

APPROACHES AND POLICIES TO FOSTER ENTREPRENEURSHIP

A Guide for Employers' Organizations

INTERNATIONAL ORGANISATION OF EMPLOYERS

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PREFACE

This guide is designed to help employers' organizations (EOs) in designing and developing positions and approaches to effect policy change to enable entrepreneurship to thrive; to provide the environment where budding entrepreneurs can develop into expanding and innovative enterprises; and to assist those in the informal economy to formalize. It is not designed as a complete reference of all entrepreneurial policies to be pursued by employers' organizations. Rather, it gives some broad guidance to employers in advocating for policy change and additionally it references a number of other documents and tools that employers' organizations could find useful.

Employers' organizations, particularly in developing countries, have limited resources that must be used strategically and efficiently. A wide range of possible initiatives and actions are outlined in this paper, only some of which will be appropriate in any single national context. Policies and strategies pursued by employers' organizations need to be selective and incremental. Organizations that leverage their expertise and resources, pursue policies systematically and have strategies to achieve initiatives that lie within their competencies and capacities are likely to have the most success in advocating policies to foster entrepreneurship.

EXECUTIVE SUMMARY

- The key role of entrepreneurship is now increasingly recognized by international policy makers as perhaps the key element in national development strategies.
- Entrepreneurship policies are equally important, as an engine of innovation, in developed countries as they are in developing or transition economies.
- Policies to encourage entrepreneurship must be adapted to fit different national circumstances.
- Entrepreneurs are not a homogenous group. Policy responses need to mirror this diversity.
- Entrepreneurial activity has a direct impact on society by providing increased consumer choice; more appropriate, affordable and even indispensable services; and further employment opportunities both directly and indirectly through suppliers.
- In many countries, in particular developing countries but also in developed countries, the regulatory environment with which entrepreneurs find themselves faced can be both oppressive and emasculating.
- Employers' organizations have a key role to play in publicizing the benefits of formalizing economic activities.
- Entrepreneurs are often faced with an array of barriers and obstacles - such as business registration or access to workable systems of contract enforcement.
- There is a need to create a broad national awareness of not just the value of entrepreneurship but the wider contribution of business to society.
- Partnerships between employers' organizations and educational systems could be established to develop greater awareness of entrepreneurship as a viable career option.
- Property rights are tools for empowerment and play a key role in helping entrepreneurs develop into fully fledged and growing enterprises.
- Entrepreneurs cannot start in the first place if they have no seed capital. For good ideas to be realized they need initial investment. For many would-be entrepreneurs this is the largest barrier.
- Safety nets need to be put in place to assist those that do not succeed in entrepreneurial endeavours.
- Employers' organizations can help establish or assist in the development of networks of young entrepreneurs or women's entrepreneurs.
- Governments must genuinely aim to create the space for entrepreneurship to flourish and for a culture of innovation to take hold.
- To be effective business needs to speak with as coherent and unified a voice as possible.

OVERVIEW

The fundamental importance of entrepreneurship in terms of national development strategies is now increasingly acknowledged by international policy makers. The report of the UN Commission on the Private Sector and Development entitled “**Unleashing Entrepreneurship: Making business work for the poor**” (March 2004) stated:

“(This Report) is about realizing that the poor entrepreneur is as important a part of the private sector as the multinational corporation. It is about acknowledging that the private sector is already central to the lives of the poor and has the power to make those lives better....it is about unleashing the power of local entrepreneurs to reduce poverty in their communities and nations”.

While the key messages from Reports such as this one are aimed at developing and transition economies, the importance of entrepreneurship to all economies should not be understated. No matter the stage of development, economies need a culture of entrepreneurship and new waves of entrepreneurs in order to reinvigorate economic activity; provide innovation and to challenge existing ways of thinking and orthodoxies - it is a continual ongoing process. Entrepreneurship is the vital tonic that keeps economies dynamic.

“SMEs and entrepreneurship are now recognised worldwide to be a key source of dynamism, innovation and flexibility in advanced industrialised countries, as well as in emerging and developing countries. They are responsible for most net job creation in OECD countries and make important contributions to innovation, productivity and economic growth”.

OECD SME and Entrepreneurship Outlook (2005)

A crucial role of a national employers’ organization is advocating for the conditions conducive to enterprise development, fostering entrepreneurship and policies to encourage investment. All three are linked and complementary in terms of national economic, social and political development. But the relationship between economic development and entrepreneurial activities is in many ways symbiotic. Entrepreneurial activity breeds innovation, injects competitive pressures and develops opportunities in economies. It is the foundation in many respects for broader economic development.

A key cornerstone of this Guide focuses on the importance of a good ‘investment climate’ in terms of fostering entrepreneurial activity. The investment climate consists inter alia of the following:

- *regulations (entry-exit procedures and costs, property rights, labour market flexibility, etc);*
- *resources (human, financial, technological, material);*
- *infrastructure (power, communications, transport, etc.);*
- *established or expanding markets.*

The first three of the above criteria, plus investment, lead to the last. Together they present opportunities for getting a return on investment, which in turn triggers market-driven entrepreneurship, which in turn helps to bring people out of poverty.

Entrepreneurship needs to be broadly encouraged in societies. Conceptually this entails identifying and encouraging employees who exhibit some of the characteristics of an entrepreneur, such as information seeking, opportunity seeking, and innovativeness. This is especially important to small companies who would like to grow rapidly, and large companies who are fast approaching the end of their product life cycle and are looking for new ways to leverage existing resources to be successful, either in another industry or in the development of a new product or service.

