducting civil legislative actions would make a decision on privatization of communal property, such a decision would be considered legitimate. It appears, then, that privatization of communal property and more efficient use of housing facilities, intensifying competition in the housing and communal services sector, are the areas where local authorities and SME could cooperate successfully and in mutually beneficial ways.

In addition, local authorities have some levers to influence the quality of regional business climate by setting up *local tax rates and charges* (that tend to differ cross-regionally in many countries). There is also such a tool of SME development as *the behavior of inspectorates*, or various controlling bodies (inspection duration and fines also tend to differ).

In Belarus, there is some positive experience accumulated in cooperation between local authorities and bodies whose activity is aimed at facilitating the development of SME and entrepreneurship.

Box 3: SME development and local authorities: the experience of Germany

In Germany, local authorities develop areas first by installing all necessary infrastructural facilities and only then offer them to investors. In Riza, a whole number of high-technology enterprises has been opened up after the closure of the former metallurgical plant. Nowadays these enterprises sell their output to tenths of countries world-wide. Accordingly, the city benefits from higher budget revenues, rental payments and higher level of local employment.

Overall, in Germany, local authorities establish, for instance, regional investment agencies that deal with attracting investment to priority sectors. For that purpose, local authorities and scientists and specialists jointly identify priority sectors (capable of generating innovations) and devise measures to induce investment into them. These measures are not only, as it is often thought, tax preferences, but provision of land and subsidization (up to 30%) of investment expenditures, and so on.

4. Local authorities and regional business climate: the analysis of the micro-level data

Belarus is a small unitary state. Nevertheless, it has been shown above that local authorities are able to influence the quality of business climate in their *oblasts* (regions) by making more convenient (or complicating) various administrative procedures, managing communal property, charging additional taxes, and so on.

Box 4: Cooperation between local authorities and bodies for SME development: the experience of Mogilev oblast

Among the most significant initiatives to induce SME development in Mogilev *oblast* is the implementation of two projects with a participation of international and non-governmental organizations, such as International Finance Corporation and Business Association of Entrepreneurs and Employers.

In cooperation with International Finance Corporation a guide for legal persons and individual entrepreneurs 'How to Obtain Permit' has been prepared. This guide contains a number of clear instructions what procedures have to be passed for startups in such spheres of economic activity, as retail trade, catering, domestic services, food production, and outside advertising placement.

In the course of 2005–2006 Mogilev regional executive committee has become a co-partner in project implementation 'Support for Regional Development by Increasing Efficient Employment and Enhancing Competitiveness of Small Enterprises' aided by Belarus Assistance Program of the German government. As a result of project implementation, more than 30 public events had been held (roundtables, seminars, and training workshops) and two information systems have been created 'How to Set Up A Business' and 'Investor's Guide'.

The data of the survey reflect² cross-regional differences in estimation of various barriers. This confirms our thesis that local authorities matter. At the same time, since the sample is not really large enough (253 companies have been interviewed), a detailed analysis of cross-regional differences are impossible to perform.

Currently many entrepreneurs perceive the activity of local authorities as hampering in either way the development of their business. Specifically, 22% of the respondents claim that administrative intervention by local authorities (i.e. activity not specified by the legislation) is a serious problem, while 19% of the respondents claim that there are no problems in this area. It is only very small number (7%) of the respondents (i.e. chiefs of private SMEs) who maintain that local authorities assist (and sometimes substantially) to the development of their enterprises. At the same time, 30% of the respondents estimate that local authorities impede the development of their business. In addition, another one-third of the respondents opted for a statement 'local authorities assist in some instances, but erect barriers in others', and 25% estimate that there is no influence at all.

As for *the positive aspects* of cooperation between private business and regional authorities, these are as follows:

- Local authorities help to obtain information on legislation and legal requirements (35%);
- Local authorities assist in the course of registration, permits provision, licensing, etc. (13%);

² The survey has been conducted in November 2006. 253 SMEs have been interviewed (the sample is representative). The results of the research 'Problems of Development and Small and Medium Business in Belarus' can be found at <http://research.by/rus/surveys/f9953d723aa828f2.html>.

- Local authorities create preferential conditions for conducting entrepreneurial activity (provision of premises, placement of orders, etc.) (8%);
- Local authorities support associations and centers for development of entrepreneurship (8%).
As for *the negative aspects*, the following ones have been mentioned:
- Local authorities exert administrative pressure, i.e. charge fees not specified by the existing legislation, demand to conduct various works, etc. (32%);
- Local authorities hinder registration, provision of permits and licenses (21%);
- Local authorities display their incapacity to deal with and ignorance of existing norms and requirements (16%);
- Local authorities grant preferences to state-owned enterprises (8%).

