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**Role of Small and Medium Sized Enterprises in the Regional
Development of Croatia**

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Abstract

The paper reflects upon the crucial role of small and medium sized enterprises (SMEs) in Croatia's local and regional development, particularly in circumstances when the Croatian counties (regions) are simultaneously faced with problems related to post-war reconstruction, economic transition, industrial restructuring and further development.

The authors point out the main goals related to the development of the SME sector in Croatia, as well as the importance of their development for particular categories of regions (counties affected by the war, border regions, industrial decline regions, etc.).

The basic problems and needs of the entrepreneurs in these regions are considered (on the basis of in depth surveys and interviews which were carried out in pilot regions). Furthermore, the paper provides a survey of proposed policy measures aiming to encourage the start-up of new small firms, as well as further development of the already existing innovative industrial small firms – thus contributing to regional restructuring and development of Croatia's „problem regions“.

1. Introduction

Since becoming an independent state Croatia was faced with problems regarding its transition to a market economy, post-war reconstruction, industrial restructuring and further development.

Even though the new territorial and administrative division of the country was accomplished in 1992, on the basis of which Croatia now has 418 communes and 21 counties (which can be considered as its regions for the time being), little attention was so far given to its regional development policy. This can partly be explained by the fact that the government gave priority to the process of macroeconomic stabilization during the first part of the nineties.

The elaboration of the project „Concept for Croatia’s Regional Development Policy“, which has recently been initiated is expected to provide the framework for Croatia’s regional policy, with concrete proposals for improving the existing and introducing new policy measures.

The proposed measures will primarily have to target the following „problem“ regions:

- war-affected regions
- industrial decline regions
- border regions (particularly border towards Slovenia and Bosnia and Hercegovina)
- islands
- other regions lagging in economic development (coast, peripheral and highland regions, other)

Since the first category of regions are faced with the most urgent problems of reconstruction, economic and social development and the development of the necessary infrastructure (road, communal, telecommunications, energy, economic support infrastructure, health, educational and other) it is understandable that their development will be one of the priorities of regional policy and that both the central and county governments will have to create specific instruments which will target their development. Due to this reason the paper will be focused on particularly these areas, and will look at the possible role of small and medium enterprise (SME) development within the post-war reconstruction process of the war affected counties.

2. Contribution of SMEs to local and regional development

Current situation with SME development in Croatia

The contribution of SMEs to Croatia's local and regional development follows from their contribution to the overall Croatian economy. These enterprises contribute to 49,7% of total employment and account for 47% of GDP. Their productivity is above other sectors - they account for 53,2% of total income, profit per worker is 4 times higher and income per worker is 2,5 times higher. Their contribution is evident from the fact that they can:

- contribute to sustainable development
- contribute to the competitiveness of the economy
- boost Croatia's exports
- stimulate foreign investments
- foster innovations and technological development
- accelerate industrial restructuring
- speed-up post-war reconstruction
- increase employment levels
- contribute to higher living standards.

The potential role of SMEs was substantially hindered by the fact that the main problems which affect SME development on the local, regional and central level were the following:

- lack of consensus regarding SME development policy
- lack of awareness concerning the importance of SMEs, particularly on the local level
- lack of skills and knowledge (particularly organisational)
- lack of coordination and horizontal and vertical information flow (particularly in war affected regions).

Even though general consensus has still not being achieved, the awareness concerning the importance of this sector is currently recognised both on the central government level (Ministry of Economy, Ministry of Science and Technology), as well as in the more developed counties (North-West part of Croatia). The awareness has particularly grown

since the Ministry of Economy had in 1997 introduced a support scheme for SME development programmes which are initiated on the county and local level.

The lack of specific skills and information flow has also been recognised in several counties, which have, on the basis of the „bottom-up“ approach, initiated the development of the first advisory centres and networks of information centres within which specific services, advice, information as well as the first education programmes are being introduced and provided to local entrepreneurs.

Role of SMEs in Regional Development

SMEs are today still considered one of the key factors of local and regional development. The growing interest regarding these enterprises is the result of global structural and technological changes which fostered the process of deindustrialisation, restructuring of large urban enterprises and short term difficulties regarding the rise of unemployment.

Since the trend towards SMEs was continued even after the accentuated expansion of national economies during the eighties, it is possible to conclude that their expansion is not just a cyclical phenomenon (Pyke, Sengenberger, 1992).

Considering that SME support measures are an important segment of regional policy measures in many West European regions, it is not surprising that the small enterprise sector is referred to as the „regional lifebelt“.

