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MUNICIPALITIES AND BUSINESS DEVELOPMENT

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Introduction

Entrepreneurship is central to the functioning of market economies, in particular during periods of structural change from one phase of development or economic system to another. Entrepreneurs are agents of change and growth when acting via the generation, dissemination and application of innovative ideas. They ensure the efficient use of resources and expand the boundaries of economic activities, e. g. introducing new services, new forms of organisations, and developing new industries in some regions.

Entrepreneurship is the result of three dimensions: conducive framework conditions, well-designed government programmes and supportive cultural attitudes. While these dimensions are present in some countries at different levels, the extent of entrepreneurship differs greatly (Reynolds et al., 1996). Countries with high levels of entrepreneurial activities are more likely to generate dynamic economic activity, being very flexible in mobilising existing resources, creating new or improved products and services and also in attracting more foreign direct investment.

A range of factors determining the extent and success of entrepreneurship have a local dimension, being affected by the local economic and social environments and/or best supported by initiatives conceived and implemented locally: local financial institutions with special arrangements for small and medium-sized enterprises, business incubators and extension services. This local dimension could be identified with the municipality. For some large-scale programs, it is sometimes necessary to join efforts of several neighbouring municipalities to provide geographical coverage and critical mass of resources, though.

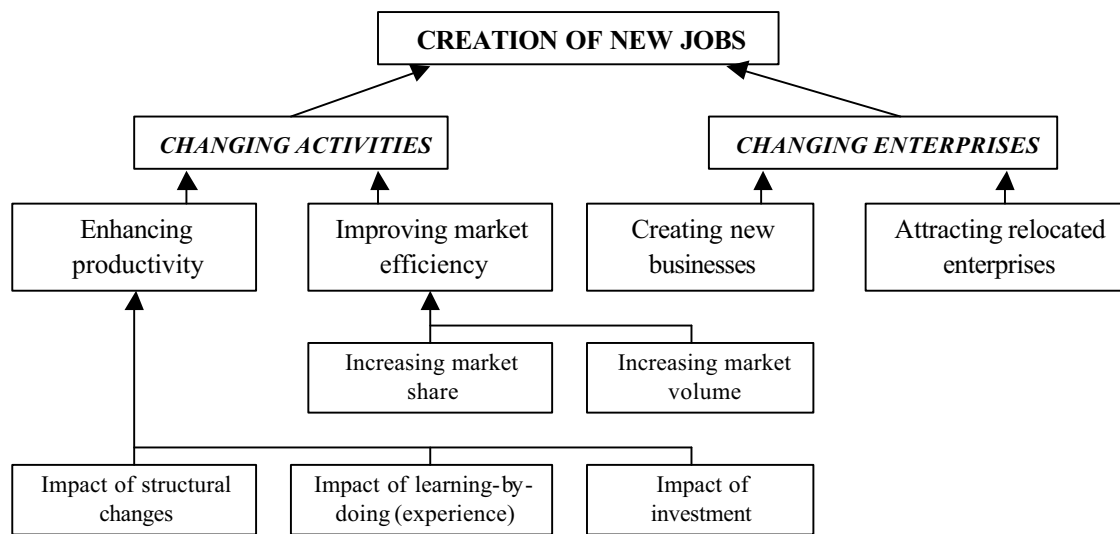
It is therefore the task and responsibility of local governments to act in a proper way to foster entrepreneurship. To be successful in these efforts, it is important to understand the nature of entrepreneurship and the determinants of entrepreneurial activities.

Business development

Business development is about fostering economic growth and employment generation. This development could be generated through growing existing local firms, intensive creation of new firms and attracting the relocation of firms to the local area. Within economies with scarce resources, lack of entrepreneurial tradition and strong informal economy, small and medium-sized enterprises (SMEs) are the key to generate economic activity. It is the growth of the SME sector that is most efficient in mobilising existing dispersed resources and transferring resources to different uses. The fabric of hundreds of new small activities is best suited to fill the market gaps and to employ enhanced human capital along with other small-scale resources. This approach puts the weight on SMEs where entrepreneurs via the creation of new businesses and growth of established ones provide for:

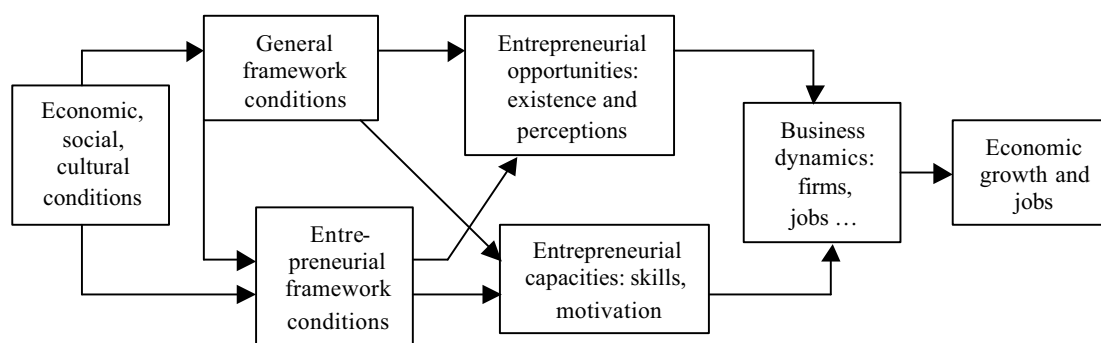
1. Increased employment.
2. Economic growth and enhanced productivity (see Figure 1).
3. Innovation due to flexible, dynamic and sensible responses to shifts in market demand.
4. Development of a more balanced structure of local economic activity:
 - supplies to larger companies (parts, sub-assemblies, components, production services),
 - introduction of new products/services and new activities/industries,

Figure 1. Alternative paths to new jobs creation in the local economy



- development of inter-firm co-operation (networks, clusters, industrial districts).
- 5. Origin of new medium and even large companies through the internal growth and the process of mergers, acquisitions and strategic partnerships.
- 6. Development of new entrepreneurs and managers as role models.
- 7. Efficient mobilisation and activation of small private savings and other small-scale resources.
- 8. Changing the local community towards a more liberal and open community, eager to build the sense of self-consciousness and trust along the vision/strategy of improved economic and social well-being.