Therefore, according to opinions of entrepreneurs, there is often negative experience accumulated in cooperation with local authorities despite the importance of SME development as such. Also, entrepreneurs often display negative attitude towards local authorities. But at the same time, regional authorities are capable of changing this attitude.

5. Conclusions and policy recommendations

International experience shows that there is no singular model of support of small and medium-sized business. However, the making of either decision depends on multiple factors: the overall level of economic development, the structure of economy, including the share and dynamics of SME sector, the degree of market economy development and the role of the state in economy, the character and strength of administrative and legal barriers to private entrepreneurship, the degree of the world market participation by domestic companies, and also a range of cultural factors. Specific combinations of these factors define the direction and forms of support of entrepreneurship, although there are still no ‘true unique’ decisions.

At the same time, the experience of other countries in the region, like Poland, the Czech Republic and Germany, show that regardless of the levels of economic development and cross-national differences in systems of support for entrepreneurship, the role of local authorities is still strong and the quality of the system as a whole is determined at the regional and local levels.

In general, it is possible to denote three major directions of ‘active’ support for entrepreneurship. Local initiatives and actions could play an important, if not a decisive role in each of these directions:

- 1) Support for startups;
- 2) Assistance to functioning of already existing enterprises;
- 3) Support for ‘internationalization’ of enterprises, i.e. their participation at the world markets for goods, services, and capital.

Besides that, there is an important direction of economic policy development in Belarus, namely ‘passive’ form of support, i.e. the elimination of barriers to the development of entrepreneurship. According to the authors’ view, there is a proper space for local authorities to intervene. The abolishment of administrative, legal and bureaucratic barriers has a key importance for successful implementation of ‘active’ forms of SME development. Consequently, the barriers issue has to be dealt with as soon as it is only possible.

Many things have to be done in Belarus in this direction. Entrepreneurs, probably due to inertia or indeed as a matter of fact, claim that local authorities play a negative role in the regional business-climate. At the same time, it is not necessary to adopt special legislation or to spend considerable amount of money to improve the quality of business climate in a region. An important direction to and a reserve of the development of entrepreneurship is to lift up the excessive administrative barriers. For many entrepreneurs, it is hard to bridge over the barriers not only at different stages such as registration, licensing, certification, and so on, but also in the course of obtaining various permits and making mutual agreements. That is why the role of local authorities could hardly be overestimated. The majority of bodies dealing with administrative procedures are in fact controlled by them. Certainly, amendments have to be made to the national legislation in order to

make more convenient or even to abolish some of the above-mentioned bureaucratic procedures. But in a number of cases it is simply necessary to ensure that existing norms are observed properly.

Local authorities could play an important role in preparing ‘grounds’, ‘incubators’ so to say, for small and medium-sized companies. Unfortunately, currently local authorities in Belarus limit their role by providing land, granting construction permits, or selling or letting residential premises. But the need to create necessary facilities inevitably follows, along with various fees that entrepreneurs have to pay, including for infrastructural development and connection to various utility networks. Often, charges cover not only service provided for a given company, but ‘aid’ to other economic units, and also (and particularly) population and budgetary organizations.

Indeed, in contemporary Belarus, business climate is to a considerable extent defined by the decisions made by the national government bodies. This concerns taxation, changes of legislation and controls over its observation. However, many permits, inspections and fines, rent charges, etc. are established locally in either way. In this regard, the experience of Mogilev *oblast* can be illustrative and positive by its character. Specifically, this *oblast* is a pioneer in changing the prevailing attitude towards entrepreneurs and setting up the routes for cooperation and interaction both with international organizations and business associations in order to improve business climate in the region.

It is not possible to find an unambiguous answer to a question on what proportions three directions of ‘active’ support for entrepreneurs in the longer run have to be ‘mixed up’. Accordingly, it is hard to describe exact mechanisms of support that could remain efficient over a number of years. At a current stage, in the short run, the priority seems have to be granted to support existing enterprises and to develop their innovative and competitive capacities. This, however, does not imply the disregard of newly created companies. Put simply, there currently is no room for a large-scale campaign for acceleration of private sector expansion. New companies could only fill the emerging niches.