ENTREPRENEURSHIP : DRIVING ECONOMIC DEVELOPMENT

Economic activity is not a static entity, it is a continuum of change, driven by demand for better, cheaper and more innovative products. Products and services will always be 'displaced'. There will always be better alternatives. This is the continuum in which entrepreneurial activity is the key driving force. Its key characteristics include:

- *risk taking (with its positive or negative outcomes - for instance, a willingness to undertake risks and face uncertainty and also to reap the rewards of such risks);*
- *opportunity seeking and seizing opportunities;*
- *innovativeness, developing new ideas or approaches (although this may not always be a necessary condition for something to be entrepreneurial - e.g. joining an expanding market or competing more efficiently than existing providers).*

This last element, innovation, is particularly important. Innovation is the crucial element in generating endogenous growth, the chain reaction that leads to virtuous circles of growth by utilizing new technologies, which in turn leads to increases in productivity, thus expanding further existing market opportunities and in turn leads back to incentives to innovate.

Further innovation is a ladder to greater prosperity. But the key challenge for potential innovators in many developing countries is incentive! The possibility of recouping the costs of developing a new product are often uncertain - less certain than in many, perhaps most, developed countries.

Employers' organizations in their advocacy efforts with governments can approach the issue of innovation from short, medium and long term perspectives. Certainly a key element in creating sustainable and durable development conditions is focusing on the long term – creating the conditions for innovation. This means investment in basic sciences in universities (and more generally in technical and scientific education); keeping a strong emphasis on productivity improvements; creating the conditions to enable markets to expand – a key ingredient.

Countries are increasingly facing competitive pressures. Certain economic sectors have seen (and will continue to see) change, sometimes significant change, as operations move to more cost effective locations. EOs need to lobby government to ensure that incentives are in place to motivate young entrepreneurs to create innovative companies in all economic sectors , especially in those that require knowledge-intensive skills.

In the more short to medium term employers' organizations can urge governments to develop incentives to innovate, through intellectual property rights and, perhaps most importantly, capitalizing on existing technology developments. Even if countries are not inventors of technology they can still be beneficiaries through the importation of technology – this is a well travelled and proven path for many countries.

In developing priority areas for action employers' organizations should look to see where immediate impact can be made – often this can be in less obvious areas. For example, a key element in encouraging entrepreneurial activity is technology. But perhaps in developing countries the most effective piece of technology is the mobile phone. It is in many ways an alternative to bad roads and unreliable postal services; it can widen farmers or fishermen's access to markets; ascertain whether supply routes are open or help taxi drivers know where the customers are. The list of possible uses to entrepreneurs and micro enterprises is long. Employers' organizations need to highlight the potential of this device to governments. The costs of handsets are decreasing but often governments are imposing 'connection taxes' and other charges (often as much as 50% of the total cost) which acts as a bar to their further diffusion.

ENTREPRENEURSHIP: A DIVERSIFIED ENTITY

There are two important premises in devising policies for entrepreneurship. First, policies must be adapted to fit different national circumstances. In certain developing countries sheer lack of market opportunities will be the overarching context for all enterprise activity and policies have to respond to this reality.

Second, entrepreneurs are not a homogenous group. The list below, which is far from exhaustive, gives an indication of the kaleidoscope of entrepreneurial activity throughout an economy. Some categories of entrepreneurs (men and women) include:

- *Young entrepreneurs;*
- *Struggling adult entrepreneurs forced to remain in the informal economy;*
- *Successful entrepreneurs choosing to remain in the informal economy;*
- *Formal economy market-driven entrepreneurs;*
- *Those in formal employment seeking entrepreneurial opportunities;*
- *University graduates seeking to establish an entity;*

- *Those in formal employment engaged in entrepreneurial informal economy activities, such as supplying informal entities;*
- *Those laid off from enterprise-employment seeking entrepreneurial opportunities;*
- *Women entrepreneurs (who could find entrepreneurial activity their only option - i.e. cultural circumstances);*
- *Entrepreneurs selling just to the domestic market;*
- *Entrepreneurs selling to export (and domestic) markets;*
- *Co-operatives;*
- *Those with no other choice (sadly this can include children).*

Evidently policy responses need to mirror this diversity. For some groups of entrepreneurs greater access to seed capital will be key, for more developed entrepreneurs the most important policy could be changes to government procurement procedures or opening up opportunities for public-private investments; at the other end it could entail simply making it easier to register a business.

The approach the EO will take to entrepreneurship policies will evidently differ depending on the stage of economic development. For instance, in a developing country context the EO may need to place a greater emphasis on policies to engender youth entrepreneurship. However, the demographic situation may be different in industrialized countries where an emphasis may be placed on older workers and increasing their labour market participation, including in entrepreneurial activity. It is important to underline that, at both ends of the labour market, entrepreneurship is going to become more vital as a form of working arrangement.

Ideally, entrepreneurs should be driven by market opportunity. While this is the case in many instances it is not a universal experience. Many entrepreneurs are survivalist in nature rather than driven by a response to genuine market opportunities. In a number of low-income countries there are high incidents of ‘necessity entrepreneurs’ (i.e. those lacking other alternatives) whilst ‘opportunity entrepreneurs’ are often more prevalent in high-income countries.

The key difference between ‘opportunity’ and ‘necessity’ entrepreneurs is that those that have spotted a genuine market opportunity are much more likely to successfully establish financial viability and proceed to scale up their activities (such as exporting products).

There can be what is termed a U-shaped process of national entrepreneurial activity in that entrepreneurial activity declines as countries attain higher national incomes, reaching its lowest point at about US \$30,000 per capita GDP. Beyond that level, total entrepreneurial activity begins rising slowly and steadily as GDP continues to rise¹.

ENTREPRENEURSHIP : MAKING SOCIETY THRIVE

In positioning an organization's approach to entrepreneurship it is important to outline the different roles of the different societal stakeholders and importantly to underline that each of these stakeholders has a specific interest in making entrepreneurship flourish nationally.

