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## THE ROLE OF GOVERNMENT IN SUPPORTING ENTREPRENEURSHIP AND SMEs

Small and Medium-sized Enterprises (SMEs) in market economies are the engine of economic development. Owing to their private ownership, entrepreneurial spirit, their flexibility and adaptability as well as their potential to react to challenges and changing environments, SMEs contribute to sustainable growth and employment generation in a significant manner.

SMEs have **strategic importance/link to file importance//** for each national economy due a wide range of reasons. Logically, the government shows such an interest in supporting entrepreneurship and SMEs. There is no simpler way to create new job positions, increasing GDP and rising standard of population than supporting entrepreneurship and encouraging and supporting people who dare to start their own business. Every surviving and successful business means new jobs and growth of GDP.

Unfortunately, Bosnia and Herzegovina has very small number of SMEs, and very low rate of entrepreneurship (Figure 1). There is no clearly confirmed determinant of small business, although criteria of business classification to micro (up to 10 employees), small and medium business promoted by EU becomes increasingly accepted. Undoubtedly, unfavorable business environment is one of the reasons due to which SMEs are undeveloped, although there is no real reason to deprive SMEs of governmental support and assistance.

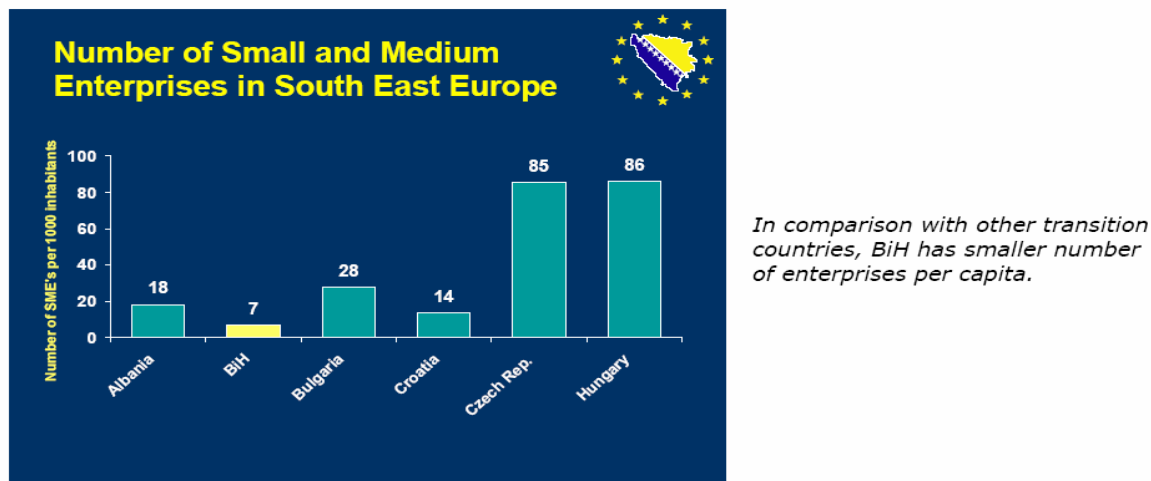


Figure 1: Number of SMEs in SEE (www.eppu.ba)

Success of the **microcredit sector in BiH/link to file microfinance//** which, *de facto*, boils down to provision of financial support through micro-credits is the best evidence that people in

BiH have entrepreneurship potential and that with small support they can successfully manage micro and small businesses. Accordingly, establishment of an appropriate support to entrepreneurship and small business by governments should be one of the key priorities. The fact is that BiH Medium Term Development Strategy (PRSP (2004-2007) in part III.1 (III.1. Enhancing the business environment for domestic and foreign investment and supporting entrepreneurship) as one of the goals defines 1.1. Promoting entrepreneurship and more rapid private sector development, but without appropriate operationalization and without clear description of the role and position of government and governmental institutions in obtaining this goal.

Therefore, designing a comprehensive, coherent and consistent approach of Council of Ministers and entity governments to entrepreneurship and SMEs in the form of government support strategy to entrepreneurship and SMEs is an absolute priority. A comprehensive government approach to entrepreneurship and SMEs would provide for a full coordination of activities of numerous governmental institutions (chambers of commerce, employment bureaus, etc.) and NGOs dealing with entrepreneurship and SMEs.

With no pretension of defining the role of government in supporting entrepreneurship and SMEs, we believe that apart from designing a comprehensive entrepreneurship and SMEs strategy, the development of national SME support institutions and networks is one of key condition for success. There are no doubts that **governments should create different types of support institutions**<sup>1</sup>:

- (i) to provide information on regulations, standards, taxation, customs duties, marketing issues;
- (ii) to advise on business planning, marketing and accountancy, quality control and assurance;
- (iii) to create **incubator units** providing the space and infrastructure **for business beginners** and innovative companies, and helping them to solve technological problems, and to search for know-how and promote innovation; and
- (iv) to help in looking for partners.

In order to stimulate entrepreneurship and improve the business environment for small enterprises in European Union the Heads of State or Government and the European Commission have decided to work on the [ten lines for action](#)<sup>2</sup> **//Link to file TenLines//** On out way of Bosnia and Herzegovina to European Union these 10 lines can represent a basic platform for creation of the overall strategy of governmental support to SMEs.

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<sup>1</sup> <http://www.unece.org/indust/sme/ece-sme.htm>

<sup>2</sup> For more details look at [http://ec.europa.eu/enterprise/enterprise\\_policy/charter/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/charter/index_en.htm)