



International  
Labour  
Organization

► Guide to  
**Recommendation 189:**  
**Job creation in small and  
medium sized enterprises**  
**Recommendation**





**Guide to Recommendation 189:  
Job creation in small and medium sized  
enterprises Recommendation**

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First published 2022

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ISBN 9789220361412 (print)

9789220361429 (web PDF)

**Also available in** French: *Guide sur la Recommandation 189 sur la création d'emplois dans les petites et moyennes entreprises*, 1998, ISBN 9789220361436 (print) 9789220361443 (web PDF); Spanish: *Guía de la Recomendación 189: Creación de empleos en las pequeñas y medianas empresas*, ISBN 9789220361450 (print) 9789220361467 (web PDF).

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## ► Preface

On 17 June 1998 in Geneva, the International Labour Conference adopted Recommendation No. 189 concerning General Conditions to Stimulate Job Creation in Small and Medium-sized Enterprises. The Recommendation is the only up-to-date International Labour Standard for ILO constituents which aims to present the widest range of possible actions to promote employment growth in small and medium sized enterprises. In 2001, the first Guide to R.189 was published with the aim for a better understanding of the Recommendation.

This updated guide is part of the request submitted to the Governing Body of the ILO in October 2019, which adopted – amongst other - recommendations regarding the ILO R. 189 on Job creation in Small and Medium Sized enterprises, and demand “the Office to commence work on developing tools and a compilation of good practices in relation to public employment services, and guidance on job creation and decent work in SMEs and the establishment of an enabling environment for sustainable SMEs, including consultation with the Bureau for Employers’ Activities and the Bureau for Workers’ Activities”.

The ILO supports member states in the formulation, implementation and monitoring of changes contributing to an enabling environment, including a specific product line for enterprise formalization.

In response to this request, this guide seeks the implementation of the Recommendation by giving key elements to consider when implementing it and examples of good practices and latest strategies, tools and responses developed by the ILO for the promotion of SMEs.

Given the outbreak of COVID-19 and the associated economic crisis, this guide is especially relevant today as it integrates recent trends in SMEs, and the challenges raised by these new changes.

It is hoped that the guide will be used to learn from different regions of the world and help Member States to coordinate actions for the creation of an environment conducive for the development of sustainable enterprises.

### Acknowledgement

This guide was prepared by Soary Ratsima Rasendra, ILO official at Headquarters, in consultation with ILO Enterprise field specialists, including: Rodrigue Raoul Zuchuon, Jose Manuel Medina, Jens Dyring Christensen, Kelvin Sergeant, Charles Bodwell, Daniela Zampini, John Bliek, Alvaro Ramirez Bocantes and Michael Watt. Valuable contributions were received from Séverine Deboos, Michael Elkin, Judith Van Dorn and Virginia Rose Losada. ACTRAV and ACTEMP in the person of Christian Hess, Claire La Hovary, Mohammed Mwamadzingo, Jose-Luis Viveros Anorve and Roberto Villamil are acknowledged with appreciation.

The guide was put together under the overall guidance of Radic Dragan and Vic Van Vuuren.



## ► Introduction

The Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189) is the only international labour standard (ILS) that provides guidelines on general conditions to stimulate job creation in Small and Medium-sized Enterprises (SMEs). The Recommendation highlights the links between quality job creation in SMEs and employment policy, human resources development, cooperatives and compliance with labour legislation and occupational safety and health standards. It recognizes the contribution of SMEs to the promotion of full, productive and freely chosen employment, the creation of income generating opportunities, the inclusion of disadvantaged groups and the importance of training and human resources development.

The ILO's promotion of SMEs contributes to the creation of productive employment and decent work for all and can play a key role in economic contribution and social well-being across the world. Two out of three jobs worldwide are created by SMEs. In many developing economies, more than 50 percent of total employment creation in the private sector can be attributed to enterprises with less than 100 employees. In developed economies, SMEs generate 55 percent of GDP (ILO, 2019). SMEs also represent the vast majority of economic units with over 90 per cent of the business population. In short, SMEs are a central economic and social force for employment, growth and income levels across the globe. (ILO, 2019).

Promoting job creation in SMEs against this background is the focus of the Recommendation No. 189. The purpose of this guide is to familiarize readers with its content, to explore key elements to consider when implementing it, and to share example of good practices.

## Background to the Recommendation No. 189

The ILO has on several occasions reaffirmed the importance of small and medium enterprises (SMEs) as motors of economic growth and development and has emphasized the need to establish a legal framework that is adapted to their needs<sup>1</sup>.

In 1964, the International Labour Conference (ILC) adopted Convention No. 122 regulating national employment policy.

Convention No. 122 requires states to declare and pursue an active national policy designed to promote full, productive and freely chosen employment, understood to include SMEs as a clear target in this regard.<sup>2</sup> Under this framework, an enabling environment for enterprises and support for SMEs are of strategic priority.

Later in 1986, the ILC General Discussion on promotion of SMEs in 1986 confirmed the importance of SMEs as one of the vehicles for social progress and employment creation, as well as ILO's contribution to SME promotion and entrepreneurship development.

## In 1998, the ILC adopted Recommendation No. 189

The adoption by the Conference of Recommendation No. 189 constitutes an explicit recognition of the importance of SMEs as a source of jobs, providing a specific framework to ensure that SMEs, as well as micro-enterprises, create jobs in compliance with international labour standards. Constituents have stressed the importance of promoting the development of SMEs as they play a pivotal role in poverty reduction through job creation.

1 ILO, General Survey concerning employment instrument, (ILC, 99<sup>th</sup> session, 2010, Geneva, Report III (Part 1B)), para 385.

2 ILO, Employment policies for sustainable recovery and development (ILC, 103<sup>rd</sup> Session, 2014, Geneva, Report VI, recurrent discussion, pp. 61-64).

## Since the adoption of the Recommendation No. 189

Small and medium-sized enterprises (SME) promotion is a mean to create more and productive employment and decent work for all. Sustainable SMEs create productive jobs and income, reduce poverty and inequalities, and overcome decent work deficits. The Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), should be understood as part of the body of ILS that have been adopted within the ILO.<sup>3</sup> Moreover, the contribution of SMEs, including micro-enterprises, to social and economic development was reiterated by the Global Commission on the Future of Work in 2019; and the value of promoting decent job creation, entrepreneurship, and the formalization and growth of SMEs is recognised in the 2030 Agenda for Sustainable Development (SGD 8.3).

In 2007, the ILC general discussion on promotion of sustainable enterprises concluded the necessity of the application of the Recommendation to the promotion of sustainable enterprises. Moreover, in 2015, the ILC general discussion on SMEs and productive employment creation reaffirmed the validity of the issues and strategies outlined in Recommendation No. 189, which continued to guide interventions for SME promotion.

A number of International Labour Standards also make direct or indirect reference to issues of employment and the role of SMEs. These include:

- ▶ The Human Resources Development Convention, 1975 (No. 142) and the Human Resources Development Recommendation, 2004 (No. 195)
- ▶ Promotion of Cooperative Recommendation, 2002 (No. 193)

▶ The Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169)

▶ The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) and

▶ The Employment and Decent Work for Peace and Resilience Recommendation, 2017 (No. 205)

In terms of content, the Recommendation No. 189 provides a specific framework to ensure that small and medium-sized enterprises, as well as micro-enterprises, create jobs in compliance with international labour standards. It expands the original guidance concerning employment creation taking into account:

▶ The necessity of the promotion of an enterprise culture, and the adoption of measures that ease the burden of starting up a business

▶ The need of improving access to credit and other incentives to enable people to set up SMEs

▶ The condition of consultation with the social partners and other stakeholders operating in the SME sector to facilitate the adoption of policies and measures conducive to economic growth and job creation

These interconnected and mutually reinforcing conditions indicate that “enabling environment for sustainable enterprise development comprises a large array of factors, the relative importance of which may vary at different stages of development and in different cultural and socio-economic contexts. However, there are some basic conditions that are generally considered to be essential”.<sup>4</sup>

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3 The main ILS adopted and inherently linked to R.189 are: the ILO Declaration on Fundamental Principles and Rights at Work and its Follow up (1998), the ILO Declaration on Social Justice for a Fair Globalization (2008), the Social Protection Floors Recommendation No. 202 (2012), the Transition from Informal to Formal Economy Recommendation No. 204 (2015) and the Employment and Decent Work for Peace and Resilience No. 205 (2017). The Global Employment Agenda (2003), the Conclusions concerning the promotion of sustainable enterprises adopted by the 96<sup>th</sup> Session of ILC (2007) and the ILO Centenary Declaration for the Future of Work (2019) provide further guidance for interventions on SMEs promotion.

4 Conclusions concerning the promotion of sustainable enterprises, 96<sup>th</sup> Session of ILC (2007).

## ► Context

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### SMEs play an important role in job creation

There are more than 2.3 billion people who either work in SMEs or are own account workers together account for 70 per cent of total employment, making them by far the most important drivers of employment.<sup>5</sup> In high income countries, 58 per cent of total employment is in small economic units, while in low and middle-income countries the proportion is considerably higher. In countries with the lowest income levels, the proportion of employment in small economic units is almost 100 per cent. An average of 62 per cent of employment is in informal economy, where working conditions tend to be difficult (lack of social security, lower wages, poor occupational safety and health conditions and weaker industrial relations).<sup>6</sup> Trends over the past decades, globalization, technology, climate and demographic change have been changing the labour market. In addition, the global pandemic of Covid-19 had enormous consequences on the business environment and according to the Global Entrepreneurship Monitor (2021-2022)<sup>7</sup>,

the percentage of adults aged 18-64 actively engaged in starting or running a new business has generally fallen compared to the pre-pandemic levels and depends directly on existing support packages offered by governments. Out of 47 economies, the highest rate in terms of proportion of adults starting or running a new business is in the Dominican Republic where more than two out of five adults are acting so. The lowest rate is in Poland where just one out of 50 adults is doing so. In contrast, the level of established business ownership shows less variations between high, middle and low income countries. Moreover, many countries that have highest rates of new business ownership have relatively few established businesses which can be explained by new business probably not surviving into maturity. It is therefore most needed to have intentional policies that enables businesses to start and grow. SMEs indeed represent the vast majority of economic units with over 90 per cent of the global business population. In short, SMEs are a central economic and social force for employment, growth and income levels across the globe (ILO, 2019).

#### ► Box 0. Employment share by enterprise size and the self-employed

Worldwide:

- ▶ Self-employed (1 person) represents 32.8 percent of total employment
- ▶ Micro- enterprises (2-9 persons) represent 23.1 percent of total employment
- ▶ Small enterprises (10-49 persons) represent 14.3 percent of total employment
- ▶ Medium and large enterprises (50+ persons) represent 29.8 percent of total employment
- ▶ Overall, small economic units altogether account for 70 percent of total employment in a sample of 99 countries studied. Across the 99 countries in the sample, 62 percent of total employment is to be found in the informal sector.