For society as a whole the essence of entrepreneurial activity is innovation. Successful entrepreneurial activity should by nature be 'demand-driven' as it is a reaction to a given market demand. It is providing a choice. Entrepreneurial activity therefore can have an immediate and diverse impact on levels of poverty as once an entrepreneur has achieved financial viability this usually means he or she can start to grow the entity, thus employing more people directly or indirectly through suppliers (although entrepreneurship in itself may not necessarily lead to employment growth).

Additionally, through the ongoing process of innovation that accompanies growing financial viability, the entrepreneur can be able to provide to more of his/her customers (often those with very limited financial resources) more appropriate and affordable services. In certain instances these are indispensable services, as in regions often there is no or very poor provision of certain public services, such as health care or education and the gap is or can be filled by private operators.

For governments, policies aimed at increasing and scaling up entrepreneurial activity have direct and immediate repercussions in terms of expanding the tax base. The benefits are clear and tangible in that respect. But the wider benefits are equally important, job creation easing social pressures in society, providing opportunities to other enterprises as suppliers; increased choice; greater economic integration fostering trade and investment relationships (which can also lead to increased regional stability).

Trade unions have often taken an at best benign approach to entrepreneurship, often viewing it as something that does not concern them. However, they need to recognize that today's budding entrepreneurs are tomorrow's employers. They are the potential engines of job creation in society and their future partners. In that respect trade unions have every interest in seeing entrepreneurship development.

¹ Global Entrepreneurship Monitor (2005)

DEVELOPING POLICIES AND ACTIONS TO UNLEASH ENTREPRENEURSHIP

The Global Entrepreneurship Monitor (GEM) has identified important differences between specific ‘entrepreneurial framework conditions’ and more general ‘national framework conditions for business’. The key priority for low income countries should be improving the overall business climate, as a precursor to any other policy interventions. This is necessary to generate investment and thus create market opportunities, particularly for smaller entities. This thinking sees economic development in a sequential way, as growth and market opportunities increase, then at that stage specific flanking measures aimed at strengthening the entrepreneurial framework should be developed. However, there are also other external barriers, such as trade barriers (tariff and non-tariff), that many low income countries can be faced with which can act as inhibiting factors on economic growth, no matter how conducive the business environment is.

Entrepreneurs are faced with an array of barriers and obstacles from the practical such as business registration or access to workable systems of contract enforcement - to societal barriers - such as cultural views of entrepreneurial activity as being a waste of education and ‘not a real job’. Sadly empirical evidence suggests that those countries most in need of boosting entrepreneurial activity place the most barriers in front of would-be entrepreneurs. However, many developed countries also need to take measures to improve the business environment and cut unnecessary bureaucracy and red tape.

A good investment climate (such as good social and physical infrastructure; environment conducive to enterprise development; good governance structures, rule of law, property rights, etc) makes it easier for firms to enter and exit markets in a process that contributes to higher productivity and faster growth. Firms experiencing strong competitive pressure are more likely to innovate than those reporting no such pressures. Above all enterprises need the space to experiment and learn. Some will thrive and create jobs and wealth, others (rightly) will fail (it is estimated in OECD countries that 5-20% of firms enter and exit the market every year).

Employer organization’s have an important role in facilitating the process of identifying opportunities in different industries, and communicating these opportunities to existing and aspiring entrepreneurs in a way that makes it easy for them to evaluate and take advantage of these opportunities.

THE EDUCATION SYSTEM : PLANTING THE SEED

Creating an awareness of not just the value of entrepreneurship but the wider contribution of business to society (in terms of wealth creation and by consequence employment) is a key component in realizing cultural shifts in viewing the importance of entrepreneurial activity to further societal aims. In parallel, education systems should seek to develop the right skills needed to develop entrepreneurial attitudes among

young people. Courses in entrepreneurship are fundamental aspects of the curriculum in business education at the tertiary level. The classroom should be the starting point!

The relationship between entrepreneurial activity and education tends to be positive in high-income countries and negative in low-income countries. In low-income countries, those with lower levels of education start businesses. In high-income countries, those with higher levels of education start businesses. This suggests that the more educated entrepreneurs are pursuing more opportunity-based ventures, while less educated entrepreneurs are involved out of necessity².

There is no single model to teach entrepreneurship in education systems. Should young people learn how to start their own business? Or, should they be taught willingness to change behaviour and take risks? Some countries prefer the former approach (the US) some the latter (Sweden) and some both (UK). Whatever the approach governments should recognize the benefits of entrepreneurship education and adopt/implement national strategies on entrepreneurship education in primary, secondary and higher education. This could be achieved by :

- *developing school curriculum which integrates entrepreneurship education starting in primary school;*
- *making available and promote appropriate teaching material in close cooperation with business;*
- *foreseeing entrepreneurship education courses in teachers training institutes;*
- *facilitating links between teachers and local companies;*
- *promoting and facilitating in-house training in companies, notably through a reduction of administrative procedures imposed on companies willing to take on trainees³.*

EOs should seek to embed the principle of personal responsibility into their advocacy efforts. The importance of preparing for the world of work is vital. Young people seeking work and entering the workforce need to be prepared for the responsibilities that accompany entrepreneurship, employment and career development. This includes reliability, willingness to be productive and to learn and adapt to the disciplines and rewards of the work environment. An awareness of developing relevant employability skills should be imparted from young age.

² Global Entrepreneurship Monitor (2005)

³ UNICE Statement on Entrepreneurship education among young people (2004)

The issue of those outside of the formal education system who are existing entrepreneurs or aspiring entrepreneurs needs appropriate policy responses. Many of these individuals may have basic literacy problems that prevent them from accessing the formal education system; they may however have skills that can form the basis of a successful business. Training programs taking into consideration the specific needs of these individuals need to be developed and encouraged by employer organizations.

Education needs to be flexible to foster career entry and career development. This means reducing barriers to switching educational programmes and to the transfer of relevant educational qualifications and credits.

