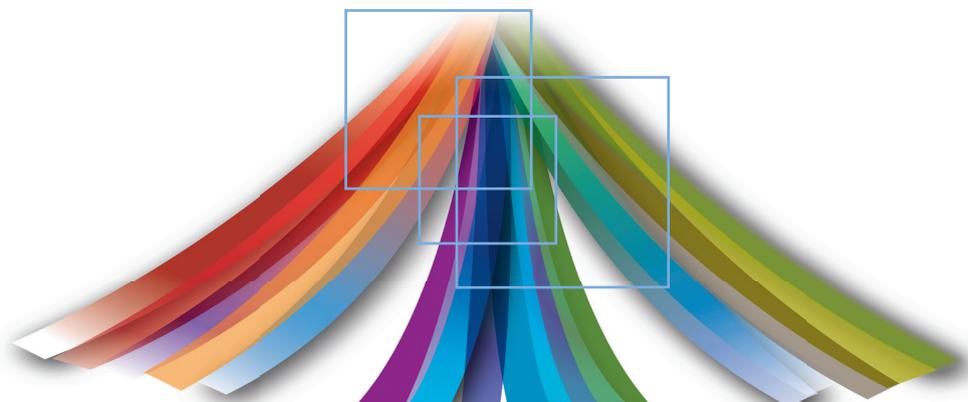


# GLOBAL JOBS PACT POLICY BRIEFS



International  
Labour  
Organization



## SUPPORTING SMES AND THEIR WORKERS THROUGH THE CRISIS

### 1. Executive summary

The global financial and economic crisis presents a number of critical challenges to governments in their efforts to create and retain jobs, and to promote sustainable enterprises. Importantly, the crisis has spread throughout the real economy through three mutually-reinforcing transmission channels, namely: the limited availability of credit for working capital, trade finance and viable investments in the real economy (the credit crunch); cautious spending decisions leading to lower output, employment and prices, which in turn affect confidence amongst consumers and investors (the demand slump); and international trade and investment linkages and remittance flows (the globalization channel).

The Global Jobs Pact, designed to guide national and international policies aimed at stimulating recovery, specifically recognizes the contribution of small and medium-sized enterprises (SMEs). SMEs have been especially hard hit by the global crisis. The ILO is committed to supporting constituents to implement these elements of the Global Jobs Pact and to increase the Office's capacity to respond to the effects of the crisis on SMEs.

### 2. Description of the policy challenges

SMEs and entrepreneurs play a significant role in all economies. They are the key generators of employment and income, and drivers of innovation and growth. Given their importance in all economies, they are essential for economic recovery.

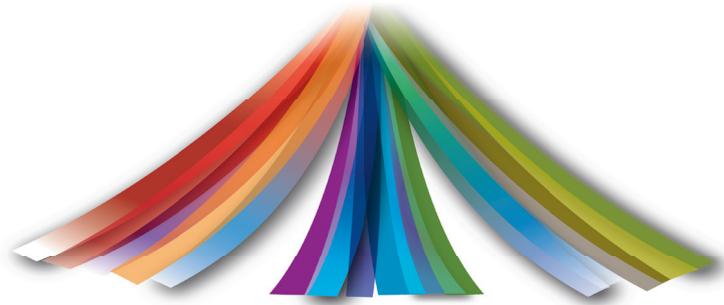
Even in normal economic conditions, governments have recognized that to survive and grow, SMEs need specific policies and programmes – hence the comprehensive range of SME measures currently in place in most countries. However, at the present time, SMEs have been especially hard hit by the global crisis. These firms are more vulnerable now for many reasons: not only has the traditional challenge of accessing finance continued to apply, but new, particularly supply-side, difficulties are currently apparent. SMEs are generally more vulnerable in times of crisis for many reasons, among which are:

- it is more difficult for them to downsize as they are already small;
- they are individually less diversified in their economic activities;
- they have a weaker financial structure (i.e. lower capitalization); and
- they have fewer financing options;
- SMEs in global value chains are even more vulnerable as they often bear the brunt of the difficulties of the large firms.

The evidence suggests that SMEs are being affected by the financial and economic crisis across economies. There is

*The Global Jobs Pact policy brief series is intended to inform readers of the relevance of the ILO's technical areas of work in addressing economic downturns as well as assisting in sustainable economic recoveries. Each brief is an invitation to the reader to contact the ILO for additional information and support.*

*More briefs can be found and downloaded at <http://www.ilo.org/jobspact>*



evidence that SMEs in most countries were confronted with a clear downturn in demand for goods and services - if not a demand slump. Many expect a further worsening to come. For SMEs there are two related stress factors: a) increased payment delays on receivables, which added, together with an increase in inventories, to the endemic shortage of working capital and a decrease in liquidity, and b) an increase in reported defaults, insolvencies and bankruptcies.