*Source: Small Matters: Global evidence on the contribution to employment by the self-employed, micro-enterprises and SMEs, ILO, 2019.*

5 ILO (2019) *Small Matters*. Data gathered from 99 countries.

6 *Ibid.*

7 *Global Entrepreneurship Monitor* measures the Total early stage Entrepreneurial Activity (TEA): the percentage of adults aged 18-64 actively engaged in starting or running a new business. It is based on two surveys, the 2021 GEM Adult Population Survey and the National Expert Survey, applied to 47 countries over the world.

## The impact of Covid-19 on SMEs

The Covid-19 health crisis and the necessary measures of confinement have created one of the most challenging environments for micro-, small and medium-sized enterprises (MSMEs) in modern history and severely disrupted many existing value chains. The impact to the supply and demand during the pandemic has had serious economic effects in the private sector, especially for SMEs. This situation is causing significant loss of income and massive unemployment. The ILO estimates<sup>8</sup> that the number of unemployed is projected to increase higher compared to its pre-pandemic level (2019) of 186 million, at 203 million in 2023.

The challenges faced by enterprises with the interruption or severe restriction of their activities have varied significantly between sectors, the common denominator is that small and medium-sized enterprises have been the most strongly affected and, with their limited reserves, they are the most vulnerable and less resilient. While the overall level of enterprise mortality remains to be seen and will depend heavily on how long restrictions are maintained, survey results show 70 per cent of SMEs reporting severe financial difficulties, which is 50 per cent more than bigger firms.

Enterprises that are not themselves directly subject to closure requirements nevertheless experience the secondary effects of restrictions elsewhere. For example, garment manufacturers in some countries have been subject to the interruption of orders from buyers operating on the other side of the world. As a consequence, the ILO estimates that globally 96 million jobs in global supply chains have been negatively affected by falling demand for manufactured goods.

Moreover, the drastic loss of revenues for large companies had an immediate impact on SMEs and the keep of business functioning. Liquidity for SMEs has been compromised by the reduced spending and consumption capacity of individuals and the reluctance of banks in providing loans.

More obviously, the pandemic has accelerated changes that were already occurring in the structure and organization of work due to globalization, digitalization and other technological innovations and that have led to new and emerging alternative work arrangements. There has been widespread experimentation and investment in remote working, and many people have experienced entirely new ways of doing their work. But this has not been a general or an even trend. The nature of jobs, for instance the large majority of small economic units working in the informal economy, mean that some people simply could not make such adjustments. For them, the only option is resilience in their existing ways of working. And for similar reasons some enterprises and sectors – notably information and communication technologies, and financial services – have grown and prospered during the pandemic, while for others it has been a struggle for survival.

In September 2020, ILO estimated that the drop in working hours had already at a loss of 495 million full time employment globally. Hundreds of millions of enterprises in the hardest hit sector worldwide are currently facing high risks of serious disruption. More than half of these are in wholesale, retail trade, tourism and transport sectors (ILO, 2020).

For instance, in the road transport sector, where SMEs account for 80 percent of industry, many are at risk of bankruptcy. A similar situation can be seen in the travel and tourism sector where SMEs also account for 80 percent of the industry. An estimation drawn by the World Travel and Tourism Council approximates a total of 191 million jobs lost in the sector in end 2020. The COVID-19 crisis has threatened the survival of enterprises, jobs and incomes for workers, including self-employed workers, thus increasing the risk of poverty and exacerbating existing inequalities in access to employment and decent work. As lower productivity enterprises and lower paid workers were disproportionately harmed by the pandemic, in 2021, global labour productivity growth has slowed down significantly, with negative growth in low and middle income countries. As a result, the productivity gap between developing and advanced economies has grown.

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8 ILO, *Work in times of Covid* (2021).

Moreover, limitations on the reach of support measures can be observed within as well as between countries. In times of growing diversification of work arrangements, uncertainty about employment status, or a poor fit between institutional rules and lived work realities have created the risk of significant numbers of people falling outside the scope of support measures. The self-employed, independent workers and platform workers are obvious examples, while informality presents by far the greatest challenge to delivering assistance to those in need of it.

While the nature and extent of the impacts of the pandemic vary between regions and countries, as well as between and across economic sectors, access to full, productive and freely chosen employment and decent work is essential for all workers. The support to employers in retaining a skilled and qualified workforce is essential to ensure the optimal functioning of businesses, while career development support would empower vulnerable individuals to do livelihood planning, be entrepreneurial and develop sustainable businesses.

The ILC, during its 109<sup>th</sup><sup>9</sup> Session in June 2021 called upon Member States to commit to placing the aim of full, productive and freely chosen employment and decent work, the needs of the most vulnerable and hardest hit by the pandemic, and support for sustainable enterprises, jobs and incomes at the heart of strategies that are gender-responsive, to build forward better from the crisis, tailored to specific situations and taking into account national circumstances and priorities, including by working towards:

- ▶ Policies that support business continuity and an enabling environment for innovation, productivity growth and sustainable enterprises, including micro, small and medium-sized enterprises, recognizing the important role of sustainable enterprises as generators of employment and promoters of innovation and decent work;

- ▶ Policy responses to provide incentives to employers to retain workers despite crisis-related reduction of business activity, such as through work-sharing and shorter working weeks, targeted wage subsidies, temporary measures in order to maintain employment and income continuity;
- ▶ Policies to foster more resilient supply chains that contribute to:
  - i. Decent work;
  - ii. Sustainability of enterprises along the supply chain, including micro, small and medium-sized enterprises;
  - iii. Environmental sustainability; and
  - iv. Protection of respect for human rights in line with the three pillars of the UN Guiding Principles on Business and Human Rights and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy; supported by sustainable international trade and investment

Policies to protect all workers, including:

- ▶ Provide all workers with adequate protection, reinforcing respect for ILS, and promoting their ratification, implementation and supervision, with particular attention to areas where serious gaps have been revealed by the crisis. This includes respect for fundamental principles and rights at work; an adequate minimum wage, either statutory or negotiated; maximum limits on working time; and safety and health at work with particular attention to the ongoing challenge presented by the Covid-19 pandemic;
- ▶ Strengthen occupational safety and health measures by cooperating with institutions, private enterprises, employers, workers and their representatives on:

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<sup>9</sup> ILO Call to Action, 2021, Document available at [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_803428.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_803428.pdf)

- i. The provision of tailored practical guidance;
  - ii. Support for risk management;
  - iii. The introduction of appropriate control and emergency preparedness measures;
  - iv. Measures to prevent new outbreaks or other occupational risks; and
  - v. Compliance with health measures and other Covid-19-based rules regulations;
  - vi. Recognizing that safe and healthy working conditions are fundamental to decent work;
  - ▶ Implement, through public policy and enterprise practice, a transformative agenda for gender equality by:
    - vii. Ensuring equal pay for work of equal value, supported inter alia by pay transparency;
    - viii. Expanding policies providing adequate paid care leave and promoting a more balanced sharing of work and family responsibilities;
  - ix. Promoting employment creation and life-long learning policies that close gender skills gaps;
  - x. Investing in education, healthcare, social work, the care economy and other sectors, addressing understaffing and improving working conditions;
  - xi. Removing legal and other types of barriers to entry to and advancement in education, training, employment and careers, including by combating gender stereotypes; and
  - xii. Preventing and protecting against gender-based violence and harassment in the world of work;
- Policies that promote social dialogue, notably:
- ▶ Policies to promote social dialogue in particular to support delivery of the outcomes set out in the global Call to action, including through governments consulting with social partners on designing and implementing national recovery jobs, business continuity, and investment in priority sectors and areas, both public and private, to ensure a job-rich recovery;
  - ▶ Strengthen the capacity of public administrations and employers' and workers' organisations to participate in such dialogue as the means to develop and implement regional national sectoral and local recovery strategies, policies and programmes.

## ► The Recommendation No. 189

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### Common challenges faced by small and medium-sized enterprises

The rule of law is the backbone in creating a stable and secure environment for the growth of businesses. The accessibility of information, the need for consistent guidance, upskilling and capacity building of SMEs are measures that generate long-term development of SMEs.

The SME sector is very diverse. SMEs vary by size, sector, being part of the rural or urban economy, degree of formality, turnover, growth and age of the enterprise as well as countries. With these aspects in mind, challenges facing enterprises will vary considerably. For instance, SMEs at an early stage of development will not have the same challenges as already mature enterprises. The same is true for the size of the enterprises without saying that big enterprises have more ability in management. Different size of enterprises demands different type of management training and competencies.

This diversity presents a serious obstacle for a "generic" SME policy. Nevertheless, in emerging and developing economies, typical governments policy responses to "common SME challenges" are usually:

- ▶ Building an enabling environment for sustainable enterprises, critical to foster SMEs development and participation in the formal economy, and in local, regional and global value chains
- ▶ Bridging the SMEs' "resource gap" that relates to difficult access to finance resources, support services, skills and training; and
- ▶ Encouraging transition to formality by putting in place incentives that make formalisation more attractive, such as access to public and private markets, access to financial services and access to social protection.
- ▶ Respecting non-discrimination application of labour legislation

Building an enabling environment conducive to the growth and development of SMEs will require good governance and social dialogue (effective and efficient civil and political institutions and processes); macroeconomic stability; a society and culture supportive of enterprise, a conducive physical infrastructure; information and communication technologies; education, training and learning for a skilled workforce; equity and economic and social inclusion; and responsible stewardship of the environment.

Barriers remain on the access to finance, access to training and access to information (administrative barriers), and these are even more acute for informal SMEs. It is estimated that 8 out of 10 businesses are informal and provide 52 percent of employment globally (ILO, 2019). Although predominant in developing and emerging countries, informality also exist in developed countries. The majority are small units with less than 10 workers that represent more than 80 percent of employment in the informal sector. It is also essential to promote the transition to formal SMEs to avoid unfair competition amongst SMEs and protect them against shocks.

In that regard, incentives as well as compliance mechanisms that strengthen the quality and transparency of labour inspection have been considered as key factors in achieving consistent implementation of the legislation and in creating legal certainty among firms. While legislation on labour inspection oversight are considered as an effective base, its implementation is often difficult in emerging and developing countries where they are lacking resources.

As noted earlier, a chronological challenge remains the access to finance: affordability, access for SMEs, lack of information on financing options, a low level of financial literacy are some of the factors which prevent SME creation and development. Besides the debt funding, other sources of financing such as business angels, venture capital, initial public offerings and crowdfunding can be considered as options. However, these possibilities

are often correlated with access to information and digital technology.