Partnerships between the employers' organization and the educational system could be established to develop greater awareness of entrepreneurship as a viable option⁴. Education and learning need to be relevant to business needs. Educators should directly engage with the business sector and also encourage student contacts with industry. Programmes which, in the latter school years, combine learning with work or work experience can bring students and employers together.

Education systems are often only loosely related to the economy, resulting in (partially) obsolete curricula that do not fully correspond to those required for a productive working life. Employers' organizations can play an important role in helping to shape education policy and in helping to align curricula to the needs of the labour market in the short, medium and long term.

It is important to promote investment in basic sciences and technical and scientific education. In developing positions on education policy EOs should underline the importance of investment in third level technological institutes and for more direct correlation between education systems and industry needs.

The formulation of structured links between business and education can be examined by employers' organizations. Many employers' organizations run very successful 'business-education' linkage programmes. These programmes take a variety of approaches, such as the partnering of a particular business with a school, which then works with the school in providing site visits or training periods, helping the schools' technology and communications capacity, providing advice on the job market (i.e. job interviews etc), providing teachers with opportunities to experience first hand different working environments.

⁴ See IOE Guide on youth employment strategies ioe-emp.org

CREATING THE ENVIRONMENT FOR ENTERPRISE GROWTH⁵

Political stability and effective rule of law are evidently key platforms to stimulate entrepreneurship and enterprise development. Entrepreneurs (and business generally) need a predictable and stable environment in order to have the confidence to engage in entrepreneurial activity. Without that confidence, a vital cog in the process of economic development will be missing.

In many countries, in particular developing countries, the regulatory environment with which entrepreneurs find themselves faced can be both oppressive and emasculating. Entrepreneurs in many developing countries can face three times the administrative costs, and nearly twice as many bureaucratic procedures (and the delays associated with them). Moreover, they have fewer than half the protections of property rights of developed countries⁶.

The informal economy can often be viewed by formal enterprises as ‘unfair competition’ (avoiding tax, regulation and other costs). If this view is prevalent then it can act as a wider incentive for informality. Employers’ organizations have a key role to play in publicizing the benefits of formalizing economic activities (access to finance; utilizing collateral to develop enterprises; increasing productivity; etc). They need to work closely with governments in this respect. National campaigns could be developed to promote the benefits of formalization (for example, consideration could be given to offering public contracts to informal economy operators willing to formalize). The key message should be that “yes compliance comes with a cost; but it also provides enormous opportunities for enterprise development”. Employers’ organizations need to have complete understanding of all types of existing entrepreneurs - formal, informal, legal and quasi legal – and the issues faced by each.

EOs can help by developing and disseminating guides that detail what are the key steps needed to establish an entity (i.e. where to go to register a business; how to avoid excessive red tape and bureaucracy; what to do if you encounter a problem, such as a corrupt official).

Employers’ organizations need to put pressure on governments to make it easier not just for entrepreneurs to get started but to then operate in an unencumbered way. In this respect they need to pose questions to governments if the national business environment is difficult for investment, enterprise development and business start-up. Importantly, EOs need to be advocating policies to encourage the development of micro and small business in both rural and urban areas.

Comparative data available from World Bank sources (which shows the differences nationally and regionally in business climates) can greatly assist employers’ organizations in these endeavours.

⁵ At the back of this publication a list of further resources employers’ organisations could use in their advocacy efforts is provided

⁶ World Bank: “Removing Obstacles to Growth: Doing Business in 2005”

WHERE DOES YOUR COUNTRY FALL IN THE SCALE?

It can take more than 153 days to start a business in a poor performing environment, but only 2 days in a good one; 126% of the debt value to enforce a contract compared to 5.4% of the debt value; 21 procedures to register commercial property or 3 procedures; If a debtor becomes insolvent and enters bankruptcy, creditors could get 13 cents on the dollar or more than 90 cents; Borrowers and lenders could be entitled to 10 main types of legal rights or only 2. (source World Bank: <http://rru.worldbank.org/DoingBusiness/>)

The ILO has a number of tools that EOs will find useful in advocating for the right business environment for enterprise creation and development. For example, the ‘Business Climate Survey’⁷ is designed as a questionnaire (and dialogue process) for local politicians, public officials and small enterprise owners. The purpose of the survey is to obtain a quick assessment of how local politicians, public officials and small enterprise owners view the business climate and, importantly, how those views may differ. This can then feed into policy reforms to reduce the constraints on businesses. The tool is designed to survey local environments and therefore is more suitable to be used within specific areas or localities rather than at the national level. As the business climate will differ between localities, the employers’ organization can use the survey to assist its members who are facing a particularly difficult climate in a given region.

There is of course no simple configuration of laws and regulations that can be termed as ‘ideal’ for a given country to adopt. Each national circumstance is different and policies need to be cognizant of those differences. Equally, conditions across a country can differ, in cases widely. But there are key broad areas that are relevant to most countries, such as making it easier to open and close a business (that could be addressed through ‘one-stop shops’ for business registration or single business permits - i.e. consolidating the registering process).

Reforming legislation and regulation is not a black and white issue. For instance, many micro and small enterprises are neither completely formal nor informal (compliance with taxation authorities is one area where governments tend to make a special effort).

It needs to be emphasized that it is not simply a case of lobbying for widespread dismantling of legislation. Markets need rules to function effectively. It can be the case that more legislation is required (for instance in the case of property laws); in other instances it can be a case of ‘smarter and more effective legislation’ (for example legislation that establishes mechanisms to study the impact of relevant laws specifically on entrepreneurs and SMEs). Employers’ organizations need to be careful in how they

⁷The IOE-ILO Toolkit to develop outreach strategies to the SME s can be useful in devising these responses : <http://www.ioe-emp.org/>

package lobbying efforts. If it appears like a blind call for widespread deregulation then this can have an off-putting effect. Packaging and presentation is crucial⁸.