Even though there are many disputes regarding the links between the locality/region and the development of SMEs, we argue that this role is accentuated, particularly in a country like Croatia, in which most SMEs are still the typical micro „family-enterprises“, and only a small percentage are the typical innovative, high tech small firms, whose business is to a very small extent linked to the locality in which they operate.

After all, clusters of small enterprises and the processes of horizontal and vertical networking (both with large enterprises but even more so among only small enterprises) are to a large extent triggered on the level of the region. Along economic reasons for the local networking of SMEs, the local and regional political and social context is also significant – meaning here the less defined resources of territorial organisation which emerge from the existing ties to the place of living, family bonds, membership to political parties, social rank, ethnical and religious groups, as well as other socially integrated structures. These resources provide a sense of belonging and trust, which also create the

basis for mutual exchange and cooperation of entrepreneurs in a certain locality (Loveman, Sengenberger, 1990).

Furthermore, local and regional socio-cultural factors also influence cooperation and development of SMEs on the local level. Among them we can mention the local business culture and tradition, social cohesion, social solidarity, motivation for change, interpersonal communication and other which link entrepreneurs, enable the transfer of local knowledge and skills, as well as local exchange of information. It is these „subjective“ or „untouchable“ factors which substantially influence the local entrepreneurial climate, promote the start up of new enterprises, as well as their further development by way of better access to information, closer links with other enterprises within and outside the region, as well as the transfer of existing and the creation of new knowledge. These factors, which are particularly accentuated on the local and regional level, promote efficiency and competitiveness of local enterprises, and enable the influence of SMEs on the revival of the local and regional economy.

Having in mind the contribution of SMEs to local and regional development in countries of West Europe, and during the nineties also in Central and East Europe – particularly regarding their role in enhancing innovation, flexibility, employment, industrial restructuring and export, it is expected that their role could also be significant in the regional development of Croatia. Their role in Croatia is even more accentuated due to the small size and market of the country, in which specialised production, tailored to the specific needs of a narrow market is a necessity.

The circumstances with which Croatia is faced with - high unemployment levels, transformation process, industrial restructuring and reconstruction – accentuate their role even more so.

Since major initiatives and support from the central government level were till recently completely unexisting in Croatia, several initiatives and development programmes regarding SME development were triggered from the part of local policy makers, as well as informal actors on the local and county levels. Such „bottom up“ initiatives were particularly important in circumstances of unexisting financial or other government support, and they are relevant in the sense that they could serve as pilot projects for other regions.

For example, initiatives such as the first business incubators, business advisory centres, training programmes and financial schemes which were introduced in some municipalities, towns and counties are interesting from the point of view of long term regional development of the regions in which they were initiated. Namely, before these „bottom-up“ local initiatives were implemented, no economic support institutions for SMEs existed in Croatia. In the absence of international technical and financial support, these initiatives contributed to the creation of the entrepreneurial environment in several regions. However, these initiatives were mainly implemented in the more developed regions, with an already existing entrepreneurial climate and lively SME sector. The local, regional, but also central government is now faced with the more difficult task of promoting such activities in Croatia's typical problem regions, among which, the war affected regions are a first priority.

The role of SMEs in post-war regions

Small enterprise development has conventionally played a key role in addressing the reconstruction and development needs of many post-war regions, where the collapse of the economic, physical, institutional, social and business infrastructure has been extensive. Although an extensive literature has arisen focussing upon the contemporary features of small enterprise development in Italy, Japan and Germany, it is also the case that reconstruction and development policies in these countries immediately after World War II relied extensively upon the development of the small and medium enterprise sector. These initial policies and their offspring not only brought about rapid economic recovery, but also led on to stunning regional and national economic success over the longer term (Friedman, 1988; Porter, 1990; Sengenberger, Loveman and Piore, 1990; Pyke, Becattini and Sengenberger, 1990; Pyke and Sengenberger, 1992) .

First, SMEs are ideally situated to provide an immediate boost to the supply of critically needed consumer and other goods. This service takes place before larger production units can be restarted and before foreign suppliers are willing to work in the region. Local entrepreneurs will have a good idea of what is most in demand. In most instances, the first response is overwhelmingly to supply these needs through trading activity. However, once political and

economic stability is assured, the entrepreneurial sector then begins to favour small-scale production or local sourcing, which begins the process of employment creation. Small enterprises are especially well represented in construction, an obvious feature of the reconstruction effort in most war-affected economies. This means a major fillip is possible for a sector typically characterised as using a high percentage of local resources (raw materials and labour).

