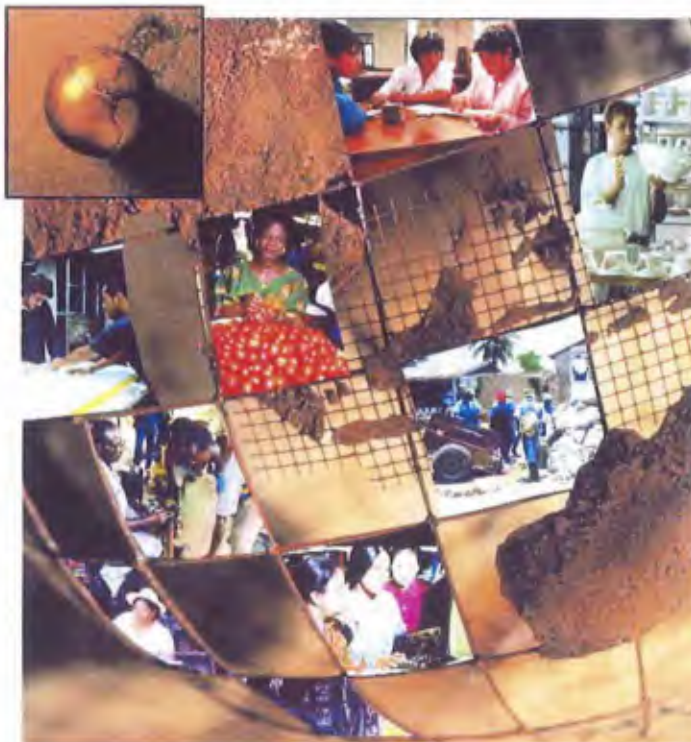


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Nurturing the Growth of Small Enterprises

A brief overview to policies, laws and regulations that maximise small enterprise development and employment growth

by Simon White

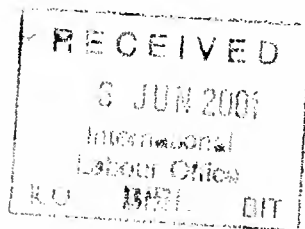


INFOCUS PROGRAMME

boosting employment through
small enterprise development

International Labour Office, Geneva





Nurturing the growth of small enterprises

A brief overview to policies, laws and regulations that maximise small enterprise development and employment growth

By Simon White

This booklet describes how a policy, legal and regulatory framework can support the development of small enterprises and employment creation. Drawing from the global experience of the International Labour Organization (ILO) and promoting best practice approaches to the development of small enterprises, this booklet gives practical advice and tips on the design and reform of the policy, legal and regulatory framework.

Over the last 15 years, small enterprises have been recognized as significant generators of employment in both developed and developing countries. Their ability to quickly adapt to changing circumstances and to find niche markets, along with their potential to innovate, have given them a critical edge in the market place. As a result, the numbers of small enterprises have grown, as have the number of their employees. This view, however, should be balanced by the understanding that the growth in small enterprises has also been a consequence of growing unemployment and poverty, which has forced many people into this sector as a means of survival, rather than in pursuit of new opportunities. Small enterprises, while employing many people, can become difficult, dangerous and insecure places of employment, with low financial rewards.

The ILO has been working with its members and constituents to assist in the growth of small enterprises and the employment they can provide. Within this context, the ILO has also sought to promote new employment opportunities that are secure, properly and equitably rewarded, and offer safe working conditions. The International Focus Programme of the ILO on Boosting Employment through Small Enterprise Development, known as SEED, provides assistance to its constituents in the design and review of small enterprise policies, laws and regulations.

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The provision of business development services (whether they are financial or non-financial) is an important way of promoting small enterprise development and the growth of employment within this sector. However, it has become clear that the design of an 'enabling' policy, legal and regulatory framework also plays a considerable role in the promotion of small enterprises. Such a framework can encourage employment practices within small enterprises that are conducive to good quality jobs.

There are numerous policy, legal and regulatory constraints and biases that can erode the capacity of small enterprises to create new employment opportunities, foster technological innovation and produce wealth. Similarly, even when the policy, legal and regulatory instruments themselves are supportive of small enterprise operations, their enforcement and implementation may be inadequate or inefficient.

ACTION: This booklet provides some simple starting points for action. It encourages governments, employer and worker organisations as well as development agencies to assess the environment in which small enterprises operate with a view to identifying ways to unleash the potential of this sector to grow and create new and better jobs.

The role of government

One of the main issues underpinning efforts to promote small enterprises concerns the role of government. This is an important issue because it involves links between government policies, laws and regulations and their administration within the broader economy. Politicians and government bureaucrats are often suspicious of business. Business can have a negative connotation and its functions in the broader economy are often not fully understood. Similarly, government departments and their officials are often unaware of the specific needs and requirements of small enterprises and the impact their actions may have on enterprises and their contributions to the broader economy as a whole.