Figure 2. The GEM Model of Entrepreneurial Processes Generating Economic Growth

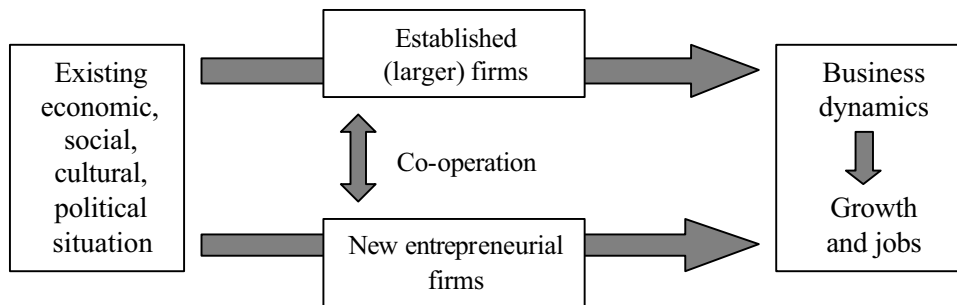


Source: Reynolds et al., eds., *GEM – Global Entrepreneurship Monitor*, 1999, p. 11.

The focus on entrepreneurship as the critical factor to economic growth also means that municipalities do not need (and should certainly not) wait for “the creation of national economic conditions within which business could flourish”. Instead, they have to promote the economic

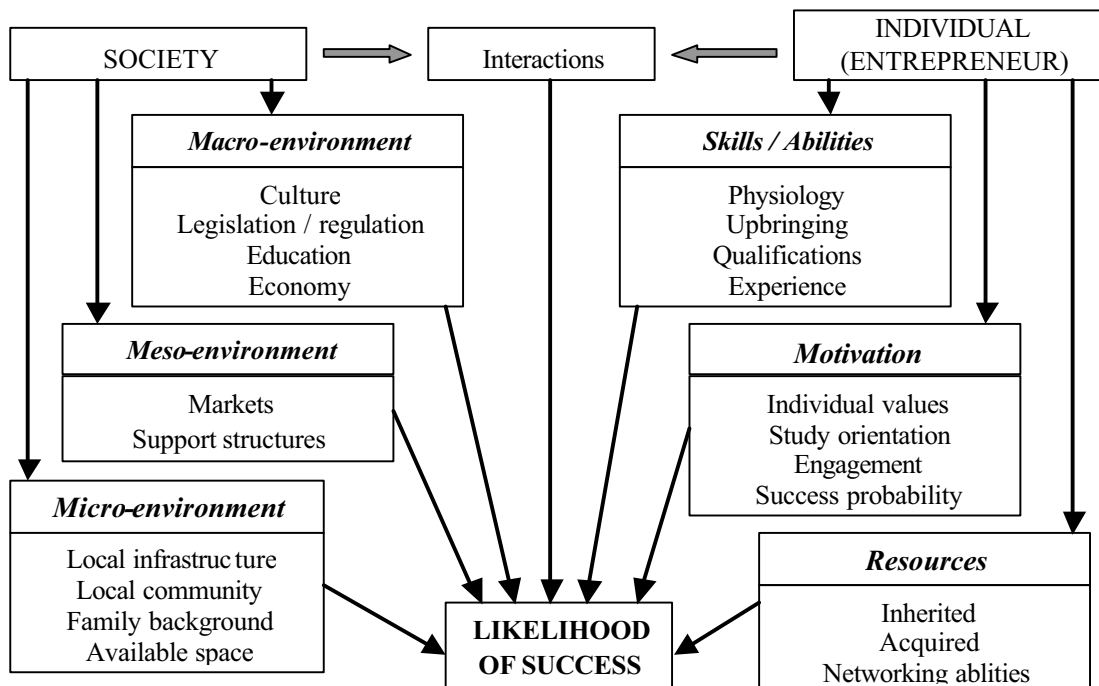
change through both channels, the established firms and new entrepreneurial firms even when national conditions are still not very supportive.

Figure 3. Two channels of generating business dynamics



Countries and smaller local communities differ substantially in the level of entrepreneurial activity. They vary in terms of key factors, (1) entrepreneurial opportunities and (2) entrepreneurial capacities, but they also differ in terms of factors communities could effectively influence, (3) available infrastructure (in broader terms of the availability of financing, land, facilities/premises, employees, suppliers, government assistance, utility costs, transportation etc.), (4) demography (the age structure, the level of participation by women and other potential groups of entrepreneurs, anticipated population growth), (5) education and training (ability and commitment to take advantage of perceived business opportunities), and (6) culture (the perception of entrepreneurship, the recognition given to entrepreneurs and prevailing attitudes towards their success or failure).

Figure 4. Factors of probability of new venture success



The national government is very important in the creation of several aspects of an environment supportive of SMEs and we should not deny this fact. These aspects are listed provisionally below.