Second, small enterprises are a very rapid way of "bottom-up" employment generation in the immediate aftermath of a war in order to begin the economic development cycle once more (UNDP, 1996b, 1996c).

Third, there are very important social and humanitarian benefits to be gained by local communities from rapid small enterprise (especially micro-enterprise) development. Local activity avoids the emergence of a "culture of dependency". Locally-driven small enterprise development goes some way to repairing the great psycho-social damage done to war-weary populations, through rapidly restoring a sense of self-respect, self-confidence and the feeling that local people can participate in the rebuilding of their shattered communities. The encouragement of community participation through small enterprises is also vital to the process of developing an entrepreneurial business culture and a stronger democratic political culture. Small enterprise development was, for example, the key to the success from the 1950s onwards of the Mondragon group of enterprises in the Basque region of northern Spain, when local political self-reliance and cultural self-expression were ensured through business success and economic autonomy.

Fourth, small enterprises are very useful in re-integrating and building bridges between regions which may have become separated or pushed together because of war. A thriving small enterprise sector involves the construction of economic, political, social and cultural linkages which can join previously war-affected or unrelated areas together to create a successful regional economic space which transcends previously inviolate borders or front lines.

Fifth, in general, much of the essential fabric which underpins market relationships - retailers, wholesalers, financial institutions, transport and communications, and so on - is often swept away in a war-affected region. Against this background large enterprises generally take very considerable time to recover, even moreso if the government is not in a position to help, or where the large enterprise before the war was already in a very precarious state. However, small enterprises can start to operate and develop against such a background with little problem. Their markets are generally local or regional, they overwhelmingly use their own financial resources and they can often tap into the remaining bedrock of family and social contacts and other relationships of trust which remain to do business.

Six, it is inevitable that the few remaining large businesses in the region will be important to the economic development prospects of the regions under consideration. However, in trying to begin to compete once more on the domestic and international market they will be hampered in their efforts not just by the need to reconstruct the physical asset base, but also because of the absence of a local supplier base able to provide for at least some of their smaller-scale input requirements (Bateman, 1997b; Bateman *et al*, 1998). Small enterprises can provide that critical supplier base, around which the larger enterprises can fruitfully develop and expand, as they proved to be so instrumental in Germany and Japan after World War II. Moreover, large-scale domestic, and possibly later on foreign investments too, will more likely be attracted into the regions if there exists a fabric of small-scale manufacturing enterprises able to provide quality small-scale inputs, technologies, services, and so on. In fact, large enterprises increasingly base their location/investment decision on the depth and quality of the local supplier base (Porter, 1990). Thus, such large-scale investments into a post-war region will be discouraged until there exists a fabric of emerging small enterprises able to take maximum advantage of the associated new business opportunities which a large investment represents to consolidate and expand their operations.

3. SME Development in Croatia's war-affected regions¹

The war affected counties in Croatia were the following: Vukovarsko-Srijemska, Osječko-Baranjska, Brodsko-Posavska, Požeško-Slavonska, Sisačko-Moslavačka, Karlovačka and Zadarsko-Kninska.

The economic functioning of these counties has been clearly undermined by four years of war. The breakdown in communications, loss of markets, neglect of capital assets, destruction of the infrastructure, loss of personnel wealth and enormous social disruption contributed to a significant loss of economic activity, and many of these factors have yet to be addressed. The large enterprise sector has reduced its operations to a small fraction of its pre-war level of operating capacity, much equipment is now redundant and markets in the wider region (both in other parts of former Yugoslavia and in neighbouring former Communist countries) have been lost. In addition, many entrepreneurs and potential entrepreneurs have left the regions and have no real plans to return. In many cases, they have successfully integrated into entrepreneurial activities in the capital, Zagreb, or else have gone abroad. The remaining population is largely unsuited to entrepreneurial activities.

Apart from the damage to the infrastructure and physical assets, the seven counties in question continue to suffer from a general de-population phenomenon. Many who were refugees and left at the start of the war and are now none too keen to return: some found work in the capital, Zagreb and are loath to leave their new comfortable environment and some left to go abroad.

What role might small enterprises play in the Croatian war affected counties?