Governments should be lobbied in terms they can appreciate, for instance by underlining the dividends from reform. Hypothetical calculations of the impact of a better business climate have shown that annual economic growth can be increased by up to two percentage points⁹. A refrain often heard is that regulatory reform is costly. However the actual costs are modest for many of the most necessary reforms. Simple calculations from growth analysis suggest that the benefit-to-cost ratios of such reforms (e.g. integrating business start-up process) are in the order of twenty five to one¹⁰.

Entrepreneurs above all need a level playing field in which to operate. Where subsidies are in place, such as special licenses, this can act as an unfair barrier and discourage competition. Rules that constrain market entry and expansion can have a negative effect on SMEs. Protected firms lack the incentive to improve and productivity can fall behind international standards, making them more uncompetitive. Poor legislation unfortunately can buttress inefficient business against competition.

Predictable rules and access to enforcement of contracts and dispute resolution mechanisms are essential for entrepreneurs to enable them to innovate, scale up existing activities and diffuse their knowledge. A supportive tax regime needs to be in place to encourage formality. Simplified tax regimes or differentiated tax rates for small entrepreneurs can both take the pressure off new businesses whilst encouraging the inscription of small enterprises into the tax registrars. A single unified tax authority is often more favourable than more diversified tax-collection structures.

Overly generous social systems can act as a direct barrier to enterprise development. An individual establishing a business is going to be hesitant to employ someone if they know that if market conditions change it will be very difficult to let that person go, thus putting the entire entity at risk.

Employers need to make sure that reforms are comprehensive and well thought through. For example, a change in the law whereby very small companies (e.g. below ten employees) are given exemptions on certain costly labour laws ostensibly seems like a good idea. However, such a change could in fact inadvertently act as a cap on the growth of enterprises (i.e. make the SME/entrepreneur unwilling to expand the entity as the increased costs would make it prohibitive).

“A number of developing countries have excessively complex labour codes, more than developed countries”

Strengthening the role of the private sector and entrepreneurship in financing for development Report of UN Secretary General (May 2005)

⁸ See IOE-ACTEMP Guide for employers to the PRSPs

⁹ World Bank

¹⁰ World Bank: “Removing Obstacles to Growth: Doing Business in 2005”

PROPERTY RIGHTS: FOUNDATIONS FOR DEVELOPMENT

If an individual has confidence that his or her property rights are secure then they are much more likely to look to expand and develop the business and reinvest their profits than those that do not. Property rights are tools for empowerment and play a key role in helping entrepreneurs develop into fully fledged and growing enterprises.

“They (the poor) hold resources in defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability, industries located where financiers and investors cannot see them. Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment”.

THE MYSTERY OF CAPITAL: Why Capitalism Triumphs in the West and Fails Everywhere Else (Hernando de Soto)

Converting informal assets so as to enable them to be used as collateral will often require a broad programme of reform. This will take time but it should not be a reason for it to delay entrepreneurial growth (for example, business property rights can be protected by providing interim alternative channels for resolving disputes with other business).

Importantly, if the authorities have agreed to a broad programme of property reform then in parallel employers’ organizations need to advocate (or work closely with other actors who specialize in this area) for improvements in the land registry, collateral registry and access to the courts. Solutions need to be comprehensive. Crucially, employers’ organizations need to advocate sustainable policy solutions. For example, while it is critical to encourage registration of assets, it is as important—and harder—to stop them from slipping back into the informal economy. So if the formal cost of selling a property is high, titles will lapse by being traded informally.

FINANCE: PROVIDING THE SEEDS

Entrepreneurs cannot start in the first place if they have no access to seed capital. For good ideas to be realized they need that initial investment. Unfortunately for many would-be entrepreneurs this is the largest barrier.

Finance for entrepreneurial activity can come from a variety of sources: microfinance institutions; micro credit institutions; formal lending bodies aimed at low level operators such as credit unions; then on to more formal lending institutions and venture capitalists. Self funding or finance from informal investors (such as family, friends or neighbours) is the real source for most would-be entrepreneurs in most places. By far the rarest source of capital for hopeful entrepreneurs is venture capital.

Lack of collateral can freeze many entrepreneurs out of formal credit institutions and sadly this can expose them to illicit means such as illegal money lenders. The social importance of providing credit access should not be trivialized. In the absence of

micro-credit institutions a fertile ground can be laid for ‘loan sharks’ and other unsavoury elements.

Microfinance and micro credit is a form of capital that is increasingly popular. Microfinance institution (MFI) customers are increasingly seeking higher loan amounts, faster turn-around times, lower loan requirements and lower prices. Options are increasing for lenders as MFIs face more demand and more competition and increasingly MFIs are responding by offering voluntary savings schemes, housing finance, education loans and consumer finance as part of integrated financial services solutions¹¹.

However, the cost of capital being offered by Micro Financing Institutions can often be high, in cases very high. Employer organizations can assist by lobbying these organizations to reduce their interest rates and concurrently working with these organizations in assisting them to reduce their risk exposure

Subsidized finance may be an option for entrepreneurs. However, this form of finance is not ideal because it can distort the market. That said, it is often necessary to do so, and it can have long term benefits for society if done properly. In particular, it is useful in markets which do not function properly because of inadequate institutions, weak property rights or other such reasons which can trap parts of the population in poverty. In such situations, subsidized finance may be necessary to help poor individuals to become more productive and to eventually join the formal economy.

Financial institutions need the appropriate skills for lending to entrepreneurs to properly determine the merit of proposals. At the lower end of the lending spectrum micro finance institutions lend often with little or limited analysis of risk. It is important to provide guidance/training for both the providers and the beneficiaries of micro-credit. The latter category ideally should have some training in the basic principles of entrepreneurial activity.

