Aligning enterprise development with decent work objectives: A new paradigm for MSMEs policies

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Preface

Micro, small and medium-sized enterprises (MSMEs) are at the heart of economic and social development. They generate the majority of the world's jobs and play a critical role in driving innovation, inclusion and value creation. Yet, in many countries, MSMEs continue to face deep structural barriers that limit their growth potential and ability to provide decent work. As economies undergo rapid transitions – technological, demographic and environmental – the need to strengthen MSME enabling environment has become more pressing than ever.

For the International Labour Organization (ILO), supporting MSMEs has always been integral to the Decent Work Agenda. As early as 1998, the ILO adopted Recommendation No. 189 on Job Creation in Small and Medium-Sized Enterprises, recognizing that the promotion of SMEs must go hand in hand with policies that expand both the quantity and quality of employment. This vision was reaffirmed by the 2007 ILC Conclusions concerning the promotion of sustainable enterprises, which called for an enabling environment that fosters entrepreneurship and investment while balancing enterprise growth with the principles of decent work and sustainability.

This report builds on that legacy. It reflects the ILO's commitment to advancing policy knowledge and practical tools that help countries design MSME strategies aligned with decent work objectives. The study reviews MSME policy frameworks from 20 countries across different regions and income levels to better understand how employment and labour considerations are – or are not – integrated into MSME policy design, implementation, and governance.

By focusing on how MSME policies can simultaneously drive productivity, formalization and decent work, the report calls for a more holistic and balanced approach to enterprise promotion – one that aligns economic competitiveness with social justice. It encourages policymakers, social partners and development practitioners to view MSME policy not only as a tool for business growth but as a strategic lever for inclusive and job-rich development.

The publication draws on the ILO's extensive experience in enterprise development, employment policy and labour market governance. It aims to inform policy dialogue and inspire renewed efforts to strengthen MSMEs as engines of productive transformation and decent workThe MSME Branch of the ILO Enterprise Department stands ready to support this process by offering technical assistance, facilitating social dialogue and promoting the exchange of good practices. Ultimately, the report reaffirms a simple but powerful idea: enterprise development and decent work are not separate goals – they are mutually reinforcing pathways toward inclusive and sustainable growth.

Executive summary

The report presents a comprehensive review of MSME policy frameworks adopted across 20 countries spanning all regions and income levels. The review is motivated by the pivotal role that MSMEs play in employment creation, despite the persistent structural barriers that constrain their development. It shows that MSME policies integrating effective employment and labour interventions can create a win–win outcome: creating quality jobs and helping workers access them, while unlocking productivity and competitiveness for firms.

MSMEs account for up to 90 per cent of total employment in low- and middle-income countries and are expected to remain key drivers of job creation and economic transformation. Recognizing this potential, the International Labour Organization (ILO) adopted the Recommendation No. 189 on Job Creation in Small and Medium-Sized Enterprises in 1998. The Recommendation outlines conditions for the promotion of SMEs and highlights the importance of effective labour regulations and employment policies to raise both the quantity and quality of employment. A decade later, the 2007 ILC Conclusions on Sustainable Enterprises reaffirmed this vision, calling for an enabling environment that promotes investment, entrepreneurship and respect for workers' rights – balancing enterprise growth with the principles of decent work, human dignity and environmental sustainability.

Together, these frameworks mark an important conceptual shift from viewing employment as a secondary outcome of enterprise development to treating it as a core policy objective to be explicitly pursued through MSME policies. While productivity and competitiveness remain essential preconditions for MSME growth, they are not, on their own, sufficient to ensure decent work. Employment outcomes must therefore be intentionally embedded within MSME policy frameworks, rather than assumed to follow automatically from enterprise support.

To operationalize this shift, the report introduces a conceptual framework that contrasts the traditional economic rationale for MSME support by introducing a different type of market failure: jobs externalities. The report shows that these externalities create a gap between social and private rates of return in investments. Because enterprises and private investors generally ignore these externalities, the observed level and allocation of private investments across sectors and economic regions can be inefficient from a social perspective; it might not yield the quantity, quality and distribution of jobs needed to reduce employment deficits. The report therefore argues that failure to account for employment externalities leads to suboptimal policy design and missed opportunities to strengthen firm performance and promote inclusive, job-rich growth. Addressing them through targeted policy interventions is therefore essential to reducing employment deficits and realizing the full potential of MSMEs as engines of decent work and sustainable development. This report focuses on that often-overlooked dimension, while acknowledging that a supportive enabling environment remains a vital precondition.

The analysis finds that, although most MSME policies acknowledge the role of MSME in job creation and include employment-related objectives, the policy mix they propose generally fail to specify how these objectives translate into concrete actions for each policy component. Most frameworks focus on sectoral and regional interventions, followed by macroeconomic and regulatory measures, the implicit assumption being that supporting MSMEs will automatically lead to job creation. In addition, the integration of employment and labour policies into MSME strategies is generally weak. Skills development is the most common labour-related intervention, but other critical areas – such as occupational safety and health, social protection, labour regulations and social dialogue – are often overlooked or treated superficially. As a result, very few policies explicitly address job quality.

Another crucial yet underrepresented area of intervention in MSME policy frameworks is the formalization of firms, which is key to improving the quality and sustainability of jobs. Likewise, measures to enhance access to employment – for instance, by addressing geographic disparities, sectoral dynamics, skill mismatches or barriers faced by vulnerable workers – are rarely featured.

In summary, even though job creation features among MSME policy objectives, the overall mix of interventions remains insufficiently geared toward improving employment outcomes. Jobs are still largely treated as a by-product of enterprise development rather than as a central policy goal.

The review also highlights a missed opportunity to leverage the positive link between productivity, formalization and decent work. While most MSME policy frameworks aim to enhance productivity and competitiveness, their focus is typically on total factor productivity rather than labour productivity, which depends on employment-related interventions to build human capital and improve working conditions. The potential of well-designed labour regulations to create a virtuous cycle of productivity and decent work remains largely untapped. Labour regulations and social protection policies that could simultaneously raise productivity and improve job quality are either missing or treated as trade-offs rather than mutually reinforcing elements of sustainable enterprise development.

Governance arrangements within MSME policy frameworks are another area of concern. In general, MSME policy frameworks provide limited information on governance arrangements and monitoring and evaluation systems. Nonetheless, several recurring issues emerge across countries that may reduce the effectiveness of MSME policies, particularly in relation to employment outcomes. Governance arrangements often give insufficient weight to social partners, representatives of MSME and informal firms, labour ministries and other public and private sector stakeholders who play a central role in shaping the decent work agenda. Institutional responsibility for MSME policies typically lies with ministries of industry or commerce, whose mandates focus primarily on investment promotion, competitiveness, diversification and economic growth. While coordination bodies sometimes include ministries of labour or other social ministries, their involvement tends to centre on implementation rather than on the conceptualization or strategic direction of MSME policy frameworks. There is therefore considerable scope to broaden coordination, consultation and social dialogue – particularly with labour ministries, MSME representatives, workers' and employers' organizations, and organizations from the informal economy – to ensure that employment and social considerations are better integrated into policy design, implementation and monitoring.

Budgeting processes also tend to be weakly aligned with employment objectives. Around half of the policy frameworks reviewed lacked a dedicated budget. Even where multi-year budgets exist, they rarely include mechanisms to assess and review allocations based on job impacts, whether ex ante or ex post, across policies and programmes. Similarly, while most MSME policy frameworks include some form of monitoring and evaluation framework, few are designed to track employment and labour market outcomes. This gap stems partly from the absence of appropriate key performance indicators (KPIs) and partly from institutional capacity constraints that limit the design of effective data collection instruments and evaluation methodologies. Moreover, in several countries, reporting mechanisms are insufficient to ensure that evaluation findings feed back into the policymaking process,

The report concludes that current MSME policy frameworks are not sufficiently equipped to address employment deficits and to leverage the impact of better jobs on other key policy objectives, such as firm productivity, competitiveness and resilience. It recommends a shift towards integrated strategies supported by robust diagnostics, stronger governance and coordination, and monitoring systems that capture decent work outcomes.

To align MSME development with employment goals, the review proposes four strategic actions:

Strengthening MSME governance and policy coherence – Support the design of dedicated MSME strategies that are consistent with national employment objectives, with stronger coordination among ministries responsible for employment, industry and other relevant areas, and the institutionalization of consultations with social partners – including representatives of MSMEs and informal firms – to ensure that policies reflect both business and workers' needs.

Enhancing MSME diagnostics through a "jobs lens" – This is a crucial first step for evidence-based MSME policies that explicitly target both the quantity and quality of jobs. Key actions include strengthening the analytical foundations of MSME policies through employment impact assessments of existing MSME programmes and dedicated surveys with employment and working-conditions modules; developing a comprehensive theory of change linking MSME and employment policies to measurable outcomes, supported by a suite of key performance indicators at firm and individual levels; deploying a set of quantitative instruments to link demographic projections and targets in terms of reductions in employment deficits to employment outcomes, at the individual and firm level, by region and economic sector; and developing methodologies to quantify job-related social externalities .

Improving MSME policy design and promote policy innovations – Integrate employment considerations into MSME support instruments by accounting for labour- and employment-related social externalities and ensuring that public interventions generate both private and social returns. This requires adapting policy responses to better align with decent work goals. Key priorities include improving the targeting of investment and credit subsidies to reach MSMEs where private returns ensure business viability while generating strong social returns; strengthening linkages between MSME and industrial policies aimed at developing value chains in specific sectors and regions; integrating mechanisms to preserve jobs during downturns; promoting the transition to formality; and leveraging synergies between MSME, labour and employment policies to improve job quality and inclusion.

Enhancing the capacity to measure and track employment outcomes – Strengthening institutional capacities to improve administrative data collection across programmes; adapt enterprise, labour force and tracer surveys to capture quality; and develop tailored instruments for employment impact assessments and regulatory impact assessments of SMEs that incorporate employment outcomes, including quality-related indicators.

▶ 1. Introduction

Micro, small and medium-sized enterprises (MSMEs) are today the main source of jobs in most countries and will likely play a critical role in reducing employment deficits in the future through higher productivity and the creation of more and better-quality formal jobs. It is estimated that, on average, MSMEs employ two thirds of workers worldwide, either as wage employees or own-account workers, including farmers — and up to 90 per cent in low- and middle-income countries. However, they tend to be low-productivity enterprises, particularly micro and very small ones, often operating in the informal economy, and contribute only one third of gross domestic product (ILO, n.d.). Yet, given demographic trends, MSMEs will need to contribute over half — and more likely around two thirds — of the 600 million new jobs required over the next 15 years just to keep labour force participation and employment rates constant (see Annex 2). Although the share of total employment in MSMEs tends to decline as countries' income levels rise, it does so gradually. At the international level, this share declines, on average, by five percentage points for each doubling of gross domestic product per capita. Larger enterprises, which currently employ one third or fewer workers, would need to expand unrealistically quickly to generate the required number of new jobs on their own. Therefore, it will be critical that MSMEs are able to integrate into the formal economy, gain access to markets and commercial opportunities, increase their productivity and profitability, and create decent jobs.

In 1998, the International Labour Conference adopted the *Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189)*, which acknowledges the crucial contribution of small and medium-sized enterprises (SMEs) to the promotion of full, productive and freely chosen employment. The Recommendation addresses the conditions required for the promotion of SMEs and highlights the importance of effective labour regulations and employment policies to increase both the quantity and quality of employment (ILO 1998). On this basis, the 2007 International Labour Conference discussion on the promotion of sustainable enterprises called for "an enabling environment which encourages investments; entrepreneurship; workers' rights; and the creation, growth and maintenance of sustainable enterprises, by balancing their needs and interests with social aspirations for a development path that respects the values and principles of decent work, human dignity and environmental sustainability" (ILO 2007). In this approach, decent work becomes a goal in its own right — not merely a by-product of other objectives — and must be explicitly pursued through public policies, alongside efforts to promote an enabling environment for MSME development[1].

Most countries have put in place policies to promote entrepreneurship and the development of MSMEs; however, questions remain about their effectiveness in realizing their potential as a source of decent jobs. Reviews for Organisation for Economic Co-operation and Development (OECD) countries show, for instance, that MSME policy frameworks tend to focus on competitiveness, internationalization and the creation of value added, treating job creation as a by-product of MSME development (OECD 2021). This approach may be insufficient or inefficient in the presence of labour- and employment-related social externalities such as human capital development, productivity gains, economic inclusion, poverty reduction, improved mental health and social cohesion. In general, improving employment outcomes through MSME policy frameworks may require stronger integration between employment and MSME policies.

A number of MSME policy reviews have been conducted over recent years to understand the policy mixes adopted by countries and how these have been implemented, but without examining employment issues. These reviews have focused on the business environment and conventional elements of MSME support. They do not assess, for example, whether improving employment outcomes is an explicit objective of MSME policies;

[1] Subsequent references to this instrument appear as Recommendation No. 189.

whether selected interventions are consistent with those objectives; and whether stakeholders such as ministries responsible for labour and employment, social partners or informal workers' organizations are engaged in the preparation and implementation of MSME policy frameworks.

To fill this gap, this report reviews MSME policies in middle- and low-income countries, assessing the extent to which they align with Recommendation No. 189, identifying potential gaps that may limit their impact on employment outcomes and exploring ways to address them. While the review focuses on employment, this does not mean that employment should be the exclusive focus of MSME policies. The review acknowledges that productivity, competitiveness and profitability are essential foundations for generating decent employment. However, it emphasizes that these conditions are not sufficient. Realizing the full potential of MSMEs to generate decent jobs does not occur automatically — it requires deliberate and proactive policy interventions and must be pursued as an objective in its own right. While the creation of an enabling environment is recognized as a necessary precondition, it is not the focus of this analysis.

In that context, the review covers the relevant academic and policy literature on MSME policies and jobs, as well as different types of strategic documents in a sample of 20 countries selected to represent various income levels and regions.[2] The documents include MSME strategies, action plans, legal frameworks, national development plans, and other relevant policy frameworks, such as industrial and innovation policies and private-sector development strategies.[3] In addition, five detailed case studies were conducted based on interviews with MSME practitioners.[4] Using this information, the report catalogues decent work–related solutions as set out in MSME policies, identifies gaps in policies and programmes, and provides recommendations to address them, which countries can refer to when developing or updating their MSME policies.

In line with the scope and objectives of policy reviews, this report focuses on the content of official policy documents. The primary objective is to assess how job creation and decent work are — or are not — explicitly integrated into nationally adopted MSME policies. Broader issues, such as the constraints faced by MSMEs, how policy frameworks address enabling conditions for different segments of firms, emerging challenges such as climate change, and questions of policy effectiveness, while important, fall outside the scope of this review.

The review addresses the following interconnected questions:

- What are the policy objectives driving the MSME policy frameworks, and what types of policy instruments are used?
- Is the policy mix likely to achieve objectives in terms of employment creation, quality and access?
- Do MSME policies target vulnerable groups, such as women, young entrepreneurs, micro enterprises, informal enterprises and their workers?
- What governance arrangements are used during the preparation and implementation of MSME strategies; which institutions lead these phases; what mechanisms ensure broad-based social dialogue reflecting the heterogeneity of the MSME population; to what extent are employment stakeholders involved; and what arrangements exist to coordinate policy implementation at national and subnational levels?
- What types of monitoring and evaluation systems are considered?

[2] The countries included in the review are Bangladesh, Colombia, Costa Rica, Côte d'Ivoire, Egypt, Georgia, Indonesia, Kenya, Kosovo, Mexico, Morocco, Nepal, Pakistan, the Philippines, Rwanda, Türkiye, Ukraine and Zambia. Two high-income countries, Finland and the Republic of Korea, were also included for reference. Some of these countries focus solely on SME policies, while others adopt a broader perspective that includes micro and very small enterprises.

[3] The report did not include laws or strategic documents focusing on the expansion of social security or the simplification of tax regimes for the self-employed.

[4] The case studies were conducted in Colombia (Ministry of Commerce and Tourism), Finland (Ministry of Labour), Georgia (Ministry of Industry), Morocco (Association of Micro Enterprises and the National Confederation of Moroccan Enterprises) and Rwanda (Ministry of Industry).

- What are the main challenges and good practices in designing and implementing interventions that target decent work in MSME policies?

The report is designed to allow the reader to either read it in its entirety or select topics and policy areas of interest. Chapter 2 develops a conceptual framework to guide the review of MSME policies. The framework discusses the economic rationale for MSME public policies and how these policies would need to adapt to take employment outcomes and their social impacts into account. Chapter 3 presents the main results of the review, focusing on the different types of policy documents (3.1); the policy objectives and targets, and whether they include decent work considerations (3.2); the main policy measures, and whether they are likely to affect job creation, quality and access (3.3); the types of governance arrangements (3.4); and monitoring and evaluation (M&E) systems (3.5). Finally, Chapter 4 summarizes the main challenges and good practices in designing and implementing MSME policies targeting decent work and outlines a set of recommendations that could be considered to improve the impact of MSME policy frameworks on employment and labour outcomes.

▶ 2. Conceptual framework to assess MSME policies

The framework developed in this section draws on concepts from public economics to explain the role of MSME policies and identify the changes required to strengthen their impact on employment outcomes. The first part outlines the prevailing economic approach to MSME policies. It describes the standard market and government failures that justify public intervention to support MSMEs, and the typology of instruments commonly used. Within this approach, employment outcomes are generally viewed as a by-product of MSME economic activity, and therefore not in need of specific or additional policy measures. The second part introduces the concept of jobs externalities and discusses how MSME policies would need to evolve along several dimensions to take these externalities into account, enhance employment outcomes and improve the efficiency of limited public resources.

2.1 The dominant MSME policy framework

The main rationale for government intervention to support entrepreneurs and MSMEs is the presence of market failures that bias or constrain decisions on investment in productive capacity or human capital, the adoption of new technologies (including managerial practices) and entry into new markets. As a result, MSMEs can become trapped in a low-level equilibrium in terms of size, productivity and profitability. In addition, government failures may arise, for example, from limited scope or weak application of the rule of law, excessive administrative procedures, high compliance costs or stringent labour regulations. Explicitly or implicitly, most MSME policy frameworks aim to address these market and government failures to facilitate the creation of new enterprises and the growth of existing ones.

The most common market failures relate to asymmetric information in financial markets, learning and cost-discovery externalities, coordination failures and local quasi-public goods. Most of these market failures are used to justify industrial policies, broadly defined as those aiming to change the behaviour of investors and firms to induce structural transformation (Juhász et al. 2023). Within each, some failures are particularly relevant for MSMEs:

- **Asymmetric information.** Although present in all capital and credit markets, asymmetric information is especially pervasive for new entrepreneurs and MSMEs, which are less likely to have credit histories, maintain proper accounts and financial statements or hold sufficient assets. Commercial banks and institutional investors therefore have less information to assess their creditworthiness, making MSMEs appear riskier than larger firms and reducing their access to finance. This challenge is compounded by their small scale, as small loans or investments are less profitable for banks given fixed transaction costs, and by the fact that MSMEs often operate in higher-risk sectors with more variable revenue flows (Robalino et al. 2025).

- **Externalities.** Externalities arise when firms do not factor into their decisions the full benefits or costs of their activities to society. Positive externalities include learning externalities and cost-discovery externalities. The former occurs when MSMEs adopt new technologies, invest in training or learn by doing, and the resulting knowledge spills over to other firms and society. The latter occur when entrepreneurs introduce new products and reveal information on production technologies, costs and market demand. Among negative externalities, those linked to pollution and climate change have received increasing attention in MSME policy frameworks.[5]

[5] See Ricardo Hausmann and Dani Rodrik, "Economic development as self-discovery", Journal of Development Economics 72, No. 2 (2003): 603-633.

- **Coordination failures.** Coordination failures are relevant for MSMEs because their growth and market opportunities often depend on decisions by other firms in their value chain. For example, an integrated investment project could replace imported raw materials with lower-cost local production, benefiting both processing firms and MSMEs supplying inputs. However, such projects succeed only if all actors commit to mutually costly investments. The risk that one party fails to deliver can deter financing or implementation. This risk is exacerbated by the asymmetric information and externality issues described above, which may weaken MSMEs' incentives or capacity to invest (Juhász et al. 2023).

- **Local quasi-public goods.** Quasi-public goods, unlike pure public goods[6], are not provided by the private sector because they are not sufficiently profitable, although they are essential for economic activity (Tatom 1991). For MSMEs, relevant goods include basic infrastructure (such as roads, public transport, water, electricity and internet connectivity), education and training, market spaces and, increasingly, digital public goods such as open-source software, open data and open AI models. Access to these goods is not guaranteed for many MSMEs, particularly in lagging regions. Because the benefits depend on the type of activity and location, and are therefore not global public goods, provision is more complex (Bramoullé and Kranton 2007).

The main policy instruments designed to address these four types of market failures typically involve various forms of subsidies through macro and regulatory policies, labour and social protection policies, and sectoral and regional policies (see table 1).

Regarding macro-regulatory policies, beyond ensuring macroeconomic stability through appropriate monetary, fiscal, and exchange rate policies, and reducing the cost of doing business through proper regulations—which serve all investors and firms—governments intervene specifically at the level of MSMEs. Examples include parallel tax regimes, tax exemptions or credits, investment and credit subsidies, special schemes to participate in public tenders, or parallel legal frameworks, which may include simplified registration and reporting procedures. In principle, these policies respond to the market failures discussed above that keep MSMEs at low levels of productivity and profitability. However, some policies may be implemented as a second-best solution to overcomplicated or costly tax regimes (government failures, see right side of table 1).

Employment and social protection policies also play a role in the dominant MSME policy framework. They may, for instance, exclude enterprises of a certain size from the application of labour laws or apply a different set of labour regulations, usually to offer more flexibility in hiring and dismissal procedures. Exemptions may also be granted from labour regulations or social insurance contributions to compensate firms with average labour productivity below the minimum legal cost of labour (a market failure) or to reduce this minimum cost when considered excessive (a government failure). Another common exclusion relates to the requirement to set up Occupational Safety and Health (OSH) committees or appoint OSH delegates.[7] Wage subsidies can also be used to reduce labour costs or to deal with asymmetric information in labour markets,[8] but as discussed below, these are not usually one of the core objectives of MSMEs policy frameworks. Other common provisions are different forms of training (including on-the-job training) that in principle can deal with learning externalities and cost-discovery externalities.[9]

[6] Pure public goods are those that would not be provided by the private sector because consumers cannot be required to pay for them; once produced, everyone can consume them (they are non-exclusive), and consumption by one person or firm does not diminish availability for others (they are non-rivalrous). Few goods and services – such as clean air, sailing beacons, lighthouses and public safety – meet this strict criterion. Goods traditionally considered public, such as education, health services and basic infrastructure, do not.

[7] See Melisa R. Serrano and Edlira Xhafa, "Industrial Relations in Micro and Small Enterprises: Patterns, Trends and Prospects," ILO Working Paper No. 129, 2024.

[8] See Rita Almeida, Larry Orr, and David Robalino. "Wage subsidies in developing countries as a tool to build human capital: design and implementation issues", IZA Journal of Labour Policy 3, 12 (2014).