At the outset we can say that small enterprise development is likely to be particularly germane to three crucial issues which the war-affected regions in question, the Croatian government and the international community are all urgently attempting to address:

- The war has resulted in a collapse of official employment throughout the war-affected regions, with some estimates putting the average rate of unemployment at around 30-50% per cent of the population. Quite apart from the obvious adverse individual economic consequences, this is severely undermining the morale of the wider community.
- Croatia is also an economy in transition, which means that the government must also dismantle the old system of social ownership and the over-emphasis upon the large enterprise system. As elsewhere in the transition economies, small enterprise development is particularly suited to this task.
- A substantial number of displaced persons elsewhere in Croatia and some in third countries are anxiously awaiting the right conditions to attempt a return home. This return process is made extremely difficult because there are no employment opportunities, or the chance to support oneself and one's family, on returning to the region. Small enterprise development - i.e. offering up the prospect of being able to establish one's own business - may be the only way, in the short term at least, that such a situation may be overcome in a non-coercive manner.

Survey findings

A key element of the research project on SME development in the Croatian war-affected regions was a questionnaire survey of 120 small firms. The target group was small firms up to 100 employees. It was backed up by 10 case studies of individual firms within the sample of 120, as well as interviews with local and central government officials, business associations, chambers of commerce and other relevant organisations. For the purpose of

obtaining a picture of the business environment, the survey was germane and provided crucial information upon which SME support policies should be structured to assist **both** existing businesses and new businesses.

Mode of foundation: Nearly all firms were started from scratch, with half (50%) founded before 1991 and over a third (39%) after 1991. Only one tenth (11%) were spin-offs from larger firms or conversions from socially-owned firms.

Date of foundation: Many of the firms founded before 1989 were handicraft firms, some of which were founded in the 1950s and 1960s. But relatively large numbers of firms were founded between 1990 and 1994 - that is, during the period of war. Numbers of new firms founded in 1995 have fallen sharply and had still not reached previous peaks in 1996.

Employment growth: Over the 12 month period before the interview on average there was a net increase of about 0.7 employees per firm. On average firms claimed to have increased employment by 29% over the previous year. Having said this, over half of firms (54%) experienced no employment growth, but a minority of firms (20%) were fast growers expanding employment by more than 50% over 1995.

Characteristics of the entrepreneurs: Most entrepreneurs (52%) had previously been employed in the state sector, mainly large enterprises, but left to found their own business. A small percentage (11%) left other private sector jobs to set up on their own. Only 6% had been motivated to establish their own business because they were unemployed at the time or under threat of unemployment. The typical occupational background was in management (38%) and sales and marketing (18%). Most had secondary education (40%) or university education (27%). The main reason for starting a business (cited by 47% of respondents) was due to "a good opportunity to increase earnings in my own business".

Start-up problems: The great majority of firms (77%) reported that the main problem they faced on start-up had been the lack of start-up finance. Most entrepreneurs used their own capital to finance the start up of their business, with 57% of firms providing more than half of their start-up finance from their own resources. No other single start up problem had

anything like the impact of this factor. The next most cited main start up problem was "red tape" and bureaucracy and regulations, cited by 11% of respondents. Surprisingly perhaps, high interest rates were cited as the main start up problem by only 3% of firms. The reason is that only a small proportion of start up finance is based on interest-bearing bank loans. Note that only a few firms had received any form of assistance on start up. The only significant form of assistance which was received on start up was tax relief, received by 17% of firms.

Growth problems: The biggest growth problems are high labour taxes (4.35, on a scale of 1 no problem -5 major problem), followed by lack of finance (4.28), late payments (4.22), high interest rates (4.04), business uncertainty (3.93) and "red tape" (3.76). Many firms (76%) were engaged in sub-contracting, although only a quarter (26%) sub-contracted more than half of their output. The main problem facing sub-contractors is late payment, cited by 50% of those firms engaged in sub-contracting. High interest rates, though not a problem for start-ups, are much more of a problem for firms wishing to expand on the basis of credit. The least important obstacle to growth was lack of demand (3.02). Although capacity utilisation remains low at 63%, respondents provided an average forecast improvement to 79% through 1997. *Demand expectations are therefore favourable.*

Effects of war: One quarter of firms (25%) virtually ceased production as a result of the war circumstances, and 12% experienced a drastic fall in production. A further 14% experienced a small decline in production, while 19% actually started up in this period in response to a perceived demand.