The term 'enabling environment' is used when referring to a policy, legal and regulatory framework that encourages the activities and development of small enterprises. One that views them as important contributors to the broader economy. Such a framework recognises that small enterprises have different needs to those of large-scale enterprises. This does

not mean that small enterprises should operate free from any government regulation, control or monitoring. Just that the constraints and limitations of the sector should be reduced as much as possible without undermining any other social, humanitarian, welfare or equity objectives of government.

Whilst small enterprises are required to act within the parameters of state structures, it is also possible to stimulate and enhance their contribution to the country and its economy. Not only can small enterprises contribute to national development through a broadening of the revenue base of the state; they can also promote the growth of employment, economic diversification and foreign trade. In addition, they can provide a mechanism for the transfer and adaptation of new technologies. An enabling environment for small enterprise should be based upon an understanding of these features and should provide the framework for a comprehensive set of policy initiatives to realise these outcomes.

There are four common roles that can be used to describe the ways in which government view its relationship with small enterprise. These are as follows:

- 1 Government as a *catalyst and facilitator*—where government brings key groups together, promoting collaboration and co-operation in the initiation and support of small enterprise development efforts.
- 2 Government as a *'resourcer'*—where government departments promote small enterprise development efforts through the allocation of practical resources (e.g. human, financial or physical resources).
- 3 Government as a *leader*—where government takes the lead in mobilising civic, private and public sector agencies, along with resources to initiate development policies, programmes and processes.
- 4 Government as a *manager and developer*—where the government

intervenes directly into small enterprise development projects and processes, making them explicit programmes of government.

In many instances, governments perform all four of these roles simultaneously. However, in recent years the facilitation role has become more prominent. Governments prefer to establish an enabling environment, through the policy, legal and regulatory framework, in order to encourage entrepreneurship, investment and innovation.

Good policies, laws, programmes and regulations are necessary to stimulate the economy and to promote the benefits that small enterprises can bring. But the function and administration of these must be continuously questioned and assessed. The processes described in this booklet should be seen as continuous. There will always be new questions to ask and new areas to investigate; the dynamism of the small enterprise sector will often challenge the legal environment and provide new opportunities for reform.

ACTION: Consider the role that has been assigned to small enterprises by government in your country. Does government focus on a narrow set of issues relating to the small enterprise sector alone? Or is the development of small business integrated into the overall social and economic development of the country?

The role of small enterprises

Small enterprises are essential actors in the development process. Together with larger enterprises, they play an important role in mobilising resources and allocating them amongst productive activities. They are a driving force behind the related flows of trade, investment and technology, on which the strength and dynamism of an economy depends. It is important that governments are clear about the role that small enterprises can play in development.

Clarity in this regard provides a basis upon which policy, legislation and regulation can be designed and assessed. Rather than simply failing to see the benefits of a strong and vibrant small enterprise sector, governments often believe it is better to focus on large-scale industry. In these cases policies, laws and regulations supporting large-scale enterprises take priority over those that assist small enterprises. Large firms are (often, wrongly) perceived to employ more people. In the past, conventional economic development wisdom has supported this view. However, new trends in employment growth and research into the dynamics of large-scale firms suggest that policy-makers must understand the true value of small enterprises more fully so that a balance of priorities is attained.

The ILO member States have recognised the many contributions that small enterprises make to their economies through Recommendation 189 of the International Labour Conference, entitled, *General Conditions to Stimulate Job Creation in Small and Medium Enterprises*. This Recommendation seeks to recognise and promote the fundamental role that small enterprises can play in:

- ❖ promoting full, productive and freely chosen employment;
- ❖ providing greater access to income-earning opportunities and wealth creation leading to productive and sustainable employment;
- ❖ enabling sustainable economic growth and the ability to react with flexibility to changes;
- ❖ increasing economic participation of disadvantaged and marginalized groups in society;
- ❖ increasing domestic savings and investment;
- ❖ training and developing human resources;
- ❖ balancing regional and local development;

- ❖ providing goods and services that are better adapted to local market needs;
- ❖ improving the 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;
- ❖ stimulating innovation, entrepreneurship, technology development and research;
- ❖ providing access to domestic and international markets; and
- ❖ promoting good relations between employers and workers.

Whilst small enterprise development may be recognised as a valuable tool for broader economic and social development, there are a number of special needs the small enterprise sector experience. In many circumstances policies affecting economic development are weighted in favour of large-scale enterprises, leaving small enterprises in a vulnerable position and surrounded by barriers or constraints to their expansion. For example, many small enterprises have very limited access to foreign exchange and to bank or institutional credit, whilst this is usually not the case for larger firms. There is a need to find a balance, in policy terms, between addressing the needs and capacities of the small enterprise sector and those of large-scale industries. Often governments will provide tax-free breaks and other special incentives to large domestic and foreign owned businesses whilst being overly restrictive to the operations of their domestic small enterprises. Those governments that recognise the value of a strong and vibrant small enterprise sector and give priority to promoting this sector will be more likely to develop a policy, legal and regulatory framework that enables the growth of small enterprises and enhances their contribution to broader development objectives.