The productivity gap between SMEs and large firms is a lasting trend across countries. The low productivity of SMEs in developing countries is one of the central root causes of low-income generation, informal jobs and poor growth performance. The gap is becoming more acute under global markets and rapid technological change.

Finally, fair competition encourages companies to improve their productivity, to embark on new investments and provide better quality of products and services to their customers. However, in emerging and developing economies, unfair competition often undermines market mechanism and prevents growth of the economy and enterprises.

## ► The content of Recommendation No. 189

### Preamble:

*The General Conference of the International Labour Organization,*

*Having been convened at Geneva by the Governing Body of the International Labour Office, and having met in its Eighty-sixth Session on 2 June 1998, and*

*Recognizing the need for the pursuit of the economic, social, and spiritual well-being and development of individuals, families, communities and nations,*

*Aware of the importance of job creation in small and medium-sized enterprises, Recalling the resolution concerning the promotion of small and medium-sized enterprises adopted by the International Labour Conference at its 72nd Session, 1986, as well as the Conclusions set out in the resolution concerning employment policies in a global context, adopted by the Conference at its 83rd Session, 1996,*

*Noting that small and medium-sized enterprises, as a critical factor in economic growth and development, are increasingly responsible for the creation of the majority of jobs throughout the world, and can help create an environment for innovation and entrepreneurship,*

*Understanding the special value of productive, sustainable and quality jobs,*

*Recognizing that small and medium-sized enterprises provide the potential for women and other traditionally disadvantaged groups to gain access under better conditions to productive, sustainable and quality employment opportunities,*

*Convinced that promoting respect for the Forced Labour Convention, 1930, the Freedom of Association and Protection of the Right to Organise Convention, 1948, the Right to Organise and Collective Bargaining Convention, 1949, the Equal Remuneration Convention, 1951, the Abolition of Forced Labour Convention, 1957, and the Discrimination (Employment and Occupation) Convention, 1958, will enhance the creation of quality employment in small*

*and medium-sized enterprises and in particular that promoting respect for the Minimum Age Convention and Recommendation, 1973, will help Members in their efforts to eliminate child labour,*

*Also convinced that the adoption of new provisions on job creation in small and medium-sized enterprises, to be taken into account together with:*

*(a) the relevant provisions of other international labour Conventions and Recommendations as appropriate, such as the Employment Policy Convention and Recommendation, 1964, and the Employment Policy (Supplementary Provisions) Recommendation, 1984, the Co-operatives (Developing Countries) Recommendation, 1966, the Human Resources Development Convention and Recommendation, 1975, and the Occupational Safety and Health Convention and Recommendation, 1981; and*

*(b) other proven ILO initiatives promoting the role of small and medium-sized enterprises in sustainable job creation and encouraging adequate and common application of social protection, including Start and Improve Your Business and other programmes as well as the work of the International Training Centre of the ILO in training and skills enhancement,*

*will provide valuable guidance for Members in the design and implementation of policies on job creation in small and medium-sized enterprises,*

*Having decided upon the adoption of certain proposals with regard to general conditions to stimulate job creation in small and medium-sized enterprises, which is the fourth item on the agenda of the session, and*

*Having determined that these proposals shall take the form of a Recommendation;*

*Adopts this seventeenth day of June of the year one thousand nine hundred and ninety-eight the following Recommendation which may be cited as the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998.*

The Preamble of the Recommendation outlines a series of elements that are of great importance for the promotion of SMEs. First, it expresses the conviction that respect for the fundamental Conventions in SMEs will enhance the quality of employment in SMEs. These are specifically the Convention on Forced Labour (No. 29), 1930; the Freedom of Association and Protection of the Right to Organise Convention (No. 87), 1948; the Right to Organise and Collective Bargaining Convention (No. 98), 1949; the Equal Remuneration Convention (No. 100), 1951; the Abolition of Forced Labour Convention (No. 105), 1957; and the Discrimination (Employment and Occupation) Convention (No. 111), 1958. It makes also a reference to the Minimum Age Convention (No. 138) and its Recommendation (No. 146), 1973, to help Members in their efforts to eliminate child labour.

The Preamble also emphasizes the close relation between Recommendation No. 189 and employment policy, human resources development, cooperatives and compliance with occupational safety and health standards.

The adoption by the Conference at its 86th Session in June 1998 of the Job Creation in Small and Medium-Sized Enterprises Recommendation (No. 189) constitutes explicit recognition of the importance of SMEs as a source of jobs.

► **Box 1. Relevant instruments and document adopted after R. 189 (1998)**

- The ILO Centenary Declaration (2019) highlights "*the role of the private sector as a principal source of economic growth and job creation by promoting an enabling environment for entrepreneurship and sustainable enterprises, in particular micro, small and medium-sized enterprises...*"
- The *Governing Body paper on decent work and productivity* (2021) makes concrete reference to the productivity ecosystem and stresses the need to develop a coherent and comprehensive policy framework including coordinated policies at macro, meso and micro level to support SMEs in attaining a minimum efficient scale and increasing productivity.
- The ILC Resolution concerning a *Global call to action for a human-centred recovery from the COVID-19 crisis that is inclusive, sustainable and resilient* (2021) emphasizes the need to support business continuity and an enabling environment for innovation, productivity growth and sustainable enterprises, including micro, small and medium-sized enterprises, recognizing the important role of sustainable enterprises as generators of employment and promoters of innovation and decent work.

## ► Part I: Definition, Purpose and Scope

*1. Members should, in consultation with the most representative organizations of employers and workers, define small and medium-sized enterprises by reference to such criteria as may be considered appropriate, taking account of national social and economic conditions, it being understood that this flexibility should not preclude Members from arriving at commonly agreed definitions for data collection and analysis purposes.*

*2. Members should adopt measures which are appropriate to national conditions and consistent with national practice in order to recognize and to promote the fundamental role that small and medium-sized enterprises can play as regards:*

*(a) the promotion of full, productive and freely chosen employment;*

*(b) greater access to income-earning opportunities and wealth creation leading to productive and sustainable employment;*

*(c) sustainable economic growth and the ability to react with flexibility to changes;*

*(d) increased economic participation of disadvantaged and marginalized groups in society;*

*(e) increased domestic savings and investment;*

*(f) training and development of human resources;*

*(g) balanced regional and local development;*

*(h) provision of goods and services which are better adapted to local market needs;*

*(i) access to improved quality of work and working conditions which may contribute to a better quality of life, as well as allow large numbers of people to have access to social protection;*

*(j) stimulating innovation, entrepreneurship, technology development and research;*

*(k) access to domestic and international markets; and*

*(l) the promotion of good relations between employers and workers.*

*3. In order to promote the fundamental role of small and medium-sized enterprises referred to in Paragraph 2, Members should adopt appropriate measures and enforcement mechanisms to safeguard the interests of workers in such enterprises by providing them with the basic protection available under other relevant instruments.*

*4. The provisions of this Recommendation apply to all branches of economic activity and all types of small and medium-sized enterprises, irrespective of the form of ownership (for example, private and public companies, cooperatives, partnerships, family enterprises, and sole proprietorships).*

The Recommendation does not contain a definition of SMEs. It is for Member states to develop such a definition - in consultation with the most representative organizations of employers and workers - based on appropriate criteria considering national, social and economic conditions. In view of its apparent simplicity, the number of workers is the most commonly used criterion.

In Paragraph 2, the Recommendation recognizes the contribution of SMEs to the promotion of full, productive and freely chosen employment, including the creation of income-earning opportunities, the economic participation of disadvantaged and marginalized groups in society, and the training and development of human resources.

In view of recent developments, digitalization, globalization and increase of informality, Members should adopt additional measures which are appropriate to national conditions and consistent with national practice, notably for:

- ▶ The productivity growth for decent job creation and SME development through a new generation of productive development policies;
- ▶ The enabling a conducive business ecosystem for the digital age. This refers to three pillars: (1) making big data work for SMEs to translate

► **Box 2. Enabling Environment for Sustainable Enterprises (EESE)**

EESE is a comprehensive and powerful ILO methodology developed to assess, advocate and reform the environment in which enterprises start up and grow. EESE:

1. Allows stakeholders to identify the major constraints hampering business development;
2. Fosters dialogue between workers, employers and the government to reach shared policy recommendations;
3. Supports the adoption of effective reforms;
4. Unlocks entrepreneurial potential, boosts investments and can generate overall economic growth, create better jobs and reduce poverty.

**EESE in the agro-pastoral sector in Cameroon:**

The agro-pastoral sector, understood as being all activities linked to the production, processing of agricultural, pastoral and fishery products remains one of the pillars of the Cameroonian economy.

Despite this potential, actors in the agro-pastoral sector face many constraints. To address them, the government, with the financial support from the International Fund for Agriculture Development (IFAD) and technical support from the ILO, within the framework of the Program for the Promotion of Agro-pastoral Entrepreneurship of young people (PEA-Jeunes), undertook a general assessment of the business environment in the agro-pastoral sector in 2019. This assessment is based on data collected from 905 SMEs and 200 workers working in the agro-pastoral sector in the Adamaoua region, the Centre, the North and the West regions.

Based on this assessment, an Action Plan of 17 priority reforms for the improvement of the business environment was formulated.

The first element of the implementation of the Action Plan is the adoption of an agro-pastoral orientation Law and the acceleration of the reform on land, facilitating access to land for women and young agro-pastoralists.

The results in improving Cameroon's position in the rankings carried out by certain multilateral partners (Doing Business, Enabling the Business of Agriculture-EBA) will make it possible to increase national investments, attract more foreign direct investments and create more decent jobs in the agro-pastoral sector and strengthen its driving role in the national economy.

*Source: Priority reform plan for improving the business environment in the agro-pastoral sector in Cameroon, ILO, 2020.*

it into useful information for improving SME performance; (2) human resources developments, i.e. training and education systems, essential to develop complex problem-solving skills, entrepreneurship and creative thinking, which could enhance innovation; (3) and regulatory frameworks to promote SME development, promote entrepreneurship and facilitate business formation;

- A tax policy conducive to SME development
- The access to finance and credit rationing
- The development of local infrastructure and digital connectivity for a better access to internet
- Supporting technology adoption, skills development, and management practices

► The macroeconomic stability and environment conducive for business (including fair competition and building forward a more resilient formal economy)

► The transition to the formal economy (a revised approach is necessary as informal employment remains high and will most likely be much higher in the aftermath of the ongoing crisis)

► The access to renewable energy by making it affordable to SMEs and policies to support SMEs in the transition to a low-carbon economy by removing barriers to business adaptation to climate change

► The SME resilience to black swan events (e.g. pandemics) and national and international shocks (e.g. domestic or global financial crises).