[9] See David Robalino and Arup Banerji. Addressing the Employment Effects of the Financial Crisis: The Role of Wage Subsidies and Reduced Work Schedules (World Bank, 2009).

▶ Table 1. MSME policies in response to market and government failures in the dominant MSME framework

	Market failures					Government failures		
	Asymmetric information	**Externalities**	**Coordination failures**	**Local quasi-public goods**	**Business cycles & economic shocks**	**Rule of law and contracts**	**Business regulations including taxation**	**Labour regulations**
Macro and regulatory policies								
Fiscal exemptions and tax credits	o	o	o		o			
Parallel fiscal regime	o	o	o					
Fiscal incentives for investments	o	o	o	o	o			
Simplification of business regulations							o	
Access to public procurement						o		
Employment and social protection policies								
Exemptions on labour regulations	o	o	o					o
Training		o		o				
Wage subsidies	o				o			o
Exemptions on social security contributions	o	o	o		o			
Non-contributory social insurance programs								
Sectoral and regional policies								
Basic infrastructure			o	o				
Digital public goods		o		o				
Training		o		o				
Advisory services		o		o		o		
Credit guarantees and subsidized credit / capital	o				o			
Alternative forms of debt and capital	o							
Development of value chains			o					
Special economic zones			o					
Innovation / R&D policies		o		o				
Access to national and international markets	o		o	o				

Source: Authors

Sectoral and regional policies are at the core of "industrial policies" and MSME policy frameworks. They primarily aim to boost productivity, competitiveness, and growth by addressing the market failures discussed above. Common interventions include developing basic infrastructure or facilitating access to digital technologies to address problems of local quasi-public goods; providing R&D subsidies, training, and advisory services to tackle learning and cost-discovery externalities; offering investment subsidies and other measures to address asymmetric information and expand access to finance; and supporting the development of value chains, special economic zones, or access to local and international markets to mitigate coordination failures. In principle, most policies can serve multiple objectives. For example, special economic zones can also respond to stringent business regulations, and some forms of training and advisory services can also be considered quasi-public goods.

Interventions to promote productivity growth are generally relevant to improving employment outcomes, as they are associated with higher labour productivity and potentially higher labour earnings. However, they can also have unintended consequences. These interventions usually focus on facilitating investments in productive and human capital and the adoption of new technologies, including improvements in management practices. As discussed below, higher productivity through increases in capital per worker can be associated with higher incremental labour-capital ratios. This implies that the level of investment necessary to create a given number of jobs may increase.[10]

Several of the macro, labour, and sectoral/regional policies discussed above have also been used on behalf of MSMEs during economic downturns to protect jobs but not through an explicit mandate of the MSME policy framework. Economic downturns can be the result of market failures (Keynesian rigidities), government failures (inadequate or not effective monetary, fiscal, or exchange rate policies), or external shocks and natural disasters like COVID19. The most common interventions at that time involved tax credits and fiscal incentives; wage subsidies and reductions in social security contributions; and different forms of credit lines (see Table 1). An important

[10] See Mahamat Kouomo and David Robalino, Jobs Social Externalities and Distortion Centrality in Production Networks, forthcoming.

goal of these interventions was to protect jobs, but in most cases the interventions were part of ad-hoc emergency programs rather an integrated policy framework for MSMEs.

On the contrary, a salient feature of the dominant MSMEs policy framework discussed above is that jobs and their quality are considered a by-product of economic activity requiring no additional policy intervention and, if anything, deregulation. The implicit assumption is that if the various market and government failures are addressed, existing MSMEs will be able to develop and finance profitable investment projects, adopt new production technologies, "scape" the low-productivity trap, grow, and in the process create quality jobs. Entrepreneurial activity and the rate at which new firms are created are also likely to increase and further improve employment outcomes. And because of competition, new investments are likely to take place in the most profitable economic sectors, which implies that jobs would gradually move from low to higher productivity sectors and from the informal to the formal sectors. In this approach, having "flexible" labour regulations is a pre-condition for these positive impacts on employment to materialize.

2.2 ILO's approach to MSME policies

Jobs externalities are another form of market failure not usually taken into account, at least not explicitly, by traditional MSME policy frameworks. This is partly because it is only over the last decade that economists have begun to focus on these externalities.[11] There are two sources of jobs externalities that often coexist: (1) labour externalities, which arise in environments with high unemployment, underemployment, or inactivity rates where market wages no longer reflect the opportunity cost of labour;[12] and (2) jobs social externalities, which appear when the social value of a job is higher than the value added it generates, split between the worker and the employer. Examples of jobs social externalities include learning-by-doing on the job that increases the productivity of other workers; the multiplier effects of higher aggregate demand;[13] future productivity gains from improvements in working conditions; higher investments in the human capital of children among women who work; better health outcomes among workers in good jobs; a lower likelihood of engaging in criminal activities or substance abuse among employed youth; and political stability and social cohesion when a majority of the labour force has access to good jobs.

There is considerable empirical evidence on the social costs of poor labour market outcomes.[14] Local labour market problems, for example, can lead to mental health issues, substance abuse, family break-ups, and crime (Autor et al. 2018; Diette et al. 2018; Pierce and Schott 2017). Economic distress in households due to unemployment or low labour earnings adversely affects children (Bastian and Michelmore 2018). Employment deficits reduce tax revenue and increase public spending needs (Charles et al. 2018). Moreover, economic problems arising from a lack of good jobs can lead voters to support fringe political candidates (Autor et al., forthcoming).

There is also a growing body of literature[15] and experience[16] showing that interventions improving the quality of jobs can increase labour productivity and competitiveness, benefiting firms, workers, and society. For

[11] See David Robalino and Eléonore d'Achon, Guide for the review of employment-related public expenditures and application to six pilot countries (ILO, 2023); Dani Rodrik and Charles Sabel, Building a Good Jobs Economy (2022); and David A. Robalino, Jose M. Romero, and Ian Walker, "Allocating Subsidies for Private Investments to Maximize Jobs Impacts", IZA Discussion Paper No. 13373 , 2020.

[12] See Jenkins, G.P., Kuo, C.Y., and Harberger, A.C. Cost-Benefits Analysis for Investment Decisions (First edition) (Massachusetts: Cambridge Resources International Inc., 2018).

[13] This is because a higher number of workers in good jobs can expand households' primary source of income—their labour income—and therefore consumption and aggregate demand. This, in turn, can stimulate firms' investment and labour demand, creating a virtuous circle. Higher labour incomes can also lead to higher fiscal revenues.

[14] See reviews by Benjamin Austin, Edward Glaeser, and Lawrence Summers. "Saving the Heartland: Place-Based Policies in 21st Century America." Brookings Papers on Economic Activity, Spring (2018): 151-255.

[15] See ILO, Can better working conditions improve the performance of SMEs?: An international literature review, 2013.

[16] See ILO SCORE programmes which has been implemented in more than 30 countries and shows how compliance in ILS results in improved productivity and quality performance.

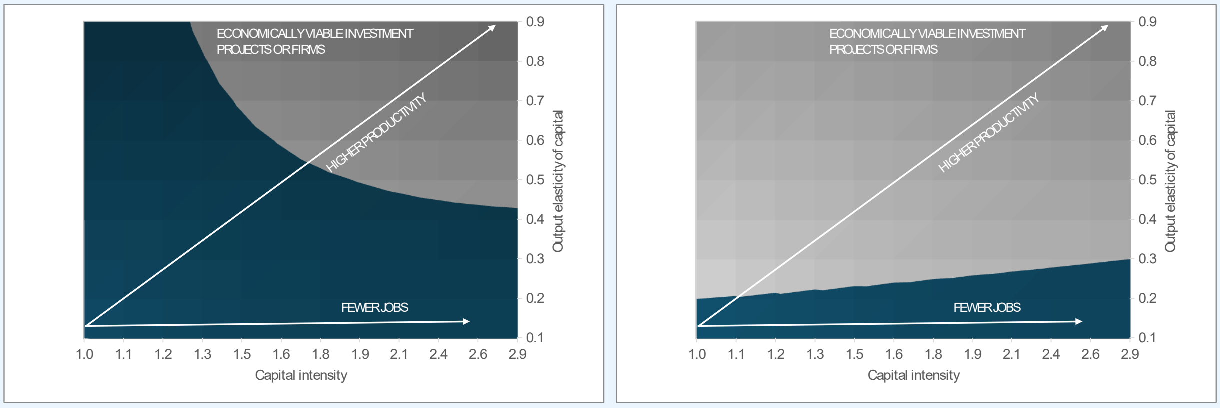
instance, family-friendly policies, such as parental leave, can enhance parents' morale and work commitment, positively impacting productivity by helping them balance paid work with family responsibilities (Bassanini and Venn 2008; Bjuggren 2018). Minimum wages and other interventions that improve job security can provide incentives to invest in R&D and also increase labour productivity (without these interventions, firms might operate at a lower productivity equilibrium) (Bassanini and Venn 2008; Koeniger 2005; Nickell and Layard 1999). Job security regulations may also encourage workers to acquire firm-specific skills, increasing firm human capital and productivity (Belot et al. 2007; Bassanini and Venn 2008; Bjuggren 2018). Finally, as foreign investors, multinational enterprises, and destination countries can influence rules, terms, and conditions in global supply chains, adherence to labour rights and international labour standards can be a precondition for integration into these chains. Studies have shown that, when choosing countries in which to invest, foreign investors rank workforce quality and political and social stability above low labour costs. Adopting socially responsible practices is therefore crucial for workers and is also an increasingly important component of firms' competitiveness.

An important implication of jobs externalities is that they create a gap between private and social rates of return. When these externalities are ignored, it can lead to an inefficient allocation of investments across firms, sectors, and regions—an allocation that may fail to reduce employment deficits. Markets alone are likely to prioritize investments that maximize private (financial) rates of return. Such investments might generate high returns on capital at the macro level and promote faster productivity and economic growth, but the resulting level and distribution of employment across regions and population groups may not be efficient from a social perspective. In other words, purely market-driven investments are unlikely to address some of the employment deficits common across countries, including high youth unemployment, low female labour force participation, high informality, poverty, and regional disparities in labour market outcomes.

This issue of inefficient private investment is particularly relevant for MSEs, as they are more likely to operate in low-productivity and higher-risk activities and yet, in aggregate, play a more important role in employment creation than larger enterprises (Serrano and Xhafa 2024). In general, MSEs have lower productivity due to constraints in accessing workers with the right skills and lower levels of capital per worker, including both tangible and intangible capital (the latter referring to assets that lack physical substance, such as patents, copyrights, franchises and digital assets, including software). Even in the absence of asymmetric information, the combination of low productivity and a high variance in earnings can result in "below-market" risk-adjusted private rates of return, even where social rates of return are high due to jobs externalities. As noted above, traditional commercial banks and institutional investors tend to prioritize firms with high internal rates of return, even where social returns are low, and overlook those generating high social returns but low private returns — the latter falling into the grey zone shown in the right panel of figure 1, and the former into the grey zone in the left panel.

▶ Figure 1. Inefficiencies in the allocation of investments across projects and firms

Jobs externalities not taken into account | **Jobs externalities taken into account**



Source: Authors

Note: The figures were constructed using a simple Cobb–Douglas production function, $q = k^\beta$, where q is output per worker (average labour productivity), k is capital per worker, and β is the capital elasticity of output. For different combinations of k and β, the figure plots the social rate of return (SRR), given by $srr = (k^\beta - w + \xi)/k$, where w is the wage and ξ represents the value of the social externality associated with a job. In the left panel, $\xi = 0$ (the social rate of return equals the private rate of return), while in the right panel $\xi = 0.2$, or 20 per cent of the wage – for example, in a region where the average unemployment rate is 20 per cent. The grey area defines the distribution of investment projects or firms (characterized by k and β) that have an SRR above 20 per cent, assumed to be the minimum investment threshold. In the left panel, when investors do not account for jobs externalities, the projects financed fall within the smaller grey area in the north-east quadrant. In the right panel, when jobs externalities are taken into account, the grey area – representing the set of projects that should be financed (*SRR* > 20 per cent) – expands considerably.

Another implication of jobs externalities is that, within a given firm, there may be underinvestment in human capital and in interventions that improve working conditions, as well as weak incentives to comply with labour regulations. This is particularly the case in non-competitive labour markets, where workers have low bargaining power (Kuddo et al. 2015). Such situations arise when employers do not take into account the social gains associated with higher labour productivity that result from greater investment in human capital and better working conditions. Jobs externalities therefore exacerbate the problems arising from low productivity and constraints in the business environment.

There are several ways in which MSME policy frameworks would need to adapt in the presence of jobs externalities – not only in terms of their policy objectives but also regarding their policy mix and the design of specific interventions. Some of the main issues to consider include:

- **Explicit employment objectives and interventions.** MSME growth may, on average, lead to more jobs, but it is unlikely to result in a socially efficient level and distribution of employment – that is, the level required to reduce youth unemployment across regions, increase female participation, reduce informality, and lower poverty and inequality. In some cases, promoting competitiveness and productivity growth may imply adopting production technologies that reduce labour demand, creating a trade-off between higher productivity and fewer jobs in the short term. Even when productivity growth correlates with employment and wage growth, this relationship often varies across firms, industries, and countries.[17] In general, MSMEs and the private sector are unlikely to actively pursue employment creation opportunities or seek to improve labour market outcomes in their regions of operation. This represents a market failure that governments need to address, partly through MSME policies.

[17] See Sara, Calligaris et al., Is There a Trade-off between Productivity and Employment?: A Cross-Country Micro-to-Macro Study, (OECD, 2023).; European Commission, “Productivity Growth in the EU: Is There a Trade-off with Employment Growth?”.

- **Fiscal incentives and investment promotion.** In the presence of jobs externalities, well-designed MSME policies should aim to narrow the gap between internal rates of return (IRR) and social rates of return (SRR). This could include making job creation a performance indicator within investment promotion programmes – even if not directly linked to financial penalties or bonuses – in alignment with national priorities to reduce employment gaps by gender, age, or region.
- **Removing barriers to quality employment.** Jobs externalities call for interventions that remove the constraints preventing vulnerable workers from accessing quality jobs. These include disincentives to work, lack of adequate skills, limited information about job opportunities, discrimination, gender inequality, or barriers to labour mobility across regions and sectors (Kluve et al. 2018). MSME policy frameworks should therefore integrate sectoral and regional policies focused on firms with employment and labour market programmes focused on individuals. The aim is to ensure that MSMEs have access to the skills they need while workers benefit from better employment opportunities.
- **Introducing place-based approaches.** Regional disparities in employment deficits are widespread, and facilitating large-scale labour mobility from low- to high-employment regions is not always efficient. Out-migration can worsen conditions in distressed areas and harm those left behind. An alternative is to promote local economic development through MSMEs (Bartik 2020). The literature suggests that sectoral and regional policies that provide MSMEs with public services – including basic infrastructure, finance, and support services – can be a cost-effective way to create decent jobs locally and reduce employment deficits.
- **Promoting formalization.** MSME policy frameworks should systematically consider interventions that encourage the formalization of informal firms, particularly micro and small enterprises, as jobs externalities in the formal sector are typically greater than in the informal sector (Robalino et al. 2025). Evidence suggests that most informal firms are low-productivity entities unable to afford the cost of compliance. A two-pronged strategy is therefore needed: reducing the net costs of formality (including by addressing government failures) while boosting labour productivity.[18] This can be achieved through targeted technical support, counselling, advisory services, business-specific and general training, access to finance, the provision of local quasi-public goods, and integration into value chains.
- **Balancing productivity and worker protection.** MSME policy frameworks should also reconsider the role of labour regulations and interventions that improve working conditions and human capital accumulation, as these can generate both social and private gains. This requires striking a balance between measures aimed at reducing costs for MSMEs (even temporarily) and those that enhance worker protection, encourage on-the-job training, and raise labour productivity. MSME frameworks therefore need to define clear positions on the design of minimum wage policies, hiring and dismissal procedures, and standards for working conditions, health, and safety.
- **Strengthening social dialogue.** A key way to balance firm-level and worker-level outcomes is to promote social dialogue. Evidence shows that decent work deficits are generally more pronounced in MSMEs than in larger enterprises, yet industrial relations systems in MSMEs are often underdeveloped. Laws and policies promoting MSMEs rarely address labour and industrial relations issues, particularly in the informal sector. In many countries, labour and social protection laws do not apply comprehensively to MSMEs or are inconsistently enforced. Moreover, small economic units and their workers are less likely to be members of trade unions or employers' organizations, leaving large firms – whose interests often differ – to dominate representative bodies[19].

[18] See ILO, Transition from the Informal to the Formal Economy: Report of the Director-General, International Labour Conference, 103rd Session, 2014.; and ILO, Record of Proceedings Item 7A: Promoting Transitions Towards Formality, International Labour Conference 113th, 2025.

[19] See Melisa R. Serrano and Edlira Xhafa, "Industrial Relations in Micro and Small Enterprises: Patterns, Trends and Prospects," ILO Working Paper No. 129, 2024, p. 23, box 2, on Chile's Act on Sub-contracting, https://www.ilo.org/sites/default/files/2024-11/wp129.pdf

▶ 3. MSME policy frameworks around the world

This review covers 20 countries selected to represent all regions of the world and different income levels. The countries vary widely in size, GDP per capita, labour productivity, and employment outcomes. The sample includes large countries such as Indonesia, the Philippines, Pakistan, Bangladesh, Egypt, and Mexico, and smaller ones such as Costa Rica and Georgia (see table 2). There are upper-middle-income countries such as Mexico and Türkiye, middle-income countries such as Morocco, Tunisia, and the Philippines, and low-income countries such as Rwanda, Zambia, and Nepal. Two high-income countries, Finland and the Republic of Korea, were also included as references. This selection allows comparisons of MSME policy frameworks in middle- and low-income countries with practices considered best in OECD countries.

In terms of labour market outcomes, there are important variations in employment rates and labour productivity. Countries such as Finland, the Republic of Korea, and Türkiye have high labour productivity, followed by countries such as Colombia, Costa Rica, Georgia, and Mexico with labour productivity in the middle range, and at the other extreme, Nepal, Rwanda, and Zambia with the lowest levels of labour productivity. Employment rates are high in Indonesia, Mexico, the Republic of Korea, and Ukraine, and quite low in Egypt and Morocco. There are also common challenges in terms of female inactivity rates, youth unemployment, and informality. With exceptions such as Mexico and the Republic of Korea, most countries have high youth unemployment and low female participation rates.

▶ Table 2. Selected development indicators in the sample of countries included in the review

Country	GDP per capita PPP (current US$)	Labour productivity PPP (current USD)	Population, total	Labour force	Employment rate (% population)	Unemployment (%)	Unemployment, youth (%)	Female labour force participation (%)	Self-employed (%)	Employed enterprise <50
Bangladesh	9’066	23’641	172’954’319	74’913’612	38.3	4.6	11.5	37.0	58.1	69.3
Colombia	21’548	53’536	52’085’168	26’003’385	40.2	9.6	19.4	51.4	47.1	72.6
Costa Rica	27’952	79’874	5’212’173	2’407’610	35.0	8.3	24.2	44.7	27.4	58.4
Cote d'Ivoire	7’791	21’470	28’873’034	10’954’094	36.3	2.3	4.4	56.5	74.0	82.7
Egypt	18’817	78’199	112’716’598	33’430’910	24.1	7.3	18.9	16.5	27.4	97.5
Finland	65’061	150’480	5’584’264	2’879’817	43.2	7.2	16.2	57.7	13.9	..
Georgia	24’681	71’911	3’760’365	1’853’143	34.3	11.6	30.4	54.4	48.9	53.1
Indonesia	15’613	35’389	277’534’122	140’931’083	44.1	3.3	13.1	53.3	53.4	0.0
Kenya	6’324	15’678	55’100’586	25’501’846	40.3	5.0	12.9	72.2	61.4	37.4
Kosovo	15’029	..	1’756’374	..	..	12.1	21.3	..	..	43.6
Mexico	25’602	58’194	128’455’567	60’042’318	44.0	2.8	5.9	46.8	31.8	45.1
Morocco	9’743	44’564	37’840’044	12’284’010	21.9	11.8	32.7	19.8	48.2	..
Nepal	5’182	18’136	30’896’590	8’937’228	28.6	10.8	20.8	28.7	78.5	78.1
Pakistan	6’212	20’396	240’485’658	80’989’797	30.5	4.8	9.6	24.5	57.9	49.1
Philippines	10’755	27’387	117’337’368	49’477’060	39.3	2.6	6.9	47.2	36.1	..
Republic of Korea	54’033	99’789	51’712’619	29’610’896	54.1	2.7	5.4	55.8	23.5	..
Rwanda	3’361	10’970	14’094’683	5’283’082	30.6	12.4	18.3	55.1	64.0	76.5
Türkiye	44’151	130’163	85’326’000	35’071’478	33.9	9.4	17.5	35.3	29.7	84.3
Ukraine	18’007	37’172	37’000’000	21’190’326	48.4	8.2	15.4	49.3	17.6	43.8
Zambia	4’126	13’345	20’569’737	7’051’257	30.9	6.0	9.8	52.1	73.0	58.9

Source: World Development Indicators and International Labour Organization (2024).

Following other studies (OECD 2021), the focus of the review is on six key dimensions of MSME policy frameworks (table 3):

1. **Type of framework**, which can be classified into dedicated policy frameworks (DPFs), national development plans (NDPs), and other relevant policy frameworks (OPFs), including, for instance, innovation or industrial policies, private sector development strategies, or national employment policies (OECD 2021).

2. **Policy objectives**, including economic growth, competitiveness, internationalization, productivity growth, employment creation, job quality, job access, and other social and environmental objectives.
3. **Policy instruments**, which refer to the main interventions across macro and regulatory policies, labour and employment policies, and sectoral and regional policies.
4. **Governance arrangements**, where the focus is on institutional control, horizontal coordination (across agencies in the central government), vertical coordination (across levels of government), regulatory impact assessments, and types of consultations during the preparation of the policy framework.
5. **Targets** in terms of beneficiaries, which include different types of enterprises by size, region, economic sector, and ownership (women and youth), as well as potential entrepreneurs by age and gender.
6. **Monitoring and evaluation systems**, where the focus is on whether a system is in place and the types of reporting mechanisms.