There are many ways in which complementary policies and structures can

be developed in support of small enterprises and large-scale industries. Indeed, a diverse and healthy economy will contain both forms of enterprises and will promote sub-contracting and trading arrangements between them. Some issues of critical concern to small enterprises are their vulnerability to unfavourable treatment by larger enterprises; their limited internal resources (human, financial and material); their sensitivity to market changes; and their limited management and technical capacities.

Elements of the small enterprise environment

The environment in which small enterprises operate is shaped by many elements. These include:

- ❖ the policy, legal and regulatory framework;
- ❖ market opportunities (i.e. those that shape where an entrepreneur can buy from and sell to);
- ❖ the prevailing culture, which may for example, be traditional or entrepreneurial;
- ❖ the availability of resources, such as access to credit, skills, advice or information;
- ❖ public investment, affecting infrastructure, telecommunications and the provision of business development services, for example; and
- ❖ the skills, attitudes, and experience of the businessperson.

The degree to which the environment enables or constrains small enterprise activity is not a function of one of these elements alone. It is necessary to identify the elements that exist and understand how they combine to influence the potential of small enterprises. While the policy, legal and regulatory framework is only one element of influence on small

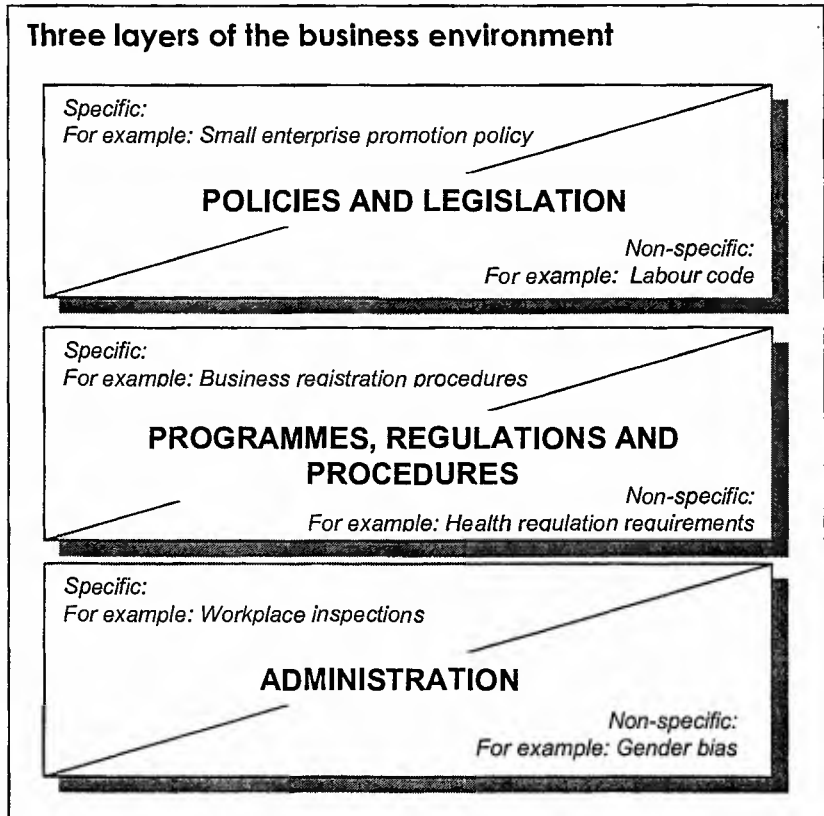
enterprises, as mentioned above, it can have an affect on all the others.

The policy, legal and regulatory framework exists to perform two broad functions: Firstly, it provides the means by which government can manage the economy so as to achieve sustainable social and economic outcomes. That is, government develops policies and laws to achieve a desired purpose. The second function of the policy, legal and regulatory framework is to protect and assist the small enterprise itself. Small enterprises require space to operate and physical facilities in which to conduct their business. They need protection in terms of physical protection against unlawful behaviour of others, but also in the sense of having legal forms available to improve the conduct of business (e.g. protection against unfair competition), and incentives to prompt the start of the business. Thus, a policy, legal and regulatory framework is necessary for the proper functioning of the economy and the protection of basic individual rights and economic and social functions. However, in the search for control and in the desire to manage, some governments and their executives can overdo it. They can create a policy, legal and regulatory framework that has the effect of reducing the capacity of small enterprises to grow and develop, thereby limiting the employment potential within the small enterprise sector.