► **Box 3. The importance of organizing a group**

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. In general, farmers and producers organize cooperatives in order to process and market their goods as well as to acquire credit, equipment, and production supplies. This provides them with greater economies of scale.

The establishment of a cooperative includes steps such as:

- Identification of common need: the business idea
- The assessment of feasibility
- The development of the business plan
- Drafting of statutes
- Awareness building
- Cooperative education
- Members recruitment

Cooperatives are important in improving the living and working conditions of women and men globally as well as making essential infrastructure and services available even in areas neglected by the state and investor-driven enterprises. Cooperatives have a proven record of creating and sustaining employment, they are estimated to provide at least 279 million jobs today and contribute to promoting decent work and advancing sustainable development goals.

The ILO, based on the international standard on cooperatives and Recommendation No.193 (2002), have developed tools for the establishment of such cooperatives. (Think Coop., Start Coop., My Coop.)

*Source: <https://www.ilo.org/global/topics/cooperatives/lang--en/index.htm>, accessed on 14 May 2021*

Paragraphs 2 and 3 also reinforce the need for Members' states to adopt measures appropriate to national conditions and practices to recognize and promote the role of SMEs in economic growth and development, and adopt measures and enforcement mechanisms to provide workers with the basic protections contained in other relevant instruments.

Recommendation No. 189 has a broad scope of application, as reaffirmed in Paragraph 4, which indicates that its provisions apply to "all branches of economic activity and all types of small and medium-sized enterprises, irrespective of the form of ownership (for example, private and public companies, cooperatives, partnerships, family enterprises, and sole proprietorships)". In referring to "cooperatives", paragraph 4 links R. 189 to the Promotion of Cooperatives Recommendation, 2002 (No. 193), particularly since the great majority

of cooperatives are SMEs and have an important role to play in the creation of sustainable employment.

**Key elements to take into account:**

- Reforms should be context specific and identify the challenges in one particular sector;
- Governments should ensure sectoral consultation of workers' and employers' organizations;
- Measures on the enforcement mechanism should be coupled with awareness raising, guidance and orientation on existing regulations.

## ► Part II: Policy and legal framework

*5. In order to create an environment conducive to the growth and development of small and medium-sized enterprises, Members should:*

*(a) adopt and pursue appropriate fiscal, monetary and employment policies to promote an optimal economic environment (as regards, in particular, inflation, interest and exchange rates, taxation, employment and social stability);*

*(b) establish and apply appropriate legal provisions as regards, in particular, property rights, including intellectual property, location of establishments, enforcement of contracts, fair competition as well as adequate social and labour legislation;*

*(c) improve the attractiveness of entrepreneurship by avoiding policy and legal measures which disadvantage those who wish to become entrepreneurs.*

*6. The measures referred to in Paragraph 5 should be complemented by policies for the promotion of efficient and competitive small and medium-sized enterprises able to provide productive and sustainable employment under adequate social conditions. To this end, Members should consider policies that:*

*(1) create conditions which:*

*(a) provide for all enterprises, whatever their size or type:*

*(i) equal opportunity as regards, in particular, access to credit, foreign exchange and imported inputs; and*

*(ii) fair taxation;*

*(b) ensure the non-discriminatory application of labour legislation, in order to raise the quality of employment in small and medium-sized enterprises;*

*(c) promote observance by small and medium-sized enterprises of international labour standards related to child labour;*

*(2) remove constraints to the development and growth of small and medium-sized enterprises, arising in particular from:*

*(a) difficulties of access to credit and capital markets;*

*(b) low levels of technical and managerial skills;*

*(c) inadequate information;*

*(d) low levels of productivity and quality;*

*(e) insufficient access to markets;*

*(f) difficulties of access to new technologies;*

*(g) lack of transport and communications infrastructure;*

*(h) inappropriate, inadequate or overly burdensome registration, licensing, reporting and other administrative requirements, including those which are disincentives to the hiring of personnel, without prejudicing the level of conditions of employment, the effectiveness of labour inspection or the system of supervision of working conditions and related issues;*

*(i) insufficient support for research and development;*

*(j) difficulties in access to public and private procurement opportunities;*

*(3) include specific measures and incentives aimed at assisting and upgrading the informal sector to become part of the organized sector.*

*7. With a view to the formulation of such policies Members should, where appropriate:*

*(1) collect national data on the small and medium-sized enterprise sector, covering inter alia quantitative and qualitative aspects of employment, while ensuring that this does not result in undue administrative burdens for small and medium-sized enterprises;*

(2) undertake a comprehensive review of the impact of existing policies and regulations on small and medium-sized enterprises, with particular attention to the impact of structural adjustment programmes on job creation;

(3) review labour and social legislation, in consultation with the most representative organizations of employers and workers, to determine whether:

(a) such legislation meets the needs of small and medium-sized enterprises, while ensuring adequate protection and working conditions for their workers;

(b) there is a need for supplementary measures as regards social protection, such as voluntary schemes, cooperative initiatives and others;

(c) such social protection extends to workers in small and medium-sized enterprises and there are adequate provisions to ensure compliance with social security regulations in areas such as medical care, sickness, unemployment, old-age, employment injury, family, maternity, invalidity and survivors' benefits.

8. In times of economic difficulties, governments should seek to provide strong and effective assistance to small and medium-sized enterprises and their workers.

9. In formulating these policies, Members:

(1) may consult, in addition to the most representative organizations of employers and workers, other concerned and competent parties as they deem appropriate;

(2) should take into account other policies in such areas as fiscal and monetary matters, trade and industry, employment, labour, social protection, gender equality, occupational safety and health and capacity-building through education and training;

(3) should establish mechanisms to review these policies, in consultation with the most representative organizations of employers and workers, and to update them.

The promotion of measures and regulations favourable to SMEs implies the establishment of a legal, administrative and regulatory environment that is conducive to the creation and growth of enterprises. The ultimate goal, however, is to generate high-quality jobs. The Recommendation No.189 emphasizes the need of reforms based on social dialogue.<sup>10</sup>

Paragraph 5 of the Recommendation No. 189 contains a detailed enumeration of support measures for SMEs, while Paragraph 5 and 6 require Member States to implement policies for the promotion, development and enhancing the competitiveness and productivity of SMEs, this includes "as well as adequate social and labour legislation;" and "ensure the non-discriminatory application of labour legislation, in order to raise the quality of employment in small and medium-sized enterprises;" either through legislative measures (at the level of constitutions, laws, decrees, regulations or statutory codes), or through the implementation of a national plan or strategy.

To create an environment conducive to SME development for decent job creation and inclusive growth, Member states should pursue fiscal, monetary, employment, and productive development policies; establish regulatory frameworks that enable sustainable enterprise development and promote private investment and entrepreneurship by removing barriers and avoiding measures that may discourage those who wish to become entrepreneurs.

In Paragraph 6(1) of the Recommendation, Member states are invited to create conditions that promote and facilitate entrepreneurship, business formation and registration. Such conditions will be crucial in the post-Covid recovery for rebuilding the productive capacity.

In Paragraph 6(1.a), such conditions would include access to credit. International trade and fair taxation would have to be understood to mean above all taxation that is conducive to SME development.

In 6(2) of the Recommendation, Member states are invited to remove constraints to the development

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10 Conclusions concerning the promotion of sustainable enterprises, 96<sup>th</sup> Session of ILC (2007).

► **Box 4. Sustaining Competitive and Responsible Enterprises (SCORE) training**

SCORE is a program covering 18 countries on training and technical support to SMEs in order to improve their productivity, competitiveness and working conditions largely so that they can grow and participate in global supply chains. The Program works with SMEs and provides assistance through training to help them address decent work deficits while helping them realize that good working conditions are linked to business performance. Indeed, if firms improve working conditions, there will be reduction in absenteeism and reduction on workforce turnover, therefore the cost of training or hiring new workers will be less costly. In improving Occupation, Safety and Health at the workplace, induced impact on productivity will occur. The programme creates a voluntary push towards better labour law compliance, understanding that the most part of workers working in SMEs are largely not well regulated and that resources of labour inspectors are scarce.

**SCORE Steps:**

1. The first step is a Baseline assessment of the company needs;
2. Based on the assessment, the Programme invites four persons of the company for a training (two persons from management, two from the workers). During this training, dialogue on resource management, security or OSH are taking place.
3. An enterprise improvement team is set up (four persons). Its role consists of identifying challenges e.g., in certain production lines, product quality, meeting customers' orders etc. and together addressing those challenges. By doing so, workers and employers take the responsibility of implementing these continuous improvements.

**SCORE training on OSH in China:**

In China, SCORE is used as a training tool that couples up with Occupational, Safety and Health inspectorates and labour inspectorates to build capacities of SMEs; with the understanding that OSH measures are not necessarily easy for an SME to be in compliance with. Frequently SMEs do not even know that they are out of compliance. For instance, the storage of chemicals, the use of chemicals, air pollution due to production processes, are technical issues that were addressed by linking the enforcement mechanism with the technical assistance, therefore getting better results in SMEs compliance.

*Source: Author*

and growth of SMEs, arising in particular from inappropriate, inadequate or overly burdensome registration, licensing, reporting and other administrative requirements, including those that are disincentives to the hiring of personnel; and remove barriers to business adaptation to climate change and transition towards a low-carbon economy. It also mentions the need for assisting SME to access the digital infrastructure, and the need to support SMEs in the informal sector to become part of the organized sector. Paragraph 6(2) also emphasizes the need to assist SMEs to access credit. The role of national development banking in supporting SME development as well as commercial banking and *Fintech* are important for such access. Members should therefore review the role of commercial banking by addressing credit rationing and the role of national development banking by allocating more resources and improving the allocation mechanisms to minimize inefficiencies.

Another financing option for micro and small enterprises are microfinance programmes. Microfinance is defined as the provision of financial services to the poor on a sustainable basis. Financial services that the working poor need and demand include different types of credit, savings, guarantees, insurance, transfer payments, remittances and other transactions. By promoting microfinance, Member states might also enable the poor and those excluded from market transactions to set up micro-enterprises.

While Paragraph 7 emphasizes the importance for continuously assessing and monitoring SMEs development, it also calls for the need of social dialogue and adequate protection for workers in SMEs.

In Paragraph 7(2), Members are invited to undertake a comprehensive review of the impact of existing policies and regulations on small and

► **Box 5. The enabling environment for sustainable enterprises (EESE) in North Macedonia**

In the Republic of North Macedonia, within the project on Strengthening Social Dialogue 2019-2021, the tripartite constituents, through the Economic and Social Council (ESC), have requested the ILO's support to build their capacity in the area of the enabling environment to better shape the national economic and social reform agenda.