Macro-economic environment	<ul style="list-style-type: none"> • stable economic environment and low inflation • reasonable availability of credit with a relatively low interest rate • reasonable availability of foreign exchange
Regulatory environment	<ul style="list-style-type: none"> • favourable, stable legal environment • few monopolies or areas of business forbidden to entrepreneurs • reasonable taxation with some stimulating tax relief • reasonably open access to real estate
Political environment	<ul style="list-style-type: none"> • democracy • absence of strong government intervention in business • multitude of civil society organisations
Social/cultural environment	<ul style="list-style-type: none"> • positive attitude towards entrepreneurs • trust

However, SMEs usually start from serving local and regional markets. Entrepreneurship is therefore strongly affected by local phenomena and it is best supported by initiatives conceived and implemented locally. The responsibility of municipalities for business creation and development is based on the advantages in supporting entrepreneurship through local measures:

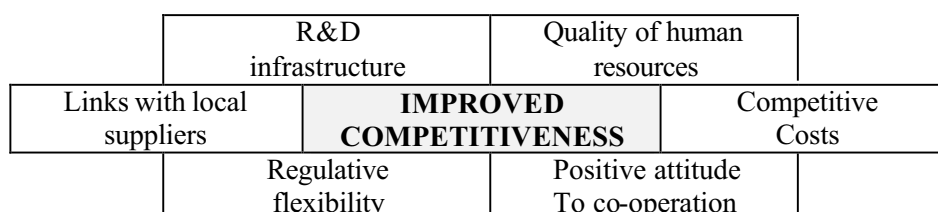
- actions can be better tailored to the specific needs of an area (municipality) and its businesses,
- involvement of a wider range of local actors/partners can bring a mix of competencies and wider recognition of a set of social and cultural values that encourage new ventures,
- a number of acute social problems – unemployment, distressed urban areas, derelict industrial sites – are highly concentrated geographically and require a strong local response,
- at the local level the need for policy co-ordination is greatest in order to generate change even with scarce resources.

Experience from the proactive approach to the local economic development (LED)

There is a number of very successful cases in the LED that point to certain empirical facts. If LED is on building up the economic competitiveness of a local area, the actions have to be conceived in a proactive way: create and direct the changes, far from waiting for changes to become inevitable and only adapt to them or, even worse, to wait first for some action at the national level to spur the overall economic activity.

Local/regional government services	educational institutions, especially vocational programmes (local) transport and communications infrastructure “collective efficiency”, trust and participation
Entrepreneurship support services	business centres: advice/consulting, information; information centres incubators, technology park/centres, business (enterprise) zones financial programmes: microcredits, subsidies, guarantees training organisation support to clusters, space, working time
Local regulation	local taxes; local regulation: space, working time

Figure 5. Factors of the competitiveness of companies in the region



In order to strengthen these factors, a number of local activities could assist to local entrepreneurs (businesses) as well as to attract new entrepreneurs to the municipality.

<i>Measures to enhance the competitiveness of a municipality</i>
<ul style="list-style-type: none"> • research the opportunities for investment (location, finance, human resources, ecology) • promoting a development vision • educating and training people (developing new skills, generating new professions) • development financing through local financial sources (private and public) • development of transport routes to support the just-in-time organisation of operations • technology planning • determining the community objectives in attracting entrepreneurs, capital and know-how from other communities • defining success criteria as the instrument to measure performance • creating partnership relations at home and abroad • involving the regional community in (international) networks and institutions providing for information, technical expertise and capital • acquiring all possible international assistance for partnership and development • encouraging organisations in education and training, research and consulting to focus on joint R&D (via consortia) and its commercialisation • providing land, communal infrastructure and utilities to investors, • creating social awareness on the importance of knowledge and technology for well-being • integrating economic advantages with cultural policy, urban development policy and other components of the quality of life

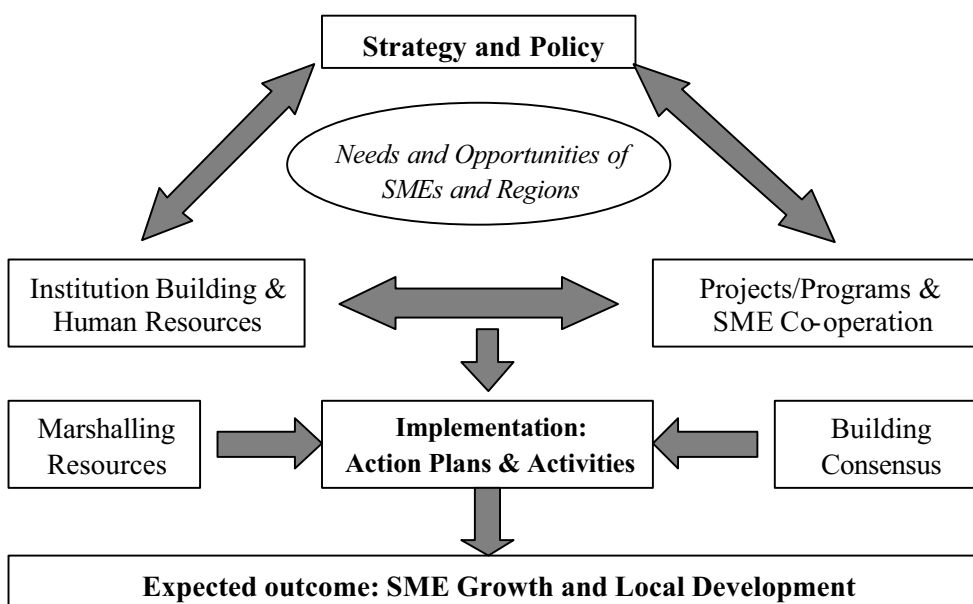
Key determinants of competitiveness are focused around appropriate infrastructure, technological capabilities, availability of investment capital, entrepreneurship and human resources. SMEs are the least demanding due to their very nature of mobilising small resources, depending on own resources and initiatives of founders and owner-managers, their flexibility to adapt etc. However, it is the task of the municipal authorities to do their job on the development of a network of local institutions, customs and relationships of trust conducive to co-operation as well as a culture supportive of entrepreneurial ventures.