There are three layers of government activity that shape the environment for small enterprises. The first is that of policies and laws—these set the directions and intentions of government. They underpin development efforts and influence the role the small enterprise sector performs in national,

provincial and local economies. Policies and laws provide the justification for programme and regulatory action.

The second layer concerns programmes, regulations and procedures. These are a means through which policies



and laws are implemented. Programmes are direct forms of government intervention. They are usually designed to promote, encourage or assist certain behaviours in order to achieve a defined and desired outcome. Regulations and procedures represent the 'tools' that are used to enact the policies and legislation.

The third layer of activities is that of administration. This refers to the ways in which policies, laws, programmes, procedures and regulations are applied, managed and monitored. Whilst all three of these layers of government activity are important in their own right it must be remembered that there are connections between them.

The environment in which businesses operate can be affected by factors that have been deliberately designed to do so; however, it can also be influenced by factors that were not primarily intended for this purpose. The diagram, below, illustrates this point. It shows how the three different layers of the policy, legal and regulatory framework each contain factors that are specific and non-specific in regards to small enterprises. Whilst specific forms are designed with small enterprises in mind, non-specific forms were not, yet they can still affect the operations of a small enterprise. The environment in which small enterprises operate can enable or promote business activity, and it can restrain other types of business activity or prevent activity that is harmful to workers, society or the natural environment. Thus, policies, laws, programmes, regulations and administrative mechanisms can enable and they can restrict. They can do this intentionally, through specific measures, or

unintentionally, through non-specific measures.

These three layers of the policy, legal and regulatory framework will be examined in more detail below.

The policy and legal base (the first layer of the framework)

Creating an enabling environment for the development of small enterprises implies the creation of a favourable overall policy and legislative base for the development of enterprise and the promotion of entrepreneurship. Conducive policies and laws create confidence among economic actors in the management and evolution of the economy. There are many policies and laws that can impact upon the operations of small enterprises and combine to create an overall policy environment for small enterprises (see box).

List of relevant policy areas

These are some of the policy areas that can have a strong impact on small enterprises:

- Specific micro, small or industrial development policies
- Monetary and credit policies
- Taxation
- Regulatory and control policies (e.g., registration requirements)
- Labour and employment policies
- Trade policies
- Planning and zoning
- Private sector development policies (e.g. policies concerning privatisation, commercialisation or liberalisation)
- Sector policies (e.g., tourism or agricultural development policies)
- Infrastructure provision
- Information and communications
- Innovation, research and development policies

Policies and laws do not exist in isolation. They are created in response to different influences and expectations and generally reflect the government's attitude toward its subject. In some cases, however,

policies and laws that affect small enterprises may not reflect the government's position. This may be due to a number of reasons, such as those listed below.

- ❖ Old and out-dated policies and laws—where, for example, the government currently in power has not been responsible for the formulation of the existing policy base. This may typically occur when a new government comes into power. It can also be found in countries that have undergone recent significant political or economic changes.
- ❖ Poorly defined policies and laws—where policies and laws are formulated in an unclear or ad hoc manner. This may be for a number of reasons, including a lack of understanding regarding the development needs and potential of small enterprises; a lack of interest in, or priority for, small enterprise promotion (usually because of a greater interest in large-scale enterprises); unforeseen impacts of policy; and a lack of co-ordination (e.g. no minister to take overall responsibility).
- ❖ Policies and laws are too complex. This situation is often created when policy is formulated in a piecemeal manner creating duplication or a confusing collection of priorities and directions, the impact of which may often result in a lack of direction. Over time, policies and laws can accumulate and become cumbersome and stifling to the operations of small enterprises.
- ❖ No policies or laws—where there are gaps in the overall policy and legislative framework that relate to small enterprises. These are areas where there is no clear understanding of the government's intention.

It is important to have some idea as to what constitutes 'good' policy. That is, what are the qualities we should look for in policy? A 'good' policy is not necessarily one that gives an open door to all small enterprises. It is important to recognise that there may be a need for restrictions.

Environmental policies, for example, may prevent the operation of enterprises that threaten the environment (e.g. the slaughter of rare and endangered animals).

Whilst assessing the intentions or motivations of small enterprise policies and laws, it will be useful to consider the following questions:

- 1 What is the perceived role of small enterprises in national development objectives and strategies? (i.e. does the government see small enterprises as a resource that can be enhanced for the benefit of all, or as an unruly obstacle to smooth governance?)
- 2 To what extent are the special needs or opportunities of small enterprises recognised? (i.e. is there an understanding of the needs of small enterprises compared to those of large-scale enterprises?)
- 3 Has some degree of priority been given to small enterprises within the broader economy?

The absence of a clear policy and legislative base can create problems for small enterprises. It can also create problems when assessing the other layers of the framework because without clear policies there is no benchmark on which proposals for reform and change can be set or discussed.