In many regions, employers’ organizations are not able to deliver financial services and instead focus on a lobbying role. But employers’ organizations (in particular with the assistance of governments) can play a role in assisting with the formation of institutions that help to spread the risk and build the trust needed for loans. For example, there are institutions supported by employers’ organizations that assist entrepreneurs with a good idea, well drafted business plan, but lacking a guarantor to secure the lending from a financial institution¹². Other examples include consortium type organizations where once a potential members’ business plan has been approved he or she can formally join what is a peer-type collective institution (and receive for example access to the group’s low interest creditors or receive loan guarantees)¹³.

¹¹ Women’s World Banking

¹² HAMAG - Croatian Agency for Small Business

¹³ Italian entrepreneurship organization in Veneto region in North Italy

EOs are in most cases unlikely to be in a position (or want to put themselves in such a position) of acting as a guarantor for any entrepreneur. This would expose the employer organization to financial risk in the case of default. Employer organizations are more likely to provide references for its members, and building strong relationships with financial institutions, that can result in lower cost of capital for members

CHANGING ATTITUDES

Employers' organizations play an important role in leading and developing societal views of the contribution that entrepreneurship makes to the economy and indeed the wider role of business in the development of society as a whole. Wealth creation in society is the absolute prerequisite to national development. Business and entrepreneurs create employment, pay taxes which contribute to other social policies, and increasingly are playing a wider societal role.

Many societies place a much higher value on 'job employment' rather than that of entrepreneurship. It can be seen 'as not a proper job' (in the sense of becoming an accountant, teacher or doctor). There can be a sense of waste if a family has expended such effort and money to provide a child with an education for that individual to then become self-employed.

In some countries there is also a 'fear of failure' associated with entrepreneurship. Some are deterred from the entrepreneurial option due to the risk. Importantly, mechanisms are needed to help individuals who have failed in an economic endeavour to get back on their feet and start again; to provide them with a second chance. To this end sound and effective bankruptcy legislation is needed. In many instances bankruptcy laws are often ineffective and can even expose formal entrepreneurs to even more risk (due to visibility). Weak bankruptcy laws can act as a barrier to start-up in the first place as would-be entrepreneurs will be deterred by the lack of protection in the event of enterprise failure. Bankruptcy laws must aim to protect first and foremost and they must not be punitive to business failure.

EMPLOYERS' ORGANIZATIONS : REACHING OUT TO GROUPS OF ENTREPRENEURS

WOMEN'S BUSINESS GROUPS

In both the developed and developing world barriers exist that limit the potential of women entrepreneurs to develop and expand their businesses. Women in particular can have limited access to collateral, often they have a lower level of access to technology and there are social and cultural attitudes that can discourage women from entering into business in the first place.

To succeed in business, women entrepreneurs need access to information, support and advocacy services. EOs can provide women entrepreneurs/business groups with better organization, increased representation and voice, as well as access to support services. Membership of an EO will provide them with access to important support in the areas of lobbying, policy-making and advisory and business-related services. For the EO, through such endeavours its representation is increased which will lead to increased ability to advocate and influence policy. Ultimately of course new members will help strengthen the organization.

Employers' organizations can develop a wide array of networks and affiliations with women entrepreneur associations as well as linkages with various business development agencies supporting women entrepreneurs.

In the global context, there have been a number of important and valuable initiatives carried out by employers' organizations to promote and support women entrepreneurs¹⁴. Many of these initiatives have been conducted in collaboration with and supported by the ILO.

YOUNG ENTREPRENEURS

Young entrepreneurs represent the future of employers' organizations. They are their future members and leaders.

EOs can play a key role in facilitating the growth of young entrepreneurs by establishing or strengthening networks of young entrepreneurs. Such networks can help young entrepreneurs gain a better insight into key business sectors, they can facilitate the exchange of experiences (good and bad) and best practices; educate entrepreneurs about technology and provide them with access to it; and increase their awareness of social issues and responsibilities. A number of EOs have put in place such networks.¹⁵

EOs can facilitate such networks with practical help. An employers' organization is a network and a reservoir of knowledge. Partnerships can be established between larger members and networks of young or budding entrepreneurs to assist in their development (through coaching, peer to peer learning; strengthening links with companies - for example through ICT). Such a mentoring roles can help young entrepreneurs avoid some of the many pitfalls of trying to get a business operational

¹⁴ India: FICCI (India) has created a Ladies' Wing; Nepal: FNCCI (Nepal) created a Women Entrepreneurs' Development Sub-Committee; Philippines: ECOP (The Philippines) established the Gender and Development Committee; China: CEC (China) created the Women Entrepreneurs' Resource Centre (WERC); Indonesia: APINDO has a women entrepreneurs' committee; Azerbaijan: Establishing a women entrepreneur section in the employers' organization; Georgia: Supporting the creation on a Georgian Association of Women Employers; Employers' organizations in Jordan and Yemen have supported women entrepreneurs and their networks; Ethiopia: EEF (Ethiopia) is active in ILO activities to support laid-off women workers (LOWW). Uganda: FUE (Uganda) is developing a 'women's entrepreneurship programme; Morocco: CGEM (Morocco) assisted in the establishment of an association of women entrepreneurs (AFEM), and the latter remains an active member of CGEM; women's entrepreneurship programmes or support activities in place in Djibouti; Kenya; Tanzania; Zambia; Cameroon; and Senegal.

¹⁵ Two examples are the Mexican Employers (COPARMEX) who have established a young entrepreneurs network with branches in every major Mexican city and the Nepalese young entrepreneurs Forum (NYEF) which was established by the Nepalese employers (FNCCI) in 2003 and also has branches throughout the country.

and provide practical technical advice on issues such as marketing, business planning, taxation, finance, accountancy and employment law.

These networks importantly can provide the EO with guidance in identifying the practical obstacles to business start-ups, which in turn help in the EO's advocacy efforts with policy makers.

NETWORKS

EOs can help establish networks of entrepreneurs¹⁶. As part of such a network, feelings of isolation or vulnerability can be assuaged as all members of the network are in the same boat. The following are two examples of 'mentor type' networks established by employers' organizations.