While the review of the types of policy frameworks is mainly descriptive, the review of the other five dimensions is normative, based on the insights from the conceptual framework presented in section 2. The main issues assessed are the following:

- Whether MSME frameworks have explicit objectives in terms of employment creation, job quality, and access to employment.
- Gaps in the policy mix and problems with the design of certain interventions that are likely to reduce the impact of MSME policies on decent work outcomes. In particular:
  - The mechanisms used to allocate fiscal incentives, investment subsidies or credit subsidies to MSMEs, and their potential impact on job creation.
  - The level of integration and coordination between employment objectives and industrial policies aimed at developing value chains in specific sectors and regions.
  - Whether there are explicit mechanisms to preserve jobs during economic downturns.
  - Whether there is a comprehensive set of interventions to facilitate the formalization of MSMEs.
  - The types of synergies between MSME policies and employment policies to improve the quality of jobs and facilitate access to employment for workers who are far from the labour market.
- Whether governance arrangements are conducive to improving the policy mix and the design of different interventions by, for instance, involving the ministry of employment or equivalent as an important counterpart in the design of MSME policy frameworks, and by promoting broad social dialogue. One aspect of the latter is the degree of representation of workers' and employers'/MSMEs' associations in the consultation process around the preparation of the MSME policy framework.
- M&E systems, when in place, have appropriate employment-related key performance indicators (KPIs), and whether these are disaggregated by population group (e.g. gender, age, region) and by enterprise type, region and economic sector.

▶ Table 3. Key dimensions of MSME policy frameworks

Type of policy framework	Policy objectives	Targets	Governance	Monitoring and evaluation
Dedicated policy framework (DPF)	Competitiveness	Definition of MSMEs	Institutional control	Types of KPIs
MSME strategy	Productivity growth	Target indicators	Coordination mechanism:	System in place
MSME action plan	Economic growth	*Size*	*Horizontal*	Type of evaluations
MSME legal framework	Internationalization	*Age*	*Vertical*	*Processes*
National development plan	Employment outcomes:	*Productivity*	Mainstreaming	*Outputs*
Other relevant policy framework	*Creation and protection*	*Economic sector*	*Consultations*	*Outcomes*
Private sector development	*Quality*	*Region*	*Regulatory IA*	Reporting mechanism
Innovation policy	*Access*	Ownership		
Industrial policy	Other social objectives	*women*		
	Sustainability	*youth*		
	Economic inclusion			
	Regional development			

Source: Authors

3.1 Types of MSME policy frameworks

The mapping of policy frameworks reveals a complex array of instruments and actors that coexist and shape MSME policies,[20] so that a comprehensive view of government support for entrepreneurship and MSME development requires reference to multiple documents and pieces of legislation. Among the 20 countries included in the sample, 50 official documents were identified and classified into three categories: (1) dedicated policy frameworks (DPFs) – including MSME strategies, policies, action plans or legislation; (2) national development plans (NDPs); and (3) other types of policy frameworks (OPFs) incorporating MSME policies, such as national industrial policies, national productivity policies, national employment policies, private sector development strategies or investment policies (see table 4). It is important to note that, despite its relatively large size, the set of documents reviewed is not necessarily exhaustive. It does, nonetheless, display considerable variation across countries and provides insights into some of the common features and challenges of MSME policies in middle- and low-income countries.

As an illustration, **Bangladesh, Costa Rica, Pakistan, Philippines, and Rwanda** set MSME policies both through dedicated strategies/policies and their national development plans. **Kenya**, in addition, has a national industrial policy, and **Zambia** has both a national industrial policy and a national productivity policy. **Georgia** is one country in the sample that has a dedicated MSME strategy and also sets MSME and entrepreneurship policies and programmes through the national employment policy.[21] Among the countries without dedicated MSME strategies, all set MSME development policies through their national development plans. Among these, **Colombia, Indonesia, Mexico, and Morocco** have dedicated MSME laws; **Egypt** and **Türkiye** have dedicated action plans; and **Côte d'Ivoire** has both an action plan and a law. **Colombia** and **Mexico** also have a national productivity policy, while **Kosovo** and **Nepal** have a national industrial policy. **Kosovo** additionally has a private sector development strategy, and **Morocco** has an investment act. This leaves **Ukraine**, in addition to the reference countries **Finland** and the **Republic of Korea**, with only a dedicated policy framework.

[20] Although this review generally refers to MSME policy frameworks, some countries focus only on SMEs. In most cases, both SME and MSME frameworks also address issues related to entrepreneurship.

[21] Georgia also has a national development strategy—Georgia's Economic Development Strategy 2030—but it could not be included in this review.

▶ Table 4. Typology of policy frameworks in the sample of countries

	Country	Dedicated MSME strategy	Dedicated action plan	Laws for MSMEs	National development plan	National industrial policy	National productivity policy	National employment policy	Private sector development strategy	Investment policy	Total
1	Bangladesh	2019			2020						2
2	Colombia			2020	2022		2016				3
3	Costa Rica	2020			2022						2
4	Côte d'Ivoire		2021	2014	2020						3
5	Egypt		2004		2023						2
6	Finland	2018									1
7	Georgia	2021						2024			2
8	Indonesia			2008	2007						2
9	Kenya	2020			2007	2012					3
10	Kosovo				2022	2023			2018		3
11	Mexico			2023	2019		2020				3
12	Morocco			2002	2021					2022	3
13	Nepal				2020	2011/2020					3
14	Pakistan	2021			2014						2
15	Philippines	2024		2008	2023				2024		4
16	Republic of Korea	2023		2016							2
17	Rwanda	2020			2020						2
18	Türkiye		2015		2023/2023						3
19	Ukraine	2024									1
20	Zambia	2023			2022	2018	2020				4
	TOTAL	11	3	7	17	5	3	1	2	1	50

Source: Authors, based on MSME Policy Frameworks Database.

Note: The year refers to the year of adoption of the framework. For Türkiye, the Twelfth National Development Plan is accompanied by a Medium-Term Plan (2024–26).

Dedicated MSME strategies or action plans

The instruments in this first category of policy framework share a focus on MSMEs, often including entrepreneurship, and the inclusion of clearly defined objectives and interventions across various policy domains. In general, these are multi-annual documents prepared by the central government that provide a clear vision for MSMEs and identify the relevant actors and their responsibilities. The main difference between MSME strategies or policies and action plans is that the latter cover a narrower set of policy issues, are usually prepared by specialized agencies rather than line ministries and have less developed governance arrangements.

In the countries included in the review, 11 have dedicated national SME or MSME strategies or policies, whose vision, in most cases, links the development of enterprises and entrepreneurs to inclusive growth, economic development, and job creation. In **Costa Rica**, the National Policy for MSME 2030 aims to create better opportunities for Costa Ricans by promoting talent, improving the competitive position of entrepreneurs, and fostering the growth of Costa Rican companies to generate employment and promote economic development. Similar objectives are outlined in **Finland**'s Strategic Action Plan to Promote Entrepreneurship 2018. In **Kenya**, jobs and MSME development are intrinsically linked in the Policy for Promoting Micro and Small Enterprises (MSEs) for Wealth and Employment Creation (2020), whose vision is a technologically advanced, highly productive, diversified, and globally competitive MSE sector.

In **Pakistan**, the SME Policy 2021 aims for an SME sector that is globally competitive and innovative, creates high-value jobs, and encourages enterprises to scale up and move towards higher value-added exports. In the **Republic of Korea**, the Comprehensive Plan for Fostering Small and Medium Enterprises 2023–2025 aims to drive digital transformation and enhance the global competitiveness of MSMEs, ensuring they play a significant role in national employment and economic growth.

In **Rwanda**, the Entrepreneurship Development Policy 2020 seeks to develop an effective entrepreneurship support ecosystem that creates the necessary conditions for Rwandan start-ups, MSMEs, and large enterprises to unleash their potential, driving economic growth and job creation. In **Zambia**, the Revised National Micro, Small, and Medium Enterprise Development Policy 2023 aims to foster prosperous micro, small, and medium enterprises that significantly contribute to wealth and job creation.

Bangladesh, Georgia, and **Ukraine** are the only countries with dedicated MSME strategies that do not mention jobs or employment in their vision. In **Bangladesh**, the SME Policy 2019 aims to create a vibrant SME sector but does not specify development outcomes. In **Georgia**, the SME Development Strategy 2021–2025 mentions only inclusive and sustainable economic growth as the outcomes of promoting SME development. In **Ukraine**, the Strategy for the Recovery, Sustainable Development and Digital Transformation of Small and Medium-Sized Enterprises (2027) recognizes MSMEs as a key sector of the economy but does not refer to employment.

There are seven countries in the sample with dedicated MSME laws or acts, three of which justify them in terms of employment creation. **Indonesia**'s Law No. 20/2008 on Micro, Small and Medium-Sized Enterprises focuses on competitiveness but also promotes better job opportunities through MSME development. **Morocco**'s SME Law states that MSMEs require special treatment compared with large enterprises and emphasizes their potential for job creation. In the **Republic of Korea**, the Framework Act for MSMEs (2016) sets the direction for MSME policies to promote their growth and the "balanced" development of the national economy.

In the other four countries, jobs are not part of the law's justification. **Colombia**'s Law to Support Entrepreneurship and MSME Development is justified because entrepreneurs and MSMEs face specific constraints. **Côte d'Ivoire**'s Law for SMEs focuses on competitiveness and access to markets. **Mexico**'s Law 20-10-23 for the Development of the Competitiveness of MSMEs refers only to the promotion of economic development by encouraging the creation of MSMEs and ensuring their viability. In **Philippines**, the Magna Carta for MSMEs focuses solely on economic growth.

Finally, **Côte d'Ivoire, Egypt,** and **Türkiye** have dedicated action plans prepared by implementation agencies. In **Côte d'Ivoire**, the action plan aims to modernize SMEs and the crafts sector, in part because of employment creation. In **Egypt** and **Türkiye**, the action plans focus on improving competitiveness, with no reference to employment creation.

In summary, slightly more than half of the dedicated MSME strategic documents explicitly include employment in their vision. Specifically, out of the eleven dedicated MSME strategies, seven refer to jobs; of the seven dedicated laws, three mention employment; and of the three dedicated action plans, one refers to jobs.

National development plans

All countries in the sample, except the two reference countries and Ukraine, have national development plans that include MSME and entrepreneurship development policies and programmes—although their objectives are not always specifically related to MSMEs.[22] These documents differ from dedicated strategies in that MSME policy objectives and interventions are only part of the overall development strategy and, as a result, tend to be more compartmentalized, focusing on specific issues relevant for economic and social development. In addition, broader governance and implementation arrangements to coordinate MSME policies across sectors are generally not addressed. When well-designed, national development plans set the context for the development of more in-depth sectoral strategies, which can include MSME policies, while creating linkages between these policies and other public policies and government initiatives. Hence, in principle, NDPs and targeted MSME strategies are not substitutes but complements. In practice, however, sectoral strategies do not always follow the NDP or are internally consistent. In general, national development plans are structured in three parts:

[22] Georgia also has a national development strategy (Vision 2030), whose main objective is to ensure sustainable and inclusive economic growth. The document, however, was not included in this review.

- **Diagnostics.** This is the analytical part of the NDP, which identifies the main challenges facing the country for economic, social, and environmental development, taking into account gaps between population groups and regions.
- **Vision.** A relatively short section where the NDP outlines the desired situation for the development of the country at a particular point in the future.
- **Sectoral strategies.** This is the core of the NDP, usually organized by sector, defining in each case national objectives and public interventions with their own KPIs, budget estimates, and responsible institutions.

The categorization of sectors differs across countries, but it usually follows the functional classification of the budget, with MSME policies clustering around the "productive sectors." The typical NDP, such as those in **Colombia** and **Costa Rica**, includes sectors like energy, environment, education, health, agriculture, public works and transport, productive sectors, and regional development. Most MSME policies are in the "productive sectors," with a few scattered across the energy, education, and agricultural sectors. At the other extreme, **Mexico** has a narrower categorization including only governance, social policy, and the economy, with MSME policies clustered around the latter.

The importance given to MSME policies and programmes in the NDP is reflected, in part, in the diagnostics section. When some of the key constraints to promoting economic growth, ensuring environmental sustainability, and/or improving standards of living refer to constraints facing MSMEs and entrepreneurs, the strategic section will usually incorporate targeted MSME policies. The **Philippines**' development plan (2023–2028), for instance, identifies as a key constraint the low technological readiness of MSMEs in the manufacturing sector due to barriers to technology utilization, including high costs, lack of infrastructure, absence of skilled employees, and lack of managerial knowledge. It also highlights the contraction in the number of MSMEs across economic sectors and accompanying job losses because of COVID-19, a common issue in countries preparing NDPs at the time or after the pandemic.

In **Türkiye**, one issue raised by the NDP is the need to increase the interaction between producers and consumers by developing and disseminating the use of new digital technologies, particularly in small and medium-sized enterprises. The plan also states that productivity, scale, and formalization negatively affect SMEs in terms of competitiveness, innovation, and employment. **Kenya**'s Vision 2030 highlights that its business environment is characterized by a large number of micro and small enterprises (MSEs), which account for roughly 75 per cent of total employment but only 18 per cent of GDP. It recognizes that there is significant room for improvement in public policies for MSMEs, with one of the binding constraints being inadequate technical and entrepreneurial skills. **Indonesia**'s long-term national development plan (2005–2025) argues that many areas outside Java have potential products and strategic markets but have not been optimally developed due to limited access for farmers and small-scale businesses to capital, production inputs, technological support, and marketing networks.

The vision of the NDP also has implications for the type of MSME policies that governments develop, particularly when it involves structural transformation, competitiveness, and job creation. Countries with NDPs that have a more focused vision covering some of these dimensions are also more likely to prioritize policy interventions that support entrepreneurs and micro, small, and medium enterprises. In **Bangladesh**, for instance, the 8th five-year plan (2020–2025) focuses, in part, on improving competitiveness and creating jobs, stating that MSMEs hold the most promise in both rural and urban areas. **Morocco**'s new development model primarily focuses on improving employment outcomes through investments and private sector development, establishing linkages between large, medium, and small/micro enterprises. **Zambia**'s 8th national development plan (2022–2026) aims at socio-economic transformation for improved livelihoods and promotes entrepreneurship and MSME development. **Pakistan**'s vision 2025 seeks to transform the country into the next "Asian Tiger" to achieve better living standards for all Pakistanis, with SME policies as a key pillar. **Nepal**'s 15th five-year plan (2019/20–2023/24) sets a vision for achieving rapid and balanced economic development and prosperity through entrepreneurship and collaboration between private, cooperative, and community sectors, including women-run cooperatives, small and medium enterprises, and farmers. Although to a lesser extent, the NDPs in **Côte d'Ivoire**, **Egypt**,

Kosovo, and **Rwanda** also emphasize structural transformations, economic growth, and private sector development, but without a particular focus on MSMEs.

Other relevant policy frameworks

The third category of policy frameworks consists of industrial policies and sectoral strategies that often emanate from national development plans and can include specific MSME policies and programmes. In these strategic documents, MSMEs are not the main focus of public policies to achieve specific outcomes in terms of economic development. Rather, MSME policies become an ingredient to achieve specific sectoral outputs such as industrialization, higher productivity growth, increased private investment, and, in one case in the sample of countries, better employment outcomes. Mainstreaming MSMEs in these policy frameworks recognizes their importance in achieving national development objectives. In particular, when MSME policies become part of employment policies, it is more likely that their development is linked to the creation of more and better jobs. Similarly, when MSME strategies are part of industrial policies, their participation in prioritized industries is more likely to be ensured.

The most common policy agenda incorporating MSME policies is national industrial policies (NIP), which concern four countries in the sample. Often the entry point in NIPs is import substitution, which creates opportunities for MSMEs or is conditioned on MSME development. In **Kenya**, for instance, the National Industrialization Policy (2012–2030) aims to transform the country into a leading industrialized nation in Africa with a robust, diversified, and globally competitive manufacturing sector. A precondition, also stated in the NDP, is improving the productivity and competitiveness of MSMEs. **Nepal**'s Industrial Promotion Policy (2011) similarly links sustainable and broad-based industrial development to the development of micro enterprises, cottage and small industries, and self-employment. In **Kosovo**, the Strategy for Industrial Development and Business Support (2030) refers to all types of enterprises, not only large companies in high value-added sectors. In **Zambia**, the National Industrial Policy (2018) identifies as one of the constraints to economic diversification and industrialization the lack of access to markets and business development services for MSMEs.

Only three countries in the sample have national productivity policies that involve interventions to promote entrepreneurship and MSME development. In **Colombia**, the National Policy for Productive Development 3866 aims to address market and government failures that affect economic diversification, competitiveness, and productivity growth, which to a large extent preclude the development of MSMEs. In **Mexico**, one strategy in the Economic and Sectoral Programme (2020–2024) to promote productivity and competitiveness is to facilitate economic diversification and the formalization of MSMEs. In **Zambia**, the National Productivity Policy (2020) is aligned with both the national development plan and the national industrial policy, targeting MSMEs, particularly those in the informal sector and in rural areas.

The three countries with investment policies and private sector development strategies also include MSME-related interventions, although these are less explicit or less central in the overall policy framework. In **Morocco**, the Investment Act (2022) sets an ambitious programme to increase private investment and maximize its impact on the development of strategic sectors, employment creation, and equitable regional development. It primarily focuses on large investment projects but includes provisions to promote entrepreneurship and support MSMEs. In **Kosovo**, the Private Sector Development Strategy (2018–2022) is generally neutral in terms of enterprise size but includes targets, policies, and programmes for MSME development. In the **Philippines**, the focus is on ensuring that public expenditures supporting firms are distributed equitably across regions, sectors, and types of enterprise (by size and ownership).

Georgia provides a case where MSME policies are a core component of national employment policies.[23] The National Strategy of Labour and Employment Policy (2024–2028) links improvements in employment outcomes

[23] This is not necessarily the only case in the sample, as all national employment policies (NEPs) have been reviewed. Georgia was highlighted because of the visibility of its NEP and its particular relevance for MSMEs.

to job creation, which necessarily implies promoting the creation of new businesses and the growth of existing enterprises. In this context, the strategy includes important measures to support self-employment and MSME development.

3.2 Policy objectives

As in OECD countries, some of the most common policy objectives among dedicated MSME frameworks relate to improving competitiveness and productivity, and promoting economic diversification, economic growth, and internationalization.[24] Hence, 86 per cent of dedicated policy frameworks (DPFs) focus on competitiveness and economic diversification, 67 per cent on economic growth, 52 per cent on internationalization, and 48 per cent on innovation and productivity (see table 5). These percentages are lower for national development plans (NDPs) and other policy frameworks (OPFs), except for competitiveness and innovation in OPFs, because these frameworks have broader macroeconomic or sectoral objectives, and this review focuses only on MSME-related policy objectives. Considering all policy frameworks across countries, 67 per cent focus on competitiveness and economic diversification, 51 per cent on economic growth, and 37 per cent on innovation and productivity.

[24] For a given outcome to count as a policy objective, it suffices that the framework refers to it in the vision or objectives section of the document. The review does not distinguish between the level of priority given to the policy objective in question. Only for jobs-related objectives is there an analysis of consistency with the policy instruments.

▶ Table 5. Objectives of MSME policy frameworks

Country	Framework	Economic growth	Internationalization	Competitiveness & diversification	Creation of new firms	Expansion of existing firms	Innovation & productivity growth	Formalization of enterprises	Jobs creation	Jobs' quality	Jobs access	Other environmental and social
Bangladesh	DPF	1		1			1					1
	NDP											
Colombia	DPF				1	1						1
	NDP											
	OPF			1	1	1	1		1	1		
Costa Rica	DPF	1	1	1					1			1
	NDP			1		1			1	1		
Côte d'Ivoire	DPF	1			1	1	1	1	1	1		
	DPF		1	1								
	NDP	1		1	1			1	1	1		
Egypt	DPF		1	1			1					1
	NDP			1			1	1	1	1		
Finland	DPF	1	1	1					1	1		1
Georgia	DPF		1	1								
	OPF			1	1	1			1			
Indonesia	DPF	1		1					1			1
	NDP			1			1			1		
Kenya	DPF		1	1			1	1	1	1		1
	NDP											
	OPF	1		1					1			
Kosovo	NDP											
	OPF		1				1					
	OPF											
Mexico	DPF	1		1			1					
	NDP	1				1			1			
	OPF	1		1		1	1			1		
Morocco	DPF	1		1	1				1			1
	NDP	1	1	1				1	1	1	1	1
	OPF	1	1	1	1	1			1			
Nepal	NDP	1			1	1			1			
	OPF			1	1	1	1					1
	OPF											
Pakistan	DPF	1	1	1		1			1			1
	NDP	1		1	1				1			
Philippines	DPF											
	DPF	1	1	1		1	1	1	1	1		
	OPF											1
	NDP											
Republic of Korea	DPF	1	1	1	1		1		1			1
	DPF	1		1			1	1		1		1
Rwanda	DPF	1	1	1	1	1	1		1			
	NDP											
Türkiye	DPF		1	1	1	1			1			
	NDP		1	1	1	1	1		1			
	NDP	1	1				1					1
Ukraine	DPF	1		1		1	1					1
Zambia	DPF	1		1	1	1		1	1	1		
	NDP	1			1	1			1			
	OPF	1		1				1	1	1		
	OPF			1			1	1		1		
% in DPFs		66.7%	52.4%	85.7%	33.3%	38.1%	47.6%	23.8%	57.1%	28.6%	0.0%	57.1%
% in NDPs		41.2%	17.6%	41.2%	29.4%	29.4%	23.5%	17.6%	52.9%	29.4%	5.9%	11.8%
% in OPF		33.3%	16.7%	66.7%	33.3%	41.7%	41.7%	16.7%	41.7%	33.3%	0.0%	16.7%
% in ALL		50.0%	32.0%	66.0%	32.0%	36.0%	38.0%	20.0%	52.0%	30.0%	2.0%	32.0%
# of Countries		16	13	19	10	13	15	7	17	12	1	14

Source: Authors, based on MSME policy frameworks database

Note: (*) Other environmental and social objectives usually include inclusive growth, environmental sustainability, regional development, or poverty reduction

The main difference with OECD countries is that dedicated MSME policy frameworks in middle- and low-income countries often have explicit objectives in terms of employment creation. Thus, 57 per cent of the DPFs refer to job creation through MSMEs as one of the policy objectives. Job creation is, in fact, the most common objective among NDPs (53 per cent) and only second to competitiveness in OPFs (46 per cent). Across countries, 17 out of 20 include jobs as one of the objectives of MSME development. In **Costa Rica**, **Côte d'Ivoire**, **Indonesia**, **Kenya**, **Morocco**, **Nepal**, **Pakistan**, **Rwanda**, **Türkiye**, **Zambia**, and the two reference countries, **Finland** and the **Republic of Korea**, the objective of employment creation is central to dedicated MSME policies, and it is often presented across policy frameworks. In the other countries, the objective of employment creation is explicit in the vision statement of at least one policy framework but does not follow into the specifics of the dedicated strategies. Only in **Bangladesh**, **Kosovo**, and **Ukraine** is job creation not an explicit policy objective of any of the MSME policy frameworks.

The focus on employment creation nonetheless leaves aside issues related to the quality of jobs and the problem of accessing jobs among more vulnerable workers. Improvements in jobs quality – usually involving formalizing jobs, increasing incomes, or improving working conditions – are only present in 11 countries. They tend to be part of NDPs (**Costa Rica**, **Côte d'Ivoire**, **Egypt**, **Indonesia**, **Morocco**) and OPFs (**Colombia**, **Mexico**, and **Zambia**), but only in **Côte d'Ivoire**, **Kenya**, the **Philippines**, **Zambia**, and the two reference countries is it included as part of the DPF. The objective of improving access to jobs, which in part relates to the geographic location of MSMEs, the economic sector where they operate, their demands for different types of skills, and ensuring that vulnerable workers can benefit from the jobs created, is even less prevalent in all policy frameworks. No country but **Morocco**, through its national development plan, takes this objective into account in their MSME frameworks.