Effects of peace: Now that the war is over, the most important change which firms expect is that demand will increase (3.8). Other expected changes include being paid for work done (3.7), easier access to credit (3.67), easier travel to find business (3.6), easier to repair equipment (3.2), easier to get construction related work (3.2). *The least expected change is getting foreign investment (2.8).*

Policy support: The single most important form of support which firms would like to receive was financial support (access to low cost finance cited by 76% of firms), followed by the provision of business and marketing information (6%) and tax relief (6%). Less important were in finding new premises (4%) (not surprising since firms already established presumably already have premises) and in introducing new technology.

University - Enterprise links: Firms were asked whether they cooperate with experts from Institutes and Universities Over one third (38%) do so occasionally, but 15% do not see any need to do so. However, a further one third (36%) do not cooperate with experts from Institutes and Universities, *but would very much like to initiate such cooperation.*

Information and advice: Most firms (57%) find the existing business information they get as "not too useful". Their main source of information is professional magazines. The Chamber of Economy and County Offices for the Economy are less important as sources of information. Entrepreneurs usually turn to friends and neighbours for advice, rather than Chambers of Economy, the Chambers of Handicrafts, or the varied associations of entrepreneurs. Most firms (78%) are only partly satisfied with the business advice they currently receive. Not surprisingly, therefore, a large majority (85%) of firms expressed a need for a local development agency and/or fund to support their activities.

Results and policy implications

The study identified a number of key policy interventions which could form the basis of a comprehensive programme of small enterprise support in the considered counties. We are well aware that, ideally, a whole array of programmes could and should be implemented to good effect in the regions under consideration. However, such a "shopping list" of programmes offers no real solution to the problems which we have addressed in this study. Accordingly, we restrict ourselves to suggesting only six areas for priority attention, some of which clearly overlap:

- i. a network of small enterprise and business support agencies is clearly the first priority for the considered areas. Every county should take immediate steps to establish such an agency.

Even simple business plan preparation presents a problem for some potential entrepreneurs. Business support services must be locally accessible, relevant, continuous and comprehensive, all of which means a major financial commitment must be made. In the short term the agency acts to assist those potential entrepreneurs with ideas and energy to get established. In the medium to longer term, it can promote a local entrepreneurial culture and undertake a number of sectoral support programmes where appropriate.

- ii. increasing the availability of affordable finance. This is the single biggest barrier to entry in the counties under consideration.

In the short term this may be achieved by petitioning both the national government and the international community for greater resources to be made available to the counties (eg. credit lines, loan funds, grants). Since many established financial institutions, especially in Zagreb, are shying away from committing their own funds to the war affected areas on account of the perceived risk, a free market approach will clearly not produce the required results.

In the medium to long term, the key task is one of institutional building - to establish a range of local institutions which begin the process of local capital accumulation, e.g. local banks and micro-credit banks, credit unions, loan guarantee funds, savings clubs, financial associations and so on. This requires that local actors (eg. SME development agencies) and national actors (eg. various ministries, major banks) cooperate together. In the short term there will also be a role for the international agencies.

- iii. use of business space made vacant by the war.

One of the paradoxes of the war is the vast amount of business space made "available" by the war and by the associated economic collapse, yet the very high rents being charged to entrepreneurs within the commercial property market. This market failure exists because of a conventional struggle over resources between property owners and non-property owners. Property owners are attempting to turn their assets into a source of revenue by charging high rents to the emerging business sector. However, it is only a tiny elite of new entrepreneurs and businesses which can cover western European levels of rent; most new businesses in Croatia have little chance of meeting very high rents, and even well-established businesses will be hard pushed to do this. In many cases, it is the state which is the owner of business accommodation, and it too attempts to fund its own operations through high rental charges. High rental charges thus constitute a significant barrier to entry.

In order to bring more business accommodation into general use by entrepreneurs it is incumbent upon the state at all levels to intervene to ensure that its own recapitalisation and restructuring, through high rental charges for state property, does not take place at the expense of local economic development. One way to do this is to ensure that large firms indebted to the state (as many, unfortunately, are) agree to negotiate a debt cancellation or reduction on condition that their surplus business accommodation is made available for entrepreneurs at a low rent, if not for free in the first year or so of operation. The many "debt-for-equity swaps" which have been in vogue for some time in Eastern Europe should be replaced by "debt-for-business accommodation swaps", which will have more of an impact on the local business development process than any sort of future support to the business sector offered by a newly recapitalised local state.

- iv. support for small enterprises must be tied more closely to other development, reconstruction and rehabilitation programmes underway.