The World Bank's study of the overall business environment 'Doing Business' (DB) in recent years has considered North Macedonia as one of the top reformers, ranking the country highly in 10th place among 190 countries in terms of ease of doing business (in 2012 the country had ranked 23rd).

The Governance Indicators of the World Bank have also notified improvement in the regulatory quality that addresses perceptions of the government's ability to develop and implement policies and regulations that stimulate and promote the development of the private sector.

One challenge facing enterprises in North Macedonia is the access to finance. Indeed, external financing in particular private investment areas is critical to enhancing the growth and productivity of companies and to boosting economic activity in the country. In the last decades, relevant studies and reports indicated that the companies in North Macedonia, in particular SMEs, rely mostly on self-financing. When utilizing external financing, bank loans are the prevalent financial service used by private companies. (National Strategy for small and medium-size enterprises 2018–2023, Ministry of Economy, 2018).

Companies face numerous challenges in accessing external finance such as: affordability and access for SMEs, lack of information on financing options, a low level of financial literacy within companies for long-term planning etc. Besides the debt funding other sources of financing such as business angels, venture capital, initial market offerings, crowd-funding platforms etc. are scarce and less available to companies in the country. The newly adopted National Strategy on small and medium-sized enterprises 2018 – 2023, under its second pillar, aims to improve access to finance by SMEs. In these matters, the Government envisages:

- The introduction of new finance instruments
- The revitalisation of the credit guarantee scheme through the Macedonian Bank for Development Promotion (MBDP), while simplifying the procedures and improving the rules and conditions
- The creation of an on-line registry of movable assets to be used as collateral
- The introduction of a programme for promoting factors for strengthening transparency and legal certainty
- The simplifying of procedures for the functioning of financial institutions providing alternative financial instruments etc.

Concerning innovation and competitiveness, one of the main landmark efforts of the governments in the last few years in providing financial support to innovative projects and companies was the establishment of the Fund for Innovation and Technological Development (FITD) in 2013. Its main objectives are "improved access to financial support for innovation and technological development; and promoting and encouraging innovation activities in North Macedonia". In 2018, within the Economic growth plan of the government under the third pillar, the fund provides financial support to domestic companies to improve innovativeness and technological development of MSMEs and SMEs. In the last year, the fund has increased in scope and in the support measures it provides. Besides the instruments within the third pillar of the Economic growth plan, FITD provides co-financing of up to 85 percent of the project costs (up to €30,000) for innovative projects in proof of concept or pre-commercialisation phase of start-up and spin-off companies; and co-financing and conditioned loans of up to 70 per cent of project costs (up to €100,000) to SMEs for commercialisation of the concept. According to the information from the fund, as a result of simplified rules for participation and improved information about the available opportunities in 2018, they have provided over €20 million to over 200 companies. While initially serving mostly SMEs and start-ups, in the last year the fund expanded some of its instruments also to larger companies.

*Source: The enabling environment for sustainable enterprises in North Macedonia, ILO, 2019.*

medium-sized enterprises, with particular attention to the impact of structural adjustment programmes on job creation and include productivity growth.

In Paragraph 7(3.a), the review of labour and social legislation should be understood not to exclude the review of legislation outside the labour and social sphere. The central objective should be to

► **Box 6. Supporting the resilience of the informal sector and post-crisis recovery COVID-19 – An opportunity to reduce decent work deficits for the formalization of the informal economy in Côte d'Ivoire.**

The context of the Covid-19 pandemic had severe consequences on MSMEs (vendors, self-employed, craftsmen, etc). Various sanitary measures, containment, distancing, border closures and movement restrictions have been implemented to curb the transmission of the virus, thus slowing down the economic activity. The population in general were strongly affected; actors in the informal economy in particular, who represent 81.3 percent of employment in the country, were hit the most. However, as these units do not appear in the administrative registers, are not in compliance with legislation or do not fall within its scope, they do not benefit from the support measures granted by the public authorities. Added to this, the lack of access to pensions, health insurance or unemployment insurance renders these persons even more vulnerable.

In order to reduce the vulnerability of these MSMEs and prepare them for future shocks, it is necessary to guide them towards formality.

The project is a pilot conducted in Abidjan, Côte d'Ivoire and aims at providing (financial) incentives for informal units and MSMEs to formalize. This innovative project combines incentives measures and awareness raising on the benefit of being formalized.

Activities will support the operationalization of the “statut de l'entrepreneur” or entrepreneur statute in Côte d'Ivoire and improve its accessibility for informal workers and informal economic units. A Manual that integrates business registration process, elaborated with the National Agency for SME will be explained to vendors and women entrepreneurs in the market of Abidjan. Activities also include: an integrated package of incentives linked to the entrepreneur statute, a new training module “Formalize Your Business” offered by the General Confederation of Enterprises CGECI (Confédération Générale des Entreprises de Côte d'Ivoire) and other national structures, a digital information tool on the entrepreneur statute.

The project also aims to increase the capacity of workers' organisations to help facilitate the formalization of informal economic units and ensure capacity building of the CGECI and other business support organisations.

*Source: Project presentation, Enterprise Department GTT, ILO, 2020.*

remove barriers to SME development, in whatever legislation they exist.

In Paragraph 8, the Recommendation refers to economic difficulties that SMEs may experience and calls Member states to provide strong and effective assistance. Members are strongly encouraged to develop a comprehensive strategy to enhance productivity growth for decent job creation. The productivity ecosystem should be promoted with an emphasis on inclusive growth.

**Key elements to take into account:**

► Policies, holistic strategies, and regulatory frameworks should be devised to enhance sustainable enterprise development, particularly focused on MSMEs, and promote private

investment, entrepreneurship and the transition to the formal economy. Particular attention ought to be paid to support SMEs in reaching a minimum efficient scale and economic viability, which is a necessary condition to improve job quality and create decent jobs.

- Together with coherent and coordinated public policies, horizontal traceability of institutions is important for entrepreneurship development
- Reforms should be adapted to national circumstances, persisting and emerging challenges that relate to the business environment, based on consultations with employers and workers' organizations.

**► Box 7. A special regime for MSEs fighting informality in Cape Verde**

MSMEs are the main source of job creation, the main driver for redistribution of wealth, reduction of inequality and eradication of poverty. They represent 90 percent of all existing companies in Cabo Verde (2015). They account for 61 percent of total employment and 83 percent of the contributors to the INPS (National Social Security Association) are micro and small enterprises (MSEs).

With the technical assistance of the ILO, special legal regime for micro and small enterprises (REMPE Law, No. 70/VIII/2014) was implemented and drove important results in informality reduction. The REMPE law establishes legal provisions for the promotion of competitiveness, productivity, formalization and development of MSEs. The law also promoted the dynamization and density of the MSE market, the broadening of the basis for tax and social security contributions, the improvement of the business environment, the promotion of self-employment.

It has therefore encouraged the creation of new MSEs through several measures, including: the removal of the social capital requirement, the centralization of the process of registration and recognition of SMEs in a one-stop shop, the reduction of the payable special unified tax (TEU) about 30 percent for 2 years for micro-enterprises, the exemption from the TEU payment for micro-enterprises with a turnover of less than 10.000 USD, the access to subsidized credit lines and the support for skills development through vocational training.

In October 2020, with ProEmpresa – the SME development agency, a pilot project was implemented in Sucupira with the following objectives:

- Formalization of informal units run by 50 women;
- Capacity building
- Facilitating access to finance

The process includes: raising awareness among the women in the market, especially those most affected by the floods due to the September 2020 rains; registration of 119 women as beneficiaries of the project, mobilization of 52 women and 4 male volunteers, GET Ahead Training (on microenterprise management), financial education and tax citizenship education, awareness raising on the benefits of social security affiliation.

The multiplier effect:

Between October 2020 and January 2021, 2,000 MSEs attended the ProEmpresa counter in Sucupira and their formalization process is underway. Around 900 have already been formalized and 600 have already applied for funding.

*Source: Project presentation, Enterprise Department GTT, ILO, 2020.*

**► Box 8. The impact of Covid-19 on MSMEs in Armenia and Trade facilitation measures**

As the new Covid-19 disease continues to spread, its disruptive impact is becoming more pronounced, posing unprecedented challenges for all countries. Government have seen their priorities shift overnight towards upscaling public health preparedness and emergency support measures to cater for vulnerable segments of their population. The challenges facing Governments are further complicated by supply-chain disruptions that have left enterprises struggling to survive. Pay cuts and furloughs have been an increasing trend, and losses in lives are compounded by livelihood crisis. The coping strategies of businesses and state agencies are being depleted by the unfolding economic crisis, so that vulnerabilities are aggravated and the impact on productive capacities, institutional dexterity and business confidence is severe.

Armenia economy is driven by MSMEs. According to latest statistics (2007), they accounted for 99 percent of active enterprises, with micro enterprises representing 94 percent of total SMEs. Moreover, SMEs accounted for 66 percent of total employment. The focus on MSMEs is dictated by the fact that they have limited resources, which renders them inherently vulnerable to negative shocks and changes.

The Government of Armenia limited trade restrictions to the minimum; implemented expansionary monetary and fiscal policies, and launched sweeping relief measures, such as credit schemes and tax deferrals, to curb unemployment and support the hardest hit sectors. It extended trade facilitation measures as follows:

- Online publication of health protection measures and applicable trade-related rules and customs procedures
- Submission of certificate of origin of products destined to the European Union simplified
- Integrated border management system
- Online payment platform for customs and tax payments

Government's sweeping relief measures included: direct support to MSMEs in the form of subsidized loans for recovering their bills and part of their operational costs, including the procurement of raw materials as well as cash injections in the form of grants and one-time payments.

The majority of MSMEs reduced production activities capacity, only few repurposed part of their production lines to respond to the increased domestic demand for hand sanitizers and products related to the crisis given that e-commerce is not an option for majority of them.

The above measures constituted positive transmission channels as they mitigated the economic impact of the pandemic. However, the Government's ability to unleash the full efficiency potential of support measures was undermined by capacity shortfalls. Innovative ways of financing and keeping business continuity are therefore vital for the survival of people.