<i>Some theses of the proactive approach to local economic development</i>
<ul style="list-style-type: none"> • yesterday's ways of doing things are not appropriate for current problems anymore, new, more creative, innovative ways need to be introduced • existing problems and challenges could not be met sufficiently by individual actions - problems call for joint, collective goals and actions, and the common vision for all stakeholders in the local development has to be developed and consented • this collective effort/action has to be continuously monitored and improved since

- circumstances vary and there is not enough experience to plan for all possible actions and contingencies
- everybody, not only individuals at the top, have to learn from experience – concept of learning (local) society
 - everything we do tomorrow has to be done better than today (continuous improvement)

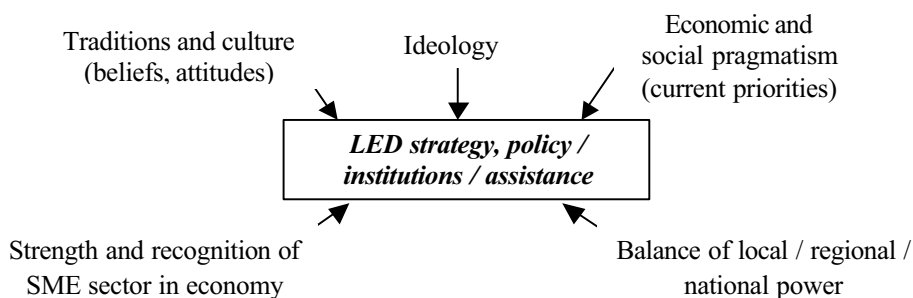
Good practice indicates the need for a well-thought out, planned development concept. Local government should start by conceiving the development strategy that further calls for specific programs and projects to be implemented by support organisations as delivery mechanisms in place, equipped by know-how and determination to generate changes.

Figure 6. The systematic approach to local business development



Without this clear strategic vision there is a constant uncertainty about the actions to be taken, their prioritisation, and some confusion would become inevitable with some efforts misplaced undermining the fragile consensus. It is also important to understand that municipalities can learn a lot from good practices, but local development could never simply copy the pattern of development in other communities. It has to be derived from the assessment of the local economy and society taking into account real facts about the municipality as presented below.

Figure 7. Key influences on the support structure for LED



“Soft” aspects and institutions of local economic development

The process of development in the local economy via the partnership between economic actors (entrepreneurs, active population) and the local government has through the typical five years period bring to a visible and transparent change in economy and community that does not leave virtually anything unaltered:

1. It has to bring about **changes in local material balances**: technological and economic structures have to change introducing new activities; new companies have to occupy existing locations and new industrial sites.
2. Economic subjects (enterprises and households) and political bodies (local administration, other political groups) have **to change their behaviour** to answer in the most appropriate way the challenges faced.
3. **New development options** have to be conceived; there should be a high degree of awareness and consent about these options and a concerted set of actions putting them into practice.
4. Changes have to be managed in a new way, in line with **the concept of the strategic management** of complex economic and social structures.
5. The local community has to change its way of reacting to change into **a proactive response and new kinds of actions** (their contents and the collective way of performance); and
6. The **“state of mind” (l’esprit)** has to change, with a new understanding of the realities and situation in the region and their development opportunities.

Local development demands a huge **input of creative and original concepts**, based on the problems and development potential of the region. Today, this is the combination of different ways of thinking and acting, the wealth of opportunities and ideas, with a high tolerance for ambiguity, uncertainty and the risks involved. The rule for successful development reaches well beyond professional know-how with the formula:

Development = Analysis (logics, ratio) + Sensitivity (feelings, intentions, desires)

Development = Objectivity (facts) + Intuition (vision)

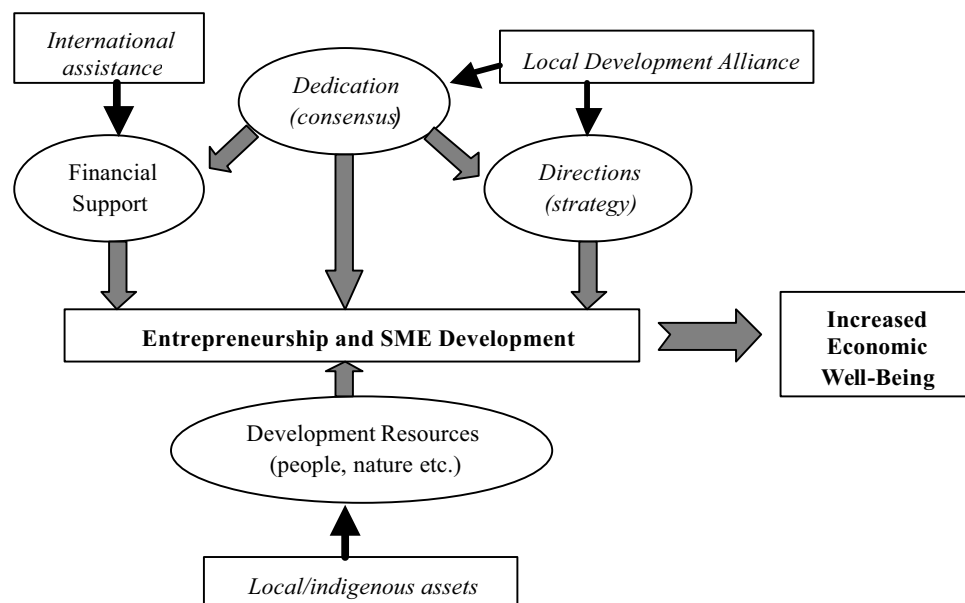
Business development in a local community therefore demands perceptible progress in the development vision and a consensus or widespread acceptance of entrepreneurship reflected in the following attitudes:

- recognition of the contribution of entrepreneurs/SMEs to society (focus on innovation and new wealth creation for the society as whole);
- positive support and encouragement of new venture creation;
- lower hurdles (removing administrative barriers, bureaucratic responses);
- commitment to “creating” not “picking” winners;
- acceptance and encouragement of diversity;
- commitment to change/action, accepting the uncertainties and risks of new developments;
- collective active – many individuals and groups making their contribution; and
- long-term commitment and perspective, accepting the fact that years are needed to produce important structural changes.