It is clear that the full range of externalities and linkages between reconstruction and development programmes are not being fully exploited. Too little attention is being paid to releasing to the small enterprise sector some of the resources locked up in the large enterprise sector, which is now under rehabilitation. Notwithstanding the

destruction and neglect of the last five years, large enterprises in the mentioned counties have a substantial asset base (business accommodation, equipment and machinery, technologies) which could be utilised very rapidly by the small enterprise sector. A further example in this direction is the enormous amount of construction activity currently being undertaken which could provide a significant boost to the local small construction enterprise sector if contracts are awarded appropriately, though still competitively, to suitably qualified construction-sector small enterprises.

- v. promoting agro-business sector development. This is a major potential for promoting entrepreneurial activity and capital accumulation.

The Slavonia region has major potential in this direction which should be utilised through a programme of support for new agro-processing technology acquisition, training in business skills for agricultural personnel, financial assistance, and strengthening of the old farming co-operative associations so that they can become more entrepreneurial and business-like in supporting their members. Even in the southern less fertile regions, there is potential for some form of agro-business development (eg. early vegetables in glass houses) serving the Adriatic tourism regions just to the south.

- vi. working closely with state and/or large enterprises, whether in decline or growth, to support small-scale entrepreneurship.

Many large enterprises continue to experience over-manning and remain keen to release this excess labour, with the most favourable "destination" being into self-employment and new small enterprises. This process should be given much greater priority. Many employees wish to leave the large enterprise and establish their own business, but they do not do so because they require support in undertaking such a major step. Even if the large enterprise will inevitably perish over the longer term, and the redundancy programme is therefore effectively futile, it can nevertheless be made to bequeath a vibrant small enterprise sector in its vicinity through a planned redundancy programme and the divestment of remaining equipment and material.

In addition, there is some potential for increasing the amount of industrial subcontracting undertaken by the large enterprises, which will involve local small enterprises. Industrial subcontracting and local supply chain development are recognised as efficient tools to increase the rate of utilisation of installed industrial capacities and to allow large enterprises to specialise in a limited amount of outputs. Industrial subcontracting will also serve to increase industrial production and employment in local small enterprises and allow them to integrate into, and thereby strengthen, the industrial structure of the local economy as it attempts to return to normality.

- vii. creating the conditions for entrepreneurship within that large section of the community which would not otherwise have been willing to take the risk, especially among those wishing to return to the considered area from elsewhere.

There would seem to be a great number of people who are on the verge of becoming involved in entrepreneurial activities, but fail to take the final step mainly because of the risk and the costs involved. However, since a reluctance to establish a new business is not always related to the potential which that business idea contains, entrepreneurs on the margin can actually make a significant contribution to economic development once they actually do "take the plunge".

It is particularly important that these entrepreneurs should be given every encouragement to "give their idea a try". Reluctant entrepreneurs can be tempted into activity through lowering the barriers to entry and reducing the costs of failure associated with exit. This could involve, for example, Business Incubator facilities, which can offer a very low cost method of encouraging potential entrepreneurs into testing out their business ideas. Minimising the labour tax and contributions of new businesses, and entrepreneurship training programmes could also make the transition from unemployment into small business much easier (as well as increasing the chances of longer term success).

4. Concluding remarks

Evidently the role of small enterprise development in the process of reconstruction, restructuring and further economic development in Croatia would appear to be uncontroversial. As an engine for local economic development it is able to kick in much faster than other development options, particularly in comparison with initiatives „top-down“ aimed at restarting the large enterprise sector, and it very efficiently addresses the key immediate requirements of the most problem regions – the war affected counties. More than this, as has been shown by experience elsewhere and to an extent by the data outlined herein, small enterprise development (both small enterprises themselves and the surrounding institutional framework) is a very useful way of promoting „bottom-up“ democratisation and the reconstruction of civic society. It rapidly leads to a greater degree of enfranchisement of social groups and categories (demobilised, refugees, etc) which would otherwise have little voice within post-war society.

The situation in the war-affected regions in Croatia is that of there being no extensive pre-war small enterprise tradition, but an interest to use this development tool as a way of both post-war and post-communist reconstruction. The lack of any meaningful pre-existing tradition of business enterprise in the region is an obvious handicap, but the research shows not an over-riding barrier to business activity. What is most apparent is not so much that the barriers to increased business activity are different to other regions, only that the depth of the conventional barriers is that much more pronounced. There was unanimity that the market mechanism will be an insufficient catalyst for these regions, and that they will require substantial assistance if they are not to be resigned to a very marginal existence in the longer term.

Footnotes

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