*Source: The impact of Covid-19 on trade and structural transformation in Armenia: evidence from UNECE's survey of MSMEs, UNECE, 2020.*

## ► Part III: Development of an enterprise culture

*10. Members should adopt measures, drawn up in consultation with the most representative organizations of employers and workers, to create and strengthen an enterprise culture which favours initiatives, enterprise creation, productivity, environmental consciousness, quality, good labour and industrial relations, and adequate social practices which are equitable. To this end, Members should consider:*

*(1) pursuing the development of entrepreneurial attitudes, through the system and programmes of education, entrepreneurship and training linked to job needs and the attainment of economic growth and development, with particular emphasis being given to the importance of good labour relations and the multiple vocational and managerial skills needed by small and medium-sized enterprises;*

*(2) seeking, through appropriate means, to encourage a more positive attitude towards risk-taking and business failure by recognizing their value as a learning experience while at the same time recognizing their impact on both entrepreneurs and workers;*

*(3) encouraging a process of lifelong learning for all categories of workers and entrepreneurs;*

*(4) designing and implementing, with full involvement of the organizations of employers and workers concerned, awareness campaigns to promote:*

*(a) respect for the rule of law and workers' rights, better working conditions, higher productivity and improved quality of goods and services;*

*(b) entrepreneurial role models and award schemes, taking due account of the specific needs of women, and of disadvantaged and marginalized groups.*

society. The Recommendation also emphasizes the importance of investing in innovation clusters, research and development, and the design of a knowledge architecture for productive development such as knowledge hubs and local innovation systems (knowledge clusters).

As for example, the Silicon Valley or any other innovation cluster around the world share one thing in common: the government *as investor of first resort* to create the right conditions to attract private investment.

Paragraph 10(1) is important to highlight, as it is a substantive element in order to strengthen and upgrade management practices.

Paragraphs 10(4) and 16 of the Recommendation are complementary in inviting Member states to design and implement, with full involvement of employers and workers concerned, awareness campaigns to promote, on the one hand, respect for the rule of law and workers' rights and, on the other, take due account of the specific needs of women and of disadvantaged and marginalized groups.

### **Key elements to take into account:**

► Continuous discussions on productivity and working conditions should also take place at the firm level, bringing the social dialogue to concrete actions inside the firm: a learning journey for improved productivity;

► Strategies and policies for orientation and career guidance at an early age are required to mitigate the idea of entrepreneur of the last resort. In addition, management skills development of aspiring and SME owners/managers is required to foster business performance.

Paragraph 10 of the Recommendation promotes an enterprise culture. Success in developing an enterprise culture essentially requires investment in training and the adoption of measures that take into account the specific needs of women and of disadvantaged and marginalized groups in the

► **Box 9. Promotion of entrepreneurship to young women, young aspiration and promotion of entrepreneurship for young person: Kaun Banega Business Leader - Social Innovation for Unearthing Aspirations in rural India**

Despite the widespread perception that entrepreneurial ventures are risky, unstable and lack social security benefits as opposed to a stable job, many in rural India are opting for entrepreneurship. It is slowly being recognised as a prominent way to address unemployment and the need for dignified livelihoods, taking a centre-stage in the micro economies of rural India. Entrepreneurship in short is enabling communities to explore new opportunities, ideas and innovations showing the potential to invigorate local markets and economies.

Entrepreneurship when seen through the lens of addressing aspirations and innovations can aid in moving away from need-based ventures to value-creating ones at the local level. To realize the potential of entrepreneurship-led dignified livelihoods that can initiate socio-economic shifts at the local scale, there is a need to develop supportive ecosystems. The need is urgent as despite isolated success stories, there still persist social, informational and economic barriers in the pathway of micro entrepreneurship. Conditions become worse in rural economies like Bundelkhand, where entrenched socio-economic barriers prevent the mushrooming of local entrepreneurs.

**The Kaun Banega Business Leader (KBBL) (Who will be a Business Leader) competition:**

Kaun Banega Business Leader (KBBL) 2.0 was launched in 40 villages of Bundelkhand in February 2020 under the Work 4 Progress (W4P) India programme of Development Alternatives.n.

The KBBL competition deploys social innovation principles of neutral participation, creativity and collective decision-making, to deepen dialogue and initiate processes of co-creation with the community. The tool has shown evidence of its success in its first version, which was launched in 2018 (in 20 villages of Bundelkhand) to initiate dialogue with communities. It uses innovative community engagement activities like street plays with real life success stories of rural entrepreneurs, social games, community radio, narrowcasting of audio programmes. It encourages communities to take up entrepreneurship and challenge societal complexes attached to it. Since the first version in 2018, the project has moved beyond its potential to provide a platform for women and youth to realize their latent entrepreneurial energies and motivates them to think out-of-box innovative business ideas to solve issues of unemployment and migration.

In other words, it looks out for "business leaders" – individuals who are more than just entrepreneurs and have the zeal to go beyond running a business and contribute to the growth of the local economy.

For many young women and men, the competition has helped in overcoming initial challenges in the pursuit of entrepreneurship. The competition not only calls out innovative business ideas but also engages the applicants in a business plan co-creation to map the sustainability and profitability of their enterprises. The project is now being modified and transferred into different versions to cater to the growing aspirations of youth and women.

*Source: <https://www.devalt.org>. Kaun Banega Business Leader: Social Innovation for Unearthing Aspirations ([devalt.org](https://www.devalt.org)), extracted from Employment Department Newsletter, ILO, March 2021.*

## ► Part IV: Development of an effective service infrastructure

11. In order to enhance the growth, job-creation potential and competitiveness of small and medium-sized enterprises, consideration should be given to the availability and accessibility of a range of direct and indirect support services for them and their workers, to include:

- (a) business pre-start-up, start-up and development assistance;
- (b) business plan development and follow-up;
- (c) business incubators;
- (d) information services, including advice on government policies;
- (e) consultancy and research services;
- (f) managerial and vocational skills enhancement;
- (g) promotion and development of enterprise-based training;
- (h) support for training in occupational safety and health;
- (i) assistance in upgrading the literacy, numeracy, computer competencies and basic education levels of managers and employees;
- (j) access to energy, telecommunications and physical infrastructure such as water, electricity, premises, transportation and roads, provided directly or through private sector intermediaries;
- (k) assistance in understanding and applying labour legislation, including provisions on workers' rights, as well as in human resources development and the promotion of gender equality;
- (l) legal, accounting and financial services;
- (m) support for innovation and modernization;
- (n) advice regarding technology;

(o) advice on the effective application of information and communication technologies to the business process;

(p) access to capital markets, credit and loan guarantees;

(q) advice in finance, credit and debt management;

(r) export promotion and trade opportunities in national and international markets;

(s) market research and marketing assistance;

(t) assistance in product design, development and presentation;

(u) quality management, including quality testing and measurement;

(v) packaging services;

(w) environmental management services.

12. As far as possible, the support services referred to in Paragraph 11 should be designed and provided to ensure optimum relevance and efficiency through such means as:

(a) adapting the services and their delivery to the specific needs of small and medium-sized enterprises, taking into account prevailing economic, social and cultural conditions, as well as differences in terms of size, sector and stage of development;

(b) ensuring active involvement of small and medium-sized enterprises and the most representative organizations of employers and workers in the determination of the services to be offered;

(c) involving the public and private sector in the delivery of such services through, for example, organizations of employers and workers, semi-public organizations, private consultants, technology parks, business incubators and small and medium-sized enterprises themselves;

(d) decentralizing the delivery of services, thereby bringing them as physically close to small and medium-sized enterprises as possible;

(e) promoting easy access to an integrated range of effective services through "single window" arrangements or referral services;

(f) aiming towards self-sustainability for service providers through a reasonable degree of cost recovery from small and medium-sized enterprises and other sources, in such a manner as to avoid distorting the markets for such services and to enhance the employment creation potential of small and medium-sized enterprises;

(g) ensuring professionalism and accountability in the management of service delivery;

(h) establishing mechanisms for continuous monitoring, evaluation and updating of services.

13. Services should be designed to include productivity-enhancing and other approaches which promote efficiency and help small and medium-sized enterprises to sustain competitiveness in domestic and international markets, while at the same time improving labour practices and working conditions.

14. Members should facilitate access of small and medium-sized enterprises to finance and credit under satisfactory conditions. In this connection:

(1) credit and other financial services should as far as possible be provided on commercial terms to ensure their sustainability, except in the case of particularly vulnerable groups of entrepreneurs;

(2) supplementary measures should be taken to simplify administrative procedures, reduce transaction costs and overcome problems related to inadequate collateral by, for example, the creation of non-governmental financial retail agencies and development finance institutions addressing poverty alleviation;

(3) small and medium-sized enterprises may be encouraged to organize in mutual guarantee associations;

(4) the creation of venture capital and other organizations, specializing in assistance to innovative small and medium-sized enterprises, should be encouraged.

15. Members should consider appropriate policies to improve all aspects of employment in small and medium-sized enterprises by ensuring the non-discriminatory application of protective labour and social legislation.

16. Members should, in addition:

(1) facilitate, where appropriate, the development of organizations and institutions which can effectively support the growth and competitiveness of small and medium-sized enterprises. In this regard, consultation with the most representative organizations of employers and workers should be considered;

(2) consider adequate measures to promote cooperative linkages between small and medium-sized enterprises and larger enterprises. In this connection, measures should be taken to safeguard the legitimate interests of the small and medium-sized enterprises concerned and of their workers;

(3) consider measures to promote linkages between small and medium-sized enterprises to encourage the exchange of experience as well the sharing of resources and risks. In this connection, small and medium-sized enterprises might be encouraged to form structures such as consortia, networks and production and service cooperatives, taking into account the importance of the role of organizations of employers and workers;

(4) consider specific measures and incentives for persons aspiring to become entrepreneurs among selected categories of the population, such as women, long-term unemployed, persons affected by structural adjustment or restrictive and discriminatory practices, disabled persons, demobilized military personnel, young persons including graduates, older workers, ethnic minorities and indigenous and tribal peoples. The detailed identification of these categories should be carried out taking into account national socio-economic priorities and circumstances;

(5) consider special measures to improve communication and relations between government agencies and small and medium-sized enterprises as well as the most representative organizations of such enterprises, in order to improve the effectiveness of government policies aimed at job creation;

(6) encourage support for female entrepreneurship, recognizing the growing importance of women in the

► **Box 10. Youth to youth mentorship approach in agripreneurship development- Youth Inspiring Youth in Agriculture (YIYA) initiative in Uganda**

Peer-to-peer learning can be very effective in sharing knowledge and experience and encouraging the adoption of new practices and technologies among farmers including youth. FAO training approaches, like the Junior Farmer Field and Life Schools (JFFLS), encourage youth facilitators to share their knowledge in their respective communities, mobilizing and sensitizing their peers regarding agriculture and agripreneurship. On average, it has been estimated that each JFFLS graduate has re-trained 20 other rural youth in his/her district, with a significant spill over effect (FAO, IFAD and WFP, 2015).