Checklist for 'good' policies and laws

Whilst trying to assess the variety of policies and laws that affect small enterprises the following simple questions may be asked.

- Does it recognise the role that small enterprises play in development? It may not state clearly that small enterprises are important in this way, but it should at least enable small enterprises to contribute to broader development objectives.
- Is policy based on an accurate understanding of the dynamics of small enterprises?
- Does it promote a diverse and dynamic economy?
- Does it inhibit any legal or human right? E.g. does it prevent certain people from starting their own business?
- Does it favour large business over small enterprise?
- Does it put small enterprises in competition with the government?
- Is there co-ordination in policy development and implementation?

ACTION: Look at the main policies and laws that affect small enterprises in your country. Do they recognise the importance of small enterprises? Do they promote the job creation potential of the sector? How are small enterprises defined? What signs are there that government has assigned some importance to this sector?

Programmes, regulations and procedures (the second layer of the framework)

Good policies and laws provide the foundation on which a small enterprise environment can be built, but the ways in which they are implemented is critical. This requires the design and management of appropriate programmes, regulations and procedures.

In addition to providing a policy, legal and regulatory framework in which small enterprises operate, government can intervene to assist or promote certain types of small enterprises. This can be done through various forms of programmes,

subsidies or incentives. Programmes for small enterprise promotion usually focus on government interventions that provide or help private actors to provide information, knowledge and skills, as well as advice on the various aspects of business management. These are known as business development services. In addition, governments may decide to provide financial services to support business development through a variety of possible micro-finance schemes. Whether financial or non-financial, the decision to use a programme to support small enterprise requires a thorough assessment of the small enterprise sector and the problems it experiences. It must be based on a good understanding of the desired outcomes of the programme and its potential impact and long-term sustainability.

Regulations and procedures, on the other hand, are tools that are used to enact certain laws and policies. A good example of this can be found in the regulations and procedures that are used in the registration and licensing of businesses.

Problems associated with regulatory and procedural instruments for small enterprise promotion can often be associated with any one of the following causes:

- ❖ too much regulation—preventing, for example, small enterprises from taking advantage of market opportunities or obtaining inputs at competitive prices;
- ❖ inadequate regulations—providing insufficient protection to the entrepreneur (e.g. ambiguous property rights and enforcement of contracts);
- ❖ lack of clarity—where regulations are too complex and convoluted requiring a lot of time to meet and complete, too many forms, too many government agencies to deal with, too many obligations, high reporting costs;
- ❖ duplication—where regulations and procedures duplicate one another or are not compatible;
- ❖ frequent changes to regulations—where a government authority is making changes to the regulations required by a given piece of legislation, making it very difficult for business people to keep up to date with what is required of them;
- ❖ lack of awareness—where regulations and procedures are not properly communicated, interpreted or promoted to the small enterprise owner, or where there is a lack of understanding of these matters by the enforcers of the regulation (e.g. the health inspector); and
- ❖ regional disparities—where the impact of regulatory and procedural instruments create restrictive biases between urban and rural settings.

ACTION: Consider the impact regulations and procedures have on small enterprises in your country. Do they encourage enterprises to comply, or do they give incentives to enterprises to go into the informal sector, thereby avoiding recognition by government? How can these systems be improved so that businesspeople see the benefits to compliance?

Checklist for 'good' regulations and procedures

When assessing the regulatory and procedural instruments of the framework in which small enterprises operate the following questions should be asked:

- Can it be eliminated? Is the regulation or requirement really necessary? What are the reasons for it? Is it the side effect of other regulations or can it be removed? Instead of regulation, what alternative mechanisms could be used to achieve the same outcome?
- Can it be simplified? If the regulation is necessary, can the requirements for meeting the regulation be made more 'user-friendly'? Can some steps be eliminated? Can some forms be made simpler and easier to complete?
- Can it be combined with other requirements? Is it possible to minimise duplication and repetition? Can several regulations be met with only one submission?
- Can it be communicated better? If there is misunderstanding or confusion about the regulation, can it be better promoted to avoid time consuming and costly mistakes?

Administration (the third layer of the framework)

Finally, it is important that the administration of policy, legal and regulatory procedures is assessed. Good policy, sound comprehensive legislation, and a consistent clear set of regulations will never reach their full potential if the administration of these instruments is inefficient or poorly conducted.

Administration procedures require careful attention when assessing the small enterprise environment. This is because administration procedures must be consistent with their policy, legislative and regulatory base. They are the point of interface between the government and the

small enterprise owner-manager and usually have scope for adjustment. As a result, administrative reforms can have a great potential for improving the environment in which small enterprises operate.

It is important to minimise the administrative burdens on small enterprises as far as possible because they can hinder the development of enterprises and the growth of employment. An environment that does not support enterprise can be particularly damaging to small enterprises because they do not have the reserves and resources to fall back on. Neither do they have then the managerial and technical capacity to deal with changing economic and business policies, complex licensing and authorisation procedures, and fluctuating fiscal and monetary regulations.