Another policy objective – critical for the jobs agenda but seldom part of MSME policy frameworks – is the formalization of firms. As discussed in the introduction and section 2, a precondition for the creation of decent jobs is the formalization of MSMEs, particularly micro enterprises. Yet only seven countries – **Côte d'Ivoire**, **Egypt**, **Kenya**, **Morocco**, the **Philippines**, the **Republic of Korea**, and **Zambia** – refer to the formalization of enterprises. Among dedicated policy frameworks, only one in four refers to this objective, and in NDPs and OPFs fewer than that. This is, in a way, surprising given that in all countries included in the sample except Finland, the Republic of Korea, and to some extent Ukraine, the majority of MSMEs operate in the informal sector.

Other policy objectives with at least potentially indirect jobs impacts are the creation of new firms and the expansion of existing firms. Jobs are created when new enterprises are established and survive, and when existing enterprises grow. Yet only ten countries cover the creation of firms as a policy objective: seven through DPFs (**Colombia**, **Côte d'Ivoire**, **Morocco**, the **Republic of Korea**, **Rwanda**, **Türkiye**, and **Zambia**), and three through NDPs or OPFs (**Georgia**, **Nepal**, and **Pakistan**). The expansion of existing firms is a more common policy objective, included in at least one policy framework in thirteen countries: seven through DPFs (**Colombia**, **Côte d'Ivoire**, **Pakistan**, **Rwanda**, **Türkiye**, **Ukraine**, and **Zambia**) and six through NDPs or OPFs (**Costa Rica**, **Georgia**, **Mexico**, **Morocco**, **Nepal**, and the **Philippines**).

One more missing link with the jobs agenda is the objective of increasing labour productivity, itself a precondition to promote the formalization of firms and decent work, but that is not considered explicitly in any of the policy frameworks. As discussed above, 48 per cent of dedicated policy frameworks, 36 per cent of OPFs, and 24 per cent of NDPs aim to address issues related to innovation and productivity growth. But the focus is mainly on overall total factor productivity (TFP). As discussed in section 2, increasing labour productivity – value added per worker, which is split between salaries and profits – also requires higher levels of productive and human capital per worker. These outcomes, however, are never discussed in any of the policy frameworks reviewed across countries.

The fact that countries with specific objectives in terms of job creation or job quality, such as **Costa Rica** and **Indonesia**, do not have parallel objectives at the firm level – which are preconditions to achieve the former – shows that MSME policy frameworks are not necessarily internally consistent. For instance, if a country has an explicit objective in terms of employment creation, there should also be an explicit objective in terms of accelerating the rate of firm creation or promoting the expansion of existing firms. As discussed in section 5, this lack of consistency also affects the types of targets and key performance indicators (KPIs) used in the MSME policy frameworks.

3.3 Policy instruments

Following the conceptual framework developed in section 2, policy instruments are grouped into macro and regulatory policies, employment and labour policies, and sectoral and regional policies. Although the review generated a detailed matrix of programmes at each of these three levels, for tractability these were aggregated into fewer categories, which are described below (see also table 6). All MSME frameworks combine interventions at these three levels, although the amount of information provided differs across countries and policy instruments. The review, however, does not discuss these differences and accounts for a given policy intervention as long as the relevant framework refers to it.

In general, sectoral and regional policies dominate MSME policy frameworks, with a relatively even distribution of policies and programmes across the various types. Macro and regulatory policies follow, usually focusing on access to finance, business regulations, and fiscal incentives. Labour and employment policies usually take a back seat within MSME policy frameworks and, when included, tend to focus mainly on training programmes. Interventions that are important to improve access to jobs and the quality of jobs—such as different types of labour regulations, programmes to improve working conditions or facilitate access to social protection schemes, or mechanisms to promote social dialogue—are usually excluded from MSME policies.

Macro and regulatory policies

Interventions at this level are grouped into four categories: (1) fiscal and tax policies, which aim to simplify tax regimes for MSMEs and reduce their tax burden; (2) fiscal incentives for private investment; (3) improvements in business regulations; and (4) access to finance.

By far the most common type of intervention involves facilitating access to finance for MSMEs and entrepreneurs. All countries and dedicated policy frameworks (DPFs) use this type of intervention, and among the DPFs, 16 out of 21 focus on both micro and small enterprises as well as medium-sized enterprises. The range of instruments is similar across countries, including subsidized loans, credit guarantees, alternative forms of debt, legal frameworks and other mechanisms to enhance access to microcredit—such as risk-sharing schemes or movable asset registries—and improvements in existing information systems on MSMEs' creditworthiness. **Bangladesh**, for instance, is implementing several initiatives to reduce borrowing costs for SMEs, including through the SME Bank, which offers low-interest loans to enterprises and collateral-free loans to potential entrepreneurs. Subsidized loans are also one of the key policy interventions to expand access to credit for SMEs in **Ukraine** through its Affordable Loans Programme. Countries expanding access to microfinance include **Colombia**, **Côte d'Ivoire**, **Egypt** and **Nepal**, whereas various forms of credit guarantees have been established in **Bangladesh**, **Colombia**, **Kenya**, **Kosovo**, the **Philippines**, the **Republic of Korea**, and **Türkiye**.

Countries diversifying the range of financing instruments available to formal SMEs—such as equity, quasi-equity, asset-based lending, factoring and crowdfunding—include Côte d'Ivoire, Kenya, Morocco, Pakistan, Rwanda and Türkiye. Côte d'Ivoire is also seeking to increase private financing of public investment in MSMEs through public–private partnerships (PPPs).

Several countries have also established, or are in the process of establishing, different types of public investment funds. Examples include: in Colombia, the Rural Microfinance Fund, the Venture Capital Fund, and the Fund for the Modernization and Innovation of MSMEs; in Morocco, the Mohammed VI Investment Fund; in Kenya, the Industrial Development Fund (IDF) for MSMEs; in Nepal, the Micro, Cottage and Small Industries Development Fund and the Women Entrepreneurship Development Fund; and in Zambia, the Trade and Industrial Development Fund, which supports formal MSMEs in high-growth sectors including agro-processing, manufacturing, tourism and infrastructure development.

Regarding improved information on MSMEs' creditworthiness, Georgia is establishing systems to increase the transparency and quality of SMEs' financial information; the Philippines has set up the Central Bank Risk Database; and Türkiye has developed a new scoring system combining financial and non-financial data to address information asymmetries when evaluating SMEs and entrepreneurs.

As discussed in the conceptual framework, one of the limitations of existing instruments to expand access to finance is that they are not sufficiently linked to employment outcomes. Only one of the countries and its MSME policy framework allocates credit or capital subsidies across MSMEs taking into account their potential impact on employment. In general, the allocation of these subsidies is conditional on the profitability of the investment project or the creditworthiness of the firm. The size of the enterprise or the economic sector may also be an eligibility criterion. Apart from Morocco's Investment Act, which is discussed below, there are no requirements or performance indicators related to employment outcomes, such as job creation. This implies that there are no mechanisms in place—either directly through government institutions or indirectly through commercial banks and institutional investors—to ensure that investment projects with high social rates of return, given their potential impacts on jobs, are financed, even when expected private rates of return are low relative to market rates. This could be done, for instance, by ranking investment projects by their social rate of return, or simply by the number of jobs created per unit of investment or subsidy (Robalino et al. 2025; Kouomo and Robalino, forthcoming) . This would ensure that some projects which may be less profitable but generate significant positive externalities related to employment are also considered. Firms receiving financing could be required to report on employment outcomes, making job creation a contractual performance indicator, even if it is not directly linked to credit or capital subsidies.

Another related limitation is the lack of interventions that target informal firms and support their formalization by providing access to credit and/or capital. Only two countries have explicit objectives to use the instruments described above—particularly subsidized credit and capital—to support the formalization of informal MSMEs. Colombia is one of the exceptions, as the National Development Plan has an entire pillar focused on the formalization of the "popular economy", defined as the set of self-employed workers, microenterprises and very small producers. Providing access to finance is one of the main incentives. The MSME Law also aims to facilitate the formalization of small producers in the agricultural sector by improving access to finance and mandates the Fondo Mujer Emprende (Women's Entrepreneurship Fund) to deepen microfinance and support the formalization of women's enterprises. The other example is Côte d'Ivoire, where the MSME strategy contains interventions to facilitate access to finance for the informal sector. The Strategic Plan also includes a component to improve access to finance for MSMEs in the commerce sector, including through the establishment of credit unions (Mutuelles des Commerçants). In all other policy frameworks, interventions to facilitate MSMEs' access to finance appear to be focused on formal enterprises, even in the case of microfinance.

Table 6. Typology of policy instruments across countries and policy frameworks

		Macro and regulatory policies				Employment and social protection policies						Sectoral and regional policies						
Country	Framework	Fiscal and tax policy	Fiscal incentives for investments (also exchange rate)	Business regulations (including procurement)	Access to finance	Labour regulations	Social protection	Training under ALMPs	Education/ Vocational training	ALMPs/ PESs	Social dialogue	Basic infrastructure & logistics	New technologies and R&D	Training and business support services	Value chains and special economic zones	Access to markets	Support entrepreneurs	Sustainability /Environment
Bangladesh	DPF	1	1	1	1				1			1	1	1	1	1	1	1
Bangladesh	NDP				1													
Colombia	DPF		1	1	1			1					1				1	1
Colombia	NDP			1	1	1	1				1	1	1	1	1		1	
Colombia	OPF				1									1			1	
Costa Rica	DPF			1	1								1			1	1	1
Costa Rica	NDP	1		1	1							1	1	1	1		1	
Côte d’Ivoire	DPF			1	1				1				1	1		1	1	
Côte d’Ivoire	DPF				1							1	1	1	1	1	1	
Côte d’Ivoire	NDP	1		1	1				1				1	1	1	1		
Egypt	DPF	1	1	1	1								1	1	1	1		
Egypt	NDP	1		1	1				1				1	1	1	1	1	
Finland	DPF	1		1	1	1	1		1	1				1		1	1	
Georgia	DPF			1	1	1			1	1		1	1	1		1	1	1
Georgia	OPF				1	1	1						1				1	
Indonesia	DPF	1		1	1				1		1	1	1	1	1	1	1	1
Indonesia	NDP												1	1	1			
Kenya	DPF		1	1	1				1		1	1	1	1	1	1	1	1
Kenya	NDP				1				1					1	1			
Kenya	OPF			1	1									1	1			
Kosovo	NDP																	
Kosovo	OPF				1								1	1	1	1		
Kosovo	OPF																	
Mexico	DPF			1	1								1	1	1	1	1	
Mexico	NDP			1	1							1		1				
Mexico	OPF			1	1								1	1	1		1	1
Morocco	DPF	1		1	1							1	1	1		1	1	
Morocco	NDP		1	1	1	1	1	1	1		1		1	1	1		1	
Morocco	OPF		1	1	1				1				1	1			1	
Nepal	NDP		1	1	1				1			1	1		1		1	
Nepal	OPF	1		1	1							1	1	1	1	1	1	1
Nepal	OPF	1		1	1													
Pakistan	DPF	1		1	1	1		1	1	1		1	1	1	1	1	1	1
Pakistan	NDP			1	1			1		1					1		1	
Philippines	DPF		1	1	1	1		1	1			1	1	1	1	1		
Philippines	DPF		1	1	1	1		1				1	1	1	1	1	1	1
Philippines	OPF				1													
Philippines	NDP			1	1							1	1	1	1	1	1	
Republic of Korea	DPF			1	1	1	1		1	1		1	1	1	1	1	1	1
Republic of Korea	DPF	1		1	1	1	1		1				1	1	1	1	1	
Rwanda	DPF	1		1	1				1			1	1	1	1	1	1	
Rwanda	NDP				1													
Türkiye	DPF				1								1	1	1	1	1	1
Türkiye	NDP				1				1				1	1	1		1	1
Türkiye	NDP				1										1		1	
Ukraine	DPF	1		1	1	1			1				1	1		1	1	1
Zambia	DPF			1	1							1	1	1	1	1		
Zambia	NDP				1				1						1		1	
Zambia	OPF				1									1	1	1		
Zambia	OPF																	
% in DPFs		42.9%	28.6%	90.5%	100.0%	38.1%	14.3%	19.0%	57.1%	19.0%	9.5%	57.1%	95.2%	90.5%	66.7%	95.2%	85.7%	52.4%
% in NDPs		17.6%	11.8%	52.9%	88.2%	11.8%	11.8%	11.8%	41.2%	5.9%	11.8%	29.4%	52.9%	58.8%	76.5%	17.6%	58.8%	5.9%
% in OPF		16.7%	8.3%	41.7%	83.3%	8.3%	8.3%	0.0%	8.3%	0.0%	0.0%	8.3%	41.7%	58.3%	41.7%	25.0%	41.7%	16.7%
% in ALL		28.0%	18.0%	66.0%	92.0%	22.0%	12.0%	12.0%	40.0%	10.0%	8.0%	36.0%	68.0%	72.0%	64.0%	52.0%	66.0%	28.0%
# in Countries		12	7	18	20	8	5	4	16	4	4	15	19	20	17	19	19	13

Source: Authors, based on MSME Policy Frameworks Database.

Improvements in business regulations with a focus on MSMEs are another common type of intervention, adopted in 18 of the 20 countries and in 90 per cent of the dedicated policy frameworks. In most cases, the goal is to simplify administrative procedures, including registration, certification, and reporting for MSMEs, and to reduce tariffs. Several of these measures are part of the policy frameworks in **Bangladesh**, **Colombia**, **Costa Rica**, **Côte d'Ivoire**, **Finland**, **Indonesia**, **Mexico**, **Nepal**, **Pakistan**, the **Philippines**, and **Rwanda**. **Colombia** is developing specific regulations – a "sandbox" – for innovative enterprises and sectors; information systems for informal enterprises; and simplified accounting procedures for microenterprises. In **Finland**, there are several initiatives to better balance the social costs and benefits of business regulations, particularly for small firms. The "one-in, two-out" principle implies reducing by a factor of two the cost of existing regulations for each increase in the cost of new regulations, while the "think small first" approach recognizes that business regulations cannot be applied in the same way to large and small enterprises (new regulations are subject to an SME test). **Morocco**, in addition to standard improvements in business regulations, also focuses on facilitating access to land. In the **Philippines**, part of the strategy is to have government agencies delegate authority to their regional and provincial offices to make decisions, particularly regarding the registration of enterprises. In **Rwanda**, instead of flagging particular regulations, the focus is on outcomes – creating a business environment that can stimulate business activity, productivity, and growth.

Another common goal in revising business regulations is to facilitate MSMEs' access to public tenders and procurement. Policy frameworks covering this type of intervention include those of **Colombia**, **Costa Rica**, **Kenya**, **Pakistan**, the **Philippines**, and **Ukraine**. Although public procurement systems[25] or sub-contracting laws[26] can be used as incentives for formalization and enhanced compliance with labour laws and social insurance obligations – thereby improving job quality – none of the policies reviewed here aim to do so. Less common goals at the level of MSME policies include simplifying bankruptcy laws (**Bangladesh** and the **Philippines**) or improving competition laws and removing barriers to entry for MSMEs (**Bangladesh** and **Egypt**).

Contrary to interventions designed to provide access to finance, it is more common for policy frameworks to target the informal sector and reduce expected net entry costs into the formal sector—eight out of the 20 countries do this. **Costa Rica**'s MSME strategy proposes using new information and communication technologies to simplify registration processes and facilitate the formalization of enterprises. In **Colombia**, as discussed above, the national development plan proposes a comprehensive legal framework to formalize the popular economy, and the MSME law includes provisions to review regulations to formalize MSEs while mandating the creation of an information system (a census) of informal economic activities. **Côte d'Ivoire**'s MSME strategy also aims to create a census of informal enterprises and facilitate their formalization, in part through a new legal framework for entrepreneurs. **Kenya**'s MSME strategy seeks to raise awareness about the registration process, highlight its benefits for MSEs, and identify innovations to incentivize formalization. **Morocco**'s national development plan proposes a "professional card" to formalize own-account workers in the commerce and crafts sector, giving them access to training, health coverage, and family allowances (see also employment policies). **Pakistan**'s Vision 2025 also focuses on improving incentives to formalize and simplifying regulations. In the **Philippines**, the MSME strategy prioritizes interoperability between online government service platforms to facilitate business registration and compliance with certification requirements. **Zambia**'s national industrial policy includes a pillar to review business regulations and support the formalization of MSMEs.

But, as suggested by the conceptual framework developed in section 2, the main limitation of existing initiatives to improve the regulatory framework for MSMEs is the lack of an explicit focus on decent work and the formalization of informal enterprises, with clear linkages to other interventions that aim to increase labour productivity within the firm and improve access to social protection. This is consistent with the fact that few policy frameworks have explicit objectives on jobs quality or the formalization of firms (see table 5). Yet, there is

[25] See ILO, Supporting Micro and Small Enterprises in Brazil through Public Policies Impact Assessment of Preference Programmes for MSEs in Public Procurement, forthcoming and ILO, *Promoting public procurement for micro, small and medium-sized enterprises' growth and transition to formality: Lessons learned from Chile and the Republic of Korea*, 2025.

[26] See Melisa R. Serrano and Edlira Xhafa, "Industrial Relations in Micro and Small Enterprises: Patterns, Trends and Prospects," ILO Working Paper No. 129, 2024, p. 23, box 2, on Chile's Act on Sub-contracting, https://www.ilo.org/sites/default/files/2024-11/wp129.pdf.

considerable evidence showing that, to a large extent, MSMEs operate in the informal sector because of their low level of productivity (Perry et al. 2007). Formalizing them requires both reducing the net costs of operating in the formal sector and deploying support services to increase labour productivity. This would entail that MSME policy frameworks target informal micro and small enterprises and coordinate or integrate reforms in business regulations with sectoral, regional, and employment policies that aim to improve management, production technologies, workers' skills, working conditions, and social protection, while facilitating access to markets (ILO 2014).

Within macro and regulatory policies, fiscal policies also play a role in 12 of the 20 countries, primarily by simplifying tax regimes or reducing the tax burden. For example, **Pakistan** has several initiatives to reduce taxes for MSMEs, including a dedicated SME tax regime that benefits selected service sectors; the consolidation and harmonization of taxes; a gradual reduction in withholding taxes accompanied by a corresponding increase in formalization and revenues from sales and income taxes; and the introduction of a presumptive tax for certain categories of SMEs. Initiatives to reduce taxes for MSMEs or simplify tax regimes are also in place in **Bangladesh**, **Colombia**, **Costa Rica**, **Côte d'Ivoire**, **Egypt**, **Finland**, **Indonesia**, **Nepal**, the **Republic of Korea**, **Rwanda**, and **Ukraine**. Four of these countries—**Colombia**, **Costa Rica**, **Côte d'Ivoire**, and **Ukraine**—have implemented parallel regimes for micro enterprises and self-employed workers.

Among all the countries aiming to simplify and/or reduce taxation, **Côte d'Ivoire**, **Egypt**, and **Nepal** are the only ones conditioning exemptions on improvements in labour market outcomes, either directly or indirectly. In **Côte d'Ivoire**, the MSME Strategy and the National Development Plan introduce reforms in the fiscal codes to reduce taxes conditional on the formalization of the enterprise. In **Egypt**, the focus is not directly on job creation but on reducing the size of the informal sector and increasing the contribution of SMEs to tax revenues. In **Nepal**, these exemptions benefit mainly larger enterprises—companies in the manufacturing or IT sectors providing direct employment to 300 or more Nepali citizens throughout the year, which are entitled to a 15 per cent tax credit (those providing employment to 2,200 citizens are entitled to 25 per cent). The country also provides tax exemptions linked to expenses incurred in promoting entrepreneurship or adopting new technologies to increase productivity. The **Republic of Korea**'s MSME policy frameworks do not explicitly refer to fiscal incentives and jobs, but through the fiscal law (not reviewed here), the country has set up several mechanisms to create and preserve employment in SMEs. For instance, tax credits are available for MSMEs that increase employment levels from one fiscal year to the next or hire young workers or women who have been on a career break for more than one year (ILO 2025b).

Another use of fiscal policy in seven countries in the sample is incentives for private investments, which take the form of tax credits, matching subsidies, or capital guarantees. In **Bangladesh**, for instance, there are investment incentives for export-oriented SMEs. **Colombia**'s DPF includes various incentives to promote FDI and attract multinationals that invest in ICTs and bring together SMEs. **Egypt**'s DPF aims to rationalize existing investment subsidies and use them to prioritize digital transformations and the green economy. **Kenya** also provides fiscal incentives for the development of MSMEs but without targeting specific sectors. In **Nepal**, investment incentives take the form of capital guarantees that, like in Kenya, do not target specific sectors. In the **Philippines**, the focus is on giving MSMEs access to tax credits and other tax and duty incentives as provided by the Omnibus Investment Code and other laws.

Morocco is the only country in the sample where, in addition to common tax incentives, there are direct investment subsidies conditioned on employment creation. The Investment Act has four types of subsidies: 1) general; 2) strategic sectors; 3) exporting firms; and 4) MSMEs. Under the general investment subsidy, eligibility depends on whether the investment is above 50 million DH and creates at least 50 jobs or creates 150 jobs regardless of the level of investment. The subsidy (or "prime") itself is a function of the ratio between the number of jobs created and the investment (in millions). For a ratio between 1 and 1.5 per cent, the subsidy is 5 per cent of the investment; for 1.5–3 per cent, it is 7 per cent; and for more than 3 per cent, it is 10 per cent. There are also allocations based on the share of jobs for women (3 per cent) or whether the jobs are considered "jobs of the future" (3 per cent). In the case of MSMEs, in addition to the investment subsidy, there are interventions to support the preparation of the investment project, facilitate access to finance, and offer general advisory services. More recently, in February 2024, the Prime Minister's Office issued the Road Map for Employment, which incorporates several recommendations from the draft National Employment and Entrepreneurship Policy 2035, prepared by the Ministry of Small Enterprises, Economic Inclusion, and Labour. One of the three pillars of the road map focuses on the development of MSEs and calls for the issuance of a dedicated policy framework that will also include investment subsidies linked to jobs (at the time of writing, this policy framework seems to be ready for publication).

In summary, apart from **Morocco**, and to some extent **Côte d'Ivoire**, **Egypt**, and **Nepal**, improvements in fiscal policies are disconnected from decent work objectives. In the case of tax exemptions, parallel tax regimes, or fiscal incentives for investments, two issues arise: they are not sufficiently linked to employment outcomes, and they do not include strategies to graduate firms from these programmes as their labour productivity increases. As discussed in the conceptual framework, the allocation of these explicit or implicit subsidies ought to take into account the "good jobs" social externalities generated by different types of firms depending on the economic sectors and regions in which they operate and the workers they employ. This could involve defining ex-ante broad eligibility criteria or performance indicators for different beneficiaries, tied to a portion of fiscal incentives, in line with national priorities related to reducing employment gaps (see section 3.5). Some fiscal incentives could also be allocated ex-post, informed by observed improvements in employment outcomes at the firm level, where relevant.