When promoting local economic development, two very important things are, firstly, to transform the strategic development plan into a set of **development action plans** focused on specific programmes and/or projects, with a clear-cut implementation scheme. Secondly, **a project organisation has to be created** to introduce the foreseen activities, supported with **human and material resources**. These resources demand the strong collective mobilisation of scarce resources and continuous learning for changes.

The once prevailing attitude that it is capital that provides for economic development and it needs to be attracted through subsidies and/or tax concessions has changed substantially. The key conditions for successful development are the mix of resources and the determination that provides for a coherent action.

Figure 8. 4-D factors of successful local development



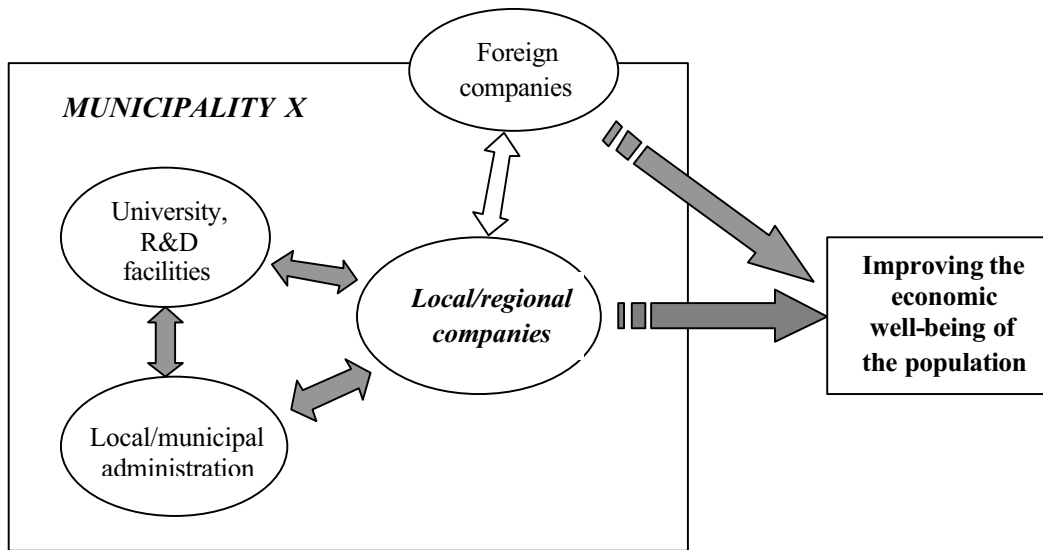
Economic development is inconceivable without development resources, both human resources and financial support, since there are investments in infrastructure and new jobs that have to be made. However, these resources will not bring about high growth and qualitative changes in society in the absence of a strategy and strong dedication to follow these changes even through some periods of dissent and dissatisfaction with slow changes and difficulties in generating visible trends in new developments.

The concept of generating economic development demands:

1. The definition and consensual implementation of a development strategy;
2. Strategic management of development or change through the well-designed co-ordination and focusing of resources and actions towards strategic objectives: to determine the priorities, the sequencing of actions, to ensure a “critical mass” of resources along key paths of changes; and
3. The creation and development of the institutions or organisations that are able to generate change, being at the same time highly open to a number of new initiatives, to learn from experience and to redefine priorities if needed.

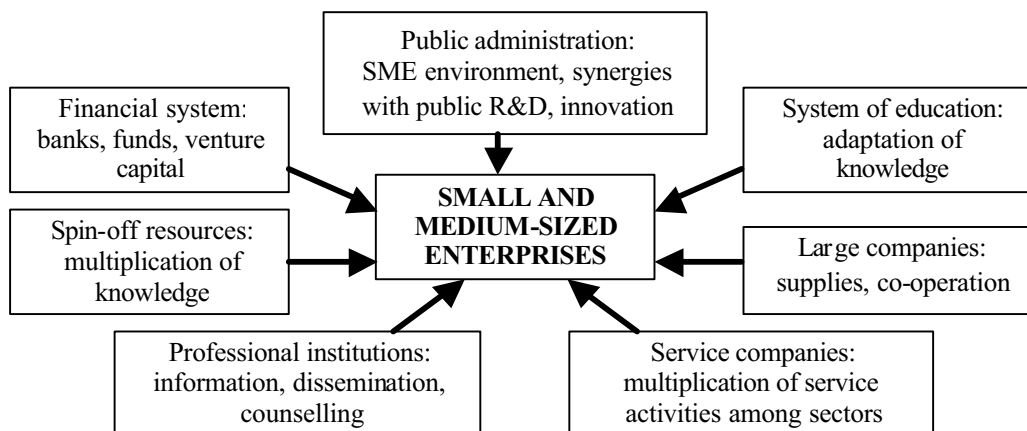
The driving force of these changes has to be a **local development coalition/alliance**, unifying within the same body three decisive groups of individuals: leading managers, entrepreneurs and professional staff from the business sector, highly regarded persons from universities, institutes, R&D organisations, consulting firms etc. who generate new knowledge, including innovation, and the key personnel in local administration (municipality) that are conceiving new regulations regarding the business environment.

Figure 9. The concept of the local development coalition/alliance



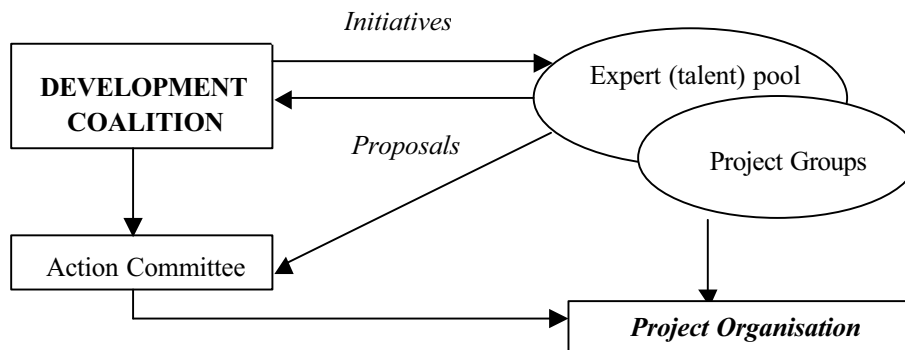
This tripartite coalition has to push the business development strategy through the regulation, urban, economic development and other plans, ensuring the support of all entities influencing local development, including indigenous and foreign-owned companies (see Figure 10 for the list of local partners). SME development extends deep into the tissue of society demanding changes in the behaviour of all individuals and organisations. The multiplicity of small businesses demands a much greater intensity of co-operation than a handful of large companies would, but such development could increase the relative utilisation of resources.