Checklist for 'good' administration

The following elements are presented to provide a general overview of what should characterise 'good' administration in regards to the policy, legal and regulatory framework in which small enterprises operate:

- Transparency—the process for administration should be clear and transparent. The small enterprise owner/manager who registers a business should know what happens to the information that is submitted. There will also be a need to know what rights of appeal exist.
- Simplicity—good administration procedures will be ones that most people can understand and follow. The simpler the better.
- Consistency and co-ordination—administration procedures that are well co-ordinated with other departments or with the other requirements of entrepreneurs require a degree of consistency. Where the various 'arms' of central government and the different levels of (e.g. central, provincial and local) are working co-operatively to ensure consistency.
- Communication—entrepreneurs will need to know what is required of them and how they can or should meet these obligations. Administration procedures should be communicated. People with questions or who need assistance should know where to go.
- Decentralisation—small enterprises are spread all over the country. There is a great value in providing decentralised administration centres where entrepreneurs can report to fulfil their legal and regulatory responsibilities.

The creation of an enabling environment for small enterprise development is critical to successful business development efforts. At the local level there can be great risks for administrative systems to constrain small enterprise growth. The decentralisation of central government

services can mean that provincial and local levels of government are required to deal with many more regulatory and administrative functions affecting small enterprise.

Around the world, the processes and culture of administration and the functions

of government are changing. Some of the new developments in government administration have been referred to as 'entrepreneurial'. Entrepreneurial governments are less involved in direct service provision, preferring instead to promote competition between service providers. They empower their citizens by giving them more control in decision-making processes. They measure the performance of their agencies by their outcomes, not on their inputs. They are driven by their goals and not by their rules and regulations. They redefine their clients as customers and offer them choices. They decentralise authority and prefer market mechanisms to bureaucratic ones. They do not simply focus on providing public services, but on facilitating all sectors—public, private and civic—into action to solve their community's problems.

ACTION: What are the main roles performed by government in your country in respect of small enterprise development? Has government begun to adopt some of the new styles of administration and governance? How could improvements be made?

Small enterprise policies

Recommendation 189 of the International Labour Conference, *Concerning the General Conditions to Stimulate Job Creation in Small and Medium Enterprises*, encourages member States to design policies promoting efficient and competitive small enterprises that provide productive and sustainable employment under adequate social conditions. To achieve this, it is necessary to create conditions that provide access to credit, foreign exchange and imported inputs and fair taxation. It is also necessary to provide effective labour laws and regulations to raise the quality of employment in small enterprises and compliance to international labour standards.

ACTION: Obtain a copy of the International Labour Conference Recommendation 189 and ensure that relevant politicians and policy-makers also have a copy to read and to follow.

The development of a specific policy on small enterprise development can be an important first step for governments to demonstrate their concern for small enterprises and to maximise the employment that can be generated within this sector. These may be called the Small Business Policy or the SME Development Policy, for example. With such a policy in place, a clear and coherent base is created for the review and design of laws, programmes, regulations and administration systems.

Specific small enterprise promotion policies may be designed to address specific issues of concern to government. For example, specific policies may be designed to address risk and disadvantage such the provision of social protection to small enterprises and their workers—allowing small enterprise owners and workers to manage risk more effectively. Alternatively, special enterprise promotion policies may also be designed to help particular groups of disadvantaged people start and develop a small enterprise. This may include for example, policies that promote entrepreneurship amongst women, young people, people with disabilities, indigenous or tribal groups, and ex-combatants.

The upgrading of the informal sector is also a common concern to many governments. Specific policies and incentives can be developed to assist the informal sector in becoming a part of the organised enterprise sector. These policies recognise the potential of the informal sector as an expression of both need and opportunity.

Specific policies may also be designed to promote particular opportunities for small enterprises. Many countries, provinces and local authorities will