Nevertheless, the situation could change rather soon, after currently dominant factors behind economic development in Belarus would begin to be exhausted (e.g., caused by price increases for the imported energy). Accordingly, it could be expected that domestic producers might lose their competitive advantages. With this in mind, there seems to be a greater role for ‘internationalization’ of enterprises, i.e. promotion of their international competitiveness (and a domestic one, against foreign producers) and attraction of funds for their development. Also, the importance of the private sector as a source of development would become more salient, thus making the need to support the startups more acute. Currently, it is hard to predict how these processes would evolve in the future. Therefore, these days it is necessary to start with the creation institutions for support of entrepreneurship. These institutions have to be flexible and adaptable to future reforms, while being able to address a changing number of tasks.

The activity of local authorities has to become an intrinsic part of the overall system of support for entrepreneurship in Belarus. Local authorities have to be provided with a considerable autonomy within the framework of a broader government policy as well as various forms of support granted from the center, including the funding of particular programs. When implementing their programs, local authorities have to cooperate with SMEs and other organizations dealing in either way with entrepreneurs. As it can be seen from the matrix (table 1) below, local authorities can and even have to take part in all areas of SMEs support.

It appears that local authorities have to be better focused onto the two areas of support, which are of crucial importance in the short run. These are a broad informational support of SME (i.e. provision of information about business opportunities, possible contractors, source of finance, etc.) and an educational one, aimed at upgrading skills of SME employees, managers and owners. In the future, sphere of influence of local authorities could be expanded to promote innovation capacities of enterprises, their ‘internationalization’, and, in the longer run, to encourage startups.

The authors also suggest to implement the concept of ‘one-stop-hub’, i.e. the creation of centers in each of the *oblasts* for provision of a maximum number of services for entrepreneurs by a single unit. These centers have to become a point for contact for all entrepreneurs falling short of

any help related to conducting entrepreneurial activity. Such hubs have to be recognizable and well-known to the public so that an entrepreneur would know where to refer to for a help since the very outset. In case a center does not have an adequate capacity in provision a particular service, a comprehensive information have to be supplied to about organizations where such a service is available (this concerns, for instance, highly specialized services, like international exchange of technologies). In the beginning, these centers have to concentrate on the provision of a whole number of informational and consultancy services (in such areas as institutional conditions for conducting business, existing legislation and other related requirements, etc.) and participation in the preparation and implementation of educational and retraining programs. Later, additional functions could be taken upon by these centers, depending on the needs of entrepreneurs and organizational capabilities, what concerns ‘internationalization’ of firms, their innovativeness, and provision of financial services (loan or guarantee fund).

Table 1.

Matrix of organization of active support for SME

Units	Areas of support					
	Financing	Information	Retrain- ing/skills upgrade	Internation- alization	Innovative- ness	New firms
Central authorities		X		X		X
Local authorities	X	X	X	X	X	X
Economic self- government (associations of entrepreneurs, etc.)		X	X	X	X	
Loan and guarantee funds	X					
Banks	X					
Incubators for entrepre- neurs						X
Educational centers			X			
Consultancy firms			X		X	X
Investment centers (to attract foreign investment)				X		X

Note: Areas of support that has a crucial importance in the short run are marked in grey.

These centers do not have to be subjected directly to local authorities (e.g. to be a department), but only accountable to them. It has to be a separate, deliberately created organization with its own budget, although financed by the state budget or by a combination of the budgetary, grant, and other means, like donations by associations of entrepreneurs. Despite the plans that financing would be provided either fully or quite significantly by the central budget, particular decisions about the establishment of each of the centers would be made locally, by taking into consideration specific conditions and capabilities. However, minimum ‘framework’ requirements have to be respected. These requirements have to be developed at a central level to be common for all centers (since a certain minimum number of services is required for provision). There are also different options available like outsourcing (subcontracting), joint projects with other organizations, etc.

The advantage of our suggestions is the possibility to create a positive image of organizations of that sort among entrepreneurs. International experience suggests that entrepreneurs tend often to be skeptical about organizations that support private business. This is because the role these organizations could play in company development (especially of small or medium one) is not fully comprehended. But at the same time, it has to be remembered that the first contact is often decisive for entrepreneurs who choose whether to deal with such organization or not in the future. There is a further element that that could be attractive for entrepreneurs: it is a broad number and quality of services rendered. The concept of professionally functioning center that offers high-quality services would definitely make such organizations more popular. In addition, centers could become standard-setters in their area and hence increase the quality of emerging infrastructure and upgrade the skills of their employees.