Figure 10. Local network of SME/business assistance



There are many questions as to how to structure the development coalition in order to develop organisational synergies and avoid tensions, conflicts and controversies among individuals and organisations. The scheme has also to be able to mobilise the available experts within different subordinate bodies and avoid the alienation of some of them due to inappropriate status.

Figure 11. Structuring the organisation for regional development coalition



When we introduced the triangle strategy – institutions – programs, we already stressed the issue of the institutional framework that could deliver the assistance to businesses and the concept of the development coalition answers the question on who are people that drive the local economic development.

However, we have to answer the question about what and how the municipality as the local authority has to do to encourage local economic development, particularly when facing scarce resources and still inappropriate capacity to conceive a coherent set of actions. The scope for local government activities on business promotion depends on several factors and has to be well-designed.

Figure 12. The determinants of local government’s capacity to manage business development



Local government: their own processes and procedures

Municipalities in Bosnia and Herzegovina are doing the same exercise local administration is facing everywhere in the world where they accepted that promoting entrepreneurship and innovation has moved into the focus of the enterprise policy. European Commission promoted since 1999 six areas where actions should be taken to initiate progress.

<i>Areas covered by the EC Action Plan to promote entrepreneurship and competitiveness</i>	
(Formal) education and entrepreneurship training	Improving quality and visibility of (public) business support services
Improving access to finance:	Better public administration:
- filling the shortage of long-term finance	- registration procedure
- lowering cost of finance	- evaluation of the impact of legislation on SMEs
- problems of late payments	- code of conduct for officials
Access to research and innovation (technology transfer, R&D dissemination)	- public procurement policy
	Improving employment and working conditions

Municipalities and their personnel need to see themselves as delivering a service to enterprises as their customers. Their services influence the performance of businesses in many ways: being relevant to business needs (also in terms of quality), on time (saving time to business-people, allowing them to act promptly and focus on real business problems), and cheap. To change the established administrative procedures, it requires attention and support at the highest political level, e.g. the full determination of mayors and the City Hall to develop a business-like administration. However, this is a general problem: EU has focused part of their BEST project to **business environment and administrative simplification** and Slovenia has prepared the Anti-bureaucratic Program along the same issues.

Municipalities could act along following directions:

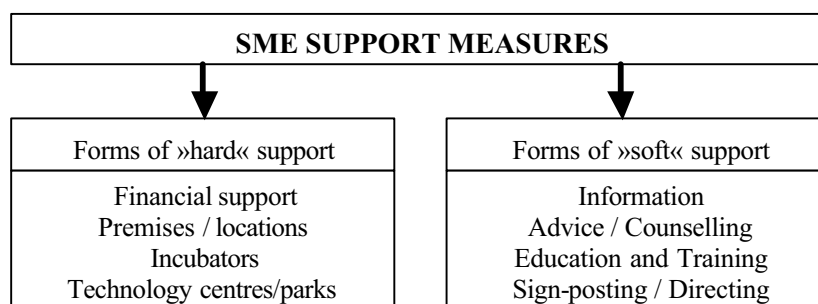
- to represent interests of the (local) business community toward the central government on legislation, regulatory practices and tax policy (as a virtual Office of SME Advocacy);
- the staff in municipal administrations should be made aware of the circumstances of business through training, information and awareness campaign (to start acting as facilitators);
- best practices among municipalities should be readily identified and subsequently adapted in other municipalities as well;
- the public procurement process should be open to SMEs through better information on tendering opportunities;
- municipalities should establish “one-stop-shop” approach, one single location for registration purposes for business start-ups with staff experienced in procedures, as well as for other permits, licenses and various documents;
- all administrative procedures have to be simplified as much as possible within existing regulation, made more transparent, time left to the administration to act should be shortened, with the focus on avoiding bribes and corruption;
- municipalities have to allocate appropriate resources to improve this area of public administration (staff, training, ICT equipment);
- the information about standard procedures has to be readily available through the leaflets (with the localized contents), practical guides as well as mass media to raise the “business literacy” among would-be entrepreneurs and existing owner-managers;
- municipalities/mayors should establish “round-tables” as means to exchange information, experience, complaints, to enable business to consult with administration before issuing new administrative practices/obligations.

We do not expect ideal solutions for these issues, but there should be steps made in order to assist businesses and ease existing tensions between business and politics. Mayors have to head these efforts to give the proper signals to officials that things have to change.

Municipalities: policies and programs to foster entrepreneurship

Municipalities could introduce different programs aimed at improving enterprise dynamics, particularly start-ups, to change local business climate, to facilitate collaboration behavior and increase the level of innovation. Distinction could be made between two forms of assistance.

Figure 13. Forms of SME support



When considering different forms, municipalities and their partner organisations should take into account the available resources, know-how, costs and benefits from different programs, the need to provide a variety of forms of assistance to cover for different needs of businesses at different stages in their life-cycle. Some measures are able to provide short-term results while other are best suited to support long-term business development. Some actions could be the case for low-cost assistance while other demand substantial investment. All actions could also be executed with less material resources when using alternative, more ingenious ways of delivery.