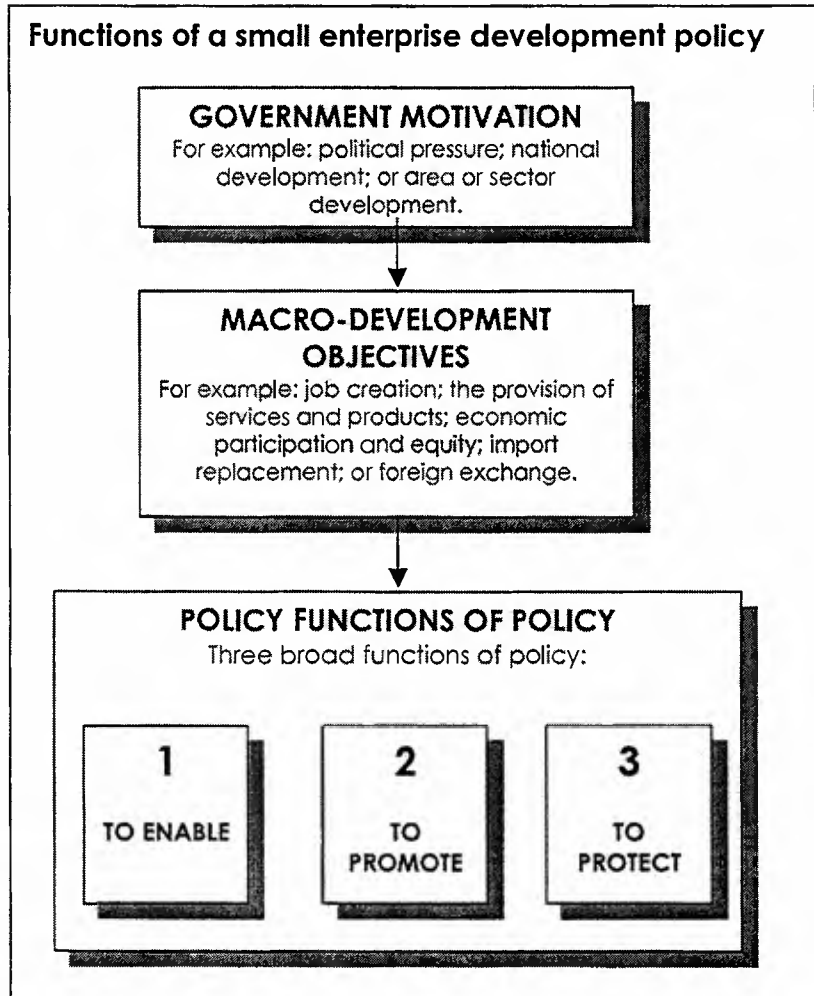
produce policies that identify their competitive economic advantages and open new opportunities for private sector development and the growth of small enterprises. Some examples of this include policies designed to promote small-scale mining; expand the participation of small enterprises in the tourism sector; assist small enterprises in winning government tenders; assist small-scale farming enterprises; and increase opportunities for local contractors.

Policies designed to promote small enterprises will contain three kinds of roles that government can perform. These are:

- 1 Enabling small enterprises—by providing a framework within which businesses can operate. This framework gives entrepreneurs freedom to operate (within limits). It encourages and rewards calculated risk-taking, and facilitates innovation in response to perceived market opportunities. Thus, it establishes an environment that is conducive to entrepreneurial activity.
- 2 Promoting small enterprises—where simply enabling entrepreneurs is not enough it may be considered desirable to directly promote small enterprise development. Such promotion will usually be targeted toward specified types of enterprises. This targeting may include enterprises in disadvantaged regions (e.g. rural, remote or declining regions), or those that are owned by people from

disadvantaged groups (e.g. women, young people, people with a disability, unemployed persons), or those within an industrial sector the government wishes to make stronger (e.g. food, tourism, textiles).

- 3 Protecting small enterprises and the broader society—by preventing, for example, the abuse of human rights, or excessive damage to the environment; restricting large-scale firms from monopolising the markets; protecting the fundamental rights of workers and the rights of consumers; or deterring entrepreneurs for creating, for example, unsafe working conditions.



ACTION: Does your country have a national small enterprise development policy? Does it reflect the main concerns and opportunities of this sector, whilst describing the role of government and other social partners in the development of the sector? Is it in need of review?

Starting points for assessment

Creating the right conditions for small enterprise development is as much to do with analysis, as it is to do with design. Rarely, are policies, laws, programmes or regulations designed from scratch. In most cases there will be existing policies or other conditions in place that have to be assessed.

Policy analysis is a continuous activity. It encompasses three broad areas of policy analysis: The first is the collection of national data on the small enterprise sector, covering quantitative and qualitative aspects of employment—without creating undue administrative burdens for small enterprises. Secondly, it involves an assessment of the impact of existing policies, laws and regulations on small enterprises. Lastly, it entails a review of labour and social laws and policies and the ways they affect small enterprises, while ensuring adequate protection and working conditions for their workers.

Policies that are not directly related to small enterprise development, such as fiscal and monetary policies, trade and industry, employment, education and training, labour, social protection, gender equality, and occupational safety and health should also be assessed. Mechanisms and procedures to regularly review and update these policies should be established and institutionalised.

The ILO and other major donor and development organisations recommend participatory approaches to assessing and reforming the conditions in which small enterprises operate. Such approaches

promote joint efforts by government and the private sector. This requires a political will to create change, where change is necessary, and a broad understanding and acceptance of change by the relevant authorities, organisations and the public in general. The achievement of a clear output, such as comprehensive and defined strategies for change is also necessary.