Sectoral and regional policies

The sectoral and regional policies identified in the matrix of policy frameworks are grouped into seven categories: 1) provision of basic infrastructure and logistics; 2) support services for MSMEs to facilitate the adoption of new technologies and promote investments in R&D; 3) training and other business services for MSMEs; 4) development of value chains and special economic zones; 5) support to access markets; 6) entrepreneurship support programmes; and 7) other interventions to promote environmental sustainability (see table 6).è

Virtually all countries have adopted sectoral and regional policies and programmes to support MSMEs, particularly through DPFs, including interventions focusing on R&D and new technologies. Support services include counselling, various types of general training such as financial management and accounting, technical advisory services specific to the business, and general support services to navigate administrative procedures or apply for loans (see columns New Technologies and R&D and Training and Business Support Services in table 6).

Often, the focus of the strategies is on creating an "ecosystem" of public and private providers that can deliver cost-effective, quality support services to MSMEs. **Bangladesh**, for instance, is creating a database of all SME-related training institutes and assessing their performance to enhance the quality of services. **Kenya** has established integrated "Biashara" centres to offer MSEs support services across the country and is mainstreaming business development services (BDS) and technical assistance (TA) to support MSMEs. **Kosovo** now delivers support services to MSMEs through a voucher scheme that is expected to provide incentives to improve quality and control costs. In Finland, the Talent Boost action plan aims to develop cooperation between international experts, universities, innovation actors, and companies by developing so-called Talent Hub functions in the largest cities, and by making support networks more open to foreign entrepreneurs. In **Türkiye**, the strategy has been to develop a pool of qualified accredited consultants to provide "one-to-one" services to MSMEs through consultancy centres and platforms. The **Philippines** is integrating all government programmes for the promotion and development of SMEs under a unified framework. In **Ukraine**, the focus is on developing a network of SME support centres through the State Employment Service.

All countries in the sample but two also have programmes to support entrepreneurs, including start-ups. The services provided are similar to those offered to MSMEs – counselling, mentoring, training, technical assistance, networking – but the focus is on the process of creation of a given enterprise and the early stages of its development. Most countries target the "average" entrepreneur, but there are cases, such as **Kenya**, where the strategy also seeks to develop start-ups or businesses with high-growth potential. **Côte d'Ivoire** focuses on youth operating in the informal sector and farmers, aiming to transform them into modern entrepreneurs. In **Ukraine**, the MSME strategy also promotes social entrepreneurship aimed at solving social problems by creating new types of services, goods, processes, or even markets.

Somewhat less frequent, but arguably more important for generating structural changes, are policies to develop strategic sectors and value chains and to provide access to markets; 17 out of 20 countries have adopted these "industrial" policies. For instance, **Bangladesh**, **Colombia**, **Costa Rica**, **Côte d'Ivoire**, **Georgia**, **Mexico**, **Türkiye**, and **Zambia** have programmes to develop backward and forward linkages between large, medium, small, and micro enterprises within national or global value chains. Some of the strategic sectors include agro-industry, textiles, construction materials, the digital economy, eco-tourism, education, and health. There are also several initiatives to develop business clusters, industrial parks, and special economic zones. **Kenya**, for example, is developing five SME industrial parks and two special economic zones, with local authorities playing the leading role. In **Pakistan**, the Trade Development Authority has the mandate to promote SME clusters in targeted regions, while SMEDA coordinates with the national and provincial bodies responsible for developing SEZs to ensure that adequate space is allocated to SMEs. **Indonesia** also develops SME business clusters and industrial parks for small, medium, and large enterprises, giving priority to less-developed areas. In **Nepal**, business clusters are being developed around the "one village, one product" initiative.

Finally, 15 countries have initiatives to support MSMEs by ensuring access to basic infrastructure and logistics. In countries such as **Bangladesh**, **Indonesia**, **Kenya**, and **Rwanda**, policy frameworks refer to general basic infrastructure and public services. Other policy frameworks are more specific about the types of quasi-public goods they target, such as broadband in **Georgia**; facilities for storage, including cold storage, in the **Philippines**; road and rail networks, electricity, and internet in **Côte d'Ivoire**; and farm-to-market roads and off-grid electricity in **Pakistan**. **Nepal** refers to the creation of "common services facilities" for MSMEs.

The main weakness of sectoral and regional policies, from the perspective of the employment agenda, is that they are designed without clear objectives for reducing employment deficits among different population groups. As discussed in section 3.5, most policy frameworks include general provisions to target specific groups, such as youth and women, types of enterprises by size, and priority economic sectors or regions. In practice, however, these provisions are not accompanied by specific targets regarding employment outcomes, which would help define eligibility conditions and guide the allocation of limited public resources among competing programmes, and within each programme, among sectors, regions, and groups of beneficiaries. In the absence of explicit provisions regarding job creation, job access, and job quality, the allocation of the public budget is unlikely to minimize employment deficits.

As suggested by the conceptual framework, regional targets are particularly important to guide the design of "place-based" policies and address regional disparities in employment deficits. The interventions outlined above can become the main mechanisms to promote local economic development through MSMEs and improve employment outcomes. As discussed in section 2, the empirical literature suggests that providing public services to MSMEs, including basic infrastructure, and ensuring access to finance and support services can be a cost-effective way to create decent work locally and reduce employment deficits (Bartik 2020).

Related to this, another important issue is the lack of coordination or integration between sectoral policies and labour and employment policies. Indeed, the impact of any of the interventions discussed above depends, in part, on the ability of entrepreneurs and MSMEs to hire workers with the right skills and under contracts and working conditions consistent with basic labour standards. Ideally, support programmes for MSMEs should have parallel employment and labour policies targeting the individuals expected to be employed in these enterprises, either as wage employees or own-account workers. Yet few policy frameworks outline explicit linkages between sectoral/regional policies and labour/employment policies (see below). This may be a missed opportunity, given that empirical evidence suggests one way to improve the cost-effectiveness of sectoral/regional interventions is by having employment targets that focus on the most vulnerable population groups—those who are unemployed, inactive, or in low-quality informal jobs (Bartik 2020).

Employment and labour policies

In most MSME policy frameworks, these policies play little or no role despite their contribution to improving labour productivity and the quality of jobs, as well as increasing the cost-effectiveness of sectoral and regional policies (see previous section and section 2). They are grouped into six categories: 1) labour regulations; 2) social protection; 3) active labour market programmes (ALMPs); 4) training (separated into ALMPs and technical and vocational education and training (TVET)[27]; and 5) social dialogue. The first category includes regulations regarding wages, severance pay, dismissal procedures, contracts and work arrangements, leave policies, health and safety, and inspection and enforcement. Under social protection, this review includes policies to manage the risks of unemployment, non-contributory schemes to provide access to health insurance and pensions, and/or contribution subsidies to expand the coverage of mandatory contributory social insurance programmes. Active labour market programmes, usually associated with public employment services, include counselling, intermediation and job search assistance, various forms of wage subsidies, public works and services, and different types of training. In the analysis, short-term training through ALMPs is differentiated from TVET. Finally, regarding social dialogue, the focus is on regulations that facilitate the emergence of structures, within or across MSMEs, to promote negotiations and consultations on economic and social policies between governments, employers, and workers at all levels (national, local, sectoral, and enterprise) (Serrano and Xhafa 2024).

Most MSME policy frameworks include interventions that can be classified as employment programmes, but these refer mainly to skills development initiatives. About 38 per cent of the policy frameworks in 15 countries have adopted TVET schemes, while 12 per cent of the frameworks in 4 countries have introduced short-term training through ALMPs. In **Bangladesh**, for instance, the DPF focuses on developing standardized curricula in TVET to respond to the needs of MSMEs. The NDP in **Egypt** aims to provide professional training for workers in SMEs, including those in the informal sector, to enhance their productivity and improve their working conditions. In **Finland**, the entrepreneurship strategy also emphasizes skills for entrepreneurs and, in addition, recognizes the problem of skills mismatches for MSMEs. Finland is the only country that explicitly addresses apprenticeships, setting a goal for at least 15 per cent of vocational and specialized vocational qualifications to be completed through entrepreneurial apprenticeships. The DPF in **Georgia** focuses on developing skills to promote entrepreneurship. The DPF in **Indonesia** also focuses on entrepreneurship but additionally targets general skills for the labour force to respond to the needs of MSMEs, similar to the policy frameworks in **Kenya**, **Nepal**, the **Philippines**, **Rwanda**, **Türkiye**, **Ukraine**, and **Zambia**. The NDP in **Côte d'Ivoire** aims to develop skills to respond to the needs of different occupations within specific value chains. The NDP and the OPF in **Morocco** also focus on realigning the supply of skills with the demands of MSMEs; in addition, the NDP targets training for informal auto-entrepreneurs to increase their productivity.

The four countries focusing more on short-term training through active labour market programmes, including on-the-job training, are **Colombia**, **Morocco**, **Pakistan**, and the **Philippines**. The DPF in Colombia is an interesting case, as workers and their employers are encouraged to mobilize savings in individual accounts in sector-specific funds ("cajas de compensación") to finance short-term training and re-skilling. **Morocco**'s NDP also proposes to open individual savings accounts for training and retraining for formal wage employees.

The four countries where the use of ALMPs goes beyond training to include interventions that facilitate labour market transitions – from unemployment/inactivity into a job or between jobs – which help both worker and MSMEs are **Finland**, **Georgia**, **Pakistan**, and the **Republic of Korea.** The MSME policy framework in **Finland** incorporates initiatives to improve labour market matching, ensure the availability of skilled labour for companies, and facilitate hiring people in a "weak labour market position" (including through wage subsidies). In **Georgia** the policy framework also aims to develop labour market information systems, intermediation platforms, and counselling and career services targeting SMEs. In **Pakistan**, the DPF aims to expand the coverage of ALMPs targeted to women to help connect to a job while the NDP develops community centred

[27] Training programmes here focus on individuals, with the aim of improving their employability either in wage employment or own-account work. In most cases, participants are unemployed or inactive, although they may also be part of a given firm (as in the case of on-the-job training programmes). These programmes differ from those under general regional policies to support MSMEs and entrepreneurs, where the focus is on managers of existing firms or entrepreneurs setting up a new business.

ALMPs that target the rural non-farm sector. The DPF in the **Republic** of **Korea** has provisions for offering tailored support packages to unemployed youth to connected both to wage employment or own-account work.

In general, employment programmes such as wage subsidies, training grants, and public works that could be used to help MSMEs create jobs—particularly for vulnerable workers—and investments in on-the-job training (OJT), apprenticeships, and lifelong learning that increase labour productivity are not addressed in the policies reviewed. For instance, temporary and targeted wage subsidies can help reduce problems of asymmetric information by providing incentives for MSMEs to hire and train or retrain workers who are, from an employer's perspective, "far from the labour market", such as first-time job seekers, unskilled youth, people with disabilities, or the long-term unemployed (Finland is the exception). Promoting training within firms through wage subsidies can be an important mechanism to improve the employability of workers, in contrast to the programmes discussed above that focus on classroom-based training or training with practice placements in enterprises, where there is less accountability for results.[28] Supporting SMEs in offering apprenticeships or on-the-job training can also benefit both enterprises and workers: enterprises, because such training can reduce turnover and recruitment costs while aligning workers' skills with business needs; and workers, because they learn by doing, accumulate human capital, and improve their employability. Finally, public works and services can also play a key role in the creation of formal jobs by opening commercial opportunities for MSMEs. Governments, for instance, can outsource to MSMEs the production or provision of different public and quasi-public goods in specific regions.

Although improvements in labour regulations are key to sustaining the quality of new jobs, boosting productivity, and facilitating the formalization of MSMEs, they are not a central part of existing policy frameworks. The countries that incorporate labour regulations into MSME development strategies include **Ukraine**, which is updating the provisions of its Labour Code by introducing new forms of labour relations and bringing regulations closer to the needs of SMEs—such as greater flexibility on issues like leave and dismissal procedures, although details are not provided; **Egypt**, the **Republic of Korea**, and the **Philippines**, where the focus is on occupational safety and health and improvements in working conditions; **Finland**, which includes provisions on improving occupational health-care coverage and aims to adapt labour regulations to the specific characteristics of SMEs, including through the development of a "fair working life agenda" that balances the needs of employees and employers, makes dismissal procedures more flexible, and allows local (firm-level) agreements to deviate from the provisions of collective agreements; and **Costa Rica** and **Pakistan**, where the aim is to adapt and improve inspection and enforcement mechanisms. **Georgia** offers a more comprehensive approach to labour regulations in its MSME policy framework, focusing on occupational safety, inspections and enforcement, and specific regulations for self-employed workers, including auto-entrepreneurs. Interestingly, no policy framework has introduced measures to ensure the enforcement of labour standards in MSEs that take into account their particular characteristics, especially in terms of productivity and profitability. Some of these interventions could be built around the need to overcome the low levels of literacy among both workers and employers in small economic units and could include information campaigns, targeted inspections, and the substitution of training or support measures for fines in cases of non-compliance.[29]

Thus, in policy frameworks that include changes in labour regulations, these are often implemented as "zero-sum" interventions—either to improve working conditions for workers or, conversely, to give more flexibility to MSMEs—without focusing on the potential benefits for both workers and employers. This creates a trade-off between the objectives of promoting the creation and growth of MSMEs (and therefore job creation) and improving the quality of jobs. One potential risk is that countries may end up with a two-tier system for protecting workers, with MSMEs bound by lower standards. An alternative would be to recognize that well-designed labour regulations can contribute to both job creation and job quality. This can be achieved by ensuring that regulations are affordable for MSMEs and flexible for those below a certain level of productivity

[28] See Almeida et al., (2015). A caveat is that this applies to firms that provide the necessary skills and have the capacity and knowledge to operate at industry standard, not any type of firm.

[29] See Melisa R. Serrano and Edlira Xhafa, "Industrial Relations in Micro and Small Enterprises: Patterns, Trends and Prospects," ILO Working Paper No. 129, 2024. https://www.ilo.org/sites/default/files/2024-11/wp129.pdf

during a transition period[30]; by contributing to increased labour productivity and profitability, which can raise labour earnings and profits; and by providing adequate protection for workers and enforcing core labour standards. Effectively, there is potential to create a virtuous circle that helps MSMEs grow faster, generate more and better jobs, and increase value added while abiding by the same regulations as larger firms.

Social protection policies are also rare within MSME policy frameworks, with only five countries in the sample including them, despite their importance in improving job quality and promoting the formalization of MSMEs. **Finland**'s framework aims to facilitate transitions between wage employment and entrepreneurship through regulatory neutrality (treating both types of workers equally under the law), simplifying and making regulations more predictable, and providing better social protection for entrepreneurs. Provisions include more flexible parental leave for the self-employed/entrepreneurs, improvements to the design of the social insurance system for entrepreneurs (YEL), which covers pensions, and extended unemployment insurance through an "incentive-based model," where part of the benefits are paid upon exiting unemployment. The **Republic of Korea** also focuses on improving social protection for entrepreneurs and facilitating the participation of SMEs in mandatory contributory social insurance programmes. Outside the reference countries, **Colombia**, **Georgia**, and **Morocco** are the only countries in the sample where the MSME policy framework (the NDP in Colombia and Morocco) includes specific provisions to expand coverage of social insurance programmes to entrepreneurs and self-employed workers.

Finally, in terms of social dialogue and workplace cooperation to better align the interests of MSMEs and workers, only five policy frameworks include relevant provisions, and these are quite general. In **Colombia**, the NDP has a pillar on public policy for decent employment with a focus on micro and small enterprises that, among other objectives, aims to promote social dialogue to inform public policies. **Finland** is an interesting case where, as discussed above, employers and employees in small companies are encouraged to negotiate and are allowed to reach local (firm-level) agreements that can deviate from the provisions in collective agreements. In **Indonesia**, the policy framework refers to improving cooperation and the bargaining position of MSMEs, but there is no reference to the interests of workers. In **Kenya**, the focus is on encouraging MSMEs to join or form associations to benefit from economies of scale and achieve better bargaining power. Only the NDP in **Morocco** presents a more inclusive view on social dialogue, aiming to address the disruptions induced by the diffusion of new information and communication technologies, which can change industrial relations and forms of work.

Despite the importance of industrial relations institutions in improving productivity and achieving decent work in MSMEs, they remain largely unaddressed in policy frameworks. Micro and small enterprises are generally marked by weak unionization, limited worker representation, and lower membership of employer organizations compared to larger enterprises, yet little attention is given to overcoming key barriers, including those related to the types of services offered, membership fees, market conditions, or national frameworks on industrial relations. Similarly, measures such as removing thresholds on unionization in MSMEs, establishing sectoral bargaining with extension mechanisms[31], ensuring labour-management committees in enterprises, or including representatives of MSME employers and trade unions in national and sectoral tripartite structures—which are more likely to encourage higher union density, higher EBMO density, and collective bargaining in MSMEs—are largely absent from MSME policies.

In summary, labour and employment policies are weakly integrated into MSME policy frameworks, without a comprehensive view of their potential impact on job creation, job quality, and job access, as well as on firms' productivity and competitiveness. The review shows that the few policies introduced tend to be idiosyncratic and focus mainly on skills development for MSMEs. Even when skills are addressed, the interventions are limited. The few policy frameworks that include labour regulations assume an implicit trade-off between flexibility for

[30] Specific provisions that could be targeted include regulations on types of contracts, leave, dismissal procedures, severance pay, and, in some cases, minimum wages, with the government guaranteeing a minimum income to certain categories of workers in specific economic activities, such as the "Work Pay" scheme in Chile (Kuddo et al. 2015). Profit-sharing schemes, as in the Republic of Korea, can also contribute to a more equitable distribution of value added and increase labour income (ILO 2025b).

[31] See Melisa R. Serrano and Edlira Xhafa, "Industrial Relations in Micro and Small Enterprises: Patterns, Trends and Prospects," ILO Working Paper No. 129, 2024. https://www.ilo.org/sites/default/files/2024-11/wp129.pdf

MSMEs and better working conditions for workers, the latter mainly related to health and safety and/or access to social insurance coverage. They mostly fail to consider the benefits that can stem from complying with labour regulations, including the development of a more productive workforce. Hence, even when labour and employment policies are included in MSME policy frameworks, they focus on only a few intermediate outcomes. Yet, most of them, if well designed, can serve multiple purposes and contribute simultaneously to creating more quality jobs, reducing employment deficits for different population groups, and increasing labour productivity and competitiveness within the firm (see table 7).

▶ Box 1. MSME policy frameworks and employment policies

In the Republic of Korea's **Comprehensive Plan for Fostering Small and Medium Enterprises 2023–2025**, the government provides incentives for SMEs to share profits with workers through initiatives such as the **Profit-Sharing Scheme**. In response to industrial structural changes, the government aims to restructure educational and vocational training programmes to develop key talent in new technologies and emerging industries. These include the **SME contract-based degree programme**, the **technical apprenticeship programme** (a four-year integrated education programme comprising two years in vocational high school and two years in technical college), and **specialized high schools** that provide customized vocational training aligned with industry needs.

According to the **Magna Carta for MSMEs**, the Philippines offers labour-management advice and support to enhance working conditions for workers in SMEs, aiming to improve productivity and the viability of SMEs. The government also intends to enhance and expand programmes focused on entrepreneurship training and workforce skills development to stimulate SME growth and development.

In Pakistan's **SME Policy 2021**, the government introduces provisions for streamlining labour inspections and abolishing discretionary powers of inspectors to close businesses or impose immediate fines. Payments of all fees will be managed through e-challans, simplifying business operations. To build human resource capacity, skills, and technology, Pakistan offers a range of workforce training programmes, including strengthened women-centred initiatives. Programmes to help women find and apply for jobs will also be scaled up.

Georgia's **SME Development Strategy** aims to raise SME awareness of occupational safety requirements. Training on the mandate of the **Labour Inspection Service** and relevant legislation will be provided to entrepreneurs. The government will also focus on promoting swift and effective business dispute resolution and expanding the role of the **Business Ombudsman** in resolving disputes between the state and the private sector. To develop entrepreneurial skills and culture, Georgia offers a variety of trainings for entrepreneurs and promotes the development of an entrepreneurship-oriented vocational education system.

In the **2024–2028 National Strategy of Labour and Employment Policy**, the Georgian government prioritizes developing legislation for self-employed and non-standard workers. Promotion of self-employment is linked to reviewing the legal framework for self-employed and non-standard workers, defining self-employment and worker categories, and applying tools to address informal work and bogus self-employment.

The **SME Development Strategy** also identifies objectives to strengthen SME competitiveness through the development of the **Labour Market Information System (LMIS)**, the **Labour Market Management Information System (Worknet)**, and relevant services for professional guidance, career planning, and other forms of support.

▶ Box 2. MSME policy frameworks and social insurance policies

In the Republic of Korea, the **Youth Employment Mutual Fund** provides financial incentives to encourage long-term employment in SMEs. Employees, employers, and the government contribute to a savings plan that creates a financial benefit for workers who remain employed for an extended period.

Georgia's **2024–2028 National Strategy of Labour and Employment Policy** aims to expand the coverage of social protection for MSMEs and the self-employed. Georgia's social protection system features both targeted programmes, such as the subsistence allowance, and universal elements, including universal health care and the old-age pension. Approximately 40 per cent of Georgia's population benefits from some form of social security assistance. The formalization of the economy and the expansion of social security coverage are closely linked. The COVID-19 pandemic has underscored the need for proactive investments to develop a comprehensive and resilient social protection system in Georgia.

In Finland, policy provisions aim to improve equity in the social benefit system by combining the terms and conditions applicable to entrepreneurs and employees. The policy also proposes extending unemployment insurance coverage to family members working in family businesses and making parental allowance more flexible for entrepreneurs. Additional measures include improving the design of the social insurance system for entrepreneurs and extending unemployment insurance coverage through an **incentive-based model**, in which part of the compensation is reserved in a personal account and paid upon re-employment. This encourages active job seeking without permanently reducing entitlements.