In Uganda, the agricultural sector plays a pivotal role in providing employment and livelihood opportunities to the majority of the population. According to the 2016/2017 national labour force survey conducted by the Uganda Bureau of Statistics (UBOS, 2018), approximately 70 percent of Uganda's working population is engaged in the sector, either in employment or subsistence agriculture. However, due to the underutilization of arable land and the slow progress of commercialization of agriculture, the potential of the sector to provide productive employment opportunities for the rural population has yet to be fully harnessed. While the sector employs the majority of rural youth (aged 18–30), most of them remain in informal, low-paying and vulnerable working conditions, and 47 percent of them are neither in employment, education or training (NEET) (UBOS, 2018).

In order to address the challenges of youth unemployment and underemployment in rural areas, the Government of Uganda through the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) as a principal counterpart organization, and the Food and Agriculture Organization of the United Nations (FAO) launched the Youth Inspiring Youth in Agriculture (YIYA) Initiative in 2017 as part of the FAO project: Integrated Country Approach (ICA) for decent rural youth employment (2015–2018). The YIYA initiative is a nationwide youth agribusiness competition programme with an objective of singling out youth agripreneurs running agribusinesses with passion and innovation and are willing to share their experiences with other youth. In other words, selected agripreneurs called Youth Champions (YC) are expected to become role models for other youth who are interested in starting up agribusinesses. In the YIYA-2017, 25 YCs were selected and consequently received various training, ranging from agribusiness and business management to business leadership with mindset changes.

The YIYA is a youth focused peer-to-peer learning approach, which can be a very effective means of sharing knowledge and experiences among the youth and farming communities.

Since youth agripreneurs can understand their fellow youth better than adult counterparts, those youth mentorship models can inspire youth into agribusinesses.

Practical approaches embedded into each model, such as learning by doing and continuous mentoring, promote and enhance faster acquisition of skills and knowledge among the mentees, which leads to the quick adoption of new practices and technologies in appropriate manners.

*Source: <http://www.fao.org/3/cb3575en/cb3575en.pdf>; Youth-to-youth mentorship approach in agripreneurship development (fao.org); extracted from the Employment Department Newsletter, ILO, March 2021.*

economy, through measures designed specifically for women who are or wish to become entrepreneurs.

Paragraph 11 of the Recommendation provides that, in order to enhance the growth, job-creation potential and competitiveness of SMEs, consideration should be given to the availability and accessibility of a range of direct and indirect support services for them and their workers, including human resources development and the implementation of related support services. Paragraph 11 further refers to a series of additional measures to be implemented with a view to strengthening SMEs growth, including: business pre-start-up, start-up and development assistance; business

plan development and follow-up; business incubators; information services, including advice on government policies, etc. Given the Covid-19 crisis and related issues, it is even more required to support training on occupational safety and health; assistance in understanding and applying labour legislation, including provisions on workers' rights, as well as in human resources development and the promotion of gender equality and environmental management services.

In paragraph 14, Member states should facilitate access of small and medium-sized enterprises to finance and credit under satisfactory conditions.

► **Figure 1. Alternative finance instruments along the risk-return spectrum**

Low Risk/ Return	Low Risk/ Return	Medium Risk/ Return	High Risk/ Return
Asset-Based Finance	Alternative Debt	"Hybrid" Instruments	Equity Instruments
<ul style="list-style-type: none"> <li>► Asset-based lending</li> <li>Factoring</li> <li>► Purchase Order Finance</li> <li>► Warehouse Receipts Leasing</li> </ul>	<ul style="list-style-type: none"> <li>► Corporate Bonds</li> <li>Securitized Debt</li> <li>Covered Bonds</li> <li>Private Placements</li> <li>Crowdfunding (debt)</li> </ul>	<ul style="list-style-type: none"> <li>► Subordinated Loans/ Bonds</li> <li>► Silent Participations</li> <li>Participating Loans</li> <li>Profit Participation Rights</li> <li>► Convertible Bonds</li> <li>► Bonds with Warrants</li> <li>Mezzanine Finance</li> </ul>	<ul style="list-style-type: none"> <li>► Private Equity Venture Capital Business Angels</li> <li>► Specialized Platforms for Public Listing of SMEs</li> <li>► Crowdfunding (equity) Initial Coin Offerings (ICOs)</li> </ul>

Source: *Alternative financing instruments for ASEAN SMEs, OECD 2020.*

Access to finance by SMEs has been a longstanding issue in many economies in both developed and emerging markets. Structural issues and market imperfection drive barriers related to finance, and are exacerbated in times of crisis, when the availability of bank credit is constrained. Fostering alternative financing instruments (i.e. funding other than bank lending, see Figure 1.) is one of the most prominent policy responses to potential SME financing gaps.

As with alternative financing instruments, a strong institutional framework is necessary to support the development of lease financing, including appropriate regulations, incentive systems and necessary infrastructure. Coordination between authorities responsible for the legal, fiscal and other regulatory aspects of leasing can help build an enabling ecosystem that can lead to the organic growth of a sound leasing market. Adequate financial literacy policies will also help to raise awareness of these instruments, and how it can serve as a viable alternative to traditional debt.

SME exchanges are also a crucial component of the SME finance and entrepreneurial ecosystems. A well-developed public equity market for small- and mid-capitalizations is especially important to enable existing shareholders (such as early stage investors like business angels and venture capitalists) to exit the firm in a straightforward manner. In light of this, many countries around the world have developed specialised platforms for SMEs with tailored and proportionate listing requirements.

In order to stimulate competitiveness, enterprise growth and job creation, it is important for enterprises to have access at the local and national levels to support services for the development of human resources. These should be encouraged through the promotion and development of on-the-job training, support for training in occupational safety and health, and assistance in upgrading the literacy, numeracy, computer competencies and basic education levels of managers and employees.

**Key elements to take into account:**

- Access to Business Development Services should take into account the need of SMEs in close collaboration with employers and business organizations.
- Enterprise support services should ensure the active involvement of SMEs, employers' and workers' organizations, and other partners such as vocational training institutions for the co-creation of services
- Local partnerships (public-public, public-private, and non-usual partnerships) in delivery of services should be considered

**► Box 11. Adapting apprenticeships to the needs of SMEs: the case of Germany and Australia**

SMEs often lack sufficient resources to provide apprentices with the full range of on- and off-the-job training and they may face specific barriers in recruiting apprentices. Furthermore, they may not be able to afford the fixed costs involved in fulfilling the formal requirements of the apprenticeship system, which weigh more heavily on smaller enterprises.

Considering the specific challenges facing SMEs, countries have developed various strategies to support SMEs and enhance their participation in apprenticeships. For instance, in Germany, a number of employers may take on apprentices between them, sharing the responsibility of training provision, so that the apprentices obtain the full range of on- and off-the-job training and therefore share the cost of the training.

In some countries, enterprises can also seek support from intermediary organizations, which group smaller enterprises together in the delivery of apprenticeship training. One example is the Group Training Organisation (GTO) in Australia.

In Australia, Group Training Organisations (GTOs) are not-for-profit enterprises but are supported by the Government. GTOs employ apprentices and allocate them to host employers, who are required to pay a fee to the GTOs. In addition to recruiting apprentices, GTOs also support enterprises in administration, management of on- and off-the-job training, and rotation of apprentices among participating employers to ensure that apprentices acquire the full range of experience. GTOs model in Australia are locally based, industry based, or community based to suit the need of the local workforce needs and skills needs and to prepare the workforce and training for getting SMEs the right trainer and right training. The GTO model is more expensive than employers just taking apprenticeship but allow small enterprises to engage in a durable way in a sense that they would usually not engage in a four-years training.

*Source :* <https://www.ilo.org/global/topics/apprenticeships/publications/toolkit/innovations-and-strategies/innovations-and-trends/needs-of-smes/lang--en/index.htm>

## ► Part V: Roles of organizations of employers and workers

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*17. Organizations of employers or workers should consider contributing to the development of small and medium-sized enterprises in the following ways:*

*(a) articulating to governments the concerns of small and medium-sized enterprises or their workers, as appropriate;*

*(b) providing direct support services in such areas as training, consultancy, easier access to credit, marketing, advice on industrial relations and promoting linkages with larger enterprises;*

*(c) cooperating with national, regional and local institutions as well as with intergovernmental regional organizations which provide support to small and medium-sized enterprises in such areas as training, consultancy, business start-up and quality control;*

*(d) participating in councils, task forces and other bodies at national, regional and local levels established to deal with important economic and social issues, including policies and programmes, affecting small and medium-sized enterprises;*

*(e) promoting and taking part in the development of economically beneficial and socially progressive restructuring (by such means as retraining and promotion of self-employment) with appropriate social safety nets;*

*(f) participating in the promotion of exchange of experience and establishment of linkages between small and medium-sized enterprises;*

*(g) participating in the monitoring and analysis of social and labour-market issues affecting small and medium-sized enterprises, concerning such matters as terms of employment, working conditions, social protection and vocational training, and promoting corrective action as appropriate;*

*(h) participating in activities to raise quality and productivity, as well as to promote ethical standards, gender equality and non-discrimination;*

*(i) preparing studies on small and medium-sized enterprises, collecting statistical and other types of information relevant to the sector, including statistics disaggregated by gender and age, and sharing this information, as well as lessons of best practice, with other national and international organizations of employers and workers;*

*(j) providing services and advice on workers' rights, labour legislation and social protection for workers in small and medium-sized enterprises.*

*18. Small and medium-sized enterprises and their workers should be encouraged to be adequately represented, in full respect for freedom of association. In this connection, organizations of employers and workers should consider widening their membership base to include small and medium-sized enterprises.*

Paragraphs 17-18 recall that Organization of employers and workers should contribute to the development of SMEs in various ways and that SMEs and their workers should be adequately represented; most importantly, organizations of employers and workers should widen their membership to include SMEs.

### **Key element to take into account:**

► Employers' and Workers' organizations have a role in supporting their members to increase productivity, promote best practices, and advocate for coherent public policies to enhance SME development for decent job creation.

► Member states should support information sharing and orientation on the necessary steps to become an entrepreneur and best management practices for SME development

► Employers' and Workers' organizations can help the development of services such as courses/trainings and guides on, for instance, drivers of productivity growth, SME management practices, SME taxation, Fintech and

alternative financing instruments for SMEs, national laws on SME development, international trade for SME such as advisory services on rules of origin, sanitary and phytosanitary measures to export, among others.

development and devise an SME growth index to measure performance by economic sector and subnational region in close collaboration with leading research and academic institutions and government.