Mapping and assessing the policy, legal and regulatory framework for small enterprises is the first step in identifying possible areas for reform. But it is not always possible to propose uniform ways in which policy, legal and regulatory reform can take place. What has worked in one country may not always work as effectively in others.

The reform and development of policies, laws, programmes, regulations and procedures that are conducive to small enterprise development may focus on specific areas of change or reform. Alternatively, a complete realignment of the policy, legal and regulatory framework may be required, such as in those countries where a high degree of structural change is taking place.

Educational efforts must go hand-in-hand with legal reforms. Fundamental to success in the reform process is the need to understand the dynamics of small enterprises and the impact that the policy, legal and regulatory framework can have on these dynamics.

ACTION: Identify the key stakeholders in small enterprise development in your country. Get them together to consider the need for assessment and reform of the policy, legal and regulatory framework. Seek the support of government at the highest level possible.

Mechanisms and processes for review

As indicated above, it is essential that the key stakeholders in small enterprise promotion are all involved in the review and assessment of the policy, legal and regulatory framework. This must include representatives from the public, private and community sectors.

There are three different kinds of strategies that can be used when working with these stakeholders. These are (1) dialogue strategies—used to share information and experiences across stakeholders; (2) collaboration strategies—to foster joint efforts and agreements; and (3) co-ordination strategies—which allow all parties to work in their own fields, but toward mutually agreed ends. The mechanisms and processes for pursuing these different strategies are briefly described below.

1 Dialogue strategies

Strategies for dialogue provide a mechanism whereby information is exchanged between the small enterprise sector and government. Participatory workshops or focus groups may be conducted to bring entrepreneurs together to share information on their experiences. Enterprise surveys—written or verbal—that aim to collect information from small enterprise about specific areas of concern or interest can also be useful. As can regular enterprise appraisals and consultations conducted by an experienced interviewer.

2 Collaboration strategies

Collaboration provides a means where different groups in society can come together. Since small enterprise development requires efforts from a number of different stakeholders in the economy, effective collaboration is essential. Collaboration is a mutually beneficial and well-defined relationship entered into by two or more organisations to achieve common goals. It represents much more than co-

operation or co-ordination. Collaboration in small enterprise development can be achieved through:

- ❖ tripartite bodies—made up of high level representatives from government, unions and the private sector;
- ❖ networks of organisations and individuals with a common interest may be used to identify common concerns in the policy, legal and regulatory framework, or to share strategies and ideas for reform; and
- ❖ advisory committees—either as permanent structures or flexible ones—can be formed to address specific areas of interest, concern or opportunity.

3 Co-ordination strategies

Co-ordination involves two or more parties working toward the same end within their own fields. When it comes to the promotion of small enterprises the lack of co-ordination (as evidenced by duplication or gaps in the policy, legal and regulatory framework, or by competing or contradictory policies) is a critical concern. There is a need to ensure government co-ordination amongst different ministries, departments and across the various levels of government. This is commonly achieved by umbrella or co-ordinating committees, which have high-level political and bureaucratic support.

Co-ordination across the private sector is also important. Especially if those in small enterprises are to advocate to government in a consistent and clear manner. This requires the formation of business associations, self-help groups and chambers of commerce. Business development agencies can also assist in co-ordinating both government and private sector groups. They are often community based and can focus their activities on a specific geographical area. In this way they can play an important role in bringing local parties together to consider reform needs and strategies.

ACTION: Examine the current mechanisms in place in your country that promote participation by all stakeholders in small enterprise development. Do these encompass strategies for dialogue, collaboration and co-ordination? Are small enterprises well represented?

Summary and available support

This booklet has provided a general introduction into the elements of the environment in which small enterprises can establish and grow. It has argued for a policy and legislative base that recognises the special needs, constraints and opportunities of small enterprises and the supports they require to contribute more fully to national development goals. The impact of specific small enterprise policies and other, non-specific policies, on small enterprise development has been illustrated, as has the potential impact of regulations and administrative systems. In each case, critical points to look for have been identified.

The importance of an environment that is conducive to small enterprise development cannot be overstated. It provides the basis on which more effective business development programmes can be designed and encourages sustainable development that reaches all small enterprises. The answers to the questions that an assessment of the small enterprise environment raises cannot be found easily. They are embedded within social, economic, cultural and historical contexts that are specific to each country.

The ILO's International Focus Programme on Boosting Employment through Small Enterprise Development (SEED), develops and co-ordinates the production of practical resource materials for use by policy-makers, researchers, regulators, small enterprise development practitioners, ILO constituents and other interested groups. It also supports national

policy development and reform initiatives geared toward improving the policy, legal and regulatory framework for small enterprises and conducts research into the impact of policies and laws upon employment within the small enterprise sector.

ACTION: Contact SEED or your local ILO representative to find out how you might be further assisted in your efforts to improve the policy, legal and regulatory framework in which small enterprises and employment growth are encouraged.

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