

Committee of the Whole on Crisis Responses

**Thematic dialogue 8: Policy packages:
Sustainable enterprises****Main challenges**

The crisis has adversely affected the ability of enterprises of all types to contribute to economic growth, to generate wealth, employment and decent work. The two fundamental underlying crisis transmission mechanisms affecting enterprises are difficulties accessing finance and a shortfall in demand for their goods and services. In both cases, this feeds through into labour markets, affecting both the quantity and quality of employment.

Policy-makers need to design and implement measures to protect workers and entrepreneurs in existing enterprises while laying the foundations for recovery and job creation to ensure long-term sustainability. There is a need to strengthen the capacity of enterprises to compete in a sustainable manner and to take advantage of new economic opportunities, as envisaged in the strategy set out in the conclusions on the promotion of sustainable enterprises adopted at the 2007 International Labour Conference. These conclusions also describe a modern approach to improved global and national regulatory systems.

Given the magnitude of the crisis, governments are presented with a major capacity and fiscal challenge. This requires careful balance to ensure that respective public and private costs and benefits are properly weighed in determining interventions and policies to mitigate the effects of the crisis. It calls for an emphasis on stimulating the real economy and prioritizing real investment. It also calls for a renewed effort to address the “missing middle” of SME finance.

The expanded and sometimes new role for the public sector in the time of crisis constitutes a central challenge for many governments, not least when combined with declining government revenues (from a shrinking tax base) and increasing expenditures to finance recovery.

Although the actual challenges faced by enterprises as a result of the crisis may not be demonstrably different between developing and industrial country contexts, the capacity of governments to respond is likely to be different, with those in developing countries typically facing greater resource constraints.

In order for enterprises of all types to contribute to decent work and economic growth, they need to ensure that their core business activities continue to add value and are undertaken efficiently and effectively. During an economic crisis, it becomes more difficult to do this. Furthermore, sustainable enterprises, which pay due regard to the social and environmental as well as economic impact of their operations, may, at such times, encounter particular challenges in seeking to uphold their objectives.

The specific challenges facing enterprises will vary depending on a wide variety of factors, such as the size of enterprises, the degree to which the enterprise is dependent on various types and sources of external finance (including credit and remittances), the sector in which it operates, including its position in and dependence on a value chain and, fundamentally, the degree to which it can respond to changing demand conditions.

For example, enterprises operating in value chains whose ultimate market is in those countries most adversely affected by the crisis are more likely to be negatively affected themselves. Furthermore, communities with large export-oriented industries will need to absorb growing numbers of unemployed, whereas rural areas affected by falling commodity prices or lower remittances will need to develop alternative livelihood strategies for farmers and their families but also, in some countries, for the swelling ranks of returning migrants.

The crisis is also testing commitments to corporate social responsibility (CSR). Ensuring that employees, including those in firms along the length of supply chains, are treated responsibly and in line with both individual corporate codes and also guidelines such as the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) is a topic businesses cannot afford to neglect as pressures of the recession mount.

Patterns of response

The main ways in which governments (principally in industrialized countries) have supported the adjustment of enterprises to the crisis are through:

- policies designed to increase the flow of credit and other types of finance;
- stimulating demand through public procurement;
- expenditure on fiscal stimulus packages, including for infrastructure (which has the potential to generate significant jobs);
- fiscal incentives to consumers to stimulate demand; and
- direct support to the balance sheets of some large firms (most obviously, large financial institutions).

In the current economic crisis, attention often focuses on large businesses which typically make the headlines with their attention-grabbing reports of large lay-offs and plunging performance figures (and, in some cases, large bail outs from the public purse). However, in virtually all economies, the dominant enterprise type is the SME, which can take various forms such as sole proprietorship, partnership or cooperative. In the industrialized countries, for example, over 95 per cent of enterprises are classified as SMEs and account for 60–70 per cent of the working population. The comparative figures in developing countries are even higher. It is important, therefore, to place SMEs firmly at the centre of any approach to mitigating the impact of economic crises.

Broadly, the potential ILO actions in support of member States' policy response to the crisis, focused on enterprises and their workers (and their representative organizations), fall into the following programmatic categories:

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- policy advice on access to finance for SMEs and to ensure that SMEs fully participate in public procurement, infrastructure and other fiscal stimulus packages;
 - policy advice on tools and approaches for protecting and creating jobs in SMEs through the promotion of sustainable and responsible enterprise-level practices, including for responsible restructuring of sectors and enterprises;
 - promotion of the MNE Declaration and of the new ILO Helpdesk to implement decent work principles in companies; and
 - policy advice on strengthening an environment conducive to the growth of sustainable enterprises.

Future policy development issues

The crisis has led to a dramatic contraction in credit. As the 2007 International Labour Conference conclusions on sustainable enterprises set out:

A well-functioning financial system provides the lubricant for a growing and dynamic private sector. Making it easier for small and medium-sized enterprises, including cooperatives and start-ups, to access financing, for example credit, leasing, venture capital funds or similar or new types of instruments, creates appropriate conditions for a more inclusive process of enterprise development. Financial institutions, particularly multilateral and international ones, should be encouraged to include decent work in their lending practices.

Ensuring that the financial services sector serves the real economy of sustainable enterprises and decent work in the future is an important part of discussions on reform of financial market regulations.

The present crisis presents an opportunity to promote innovative patterns of enterprise growth and job creation. Two avenues for pursuing this are the emerging green and social economies. The green economy includes sustainable energies, transport, management of biodiversity and freshwater resources and sustainable agriculture.

Enterprises in the social economy – in their majority, SMEs, including cooperatives, mutual societies, non-profit associations, foundations and social enterprises – are mainly rooted locally, community driven, responding to social and economic needs, driving social innovation, often employing and serving marginalized groups and creating new jobs. The social economy encompasses business models that increasingly attract women and youth.

The crisis may provoke some reconsideration of the most effective ways of promoting CSR. The ILO's MNE Declaration is a solid foundation to guide enterprises through the recession and prepare for recovery.

In many countries, the ILO's tripartite constituency is seeking ways to support enterprises through the recession and to stimulate recovery. The ILO could upscale its work in response to the crisis by:

- (a) strengthening its work in supporting governments and social partners to assess and improve the enabling environment for sustainable enterprises; and
- (b) mobilizing and strengthening its global network of enterprise development practitioners and institutions to support enterprises (particularly SMEs) to adopt responsible and sustainable enterprise-level practices, and to take advantage of new enterprise and employment creation opportunities, especially as part of the new stimulus packages, and in light of the growth in the social and green economies.

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References

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