The review suggests that there is considerable scope to integrate employment and labour policies into government strategies to promote MSME development and maximize their impact on employment outcomes. As discussed in the conceptual framework, this requires attention not only to the performance of MSMEs but also to the social value of jobs and the well-being of workers. Well-designed employment policies can contribute to increased productivity, value added, and competitiveness, while also creating jobs, improving their quality, and connecting workers—including the most vulnerable—to employment opportunities (see table 7):

- **Job creation**, by promoting the creation and growth of MSMEs, reducing turnover, and protecting jobs during economic downturns. This can be achieved, for example, through policies on minimum wages, severance pay, contracts, and dismissal procedures that protect workers without discouraging investment in new business ventures or the creation of formal jobs; employment protection that increases worker satisfaction and reduces turnover; training programmes that respond to MSME demands for technical, cognitive, and non-cognitive skills and foster worker attachment; public works that generate demand for goods and services provided by MSMEs; and temporary wage subsidies to sustain employment in the face of economic shocks, whether man-made or natural.
- **Jobs quality**, by contributing to increased labour productivity and earnings, facilitating the formalization of MSMEs, ensuring adequate working conditions, and helping manage risks such as health, accidents, and unemployment. Relevant policies include labour regulations that ensure safe and equitable working conditions (e.g., health and safety, gender equality, anti-discrimination, working hours, and leave policies) while improving worker performance, innovation, and risk-taking; safety standards that reduce costly accidents and healthcare expenditure; training, job search assistance, and unemployment insurance to improve job matching and align the needs of firms and workers; solvent pensions and health insurance programmes for both wage employees and own-account workers; and strong, inclusive industrial relations that provide workers with adequate wages, better working conditions, and decent employment. Extension of inspection mechanisms and support for MSMEs to comply with labour law can further reinforce these outcomes. The formalization of micro and small enterprises—a key precondition for

decent employment—can be achieved through integrated strategies combining labour, employment, and enterprise policies with broader productive development and industrial policies.[32]

- **Jobs access**, by helping workers connect to new employment opportunities as wage employees or as own-account workers/entrepreneurs producing goods and services for MSMEs within specific value chains. ALMPs and, to some extent, social protection programmes facilitate labour market flexibility and transitions. ALMPs can address constraints such as limited information on job opportunities, high opportunity costs of labour (particularly for women), inadequate technical or non-cognitive skills needed by workers and prospective entrepreneurs,[33] and limited labour mobility. Social protection programmes can improve incentives to work (for example, through minimum income guarantees) and provide a safety net while transitioning from inactivity or unemployment into a job, or from low- to high-quality employment.

▶ Table 7. Labour and employment policies and jobs outcomes across countries and policy frameworks

	Creation of jobs				Quality of jobs					Access to jobs			
	Entrepreneurial activity	Creation of MSMEs	MSMEs growth	Turnover	Formalization of MSMEs	Productivity growth	Earnings	Working conditions	Risk mitigation	Incentives to work	Skills	Information	Labour mobility
Labour regulations													
Contracts and work arrangements		UKR	UKR										
Minimum wages		UKR	UKR										
Severance pay		UKR	UKR										
Leave policies		UKR	UKR										
Dismissal procedures		UKR	UKR										
Health and safety		UKR	UKR					GRG/KOR/PHI					
Non-discriminatory workplace													
Inspection and enforcement								GRG/PAK	GRG/PAK				
Social dialogue			IND/KEN	IND/KEN	MOR			MOR	MOR	MOR			
Mediation and conflict resolution			GRG	GRG									
Active labour market programmes													
Counselling													
Training/ALMPs	RWD/PHL/IDS/TUR/ZAM		COL/CSR/KEN/KOR										
Education/Vocational Training	COL/GRG/EGY/CIV/KEN/KOR/MEX/MOR/NPL/PAK/PHL/RWD/TUR		BGL			MEX							
Intermediation			FIN/GRG	FIN/GRG		FIN/GRG						FIN/GRG	FIN/GRG
Job search assistance			FIN	FIN		FIN				FIN	FIN	FIN	FIN
Wage subsidies													
Public works													
Transport and child grants													
Social protection policies													
Unemployment insurance									FIN				FIN
Non-contributory social insurance													
Contributory social insurance								FIN/KOR/GRG	FIN/KOR/GRG				
Minimum income guarantees													
Early retirement programmes													

Source: Authors, based on MSME Policy Frameworks Database

Note: The three-letter code identifies the countries that include in their policy frameworks the intervention for a particular objective. The shades in the coloured cells capture the relative importance of the policy/programme for a given policy objective. The shading is necessarily subjective, weakly informed by the results of the empirical literature on the impacts of the three types of programmes: (1) core labour regulations, which are not generally a major constraint to employment creation but are critical to improving the quality of jobs and can affect incentives to work; (2) active labour market programmes, which, if well designed, can facilitate access to jobs, the creation of jobs, reduce turnover during economic shocks, and to some extent increase labour productivity and earnings; and (3) social protection programmes, which are important for risk mitigation, facilitating transitions between unemployment and employment, and providing incentives to work through minimum income guarantees.

[32] See ILO, Recommendation No. 204 concerning the promotion of employment and decent work in micro and small enterprises, ILC. 104, 2015.

[33] Some of these skills include problem-solving, resilience, initiative, self-control, and emotional intelligence — collectively referred to by the acronym PRICE.

Because MSME policy frameworks need to balance and complement interventions that address constraints and market failures affecting both firms and workers, it is critical to promote social dialogue structures and processes that provide repeated opportunities for consultation. Freedom of association and social dialogue can also foster better labour–management cooperation, thereby improving working conditions, reducing costly labour conflicts, and enhancing social stability. Unfortunately, recent reviews of industrial relations within micro and small enterprises (MSEs) reveal significant gaps in terms of collective representation of workers and employers, collective bargaining, and supporting legal frameworks. The quality of industrial relations in MSEs is closely linked to the degree of informality, the broader industrial relations system in a country, and the strength of representation structures for workers and employers. Therefore, policy and regulatory measures play a key role in making collective bargaining systems more inclusive and in strengthening the representation of social partners. This includes measures that remove vulnerabilities discouraging MSEs and their workers from organizing, as well as measures that improve the broader business environment for MSEs.

3.4 Governance

In general, MSME policy frameworks provide limited information about governance arrangements. This review focuses on DPFs and considers mainly institutional control, horizontal and vertical coordination mechanisms, consultations, and regulatory impact assessments.

Regarding institutional control, in most countries there is either a dedicated ministry for MSMEs or the ministry of industry (or its equivalent) takes the lead, sometimes with the support of dedicated agencies. Countries with dedicated ministries include **Côte d'Ivoire** (Ministry for the Promotion of SMEs, the Crafts Sector, and the Transformation of the Informal Sector), **Kenya** (Ministry of Cooperatives and MSMEs Development), **Mexico** (Ministry of Small and Medium Enterprises), **Nepal** (National Micro, Entrepreneurship, Cottage, and Small Industries Promotion Board), the **Republic of Korea** (Small and Medium Business Administration), and **Zambia** (Ministry responsible for Micro, Small, and Medium Enterprises). Among these, **Kenya** also has a specialized agency for MSME policies, the Micro and Small Enterprise Authority (MSEA) (see table 8 and table 9).

In countries where the ministry of industry or an equivalent body takes the lead, examples include **Bangladesh**, **Colombia**, **Costa Rica**, **Egypt**, **Indonesia**, **Pakistan**, the **Philippines**, **Rwanda**, and **Türkiye**. Several of these countries also have dedicated agencies for MSMEs linked to the ministry of industry: **Bangladesh** (Bangladesh Small and Cottage Industries Corporation, BSCIC), **Egypt** (Small & Micro Enterprise Development Agency, MSMEDA), **Pakistan** (SMEDA), and **Türkiye** (Small and Medium Enterprises Development Organization, KOSGEB). A few countries have other ministries leading the design and implementation of MSME policies: Finland (Ministry of Employment and Economy), **Georgia** (Economic Policy Department of the Ministry of Economy and Sustainable Development), and **Ukraine** (Ministry of Economy).

▶ Table 8. Governance arrangements in dedicated MSME policy frameworks (part 1)

	Country	Institutional control	Horizontal	Vertical	Consultations	Regulatory impact assessment	Dedicated budget	Consultations with MoL/MSMEs
1	**Bangladesh**	Ministry of Industry	Two policy-coordination committees: (1) National SME Development Council; (2) National SME Task Force.	No specific arrangements	BSCIC (Bangladesh Small and Cottage Industries Corporation) and SME Foundation coordinate with other relevant government organizations and NGO, SME associations and chambers related to SME	No	No	SMEs
2	**Colombia**	Ministry of Commerce Industry and Tourism	New, integrated, Council that brings together the Council of the Micro Enterprise and the Council of the Small and Medium Enterprise	MSMEs Council	Central and local governments, municipalities, and the private sector	Harmonization of a policy on regulatory impact assessments by Technical Regulations Unit	No	MoL/Unions/MSMEs
3	**Costa Rica**	Ministry of Economy, Industry, and Commerce, with the support from the Advisory Mixed Council for MSME (Consejo Asesor Mixto, CAM)	Different ministries and implementation agencies take the lead in the operationalization of various aspects of the strategy: 1) entrepreneurship culture (MEP, MEIC, INA); 2) support services (INA); 3) financing (banking system and FODEMIPYME); 4) innovation (MICITT); and 5) markets (MEIC, PROCOMER).	No specific elements, but regional MSME strategies are expected	There are no specific arrangements, but the MEIC needs to consult with the private sector. In addition, the MSME strategy is to be aligned with National Development and Public Investment Plan (PNDEIP).	The CAM is expected to evaluate programs.	Yes	n/a
4	**Côte d'Ivoire**	Ministry for the Promotion of SMEs, the Crafts Sector, and the Transformation of the Informal Sector	Ministry for the Promotion of SMEs	No specific elements	Expected to produce legal framework to promote social dialogue between the public and private sectors	No	No	n/a
5	**Egypt**	Ministry of Foreign Trade / Medium, Small, & Micro Enterprise Development Agency (MSMEDA)	MSMEDA	No specific arrangements	No specific arrangements	No	No	n/a
6	**Finland**	Ministry of Employment and Economy	Advisory Board for Entrepreneurship	Advisory Board for Entrepreneurship	Wide consultations with business and workers associations	Yes	Yes	MoL/Unions/MSMEs
7	**Georgia**	The Economic Policy Department of the Ministry of Economy and Sustainable Development	Steering Committee / Electronic system for policy planning and coordination	n/a	Extensive with private sector, business associations and civil society	Yes	Yes	n/a
8	**Indonesia**	Ministry of Industry	To be defined by regulations	n/a	Central and regional government with the private sector and civil society	No	No	n/a
9	**Kenya**	Ministry for MSEs Development and the Micro and Small Enterprise Authority (MSEA).	Technical Committee with representations from various Ministries, Departments and Agencies	n/a	Consultations with representatives from local government and associations of MSMEs	Impact evaluations every 5 years	No	MoL/MSMEs
10	**Kosovo**	n/a	n/a	n/a	n/a	n/a	No	n/a

Source: Authors, based on MSME Policy Frameworks Database.

▶ Table 9. Governance arrangements in dedicated MSME policy frameworks (part 2)

	Country	Institutional control	Horizontal coordination	Vertical coordination	Consultations	Regulatory impact assessment	Dedicated budget	Consultations with MoL/MSMEs
11	Mexico	Council for MSMEs and MSME System. The council has representative from most ministries including labour	The Secretariat of the Council coordinate activities with all the actors of the system	The strategy requires setting up mechanisms to improve the coordination states, municipalities, communities, and indigenous populations.	Secretariat has to facilitate the organization of MSMEs and consultations. There is also an information system.	No	No	MoL/ Associations
12	Morocco	National Agency for the Promotion of SMEs (Maroc PME). Office of the Prime Minister (CNEA).	Agency has a Council with representatives of Government, chambers of commerce, banks, and NGOs working with SME.	The agency is expected to work closely with local communities.	The agency is expected to consult and coordinate activities with local communities. It is also expected to facilitate the organisation of SMEs.	No	Yes	SMEs
13	Nepal	National Micro Entrepreneurship, Cottage and Small Industries Promotion Board	No specific arrangements	Local governments are empowered to perform functions related to the registration and regulations of MSMEs.	No specific arrangements but an emphasis on youth	No	No	n/a
14	Pakistan	Ministry of Industry and Production / SMEDA	National Coordination Committee on SMEs (NCC)	The NCC is supported by Provincial Working Groups set up under the Chief Secretary.	Field survey of over 200 SMEs across 11 cities, discussions with public sector stakeholders and other financial and non-financial institutions, academia and think tanks.	Yes	Yes	MSMEs
15	Philippines	Small and Medium Enterprise Development (SMED) Council attached to the Department of Trade and Industry / TP Council	Bureau of Small and Medium Business Development of the Department of Trade and Industry is designated to act as the Council Secretariat.	All relevant offices (Trade and Industry, Finance, Agriculture, Environment, Employment. Transportation, Public Works, Central Bank) coordinate their efforts with local government units.	The TP Council facilitates engagement with stakeholders, organizes consultations, and ensures that a diverse range of voices are heard in the policy-making process.	No	Yes	MoL/SMEs
16	Republic of Korea	Small and Medium Business Administration	Interagency communication mechanism: Information related to SME support policies shared through 13 regional directions of SME and Startup	Local governments reflect regional characteristics in establishing and implementing a policy for small and medium enterprises.	Consultations with MSMEs associations and cooperatives. Gov. encourages and facilitates the formation of these organizations.	Yes	No	Unions/MSMEs
17	Rwanda	Ministry of Trade and Industry (MINICOM)	MINICOM coordinates the activities of other line ministries and agencies involved in MSMEs policies	MINICOM	Intensive consultations, including focus groups, with private sector, NGOs, and youth and women councils.	No	No	MoL/Unions/MSMEs
18	Türkiye	Strategic Planning Steering Board, Strategic Planning Execution Committee	KOSGEB and Strategy Development Directorate (SDD) for consultations with line ministries	n/a	KOSGEB External Stakeholder Questionnaire was applied to SMEs, public institutions, NGOs, associations and unions in order to ensure participation of stakeholders in the plan preparation process.	No	Yes	SMEs/Unions
19	Zambia	Ministry responsible for Micro, Small and Medium Enterprises	Ministry coordinates activities of line ministries	Local governments are responsible for coordination and enforcement of MSME policies at local level	n/a	No	Yes	No
20	Ukraine	Ministry of Economy	Ministry of Economy coordinates with different line ministries	Regional Development Agencies	n/a	No	Yes	No
	Total							

Source: Authors, based on MSME Policy Frameworks Database.

Regarding horizontal and vertical coordination arrangements, there are two main cases: countries where the institution that controls the policy agenda also implements ad-hoc coordination mechanisms, and countries where formal steering committees or task forces have been established. Countries with ad-hoc arrangements include **Costa Rica**, **Côte d'Ivoire**, **Egypt**, **Indonesia**, **Mexico**, **Nepal**, **Rwanda**, **Ukraine,** and **Zambia**. In the other countries, there are formal coordination arrangements that have the potential to deliver better outcomes, at least at the central level, because the policy framework itself defines which institutions should be involved and how they should work together; there is less discretion on the part of the agency with institutional control. In **Bangladesh**, for instance, there are two policy coordination bodies: the National SME Development Council, responsible for political leadership and coordination, and the National SME Task Force, which handles implementation. In **Colombia**, the Council of Micro Enterprises and the Council of Small and Medium Enterprises were merged into a unified MSME Council.

Finland has the Advisory Board for Entrepreneurship, **Morocco** a National Commission for Investments, Pakistan a National Coordination Committee on SMEs (NCC), the **Philippines** the Small and Medium Enterprise Development Council (SMED), and **Türkiye** the Strategy Development Directorate (SDD). **Georgia** and **Kenya** have also set up a steering committee and a technical committee. All these bodies include representatives from various line ministries, departments, and agencies, as well as the private sector. By bringing together key stakeholders, these interministerial committees can strengthen policy coherence, reduce silos, and promote integrated solutions for MSMEs.

From the perspective of the jobs agenda, only **Colombia**, **Finland**, **Kenya**, **Mexico**, the **Philippines**, and **Rwanda** explicitly involve the Ministry of Labour in MSME policies. **Morocco** is a peculiar case: although the ministry of labour is supposed to conceive and implement policies for micro enterprises and entrepreneurs and develop a legal framework for MSEs, this has not been fully realized. The ministry has implemented a few small initiatives through its employment agency (ANAPEC), but these remain disconnected from other programmes and broader MSME policies. The new MSE regulations linked to the investment framework are under the Ministry of Investment and Economic Convergence and are also part of the Employment Road Map led by the Prime Minister's Office.

The main challenge for coordination appears to be between central and local governments, as few MSME policy frameworks provide specific guidelines. By default, the bodies responsible for horizontal coordination are also responsible for vertical coordination, but how this is implemented is often unclear. In some countries, local governments have a direct mandate to implement parts of the national framework. For example, in **Costa Rica**, local governments develop regional MSME strategies, while in **Nepal,** they handle registration and regulation of MSMEs. In the **Republic of Korea**, local governments adapt the national strategy to local conditions, and in **Zambia** they coordinate and enforce MSME policies.

Other countries rely on Provincial Working Groups, such as in **Pakistan**, or Regional Development Agencies, as in Ukraine, or mandate line ministries and implementation agencies to coordinate their activities with local government units, as in the **Philippines**. In **Mexico**, the DPF requires coordination with states, municipalities, communities, and indigenous populations, although details of how these mechanisms have been implemented are unclear.

There are different levels of consultation in the preparation of MSME policy frameworks, usually involving the private sector and civil society, and less frequently MSMEs and workers' associations. In no case is the informal sector explicitly mentioned. A few countries have well-established and extensive consultation processes. In **Bangladesh**, the BSCIC and the SME Foundation coordinate with other relevant government organizations, NGOs, SME associations, and chambers of commerce. **Rwanda** organized broad consultations, including focus groups, with the private sector, NGOs, and youth and women's councils. In **Türkiye**, KOSGEB applies an "External Stakeholder Questionnaire" to SMEs, public institutions, NGOs, associations, and unions to ensure participation of all stakeholders. In **Pakistan**, over 200 SMEs across 11 cities were surveyed, accompanied by extensive discussions with public sector stakeholders, other financial and non-financial institutions, academia, and think tanks.

In other countries, including **Colombia**, **Costa Rica**, **Finland**, **Georgia**, **Indonesia**, and the **Republic of Korea**, policy frameworks are less specific about consultations but refer to the importance of the process and the need to involve the private sector and civil society, though MSMEs and workers' associations are not always identified as relevant stakeholders. **Côte d'Ivoire** is the only country that is preparing a legal framework to promote social dialogue between the public and private sector. The countries in the sample with no references to the consultation process are **Kosovo**, **Ukraine and Zambia**.

In summary, almost all MSME policies call for consultations with the private sector and EBMOs, but only half of the policy frameworks mandate consultations with MSMEs as part of the preparation and/or implementation of MSME policies (**Bangladesh**, **Colombia**, **Finland**, **Kenya**, **Morocco**, **Pakistan**, the **Philippines**, the **Republic of Korea**, **Rwanda** and **Türkiye**). Consultations with workers' associations are even less frequent – five countries make explicit reference to workers' associations (**Colombia**, **Finland**, the **Republic of Korea**, **Rwanda**, and **Türkiye**), and **Mexico** refers to associations in general, which presumably include unions.

In terms of regulatory impact assessments (RIAs), a few countries seem to have systems in place or are trying to set them up, but in only one case is there a reference to the types of issues that should be considered, including impacts on working conditions, job destruction, or turnover. There are only four countries with systems in place: **Finland**, **Georgia**, the **Republic of Korea**, and **Pakistan**. Only in **Finland** and the **Republic of Korea** are policymakers mandated to reach out to trade unions or syndicates when proposed regulations can affect SMEs or employment conditions. In **Pakistan**, RIAs are part of the approval mechanism for any new rules and regulations, but there is no indication of what the assessments should cover. The aim instead is to ensure that all new regulations are approved conditional on the removal of pre-existing regulations of an equivalent reduction in the cost of doing business. In **Finland** and **Georgia**, the scope of RIAs is expanding towards the implementation of a fuller SME test in view of compliance with EU legislation.

In four other countries, systems are being set up. In **Colombia**, for instance, the DPF refers to the need to harmonize policies on regulatory impact assessments through a Technical Regulations Unit. In **Costa Rica**, the Consejo Asesor Mixto (CAM) is expected to evaluate the various policies and programmes, although there are no details about the processes. In **Kenya**, the DPF mandates impact evaluations of policies and programmes every five years, but also without providing guidelines. In **Mexico**, the DPF mandates the creation of private and social instances to evaluate regulatory policies, which in principle should involve workers' associations. In other countries, MSME policy frameworks make no references to regulatory impact assessments.

The last aspect of governance is the consistency of the public budget with the objectives of the MSME policy frameworks, where the sample of countries is divided in half. **Costa Rica**, **Finland**, **Georgia**, **Morocco**, **Pakistan**, the **Philippines**, **Türkiye**, **Ukraine** and **Zambia**, have dedicated budgets attached to the DPFs, although details regarding the costing of the strategies differ. In the other 11 countries, the policy frameworks do not seem to be costed, and there are no references to specific budget allocations.

Even when the policy frameworks refer to a budget or the need to ensure the funding of the strategy, there is no emphasis on results, either at the level of MSMEs or employment outcomes. Essentially, budgets are not assessed based on their performance in achieving key performance indicators related to outputs, such as the coverage and volume of different goods and services provided to MSMEs; outcomes, including the creation of new or expansion of existing enterprises; and, even less, outcomes regarding new jobs created, labour productivity, or employment deficits. This represents an important limitation in terms of governance and accountability.

In summary, from the perspective of the job agenda, the main challenges with governance arrangements can be summarized as follows:

- Institutionally, the focus is primarily on the "demand" side of MSME policies, with few explicit mechanisms for consultations with MSMEs and workers' associations, and only marginal involvement of the ministry of labour or equivalent.
- Regulatory impact assessments are underdeveloped and, for the most part, do not consider potential impacts on working conditions, job creation or destruction, and turnover.
- Most countries consult the private sector and civil society in the preparation of MSME policies, but not necessarily MSME associations, rarely workers' associations, and in no case the informal sector, at least formally.

- Half of the countries define budgets to fund the implementation of MSME policies or mandate the allocation of budgets to fund the strategy, but in no case is the budget process based on results. This implies low accountability for achieving outcomes at the level of MSMEs and in addressing employment deficits for different population groups.

3.5 Targets

An important issue is that although most countries have broad policy objectives related to jobs—mainly employment creation—only 13 define appropriate KPIs across policy frameworks.[34] The lack of KPIs and explicit quantitative objectives is a problem for any policy framework, regardless of the set of policy objectives. Only eight countries incorporate KPIs in their dedicated MSME policy frameworks and, among them, only seven (**Costa Rica**, **Finland**, **Georgia**, **Pakistan**, **Rwanda**, **Türkiye**, and **Ukraine**) focus on labour market outcomes, primarily on quantity (job creation), while overlooking quality aspects (see table 10 and table 11). All but **Ukraine** track the share of employment created by MSMEs, and in **Rwanda** there are specific targets by firm size. **Ukraine** focuses on the unemployment rate and the share of SMEs facing constraints in acquiring the necessary skills. In other countries such as **Egypt, Kenya, Nepal, the Philippines**, and **Zambia**, broad policy objectives on job creation or job access are unlikely to materialize given the lack of explicit quantitative targets.