The Plato model, a European-wide network, offers owner-managers of small businesses a support forum where they can tackle current challenges and issues. Employers' organizations can act as the supportive framework for such initiatives. The Plato Network employs the 'parenthood principle' whereby senior managers from large companies act as facilitators to groups of SMEs. The programme creates linkages, removes businesses from isolated decision-making and provides a confidential and safe environment for owner-managers. They can develop their skills and benefit from facilitated group learning, training activities, business linkages and networking events.

The Big Enterprise – Small Enterprise Productivity Improvement Programme is an example of cooperation which is facilitated by the Employers' Confederation of the Philippines (ECOP). The programme works whereby the large enterprise provides once-a-week training, for six months, to SME suppliers. The training allows suppliers to deliver on time to buyers' quality and pricing requirements. The programme is run by ECOP's recently established Employers' Institute for Productivity and Competitiveness.

SPECIFIC GOVERNMENT ACTIONS

The key thing governments can do is to genuinely create the space for entrepreneurship to flourish and for a culture of innovation to take hold - to recognize the importance of it and to be committed to implementing specific actions to create the enabling environment for entrepreneurial activity.

This can be politically difficult for governments. In terms of national development, governments often want to point to 'big ticket' projects and policies – developing national industrial champions, targeting key sectors for growth; major infrastructure projects and the like. It can be politically difficult to say that the future lies in the resourcefulness of ordinary citizens with ideas.

¹⁶The Plato programme in north Europe is a good example of this <http://www.plato.ie/index.html>

“Entrepreneurship is responsible for much of the competition and innovation in the business world and is also held as central to nations trying to attain competitiveness in international markets”

Strengthening the role of the private sector and entrepreneurship in financing for development Report of UN Secretary General (May 2005)

As noted earlier in this document, entrepreneurial activity provides the fluid to generate increased economic growth. But it should not be seen in isolation or as exclusive policy choice. Policies to improve the business environment are directly linked and complementary in terms of the overall goal of national economic and social development to policies aimed at encouraging Foreign Direct Investment (FDI) and creating the conditions conducive to enterprise development.

Some specific actions from government could include:

- *Establishing effective agencies to help young entrepreneurs with business planning, ongoing technical advice, financial guidance. Incubator units can be established to provide mutual and shared support. Employers’ organizations can provide a role in the establishment of, and in cases direct assistance with the ongoing running of, such bodies.*
- *Setting up ‘one stop shops’, in terms of information (on laws, regulation) and guidance. Such information should be disseminated in an easy to understand format (e.g. in local languages and distributed regionally). The use of copyright and patents should be made easy for entrepreneurs to understand. Again, employers’ organizations should examine whether they can play a direct or indirect role in such dissemination processes.*
- *Entrepreneurs are sometimes overly optimistic about their potential in terms of future profits. In developing training modules or in disseminating guidance on business planning some realism often needs to be injected. Employers’ organizations could examine how advice centres could be established, in partnership with government agencies where guidance on business planning, financing, etc. could be given.*
- *EOs could work with national authorities (or indeed do it independently) to establish a national system of awards to recognize new ideas.*

MAKING IT HAPPEN: IMPLEMENTING RESPONSES

DEVELOPING A LOBBYING AGENDA

A starting point for employers’ organizations should be the analysis of previous policies to encourage entrepreneurship. What is or was the ambition of public policy in this area? Has it been successful in any way and, if not why, not? Was the employers’ organization previously involved in its formulation and, again, if not, why not?

A key element of this process is identifying what are the key constraints to developing entrepreneurship and how can they be removed. To be as effective as possible the employers' organization needs well thought out positions based on strong empirical arguments.

A mapping exercise may be necessary to outline exactly how relevant current legislation is. Legislative reforms in many developing countries can be very rare and many countries have been stuck with the same laws and regulations for decades or even longer.

It is important that the EO remain non- partisan in its lobbying efforts. An Employer organization runs the risk of losing credibility and respect in the eyes of key stake holders if they appear whether directly or indirectly to be partisan.

The ILO has an assessment guide which would be useful for EOs in making assessments of the regulatory environment. The guide breaks down the influence of the business environment on small enterprises into three areas: i) policies, laws and regulations; ii) the organizational environment of government ministries and agencies, and non-government organizations; and, iii) the social and economic setting, notably markets. Access to other tools can be attained by clicking the link below¹⁷

EOs will need to decide on what kind of approach they should take in trying to get their agenda implemented. A soft approach – whereby they seek to influence decision-makers in a more private manner - or a loud approach (making the issue public, raising it in the media). These are decisions that will be guided by the national context and the relationships in place.

In pursuing a 'loud' approach, the IOE can assist employers' organizations if they feel that 'international pressure' could assist lobbying efforts with government on a particularly difficult issue.

¹⁷ The IOE-ILO Toolkit to develop outreach strategies to the SMEs can be useful in devising these responses : www.ioe-emp.org

LOBBYING CHECKLIST

1. Setting policy priorities

- *Consult with membership*
- *Survey members (and non-members where this is appropriate)*
- *Assess the current policy environment for entrepreneurs*
- *Use existing surveys and studies*
- *Follow emerging trends*
- *Review EO's existing policy priorities*
- *Circulate an initial position before finalizing*

2. Developing the strategy

- *Establish your objective(s) in the short, medium and long term and set a timetable*
- *Involve the key advocates of your organization*
- *Work to the strengths of your organization*
- *Determine your audiences and know how to reach them*
- *Decide on a 'soft' or a 'loud' approach (and know when to change approach)*
- *Maintain the direct involvement of members*
- *Cost the strategy (and seek resources if necessary)*

Reserves

- Special levy on members
- Donations from members (cash or in-kind)
- Donations from non-members (cash or in-kind)