<i>Brief comments on different locally-based policies and programs</i>	
Finance	<ul style="list-style-type: none"> highly relevant for business development different forms suited for different businesses at various stages of their life-cycle: subsidised interest rates, soft loans, longer grace periods, issuing guarantees structure of measures have to change over time (flexibility) co-operation with local commercial banks and other financial bodies could greatly increase the financial potential physical proximity to financial institutions improves the access to finance targeted support for underrepresented entrepreneurial groups possible targeting of specific businesses (production, export-oriented, new-technology based, new jobs creation) combination of local, regional and national funds
Credit Guarantee Schemes	<ul style="list-style-type: none"> very important for SMEs that have difficulties to meet bank demands for lowering the perceived risks for commercial banks opportunity to create guarantee funds with private and public sources (also consortia/associations of entrepreneurs) involvement of peer groups in screening proposals usually the regional scope needed or some form of SuperFund

	<ul style="list-style-type: none"> • lots of experiences to learn from • the same amount of money serves more SMEs than loans
Venture Capital	<ul style="list-style-type: none"> • not very likely under existing circumstances • still interesting for some ventures with strong growth opportunities
Extension and Information Services	<ul style="list-style-type: none"> • direct technical assistance in a range of business functions important for the creation and development of businesses • not enough private suppliers of these services • public provision might be only temporary • could cover important gaps in adequate business planning, investment appraisal and documentation among SMEs • technical support, productivity and quality improvements possible • existing partners and their networks available • could use retired managers and other staff with partner organisations as cheap providers of relevant services • entrepreneurs usually do not recognise their need for this type of services
Business Incubators	<ul style="list-style-type: none"> • important for start-ups • successful start-ups could be recognised as role models to spur imitation • safe area for legitimate businesses • should be integrated with other forms of support and built into the local business environment • incubators could serve the community by extending their services to other non-resident businesses • useful in case of available premises • quite an expensive tool
Technology, Science Parks	<ul style="list-style-type: none"> • useful in supporting interaction with institutions of higher education • could enable the clustering of start-up and existing firms • could be the best providers of new technologies/industries • generate spillover effects to the wider community • relevant only with the “critical mass” of resources • takes a lot of time to generate important impact • quite a costly facility
Promotion of Business Networks	<ul style="list-style-type: none"> • integrating businesses, research bodies, education and training facilities and public authorities • foster innovation, strategic alliances and information sharing • could build extensive links with larger companies (guidance to SMEs from management experts, subcontracting, joint R&D) • demand lot of mutual trust • a local leader among owner-managers needed
Skills and Training	<ul style="list-style-type: none"> • new technology/industries demand new skills not yet available in the local labour market • efforts to identify skills shortages and to audit training activity • placement for job seekers • training according to already identified needs (customised programs) • have to be adapted to the time schedule of entrepreneurs
Schemes for Community Development	<ul style="list-style-type: none"> • promotion of social entrepreneurship: not-for-profit activities designed to solve for some problems of distressed urban areas • mix of private and public funds with private initiative • introducing innovative approach to social services, cultural and sports events • involving some strata of population not active elsewhere

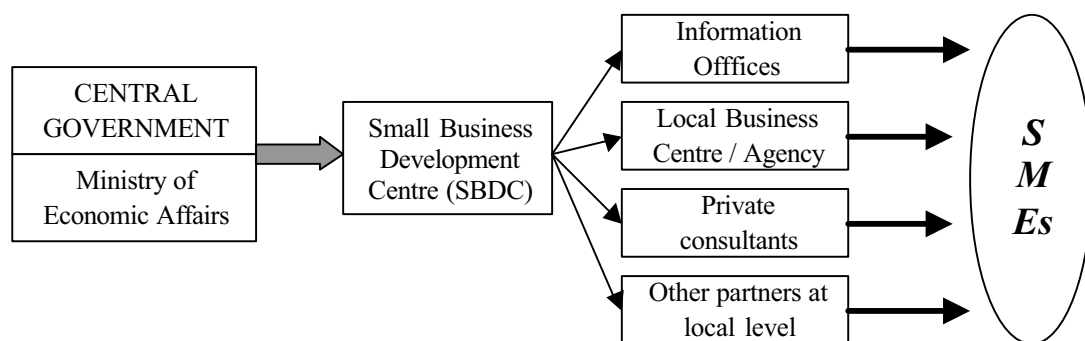
Municipalities have a range of activities available to design the proper mix of assistance to local businesses. To provide for this mix, it is important:

- to assess the needs of local entrepreneurs/businesses to provide for relevant services,
- to promote these services extensively among targeted groups of SMEs and population through out-reach activities,
- to encourage the culture of evaluation and benchmarking and to adjust programs or alter the policy mix if needed,
- to involve flexible, innovative and enthusiastic people.

The scale of resources expended and the public character of support programs enhance the need for proper evaluation of processes and results. The evaluation procedure along with its costs has to be built into support programs from the outset. Evaluations also helps to provide for better initial specification of objectives, outputs and expected impact.

Different support programmes have to be organised and delivered at different local levels, depending on the degree of expertise, the amount of needs to be served, the resources available, etc. Usually, SME support is delivered through business/enterprise support services as part of the SME support network. The design of the support network could differ between countries although in the absence of a strong network of chambers the structure encompasses following bodies as presented in Figure 14.