In the United States, firms with fewer than 50 employees shed jobs at double the rate of firms with 50 to 249 employees during the recession. Since the recession ended in June 2009, small firms continued to lose 158,000 jobs per month, whereas large firms added a net 32,000 jobs per month.

### 3. Policy options to address the challenges

Countries' abilities to deal with the crisis depend to a large extent on the margin provided by their respective fiscal and monetary policies. Many countries have put in place anti-crisis packages combining, in different proportions, three lines of action:

- stimulation of demand (consumption packages, infrastructure programmes, tax policies);
- credit enhancement measures, including the recapitalization of banks which, in some cases, include explicit provisions or mechanisms to preserve or enhance banks' capacity for financing SMEs, such as public credit guarantees; and
- labour-market measures (reduced employment taxes or social security charges and extended temporary unemployment programmes).

The anti-crisis policies and accompanying measures address, in most countries, the financing problems of SMEs. The measures put in place can be classified in three different groups:

- measures supporting sales and preventing depletion of SMEs' working capital such as export credit and insurance, factoring for receivables, tax reductions and deferrals, and better payment discipline by governments;
- measures to enhance SME's access to finance, mainly to credit through bank recapitalization and the expansion of existing loan and credit guarantee schemes and,
- measures aimed at helping SMEs to maintain their investment level and more generally, their capacity to respond in the near future to a possible surge in demand through investment grants and credits, accelerated depreciation, and R&D financing.

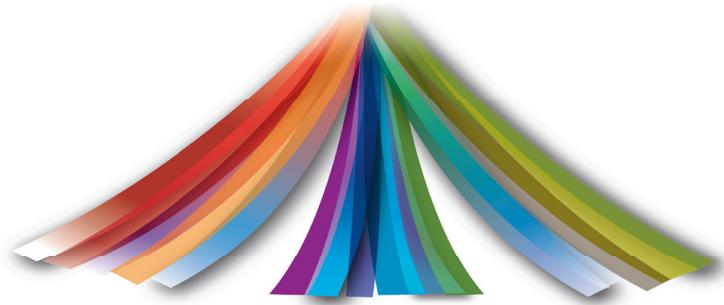
Many governments have implemented measures to maintain or increase cash flows. For instance, they have allowed accelerated depreciation for investments already undertaken. Some countries are also giving tax credits, cuts, deferrals and refunds.

#### **Taxation policy options**

- reduce the corporate tax rate;
- reduce the tax rate for sole proprietorships and partnerships;
- link tax rate reduction to employee retention;
- reduce excise tax;
- reduce value-added taxes;
- allow multi-year income/loss smoothing;
- increase duty drawback rates (rebate on duty for imports used in exports);
- bring forward property assessments (newer assessments will be lower, thus lowering property tax payable).

The most widely used policy is to increase access to finance by extending loans and loan guarantees.

Importantly, governments have found that the response of the newly recapitalized banks to the needs of SMEs have been unsatisfactory or insufficient even though guarantees were made available.



### ***Credit policy options***

- continue with loose monetary policy to encourage low interest rates;
- ensure adequate SME lending through state-owned development and commercial banks;
- ensure adequate credit for working capital requirements;
- increase lending through enterprise support programmes;
- expand micro-credit to micro-businesses, including those newly created by laid-off workers;
- improve access to finance for exporters;
- encourage prompt payment and enforce rules on late payment in the private sector;
- ensure local, provincial and federal governments pay promptly their bills to SMEs;
- expand the coverage and decrease the enterprise cost of credit/loan guarantee schemes;
- ensure access to equity finance;
- assist enterprises in preparing high quality loan proposals.

### ***Employment incentives and entrepreneurship***

It may be difficult for employers to retain workers in SMEs but, because of the nature of the employment relationship, particularly in some smaller enterprises, there may be strong social incentives for employers to hold on to workers during a downturn. To avoid permanent retrenchment, some enterprises have instituted work-time reductions, either in the form of a shorter working week or a temporary plant shutdown.

Such measures ease pressure on the payroll, while still allowing workers to bring home a pay cheque. Workers affected by time reductions or temporary lay-offs can often take advantage of unemployment insurance or other support, in countries where such schemes exist.

Business start-ups can play an important role in easing the impact of the slowdown. New businesses can be started by locally retrenched workers, as well as by new entrants into

the labour market and by migrants moving from urban to rural areas or returning from abroad. It must be recognized however, that new businesses have a high potential to fail.