3. Implementing the strategy

- *Time can be crucial, public policy decisions are time-bound*
- *Determine whether there are other actors trying to influence this agenda*
- *Make sure policymakers clearly know your position*
- *Be clear on your approach. Is your lobbying effort part of a large on-going programme of dialogue and reform or short intervention on one key issue?*
- *Decide the type of approach:*
 - *Soft approach: working quietly behind the scenes, developing trust with the bureaucracy, policymakers and politicians.*
 - *Loud approach: not making much headway softly and therefore going public and putting public pressure on policymakers (this approach needs careful analysis as it can damage relations)*

4. Assessment and follow-up

- *Learn from successes and failures*
- *Reflect carefully after a major lobbying effort on what went right, what went wrong.*
- *Key issues for discussion:*
- *Was it appropriate to combine the concerns of large and small enterprises in the same advocacy effort?*
- *Did combining small and large enterprise interests reduce the focus?*
- *Review whether the right people (from your organization and from SME organizations) were brought on board*
- *Along with group reflection, use other means to assess impact:*
 - *Monitor media*
 - *Monitor government statements (which could be erroneous), parliamentary debates*
 - *Survey members*
 - *External verification by others (i.e. opinion polls)*

DEVELOPING SUPPORT FOR THE EMPLOYER AGENDA

A key role for EOs is in leading and shaping national opinion. EOs should identify key action areas on entrepreneurship and publicize the benefits of the same and raise awareness of its value to economic development.

Employers' organizations should look to build public support for their positions – many of the issues that make it hard for entrepreneurs to establish themselves also impact and affect the ordinary public, such as corruption or overt (or rent seeking) bureaucracy. It is important to counter arguments that see reform of business regulation as some kind of trade off with social protection. It is not! For example, the Nordic economies have some of the simplest business regulation with also some of the strongest social protections systems. Heavier business regulation is empirically not associated with better social outcomes¹⁸. National publicity campaign could be launched to underline this message. This could be linked to a wider national campaign to encourage entrepreneurship - for instance, showcasing entrepreneur champions or national entrepreneurship awards.

One of the key purposes of laws and regulations is to safeguard the public interest. Unfortunately, many do not and fail to meet intended social objectives. Others are actually detrimental to the initial goals set by legislators. Others were written with a different age in mind and long since have lost their relevancy. EOs need to be creating awareness amongst the broader public of this agenda, utilizing appropriate channels of communication.

The World Bank estimates that corruption can reduce a country's growth rate by .05- to 1.05 percentage points a year. Employers' organizations can help map out a 'value chain' of activities and stages where corruption or lack of government capacities impinge on enterprise creation and can lobby directly for mechanisms to eradicate or limit opportunities for rent-seeking or corruption. Examples include developing codes of conduct that breed professionalism in public officials and lobbying to ensure that public tendering procedures are a competitive process open to attracting the best tenders.

WORKING WITH PARTNERS

If an EO is embarking on a wider campaign to improve the ability of the economy to absorb entrepreneurs then it needs its current membership to be fully supportive. Such an exercise should be seen in terms of strengthening not just the wider business community but also the employers' organization itself. Policies to encourage entrepreneurship should be seen by employers' organizations as a catalyst for membership recruitment.

¹⁸ World Bank

In seeking to effect policy changes, the larger the representation of the national business community the employers' organization can claim, the more effective its efforts are likely to be.

A coherent and effective business voice is essential to effect policy change. An important element in arriving at policy change is by providing a single, strong and cohesive message from the business community. By strengthening and building a stronger national business voice, this can enable the employers' organization to play a more effective role in advocating for policies to encourage entrepreneurship.

A number of avenues can be explored in this regard, such as alliance building between organizations, sharing information on policy approaches and joint positions or declarations. Situations need to be avoided where different business organizations are seen to be promoting different or even contradictory positions. To be effective business needs to speak with as coherent and unified a voice as possible.

Employers' organizations should also look to work with other key partners. Technical assistance from international organizations such as the ILO and the World Bank can be invaluable. Both organizations have a broad spectrum of tools and products that can be of help to employers' organizations in implementing this agenda.

SOURCES FOR FURTHER INFORMATION

- **The IOE and the International Labour Organization (ILO)** have developed an SME Development Toolkit specifically for employers' organizations. The Toolkit provides details on specific tools to assist EOs in entrepreneurship such as 'Know about Business' and 'Start and Improve your own business'. The Toolkit includes assessment guides and country studies as well as the tools that can be applied in day-to-day operations: www.ioe-emp.org
- **The ILO's Key Indicators of the Labour Market (KILM)** provide data on the key elements of the world's labour markets
<http://www.ilo.org/public/english/employment/strat/kilm/index.htm>
- **The Global Entrepreneurship Monitor (GEM)** provides an annual assessment of the national level of entrepreneurial activity: <http://www.gemconsortium.org>
- **The World Bank 'Doing Business Database'** provides indicators of the cost of doing business by identifying specific regulations that enhance or constrain business investment, productivity and growth. The data set covers 145 countries. All the data is available online: <http://www.worldbank.org/DoingBusiness/>
- **The World Bank Investment Climate Survey database** contains data on the investment climate in 51 countries, based on company surveys.
<http://rru.worldbank.org/investmentclimate/>
- **The World Economic Forum The Global Competitiveness Report (GCR)**.
<http://www.weforum.org>
- **Index of Economic Freedom:** Analyzes economic freedom in 161 countries. The index covers 10 areas: trade policy, fiscal burden, government intervention, monetary policy, foreign investment, banking and finance, wages and prices, property rights, business regulation and black markets. <http://www.heritage.org/research/features/index/>

RELEVANT IOE PAPERS

- *Youth Employment, IOE Information Paper* February 2005
- *The Managing of Age, IOE Information Paper* February 2005
- *A Framework for an Employment Policy: Employers' Perspectives* March 2003
- *The Informal Economy - Employers' approach* November 2001

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