Figure 14. Structure of the SME support network

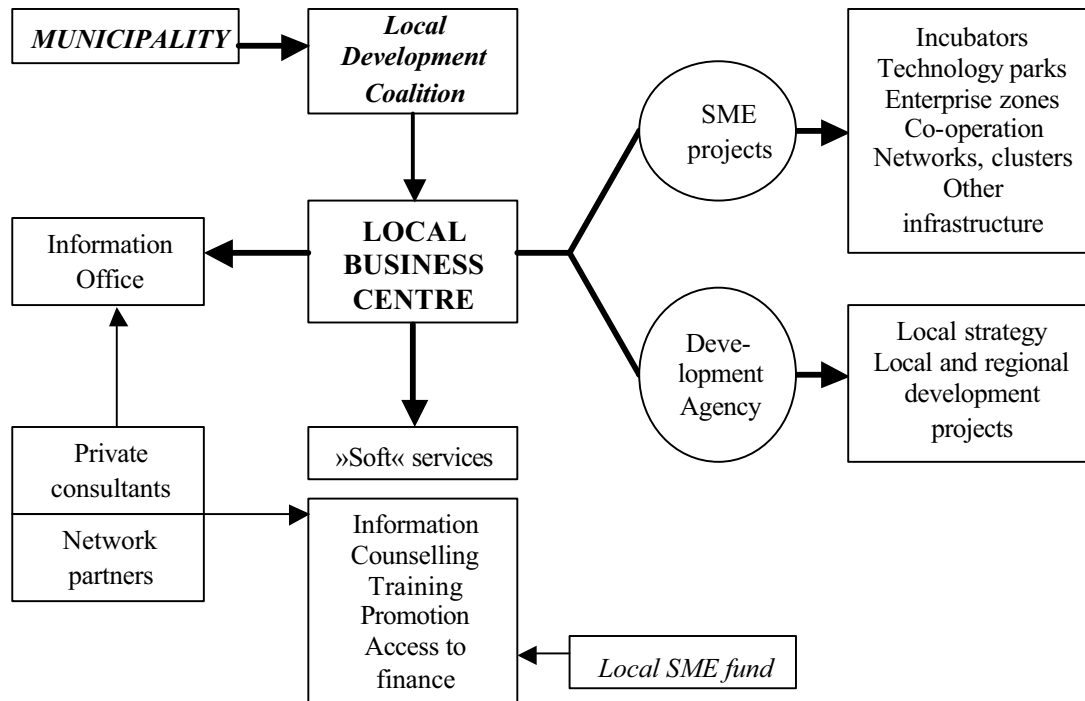


Within the SME support network, the SBDC takes the role of strategically managing and developing the network, while the Local Business Centre (LBC) should co-ordinate SME assistance at the local level, although assistance can be delivered by other organisations – partners of the network (chambers, consultants). If needed, Regional Business Centres (RBCs) can be established, although they mostly function as Regional Development Agencies (RDAs) integrating regional economic development and SME support. RBCs have their role with some specialised, expert forms of assistance, with complex projects involving a number of local communities), although some of them could be allocated to a LBC as the lead organisation of a consortium of LBCs and other partners. LBCs can be located at different institutions: according to some traditions there are chambers, universities or special para-governmental institutions.

The resources available have to be allocated among different forms or measures of SME support considering the needs of SMEs and the effectiveness of different support programs. The specific mix of SME support should vary among local communities and over time reflecting the

changing needs and stage of development of SMEs as prime clients of LBCs. LBCs have to take into account the costs and benefits of different measures to get the results in the most efficient way.

Figure 15. The integrated approach to local economic development and SME promotion



Local government: creating a supportive environment

There is another aspect of entrepreneurship promotion where municipalities could at least partly substitute for the role of national government: creating a “business-friendly” supportive environment and local “enterprise culture”. The era of “Big Business”, large socialist conglomerates considered small businesses as relics of the past, with little to contribute to economic revival and wealth creation. Now, the role of SMEs as a force for economic renewal through job creation and development of innovative products and services has to be fully recognized and the attitude of becoming “one’s own boss” encouraged. Since SMEs are the local phenomenon, this enterprise culture could be promoted at the municipal level even with the national level failing to provide proper assistance.

Municipalities could contribute to the enterprise culture through (1) programs/projects that encourage the enterprise culture, the enterprising values and attitudes among local population, (2) development of a business friendly and supportive environment within municipal offices, (3) encouraging self-initiative and risk-taking behavior.

This promotion of entrepreneurship locally demands some resources to be spent to support activities, but a coherent framework of activities is even more important. A lot could be done through low-cost activities using already established events or building on the enthusiasm or support of different civic groups.

<i>Some possibilities for enterprise promotional events at the municipal level</i>	
<i>Activity</i>	<i>Actions proposed</i>
<i>Conferences, round tables, workshops</i>	Round-tables on problems, activities and achievements (with the extensive coverage by local media) Local business (crafts) exhibitions, participation at trade fairs
<i>Promotional events</i>	Entrepreneur of the Year (Woman Entrepreneur, Family Business, New Start-Up) as the “local hero” Presentation of business achievements Innovation exhibition
<i>Publications on SMEs/entrepreneurs</i>	Case studies of successful ventures Support to local newspapers promoting entrepreneurs Publication of promotional leaflets, entrepreneurship guides, textbooks Entrepreneurship on electronic media
<i>Enterprise in schools</i>	Entrepreneurship as optional course at all levels of formal education Business plan competition in schools Entrepreneurs as guest-visitors to schools, pupils to visit local firms Entrepreneurs as sponsors to schools (for new equipment, libraries) Entrepreneurship projects (also not-for-profit) to raise awareness and gather experience
<i>Promotion of SME projects</i>	Promotion of the Local Business Center as “one-stop-shop” for everybody considering an entrepreneurial career Promotion of regional and international co-operation Involving local business within all municipal activities

Removing the historical prejudice to business and the many social and psychological barriers to SME entry could have the effect of creating a “SME-friendly environment”, which in turn could encourage other institutions to rapidly adapt to these new conditions. However, one has to act with utmost sensitivity for difficult local conditions in order not to create tensions between the new enterprise culture and still prevalent traditional attitudes.

Conclusion

There is a variety of possibilities for SME development at the local level and it is the task of local governments to support the most effective ones. Governments need an appropriate SME development strategy to provide a coherent framework of various measures. A delivery mechanism has to be in place in the form of business centres co-ordinating the portfolio of activities and monitoring the performance of SMEs and the impact of specific programmes or projects of support. Local Business Centres have to provide the proper implementation of SME support in order to generate new jobs and income in the most effective way.