Most MSME policy frameworks, particularly DPFs, target subgroups of beneficiaries and set priorities—for instance, in terms of reaching women or youth. In 10 of the 20 countries, the dedicated policy frameworks target at least one subgroup of enterprises for which there are special provisions. Sixteen target start-ups, 16 microenterprises, 13 set priorities by sector, 10 define priorities by region, 14 target women, and 11 target youth. The definitions used to classify enterprises by size vary by country but are usually based on the number of employees and total sales (see table 12). In terms of economic sectors, priorities tend to vary with countries' income levels and productive structures. In **Côte d'Ivoire**, for instance, the strategic sectors are agriculture, agroindustry, textiles, construction, and social services. **Morocco**, on the other hand, refers to economic sectors with high value added and growth potential, highlighting among them industry, tourism, the orange economy, digital technologies, green energy, waste management, logistics, outsourcing, and aquaculture.

Nonetheless, there is not always consistency between the targets for beneficiaries and the definition of KPIs, particularly when it comes to labour market outcomes. Targets for women, youth, or entrepreneurs are usually justified in terms of access to employment, but there seems to be a disconnect between national objectives regarding reductions in employment deficits and the eligibility conditions for the beneficiaries of MSME policies. Among the countries that target women or youth in their dedicated policy frameworks—**Bangladesh**, **Costa Rica**, **Côte d'Ivoire**, **Egypt**, **Georgia**, **Kenya**, **Mexico**, **Pakistan**, the **Republic of Korea**, **Rwanda**, **Türkiye**, **Ukraine**, and **Zambia**—only **Costa Rica**, **Georgia**, **Pakistan**, **Rwanda**, **Türkiye**, and **Ukraine** track employment-related KPIs, and not necessarily those linked specifically to youth and women.

Across countries, including employment as an objective of MSME policies often lacks a theory of change linking reductions in employment deficits to outcomes in terms of job creation, access, and quality, and to outcomes at the level of MSMEs. As an illustration, national objectives regarding reductions in inactivity and unemployment rates for different population groups across regions imply targets for employment creation across economic sectors (including formal and informal margins) and geographic areas. These targets, in turn, ought to inform which types of enterprises the MSME policy framework should aim to reach, based on criteria such as region, economic sector, size, and/or ownership. The rationale is that certain types of firms are more likely to create jobs for target population groups either through wage employment or own-account work/entrepreneurship. A similar logic would apply if there were national objectives concerning reductions in the share of informal jobs for different population groups, or in the size of the informal sector (see the case study for **Morocco** in Annex 1).

[34] In NDPs and OPFs, the KPIs reported here are not necessarily specific to MSMEs.

Having the right ex ante eligibility criteria is only part of the problem; MSME policy frameworks also do not define what behavioural changes are expected ex post, or the mechanisms to enforce them. For instance, among a given group of entrepreneurs, expected changes could include increases in the probability of mobilizing funding and creating firms with a certain life expectancy. Among existing firms, expected changes could include increases in labour productivity and output growth, which determine the number of new jobs created. Similarly, there are factors related to the quality of jobs, including whether new jobs provide access to social protection and basic working conditions, or issues related to access—essentially, which population groups the new jobs should target (Juhász et al. 2023).

More broadly, a key problem in MSME policy formulation is the lack of a clearly defined and complete methodological approach for targeting. Targeting needs to be based on clear methodological grounds to define fundamental issues for policy decisions, such as the identification of MSME segments of interest, data requirements, eligibility criteria, selection methods, inclusion and exclusion criteria, scale and range, incidence analysis, testing, efficiency of reach, and verification.

▶ Table 10. Targets, KPIs, and M&E systems (part 1)

Country	Framework	KPIs with quantitative targets	KPIs are not only activities/outputs but also results/outcomes	KPIs that measure employment outcomes	Targets (policies/KPIs) for entrepreneurs/start-ups, micro, sector, region, women, youth	Targets for Entrepreneurs/start-ups	Targets for micro	Targets for sector	Targets for region	Targets for women	Targets for youth	M&E is referred or mandated	Name of institution(s) responsible for M&E	Systematic reporting from the evaluations to inform policy	Reports are public
Bangladesh	DPF				1	1				1		1	National SME Task Force and the Ministry of Industry		
	NDP				1		1								
Colombia	DPF														
	NDP	1	1	1	1	1	1	1	1	1	1	1	Various institutions	1	1
	OPF	1	1		1	1	1	1	1			1	Various institutions	1	1
Costa Rica	DPF	1	1	1	1	1	1	1	1	1	1	1	Ministry of Economy, Industry and Commerce	1	1
	NDP	1	1	1	1	1	1	1	1	1	1	1	Ministry of Planning	1	1
Côte d'Ivoire	DPF				1		1	1	1	1	1				
	DPF				1	1	1			1	1				
	NDP	1	1	1	1	1	1	1	1	1	1	1	Various institutions		
Egypt	DPF				1	1	1	1	1		1				
	NDP	1	1	1	1	1	1	1	1	1	1				
Finland	DPF	1	1	1	1	1	1	1	1			1	Ministry of Employment and Economy	1	1
Georgia	DPF	1	1	1	1	1				1		1	The Economic Policy Department of the Ministry of Economy and Sustainable Development of Georgia	1	1
	OPF				1	1	1			1					
Indonesia	DPF				1	1	1	1							
	NDP				1	1	1								
Kenya	DPF				1	1	1			1	1		The Micro and Small Enterprise Authority (MSEA)	1	
	NDP				1		1	1							
	OPF				1		1								
Kosovo	NDP														
	OPF				1		1								
	OPF														

Source: Authors, based on MSME Policy Frameworks Database.

▶ Table 11. Targets, KPIs, and M&E systems (part 2)

Country	Framework	KPIs with quantitative targets	KPIs are not only activities/outputs but also results/outcomes	KPIs that measure employment outcomes	Targets (policies/KPIs) for entrepreneurs/start-ups, micro, sector, region, women, youth	Targets for Entrepreneurs/start-ups	Targets for micro	Targets for sector	Targets for region	Targets for women	Targets for youth	M&E is referred or mandated	Name of institution(s) responsible for M&E	Systematic reporting from the evaluations to inform policy	Reports are public
Mexico	DPF				1		1	1	1	1		1			
	NDP														
	OPF	1	1	1	1		1	1	1	1	1				
Morocco	DPF														
	NDP	1	1	1	1	1	1	1	1	1	1				
	OPF				1	1	1		1	1					
Nepal	NDP				1	1	1			1	1				
	OPF				1	1	1			1	1		The Micro Enterprises, Cottage and Small Industries Board and office		
	OPF				1		1			1					
Pakistan	DPF	1	1	1	1	1		1	1	1	1	1	Small and Medium Enterprises Development Authority (SMEDA)	1	1
	NDP				1	1	1	1	1		1				
Philippines	DPF				1	1	1					1	The Small and Medium Enterprise Development (SMED) Council		
	DPF					1	1	1	1	1		1	MSME Development Council attached to the Department of Trade and Industry (DTI)	1	
	OPF				1		1	1	1	1		1	The Tatak Pinoy Council (TP Council)	1	
	NDP				1	1	1								
Republic of Korea	DPF				1	1	1	1			1	1			
	DPF				1	1	1		1	1			The Administrator of Small and Medium Business Administration	1	
Rwanda	DPF	1	1	1	1	1	1	1	1	1	1	1	Ministry of Trade and Industry		
	NDP	1	1	1	1			1	1			1			
Türkiye	DPF	1	1	1	1	1	1	1		1	1	1	SP (Strategic Planning) Steering Board	1	
	NDP	1	1		1	1		1	1	1	1	1			
	NDP				1	1				1					
Ukraine	DPF	1	1	1	1		1	1	1	1	1	1	Ministry of Economy	1	1
Zambia	DPF	1			1	1	1	1		1	1	1	The Ministry responsible for MSMEs		
	NDP				1	1	1			1	1				
	OPF				1		1	1							
	OPF														

Source: Authors, based on MSME Policy Frameworks Database.

▶ Table 12. Definitions of MSMEs

	Micro			Small			Medium		
	Workers	Sales	Other	Workers	Sales	Other	Workers	Sales	Other
Bangladesh	-	-	-	-	-	-	-	-	-
Colombia	<10	-	-	11-50	-	-	51-200	-	-
Costa Rica	<6	-	-	6-30	-	-	31-100	-	-
Côte d'Ivoire	1-10	≤50	-	<50	83-250	-	<200	250-1,668	-
Egypt	-	-	-	-	21-1,030	-		1,030-4,121	-
Finland	-	-	-	1-50	-	-	51-200	-	-
Georgia	-	-	-	≤50	≤4,372	-	50-250	4,372-21,858	-
Indonesia	-	≤2,521	≤420 (Assets)	-	2,521< x ≤ 21,008	420 < x ≤ 4,202 (Assets)	-	21,008 < x ≤ 420,168	4,202 < x ≤ 84,034 (Ass
Kenya	<10	<8	(a)	10-50	7-39	(a)	-	-	-
Kosovo	-	-	-	-	-	-	-	-	-
Mexico	<10	≤206	-	15-100	≤5,144	-	<250	≤12,860	-
Morocco	<10	<1,020	-	<200	<7,649	-	<200	<7,649	-
Nepal	≤9	<15	≤1,487 (Investment)&(b)	-	-	≤ 372 (Assets)	-	-	372 < x ≤ 1,115 (Asset
Pakistan	-	-	-	-	≤540	-	-	540 <x ≤2,879	-
Philippines	-	-	<0.87 (Assets)	-	-	9-87 (Assets)	-	-	87-350 (Assets)
Republic of Korea	-	-	-	-	-	-	-	-	-
Rwanda	1-2	<0.75	-	3-20	0.75-15	-	21-100	15-373	-
Türkiye	≤9	≤29	≤29 (Balance sheet value)	10-49	≤233	≤233 (Balance sheet value)	50-249	≤1,167	≤1,167 (Balance sheet v
Ukraine	-	-	-	-	-	-	-	-	-
Zambia	≤10	≤38	(c)	11-50	38-379	(c)	51-100	379-1,894	(c)

Source: Authors, based on MSME Policy Frameworks Database.

Note: Values in local currency are converted to US$ and expressed in thousands.

(a) Total assets are as determined from time to time by the Cabinet Secretary.

(b) The entrepreneur is engaged in management; the electric motor or other oil-engine capacity must be less than ten kilowatts.

(c) Investment is within the threshold set for each sector.

This lack of consistency between broad policy objectives, targets, and key performance indicators (KPIs) also raises questions about the alignment between MSME policy frameworks and national employment strategies (NEPs)—or equivalent strategic documents that set national employment objectives, such as national development plans (NDPs). The exception is **Georgia**, where MSME and employment policies are intertwined. In other countries, the fact that national objectives regarding reductions in employment deficits—the raison d'être of NEPs—are not well integrated into MSME frameworks suggests that these may lead to a different set of policies and programmes at the firm level. It is also possible that NEPs focus mainly on "supply-side" programmes—those usually managed by ministries of labour—and refer to the "demand side" only in general terms, deferring the relevant policies and programmes to MSME strategies. In both cases, as discussed next, the policy mix would be suboptimal.

In terms of monitoring and evaluation (M&E) systems, 14 countries mention M&E systems across policy frameworks, and 12 include them in dedicated MSME frameworks—even when the framework does not define KPIs. In this review, countries classified as "having a system in place" are those where: (1) the policy framework refers to the need to monitor and evaluate policies and programmes; (2) there is an institution responsible for evaluation (usually the institution responsible for MSME policies) in coordination with the line ministries and implementing agencies; and (3) there are at least generic guidelines about the types of evaluations to be conducted.

Among these countries, the types of evaluations considered vary. In **Bangladesh**, for instance, the evaluations are expected to focus on processes and outputs, the latter referring to goods and services delivered by a given programme. **Costa Rica**, **Finland**, **Georgia**, the **Republic of Korea**, the **Philippines**, **Türkiye**, **Ukraine** and **Zambia** also aim to evaluate outcomes, for instance, whether the goods and services delivered had an impact on the creation, growth, and/or survival of firms. **Georgia**, the **Republic of Korea**, the **Philippines**, **Türkiye**, and **Zambia** also aim to evaluate the effectiveness of the programmes, which implies comparing costs to observed changes in outcomes. Zambia is the only country where the development policy framework (DPF) also refers to assessing incidence, meaning the distribution of expenditures across different types of beneficiaries.

The weakness of several of the M&E systems seems to lie in reporting the results of the evaluations and ensuring that these findings influence policies and budget allocations. For instance, policy frameworks in **Bangladesh**, **Côte d'Ivoire**, **Mexico**, **Rwanda**, and **Zambia** do not refer to any specific type of reporting. The countries that do rely on different institutional arrangements. In **Costa Rica**, the Ministry of Economy, Industry and Commerce (MEIC) is expected to prepare public annual reports (in the first quarter of each year) based on inputs from the different actors and agencies. In **Georgia**, the Economic Policy Department requests semi-annual reports from the implementation agencies regarding progress in implementation and prepares an annual monitoring report. The evaluation report is published on the website of the Ministry of Economy and Sustainable Development.

In **Kenya**, the Micro and Small Enterprise Authority (MSEA) is expected to monitor and evaluate policies and programmes and advise the government on the implementation processes for MSME policy. Reports from these evaluations are to be disseminated to implementing agencies and other stakeholders. Annual evaluations must be presented to the Principal Secretary of the State Department for Planning to inform policy decisions. In the **Republic of Korea**, the Small and Medium Business Administration evaluates performance in terms of outcomes from the previous year's plans and submits an annual report to the National Assembly before its regular session. In the **Philippines**, the Council submits to the President and Congress a yearly report on the status of small and medium enterprises, including the progress and impact of all relevant government policies and programmes.

In **Türkiye**, the KOSGEB Strategy Development and Financial Services Department (SGMHDB) prepares six-month progress reports that are submitted to the Strategic Planning Steering Board. The progress reports assess implementation arrangements, results, and their sustainability. If there are differences between targets and achievements, the reports explain the reasons and provide recommendations for corrective measures—although it is unclear how binding these recommendations are. Finally, **Ukraine** promotes public–private dialogue for the monitoring and evaluation of the MSME policy framework. The Ministry of Economy has the mandate to monitor and evaluate the strategy and to take appropriate measures to ensure its effective implementation.

4. Limits of existing MSME policy frameworks and potential actions for improvement

The review of MSME policy frameworks unveils several limitations that need to be addressed to improve their effectiveness and impact, particularly if a critical policy objective is to contribute to reducing employment deficits. Some of the main areas that require attention include:

- **Fragmentation of MSME policies.** In most countries, policies and programmes are scattered across strategic documents, legal frameworks and institutions. This dilutes accountability, makes it difficult to manage and monitor implementation, and complicates the assessment of effectiveness. Having multiple policy documents—by sector, region or level of government—may be necessary, but it is not efficient if they do not emanate from an integrated policy framework.
- **A policy mix based on the assumption that jobs are a by-product of MSME development,** which is unlikely to be effective in reducing employment deficits in the presence of job-related externalities. Some common, interrelated problems include:
    - Although many MSME policies refer to jobs in their visions or objectives, subsequent policy recommendations tend to focus on SME development, assuming a "trickle-down" effect. The implicit premise is that boosting productivity and competitiveness through enabling conditions is sufficient to achieve decent work objectives. However, as affirmed in the ILO normative framework, these are necessary preconditions but not sufficient on their own.
    - Even when jobs are included among policy objectives, visions and KPIs, the focus is on employment creation. Improvements in job quality or access to employment are seldom considered. This is reflected in policy recommendations, which pay limited attention to working conditions, connecting workers to jobs and bridging the needs of SMEs and workers.
    - Although formalization of MSMEs is a precondition for creating quality jobs, few policy frameworks set objectives or design policies to facilitate the transition from the informal to the formal economy.
    - Often, MSME policy frameworks aim to increase productivity and promote competitiveness, which may involve trade-offs in terms of employment creation that are not considered. In addition, the focus tends to be on total factor productivity rather than labour productivity, which also requires employment-related interventions to support human capital accumulation and improve working conditions.
    - Regarding macroeconomic and regulatory policies, there is often an absence of mechanisms to link a portion of fiscal incentives or credit and capital subsidies to employment outcomes. Regulatory reforms are also rarely linked with labour standards, social protection and transition to formality.
    - In the case of sectoral and regional policies, there is frequently no theory of change linking national employment objectives to job outcomes, targets in terms of beneficiaries at the firm level, and specific policy interventions. Without well-defined KPIs for job creation, quality and access across population groups—and consistent targets for the types of firms included in the policy framework (by age, size, sector, region and ownership)—it is difficult for sectoral and regional policies to have meaningful impacts on employment outcomes.
- **Employment policies and labour institutions** are often focused exclusively on skills development programmes (TVET), to the detriment of other interventions—such as labour regulations, social protection, active labour market programmes and social dialogue—that, if well designed, can contribute to creating more and better (high-productivity) jobs and reducing employment deficits among different population groups, making sectoral and regional

policies more cost-effective. When labour regulations are mentioned, the focus is frequently on granting more flexibility to MSMEs rather than balancing the needs of both workers and employers.

- **Governance arrangements** may not give sufficient weight to social partners and, more broadly, to constituencies within the public and private sectors that are most likely to influence the jobs agenda. Institutional control of MSME policy frameworks lies almost exclusively with ministries of industry, commerce or equivalent, where the policy agenda is oriented towards investment promotion, competitiveness, economic diversification and growth. Although coordination bodies exist in which ministries of labour and other social ministries are sometimes represented, these tend to focus more on implementation arrangements than on the conceptualization of MSME policies. At the same time, there is scope to broaden consultations and social dialogue with social partners, particularly with MSMEs and their representative bodies, and with workers' associations, including in the informal economy.
- **Budget processes** are not designed to focus on results and employment outcomes. Half of the MSME DPFs reviewed did not have a dedicated budget. Even when a dedicated multi-year budget exists, there are no built-in mechanisms to ensure that allocations are reviewed based on an assessment of job impacts, ex ante and ex post, across policies and programmes.
- **Monitoring and evaluation systems** may be underdeveloped, particularly regarding employment impact assessments and reporting. Although most MSME policy frameworks reviewed include some form of M&E system, few are designed to track employment and labour market outcomes. Part of the problem lies in the absence of suitable KPIs, but institutional capacity constraints also affect the design of data collection instruments and evaluation methods. Another weakness in several countries is the lack of reporting mechanisms to ensure that evaluation results feed back into the policymaking process.

In each of these areas, there are interventions that can be considered to better align MSME policies with national employment objectives, and where the ILO could deploy its comparative advantage. Further support to deliver MSME policies for decent work could be organized around the following four pillars:

1. **Support the design of dedicated MSME strategies with improved governance arrangements**

   This includes close collaboration with ministries responsible for employment and broad consultations with social partners—including organizations representing informal and small economic units. The goal is to ensure that, even when national development plans or other strategic documents (such as industrial and innovation policies) exist, there is a unified policy framework for MSMEs that is consistent with national employment objectives. In certain contexts, it may be feasible to have an integrated strategy for employment and MSMEs.

   Important elements of a revised governance structure would include:

   - Establishing a **multi-agency or tripartite steering committee**, or equivalent, at national and subnational levels to oversee preparation and implementation of the policy framework. Ideally, this body should be chaired at the highest level of government and co-chaired by representatives from the ministry of industry/commerce (or MSMEs) and the ministry of labour/employment.
   - Ensuring that the national policy framework **has ramifications at the local level**, for example through regional MSME policies as in **Costa Rica**. One approach is to leverage existing directives and decrees governing implementing agencies.
   - Guaranteeing that consultations include **broad representation** from different MSMEs (formal and informal) and from workers' and employers' associations, with mechanisms to gather their views systematically through surveys and focus groups—as in **Pakistan**, **Rwanda** and **Türkiye**. Ideally, social partners should not only be consulted but be part of the Steering Committee, making it both interministerial and tripartite.

- **Adopting regulatory impact assessments** to guide reforms in business regulations, particularly those affecting MSMEs—as in **Finland**, **Georgia** and the **Republic of Korea**—but expanding them to include indicators on employment outcomes.

2. Provide technical assistance to improve diagnostics of market and government failures affecting MSMEs, using a jobs lens

Having the right diagnostics and explicit objectives for improving employment outcomes would be the starting point for strengthening MSME policy frameworks—likely also a low-hanging fruit.

Specific activities to achieve this include:

- **Conducting employment impact assessments** (EmpIA) of existing MSME programmes and analytical work—including dedicated MSME surveys with employment and working conditions modules—**to identify constraints hindering entrepreneurs and MSMEs from expanding while creating decent jobs.**
- **Developing a theory of change (ToC).** The experience of Morocco, during the preparation of the National Policy for Entrepreneurship and Employment 2025–35, is instructive in this respect. It relied on a comprehensive ToC integrating macro and regulatory policies, labour policies, and sectoral and regional policies, linked to KPIs at both firm and individual levels.35 For each KPI, quantitative targets were defined by firm size and sector, and by gender, age and region for workers.
- Building a **suite of KPIs** to measure operational outputs and outcomes at firm and individual levels, with clear definitions and guidance on data requirements and calculation methods.
- Deploying **quantitative instruments** to link demographic projections and targets for reducing employment deficits to employment outcomes at individual and firm levels, by region and sector.
- Developing **methodologies to quantify job-related social externalities**, for example by combining revealed preference surveys and discrete choice experiments, consultations and social dialogue, and findings from the literature.

3. Mobilize international good practices and support operational innovations (and evaluations) to improve the design of MSME policies

As per the conceptual framework underpinning this review, two fundamental changes are needed when designing MSME policies: (1) to account for labour and job-related social externalities that create a gap between social and private rates of return; and (2) to adapt policy responses accordingly.

Key issues that require attention include:

1. **How to allocate investment or credit subsidies to reach MSMEs** where private returns are sufficient to ensure business viability **while also generating strong social returns**.
2. How to better **integrate and coordinate MSME policies with industrial policies** aimed at developing value chains in specific sectors and regions.

[35] The strategy, prepared by the Ministry of Economic Inclusion, Micro Enterprises, Employment and Skills, was intended to succeed the *National Employment Strategy 2015–25*. The ILO provided technical assistance to facilitate consultations and support the preparation of the strategy.

3. How to incorporate explicit mechanisms within MSME policy frameworks to **preserve jobs during economic downturns**.
4. Which aspects of the regulatory framework can best contribute to **the formalization of MSMEs**.
5. How to exploit **synergies between MSME policies, labour regulations and employment policies** to improve job quality and facilitate access to employment for workers who are "far from" the labour market.

A mechanism to progressively address these questions could involve:

- Organizing **exchanges with policymakers, practitioners, social partners and academics** to take stock of best practices and potential solutions.
- Creating **partnerships** to support the design, implementation and evaluation of operational innovations.
- **Curating and disseminating guidelines and operational manuals** on these innovations.

4. Support the development of monitoring and evaluation (M&E) systems and employment impact assessments

Introducing KPIs linked to employment outcomes will likely require adjustments to existing M&E systems to collect the necessary MSME-level data. As with industrial policies, rigorous impact evaluations of MSME frameworks can be challenging. Nonetheless, countries need general guidelines and information systems to track outputs and outcomes for key programmes within the MSME policy framework.