- Members, assisted by employers' and workers' organizations should ensure the conduct of surveys on a regular basis on barriers to SME

#### ► **Box 12. Start and Improve Your Business (SIYB) - Get Ahead, WE-Check**

Women entrepreneurs often face gender-based barriers to starting and growing their businesses, namely: discriminatory property, matrimonial and inheritance laws and/or cultural practices; lack of access to formal finance mechanisms; limited mobility and access to information and networks;

unequal share of family and household responsibilities and lack of maternity protection.

A large percentage of women entrepreneurs operate micro and small businesses in the informal economy. In the developing world, women workers make up around 60 per cent of non-agricultural employment in the informal economy – including up to 90 per cent of street vendors and up to 80 per cent of home-based workers. Consequently, they often remain outside the scope of laws and regulatory mechanisms aimed at providing basic health and safety standards, and workers' rights.

Women's entrepreneurship can make a particularly strong contribution to the economic well-being of the family and communities, poverty reduction and women's empowerment. Where women have more control over the resources of the household, the pattern of consumption tends to be more child-focused and oriented to meeting basic needs.

In addition to the above issues, studies also show that:

- women entrepreneurs do not have the same access to networks as men;
- women entrepreneurs have difficulties accessing premises due to, among other things, a lack of property and inheritance rights;
- women's lack of access to titled assets that can be offered as collateral for loans adversely affects the growth of their enterprises;
- women entrepreneurs lack access to formal finance and rely on loans from family and community;
- women entrepreneurs tend to be grouped in particular sectors, particularly food processing and textiles;
- business development service providers do not give adequate time or effort to target women entrepreneurs – they do not offer flexible arrangements in respect of the timing and location of service delivery;
- women often experience harassment in registering and operating their enterprises.

To address these issues, the ILO has developed a set of tools and services for the promotion of women's entrepreneurship such as the WE-CHECK, a self-assessment "gender audit", specifically for organizations working with MSE; the GET Ahead (Gender and Entrepreneurship Together) to train poor women entrepreneurs in business skills and on how to obtain support through groups, networks and institutions and Start and Improve Your Business (SIYB) training.

*Source : <https://www.ilo.org/empent/areas/womens-entrepreneurship-development-wed/lang--en/index.htm>*

► **Box 13. Support of SMEs access to finance by the Lao National Chamber of Commerce and Industry (LNCCI)**

LNCCI has signed an agreement with more than 8 commercial banks in Laos to facilitate SMEs access to finance and operates an SME Service Centre (with branches around the country) to provide SMEs access to training, information and support. Commercial banks in Laos complain that the quality of proposals they received from SME was below the minimum standard they need to make commercial lending decisions. The SME Service Centre has now developed a program to address this with the support of the ILO - Laos IN BUSINESS. The programme and its materials have now been endorsed by 8+ banks and Government, and the banks have agreed that those SME that complete the training and use the tool for producing the support documents for their application will go to the top of the pile in terms of being assessed. Some of the banks have also agreed to offer more favourable terms to these applicants (for example, waiving administrative fees) and others have agreed that LNCCI can act as guarantor for those that can't offer land or house as collateral. The Laos IN PROGRAM has also been taken up by a network of BDS throughout the country with LNCCI responsible for coordination.

*Source: Internal source, ILO, 2021.*

► **Box 14. Sole Traders Support Desk in the Cook Islands**

The ILO has worked with the Chamber of Commerce and Industry to establish and expand a Sole Traders Support Desk. It supports self-employed business operators (mostly informal, a number of micro firms being served) to:

- (i) be aware of and understand existing regulations and the business case for social security,
- (ii) prepare and submit their documentation for registration,
- (iii) prepare and submit their monthly contributions, and
- (iv) access skills development opportunities in the areas of business management and development.

A steering committee with Government representation, employers' and workers' organizations was established and policy discussions took place on barriers to sole traders identified.

As part of providing services and advice on workers' rights, labour legislation and social protection for workers in small and medium-sized enterprises, the Chamber's service helps Sole Traders companies to comply with payroll tax and social security contributions for their seasonal staff.

*Source: Internal source, ILO, 2021.*

## ► Part VI: International cooperation

19. Appropriate international cooperation should be encouraged in the following areas:

(a) establishment of common approaches to the collection of comparable data, to support policy-making;

(b) exchange of information, disaggregated by gender, age and other relevant variables, on best practices in terms of policies and programmes to create jobs and to raise the quality of employment in small and medium-sized enterprises;

(c) creation of linkages between national and international bodies and institutions that are involved in the development of small and medium-sized enterprises, including organizations of employers and workers, in order to facilitate:

(i) exchange of staff, experiences and ideas;

(ii) exchange of training materials, training methodologies and reference materials;

(iii) compilation of research findings and other quantitative and qualitative data, disaggregated by gender and age, on small and medium-sized enterprises and their development;

(iv) establishment of international partnerships and alliances of small and medium-sized enterprises, subcontracting arrangements and other commercial linkages;

(v) development of new mechanisms, utilizing modern information technology, for the exchange of information among governments, employers' organizations and workers' organizations on experience gained with regard to the promotion of small and medium-sized enterprises;

(d) international meetings and discussion groups on approaches to job creation through the development of small and medium-sized enterprises, including support for female entrepreneurship. Similar approaches for job creation and entrepreneurship will be helpful for disadvantaged and marginalized groups;

(e) systematic research in a variety of contexts and countries into key success factors for promoting small and medium-sized enterprises which are both efficient and capable of creating jobs providing good working conditions and adequate social protection;

(f) promotion of access by small and medium-sized enterprises and their workers to national and international databases on such subjects as employment opportunities, market information, laws and regulations, technology and product standards.

20. Members should promote the contents of this Recommendation with other international bodies. Members should also be open to cooperation with those bodies, where appropriate, when evaluating and implementing the provisions of this Recommendation, and take into consideration the prominent role played by the ILO in the promotion of job creation in small and medium-sized enterprises.

The Recommendation calls on Member states to facilitate the access of SMEs to research, innovation, information and communication technologies. Partnerships between enterprises and the establishment of research centres are essential to encourage innovation and technological diffusion.

Cooperation and partnerships between members and relevant international organizations is necessary for gathering data to support policy decision-making, sharing knowledge on what work in the area of SME development.

Advocacy campaigns specifically addressed to international partners should promote the use of Recommendation No. 189 as a common working tool contributing to the achievement of the 2030 Agenda for sustainable development – particularly to the realization of Sustainable Development Goal (SDG) 8.3 on the importance of enterprises and entrepreneurship in relation to productive activities, decent job creation and creativity and innovation, and stresses the need to encourage formalization and growth of micro-, small- and medium-sized enterprises including through access to financial

services; SDG 9.3 on the integration of SMEs into value chains and markets, and additional SDGs that refer indirectly to enterprises, business and the private sector in areas such as industrialization, infrastructure, energy, water, agriculture, and partnerships.

Enterprises can contribute to sustainable development and the achievement of SDG targets by respecting workers' rights and contributing to decent work priorities through their day-to-day operations and investments.

Recommendation No. 189 provides a unique and timely platform for advocating human centred recovery, a sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all through the creation and development of sustainable SMEs, the transition from informality to formality, and the alignment of business practices with the ILS.

#### ► Box 15: Digitalization as an enabler for entrepreneurship

Digitalization reduces entrepreneurship entry barriers by supporting better access to information, digital social network, online entrepreneurship, education programme (e.g. MOOCs) and financial services. Digital technologies therefore reduce uncertainty, improve entrepreneurial abilities, and access to financial resources (e.g. Fintech services, crowdfunding, etc.).

##### **Impact of digital connectivity for SMEs:**

An immediate positive outcome of digital connectivity for MSEs is increased access to information and an improved ability to communicate. MSEs obtain information through various technological channels. However, on account of their wide availability, affordability and low skill barriers, mobile phones and low-bandwidth applications such as WhatsApp or Facebook Basics remain the technologies of choice for informal MSEs across the world and for any MSE in a low-income country. The second key benefit of digital connectivity for MSEs is the ensuing ability to trade more easily and across greater distances, with both customers and supply chain partners. While initial hopes that digital technologies could help MSEs to directly acquire new customers and supply chain partners via the internet have rarely come true, digital transaction platforms have emerged as powerful and transformative market intermediaries for MSEs in recent years. Essentially, such platforms reduce transaction costs and information asymmetries by aggregating demand and supply in a virtual interface. E-commerce platforms and online marketplaces are the most common type of transaction platform with direct relevance for MSEs. However, a wide range of other types of MSE-oriented platforms have emerged at the regional, national and local level, including platforms for financial services, enterprise resource planning (ERP), food delivery and courier services, logistics and transport, agricultural supply chain coordination and information exchange, and equipment sharing. While MSEs can rely on platforms to take on marketing functions, they must build up new skills if they are to participate effectively in platform-mediated markets.

Platforms not only give existing MSEs access to more customers, but also enable new or vastly expanded markets for certain types of service oriented MSEs.

A third important impact of digital technologies on MSEs is that an increasing number of such enterprises have been enabled to use a greater variety of financial services. Although digital financial services (DFS) are but one domain of digital applications, it has arguably proved to be the most transformative one, especially for MSEs that were previously unbanked or otherwise excluded from traditional financial services. The positive impact that digital technologies have on inclusiveness stems from a significant reduction in the marginal cost for a given financial service, making it economically viable to charge small fees for transactions and to provide services to microenterprise customers (such as microfinancing and micro-insurance). DFS that effectively include rural and poor populations rely heavily on agent and kiosk networks, which create physical "touchpoints" that promote trust and achieve a broad reach. DFS appear to contribute to MSE productivity more directly than most other widely used types of digital applications (such as social networks), leading in turn to more pronounced impacts on MSE performance and hiring significant economic development outcome.

A fourth impact of digitalization on MSEs has been its contribution to formalization. Digitalization does not inherently bring about MSE formalization but, rather, opens up new pathways towards it. The first and most direct pathway consists of “e-formality” services: digital formalization initiatives implemented as part of broader e-government programmes. Public agencies have begun to offer services such as electronic business registration, digital fee payments, registration of bills and payments (for example, to monitor and pay value-added taxes) or electronic payroll. Such services are often aggregated in virtual one-stop shops, which provide a single central access point for MSEs. The second pathway to formalization is more indirect and arises from MSEs’ increased use of digital financial services (DFS) and related software, such as planning and accounting solutions.

Finally, opportunity opened by digitalization is for MSEs to fundamentally change the way they do business (digital transformation) or to bring entirely new digital applications and products to market (digital entrepreneurship).

In short, digital entrepreneurship leads to productivity effects mostly by generating spill over effects that arise within entrepreneurial ecosystems and from the application of more locally and regionally relevant digital products and innovations.

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*Source: Small goes digital, ILO, 2021*



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