Self-employment is not for everyone, but for those who wish to set up a business, governments can provide suitable entrepreneurship training and support. Similarly, training and advisory services can be provided to existing SMEs to enhance their competitiveness. In both cases, voucher schemes can be used to enable businesses or individuals to buy support in the form of training or expertise. Support should be tailored to ensure that women as well as men have access to appropriate advice and training.

Strategies for SMEs include: the provision of retraining opportunities; work-sharing; temporary work stoppage; and negotiating a wage freeze or a low rise in wages.

Strategies for government support or business service providers include: using unemployment insurance benefits to cover work-time reductions; subsidizing new hiring or retention of workers; extending the duration of unemployment insurance benefits; subsidizing training for employees; entrepreneurship support or training; and subsidizing non-wage labour costs.

### ***Access to market opportunities***

Many of the fiscal stimulus packages now being implemented include infrastructure development, such as the building of roads, schools and rural infrastructure. Such stimuli are designed to create employment, either directly through the projects or indirectly through inputs that enterprises will supply to those projects.

For many of the larger projects, governments may seek to engage large firms, and high capital intensity may limit the employment creation benefits of the stimulus measures. Governments that use labour-intensive practices will see a greater employment impact. This approach can include the contracting of work to SMEs. Small tenders and the decentralization of procurement decisions can also increase opportunities for small firms.

Where feasible, governments could:

- ensure that there is no minimum enterprise size for bidding on projects;
- source SMEs for small projects and components of large projects;



- reserve a specific percentage of government contracts for SMEs;
- favour bids from SMEs with high employment intensity.

### ***ILO support***

The ILO's five-point crisis response for SMEs offers support to policymakers and enterprises through:

1. Providing rapid assessment of the enterprise environment.
2. Giving advice on policy examples about improving access to finance.
3. Advising policymakers on public procurement.
4. Providing advice and training on business development services, notably entrepreneurship and enterprise management training.
5. Advising and training of small business associations to enable them to take an active advocacy and supporting role during the crisis. Such support programmes are implemented in conjunction with the International Training Centre of the ILO.

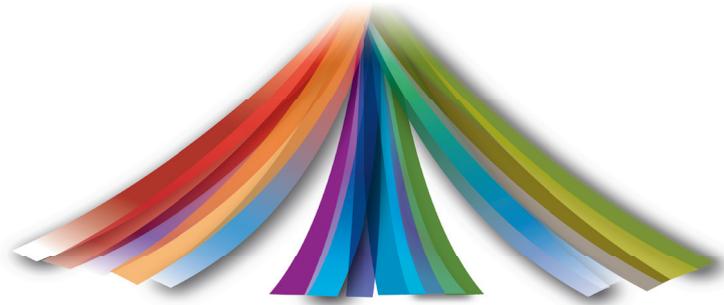
## ***4. Conclusions and recommendations***

As the crisis deepens and people lose their jobs, many of the unemployed will look to entrepreneurship and self-employment as a way to secure an income. However, poor countries are often difficult places to do business. They often have challenging business environments and large informal economies representing an unused potential for growth and poverty reduction. The informal economy provides opportunities for income generation, but often presents very poor working conditions. It remains an essential challenge to improve business environments, reduce the negative aspects of informality and stimulate the formalization of the informal economy in order to foster growth and poverty reduction. Development agencies have an important role to play in supporting such reforms.

Therefore, it is critical to pay attention to practice and programme interventions that improve the business environment in order to enhance the opportunities for formalization and, to better understand what kinds of reforms allow the informal economy to access new markets and contribute to growth. It is important to engage the organizations of employers and workers in the definition of such policies.

If SMEs are not able to survive this period of crisis, economic revitalization will be harder, take longer and in the end be less productive and sustainable. Thus, policy makers concerned with crisis response must inevitably be concerned with how to minimize the impact of the crisis on SMEs and their workers. Many, if not most, of the recent economic stimulus packages announced by governments include initiatives to support the SME sector.

The economic crisis has decisively proven that making markets work and improving the investment or business climate for SMEs is not simply about unleashing market forces. Rather, it is essential to recognize that efficient markets need effective institutions, and that markets cannot be left to themselves to allocate resources equitably or efficiently.



## 5. Further reading and resources

- Vandenberg, P.: *Micro, Small and Medium-sized Enterprises and the Global Crisis – impacts and policy responses*, Geneva, ILO, 2009.
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- The Economist. 2010. *"The perils of being small"*. 13th May. Available at : <http://www.economist.com/node/16113306>