Potential actions include:

- Improving **instruments to collect administrative data** from different programmes.
- Developing **tracer surveys** and/or adapting enterprise and labour force surveys to collect data necessary for tracking quality employment outcomes by firm type, sector and region.
- Supporting **experimental evaluations** for selected flagship programmes.
- Developing tools to support **employment impact assessments** (EmpIA) and adapting regulatory impact assessments—such as SME tests—to include employment outcomes, including those related to job quality.
- Developing **guidelines to strengthen reporting mechanisms**.

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Annex: Case studies

The main objective of the case studies presented here is to complement the analysis of MSME policy frameworks with respect to institutional arrangements, in particular governance, financing, monitoring and evaluation (M&E) systems, and consultations with social partners. Five countries were selected for interviews with government officials and social partners: Colombia, Finland, Georgia, Morocco and Rwanda.

Colombia

Colombia illustrates the challenges involved in integrating disparate laws and institutional arrangements surrounding MSME policies and aligning them with national and regional development objectives, including those related to improving employment outcomes. The Ministry of Commerce, Industry and Tourism is responsible for developing and implementing MSME policies but, unlike in countries such as Rwanda (see below), it relies on a newly created Council for MSMEs. The Council brings together the Council of Micro Enterprises and the Council of Small and Medium Enterprises, and includes representatives from different line ministries, the private sector, and workers' associations. Key government institutions include the Council for Economic and Social Policy (CONPES), the Ministry of Labour, the Ministry of Education, and the Ministry of Agriculture.

MSME and employment policies are to be grounded in Colombia's *National Development Plan 2022–2026: Colombia, World Potential for Life*. The plan sets clear priorities for employment and structural change in the country's productive system, with well-defined key performance indicators (KPIs). Pillar 1, "Human Security and Social Justice," includes interventions to ensure access to universal social protection; develop social infrastructure through MSMEs that create jobs; provide skills development to facilitate structural changes in the labour market; support entrepreneurship; and promote the formalization and improved quality of jobs in rural areas, as well as the community and popular economy, where a majority of micro and very small enterprises operate. Pillar 4 focuses on "Productive Transformation, Internationalization and Climate Change" and provides details on the necessary macro (mainly financing), sectoral/regional, and labour policies. Pillar 5 is critical for both MSME and employment policies, as it outlines a strategy to promote regional convergence, including through the development of national and regional systems for productivity, competitiveness, and innovation, and improved accountability in the use of public resources.

The *National Development Plan* itself was developed in consultation with social partners and stakeholders at the national and regional levels, with strong participation from women and youth. It also mandates that other sectoral strategies be developed in the same participatory manner. The vision is that public policies should be grounded in regional priorities and inform national strategies from the bottom up. It seeks to address imbalances between economic activities in rural and urban areas and promotes more effective public–private partnerships (PPPs) to produce public goods and services, create jobs, and facilitate productive transformation.

National employment policies are being developed at the regional level in line with the objectives of the NDP, thereby integrating MSME policies de facto. These include several interventions combining sectoral and employment programmes. It is an interesting case because, rather than being conceived by competing ministries, the policies are designed by regional actors and organically become multisectoral in nature. They address issues related to skills development, social protection, support services and access to finance for MSMEs, investment in public works, and the integration of local economies into national value chains.

The existing *Law 2060 for MSMEs* and the *National Plan for Productive Development* reviewed in this document predate the NDP, and there are ongoing discussions to update them and bring them in line with employment policies, including KPIs. Representatives from the Ministry of Commerce, Industry and Tourism consider that the objectives and content of these laws and policy documents are largely consistent with the NDP and emerging regional employment policies. Conversely, having the NDP and regional strategies will help define priorities for the MSME Council and guide future budget allocations at both the central and local levels.

There is recognition, however, of institutional challenges regarding implementation capacity and monitoring and evaluation. One of the consequences of extensive consultations and the bottom-up approach has been the very ambitious scope of the NDP and its ramifications across policies and programmes, including regional employment policies. Mobilizing the financial resources, technical assistance, and support services for highly heterogeneous populations of beneficiaries—both individuals and firms—across the territory is a complex task, and local governments and implementing agencies remain underprepared. A significant weakness lies in M&E systems, which remain underdeveloped and cannot yet provide real-time information that would allow policymakers at the central and local levels to adjust policies and reallocate budgets effectively.

Finland

In Finland, the vision of the strategy is to enhance companies' confidence so that they will employ people, develop businesses, invest in Finland, grow, and become more international. The vision also aims to strengthen trust in Finland as a good place to become an entrepreneur and to make the country more attractive to foreign employees and students seeking to work or run a business there.

The impact of the pandemic on the content of the strategy is also reflected in the importance given to the long term and to improving resilience to future economic or natural shocks. The strategy recognizes that the impact of the coronavirus pandemic was greatest on small enterprises. Although, through public interventions, Finnish companies on average coped with the crisis with relatively minor damage, there remains a great deal of uncertainty about the future. It is also likely that new crises will emerge, which will require companies to renew themselves and to identify and maintain alternative operating models.

Finland is an interesting case study because the mandates for developing MSME and employment policies are concentrated in a single executive body: the Ministry of Economic Affairs and Employment. It is therefore unsurprising that the strategy brings together a cohesive set of policy interventions that address both demand-side and supply-side issues—promoting the creation and development of MSMEs while ensuring that workers, both local and foreign, are available to take on new job opportunities, either as employees or own-account workers.

The strategy builds on an in-depth analysis of the labour market, showing that new jobs are created primarily in young companies, which in practice are almost always SMEs, and that important structural transformations are taking place. Self-employment has increased considerably over the past decade and has become an important source of jobs. A new feature of the labour market is that some entrepreneurs earn income partly as wages and partly as profits, which poses challenges for social security. Typically, many entrepreneurs first establish a business through various invoicing services (so-called "light entrepreneurs"), increasing the need to distinguish between employment as an employee and as an entrepreneur. In addition, new forms of own-account work through digital platforms create atypical employment relationships and require clear and predictable regulations.

An important part of the strategy focuses on improving the governance of MSME policies and programmes, particularly in terms of horizontal coordination between ministries and implementing agencies. On the one hand, the strategy recognizes that entrepreneurship policy crosses sectoral and administrative boundaries, and that synergies and new types of linkages between objectives and measures are needed. On the other hand, it emphasizes the importance of having a single, coherent policy framework that brings the Government's longer-term policies related to promoting entrepreneurship under one umbrella.

The case of Finland is also a useful reference because of the extent of consultations during the preparation of the strategy and the transparency of the policymaking process. Consultations involved different public institutions and levels of government, as well as representatives from civil society, including business and workers' associations. Inputs and outputs from the consultations were published on the website of the Ministry of Economic Affairs and Employment. Once the first draft of the strategy was ready, it was also published online for comments from ministries and stakeholders, which were made public. In fact, all the documents prepared during the different phases of the strategy's preparation remain accessible today for reference.

Georgia

Georgia is a particular case in the sample because the preparation of the SME Development Strategy 2021–25 was part of a broader process to align public policies with OECD standards in order to gain accession. The new strategy was based on the evaluation of its predecessor, the 2016–20 strategy, conducted by the OECD. This had broad implications for the preparation process, policy priorities and types of interventions, governance arrangements, and monitoring and evaluation systems.

In 2020, the Minister of Economy and Sustainable Development established a Steering Committee and a Working Group in charge of elaborating Georgia's SME Development Strategy (2021–2025) and its Action Plan. Both groups had broad representation from line ministries and other stakeholders, including business and workers' associations. The Economic Policy Department of the Ministry of Economy and Sustainable Development was mandated to coordinate the various activities related to the preparation of the strategy.

Once the Working Group was established, all members received training on public policy analysis, planning, monitoring, and evaluation. The training was based on regulations adopted in January 2020, which determine the procedures, standards, and methodology for preparing state policy and strategic documents. The full cycle of SME strategy development (policy planning) was carried out in accordance with these regulations.

Each member institution of the Working Group independently conducted a situation analysis according to its sectoral mandate. To facilitate the process, members were provided with international assessments and reports evaluating Georgia's SME policy. The Working Group, including representatives from civil society—including labour unions and business associations—was asked to participate in discussions of the main challenges and to present their views, which were incorporated into the situation analysis. Existing strategies, concepts, and obligations under international treaties were also taken into consideration, together with the national legislative and institutional framework. In addition, the OECD Recommendations and a roadmap presented in the *SME Policy Index 2020* served as a basis for implementing international best practices.

To discuss the findings identified during the situation analysis stage and to draw a logical framework for the strategy, active virtual consultations were conducted, leading to the identification of priority interventions with support from the OECD. The Economic Policy Department of the Ministry of Economy and Sustainable Development prepared the template of the logical framework. The OECD, based on research and monitoring conducted in accordance with the European Small Business Act, identified the main priorities of the strategy. These priorities were discussed at a meeting with representatives from government and the private sector as part of a public-private dialogue. The meeting was attended by members of the Steering Committee and the Working Group.

To reconcile the vision, goals, objectives, and relevant indicators of the strategy, numerous additional meetings were organized with representatives of the respective institutions using multiple online platforms. After completing the consultations, the text of the strategy was drafted by the Working Group member institutions. The strategy focused on the following interventions:

The purpose of this line is to introduce a bullet list:

- Refining the business environment for SMEs.
- Promoting the development of entrepreneurial skills and raising the entrepreneurial culture of SMEs.
- Improving access to finance for SMEs.

- Promoting export growth, access to markets, and internationalization of SMEs.
- Promoting ICT, innovation, and R&D for SMEs.
- Promoting the development of women's entrepreneurship.
- Promoting the development of the green economy through SMEs.

The final draft of the strategy resulted from consultations with international partners, government institutions, and the private sector. The first draft was presented to the Delegation of the European Union in Georgia, the OECD, and GIZ. Subsequently, the draft strategy was presented to an extended meeting of the Private Sector Development Advisory Council and disseminated for comments and recommendations from all stakeholders. The comments and inputs received were reviewed by the line ministries and incorporated into the strategy and results framework as needed.

An important element of the strategy is the adoption of best practices in monitoring and evaluation, in alignment with OECD recommendations. Key elements include:

- Governments should specify in advance the objectives and targets for each policy measure.
- Three core metrics—sales, employment, and survival—should be specified and assessed in all evaluations. These can be complemented with additional measures for other objectives, where targeted, such as environmental and social benefits.
- Expenditure data should be made available to evaluators for each policy measure to facilitate cost-effectiveness assessments.
- Governments should establish a central monitoring and evaluation unit and a coordination process for the monitoring and evaluation of SME and entrepreneurship policy across ministries and bodies.
- Every three years, all major SME and entrepreneurship programmes should undergo a reliable evaluation. As part of the evaluation, governments should review the role played by macro policies.
- Evaluations should systematically include the performance of non-surviving SMEs and startups in assessments of treatment and control groups.

Morocco

Morocco illustrates well the difficulties of coordinating MSME policies across institutions and achieving consensus among stakeholders, even under strong leadership and a clear vision regarding national development objectives. The New Development Model (NMD), prepared at the request of His Majesty the King, provides the unifying framework for preparing and coordinating government policies. In turn, the Investment Law emanating from the NMD sets the framework for developing MSME policies. Unfortunately, institutional arrangements are fragmented, and achieving consensus among different business and workers' associations has proven difficult. Nonetheless, at the time of this review, the Ministry of Investment and Regional Convergence had managed to prepare a regulatory framework for MSEs that includes jobs-led investment subsidies.

The first challenge is institutional fragmentation, which dilutes responsibility for the design and implementation of MSME policies and makes it difficult to achieve the necessary complementarities. The Ministry of Finance and the Ministry of Industry design and manage policies to provide incentives for private sector investments in strategic sectors. The newly created Maroc PME (Morocco SMEs) is responsible for the design and implementation of SME policies and programmes, as per the SME Law. The National Business Environment Committee (CNEA), at the level of the Prime Minister's Office, is responsible for business regulations in general. The Ministry of Labour is responsible for policies for micro and very small enterprises. The Ministry of Investment and Regional Convergence is supposed to coordinate the different actors involved in private sector development. Other agencies also play key roles in MSME policies and programmes. Until recently, the Ministry of Tourism managed the entrepreneurship support programme FORSA. The Mohamed VI Investment Fund is in charge of promoting structural transformations at the level of SMEs. The National Human Development Initiative (INDH) and the Regional Investment Centers (CRIs) also design and manage programmes to support MSME development.

There are also conflicts of interest among social partners, particularly business associations for medium and large enterprises, business associations for micro and very small enterprises, and workers' associations. Organizations such as the General Confederation of Enterprises in Morocco (CGEM), representing formal employers, are generally aligned with the focus of government private sector development policies—particularly investment incentives and subsidized credit, which primarily target medium and large enterprises. The cost of these often extra-budgetary incentives is estimated to be around 5 per cent of GDP. Associations of micro and very small enterprises, on the other hand, argue that they provide 70 per cent of jobs and that if the government's priority is to reduce employment deficits, MSME support policies should be adjusted. However, they have not yet been able to influence policy changes in areas such as access to public procurement, finance, and technical assistance and support services. They also contend that the changes in business regulations being implemented by CNEA do not take into account the specific constraints faced by micro and very small enterprises, including administrative complexities, the cost of income taxes and social security contributions, and access to land.

For now, the only new initiative to support entrepreneurship and micro and very small enterprises is the programme Anamoukawil, managed by ANAPEC—the employment agency under the Ministry of Labour—which remains marginal in terms of impact and is already facing implementation problems. The programme targets some 100,000 beneficiaries over a four-year period, including young entrepreneurs with business plans and formal and informal micro and very small enterprises. It mainly offers business support services and small grants to improve accounting systems or pay for rent. Despite the modest ambitions of the programme, ANAPEC is not equipped to directly deliver the necessary services and also lacks the know-how to properly outsource their provision to the private sector or NGOs. As a result, there have been significant delays in deploying the programme, particularly in low-income regions where institutional capacity is even more constrained.

The Ministry of Labour was expected to develop a national policy for entrepreneurship and jobs (PN2E35)[36] that would help coordinate different actors and initiatives and rationalize budget allocations. However, despite two years of consultations and technical work, the process stalled. Having an integrated entrepreneurship and employment strategy, also focusing on micro and very small enterprises, would have been an opportunity to align MSME policies with the objectives of the New Development Model, which have direct implications for improving employment outcomes, including reductions in unemployment, inactivity, and informality rates, as well as increases in labour productivity.

The PN2E35 was grounded in broad consultations with social partners, rigorous projections of employment creation needs by region and economic sector, and an innovative theory of change (ToC) linking employment outcomes to different policies and programmes. Indeed, following an evaluation of the previous national employment policy, the Ministry of Labour organized consultations with different ministries and implementing agencies, business organizations, and workers to define the vision of the PN2E35 and key policy initiatives. The mandates of the NDP in terms of GDP per capita growth, female participation rates, and the size of the informal sector were used to project needs for employment creation for different population groups by gender, age, and region; improvements in job quality and labour productivity; and changes in indicators of job access (unemployment rates and activity rates). From there, key policy reforms and programmes were

[36] Politique Nationale de l'Entreprenariat et de l'Emploi 2025-2035.

identified across macro and regulatory policies, labour policies, and sectoral/regional policies using the ToC. An Action Plan was put in place identifying and costing flagship programmes.

To date, the PN2E35 and Action Plan remain on hold, awaiting new developments. Morocco illustrates the importance of political leadership and having a fluid social dialogue behind national development strategies, policies, and programmes. Greater involvement of workers' associations from the beginning, including associations representing micro and very small enterprises, would have created ownership of the MSME and employment policy agenda and provided continuity. Despite having the right vision—an integrated approach for MSME development and improved employment outcomes—and a strong foundation in terms of technical and analytical work, the impact of the existing policy frameworks on development outcomes is likely to be limited. They certainly exclude small, low-productivity firms, often informal, which today create the majority of jobs.

Rwanda

Rwanda is a notable reference regarding the governance and consultation arrangements used to prepare and implement its MSME strategy. Under the mandate of the president, the Ministry of Trade and Industry (MINICOM) leads the process behind the formulation of the strategy and is responsible for its implementation. Although there is no dedicated inter-ministerial council or equivalent for MSME policies, MINICOM maintains close coordination with other line ministries, including the Ministry of Labour, through regular meetings and direct reports to the president. This coordination occurred during the preparation of the strategy and continues during its implementation.

The Rwandan case is also interesting because the preparation of the strategy involved intensive consultations with different groups of enterprises, workers' associations, youth associations, women's associations, and NGOs supporting micro enterprises. These broad-based consultations involved large fora as well as focus groups and took place at the national and regional levels over a 12-month period.

Even during the implementation phase, MINICOM maintains "open communication channels" with these stakeholders. Representatives of MSMEs or workers' associations can raise concerns about changes in regulations or communicate when a given intervention is not achieving the desired effects. MINICOM emphasizes that consultations are not a one-time event during strategy preparation; they are even more important during implementation, when issues inevitably arise and different policy reforms can have unintended consequences. Although MINICOM does not currently implement formal regulatory impact assessments, its proximity to stakeholders provides the institutional foundation to do so. Issuing the necessary regulations would be the next step.

Another important element of the governance arrangements is the strong collaboration between MINICOM and the Ministry of Labour. The purpose is to ensure that MSME policies are aligned with the objectives of the national employment policy. MINICOM indicates that there is a "natural division of responsibilities," with the MSME strategy addressing "demand-side" issues at the firm level, and the Ministry of Labour focusing on the "supply-side," ensuring that workers have the skills enterprises need, can respond to new job opportunities, and that enterprises offer adequate working conditions and pay. This collaboration occurs at the level of specific programmes at the national and regional levels. MINICOM emphasizes that the MSME strategy is "well aligned" with the national employment policy and the national development plan.

MINICOM recognizes, however, that there are risks and weaknesses in the current institutional arrangements, particularly regarding budgets and M&E systems. First, the absence of formal regulations behind existing coordination arrangements (horizontal and vertical) makes them vulnerable to staff changes and shifts in "personalities." Collaboration currently works because teams in different ministries, particularly in the Ministry of Labour, know and trust each other. The president's personal involvement in both the MSME and employment strategies is also important. Nonetheless, it would be preferable to establish a formal body responsible for coordinating and overseeing the implementation of both MSME and employment policies.

An important challenge today is the budget, which is not fully aligned with the objectives of the MSME strategy. Although the policy framework mandates the allocation of the necessary budget to implement the different policies and programmes, in practice this has been a challenge. The budget tends to be rigid and faces many competing demands. Priority is usually given, “with good reason,” to the social sectors. However, this may be biased, as better jobs, higher standards of living, and reduced social assistance needs arise from structural transformations at the level of MSMEs. MINICOM acknowledges that unless changes are made to how the budget is structured—taking into account the short- and medium-term impacts of public expenditures—it will be difficult to fully implement the MSME strategy.

MINICOM also recognizes that more can be done to improve transparency and accountability to citizens, workers, and the private sector. Significant efforts have been made to invest in monitoring and evaluation systems and employment impact assessments (EmpIA). MINICOM notes that Rwanda is among the few countries attempting to measure the impact of public investments on employment outcomes. However, reports from evaluations and impact assessments are for “internal consumption” only. These reports, often ad hoc, are not published or disseminated to the public. Additionally, there are no formal arrangements to link the results of evaluations or assessments to changes in policy or budget allocations.

Annex 2: Framework for interviews in selected countries

The objective of the interviews is to provide more granular information on: 1) policy and strategic choices regarding the type of MSME framework and its key objectives; 2) governance arrangements for the design and implementation of MSME policies; 3) mechanisms for monitoring and evaluation; and 4) financing arrangements.

Type of policy framework

- What is the economic rationale for developing an MSME policy?
- Why has the government chosen to have a dedicated policy framework for MSMEs or to include MSME policies as part of broader strategic documents such as National Development Plans?
- What factors preclude or enable the inclusion of employment-related policy objectives – creation, protection, quality, access?

Governance

- What type of human and financial resources do the institution(s) in charge of MSME policies have for preparing and overseeing the implementation of the policy framework?
- Which ministries, agencies, or social partners (employers' associations, (informal) MSME associations, workers' organizations) are involved in the implementation of the policy framework, and how do they coordinate activities (horizontal coordination)?
- How are responsibilities for implementing the policy framework shared or distributed across different levels of government (vertical coordination)?
- Which mechanisms are used to ensure broad-based social dialogue that reflects the heterogeneity of the MSME population?
- Are there regulatory impact assessments (RIA) involving MSMEs and social partners, and if so, how do they operate?
- What mechanisms exist to coordinate MSME policies with national employment policies?
- What are the main challenges to effectively implementing the MSME policy?

Monitoring and evaluation

- Does the policy framework contain specific KPIs and targets for which different institutions are accountable?
- Are there specific arrangements for monitoring and evaluating the implementation of the MSME policy framework?
- Which institution(s) is/are responsible for the design of M&E systems?

- Which institution(s) is/are responsible for conducting evaluations at the programme or policy level?
- What types of quantitative or qualitative evaluations are conducted?
- What types of data are used, and how are these data generated or collected?
- What types of reports are prepared with the results of the evaluations, and for which audience?
- How are the results from evaluations used to adjust the policy framework or reform/phase out programmes?
- What are the main challenges to effectively monitoring the MSME policy?

Financing mechanisms

- Are there estimates of the fiscal costs of implementing the MSME policy framework?
- What mechanisms ensure that sufficient budget is allocated to implement the policy framework at the central level?
- What mechanisms ensure that sufficient budget is allocated to implement the policy framework at the regional level?
- In countries with results-based budgeting (RBB), are the KPIs of the MSME policy framework reflected in the KPIs of the budget?

Annex 3: Estimating needs in terms of Jobs Creation by MSMEs

This technical annex presents the methodology used to estimate, across countries, the share of new jobs that micro, small, and medium enterprises (MSMEs) would need to create to absorb new entrants to the labour market over the next 15 years. The analysis relies on participation rates and employment by establishment size from the ILO Labour Statistics, as well as population projections from the United Nations.

The total number of jobs that need to be created in a given country i between now and year 2040 is given by:

$$\Delta J_i = p_i(W_{i,2040} - W_{i,2024}), (1)$$

where $W_{i,t}$ is the population aged 15+ in country i at time t, and p_i is the aggregate labour force participation rate. The assumption is that all new entrants to the labour force would be employed so that the stock of unemployed workers today does not increase.

The share of jobs that would need to be created by MSMEs – assumed to be enterprises with less than 50 employees to match the categories in the ILO database – depends on the expected change in the share of employment in MSMEs by year 2040. In general, the share of employment in MSMEs in a future year t is given by:

$$s_t = \frac{s_0 * J_0 + \beta(J_t - J_0))}{J_t}, (2)$$

where s_0 is the share of employment in MSMEs at time 0, J_t is the number of jobs at time t, and β is the share of new jobs created by MSMEs in the period 0 to t.

The share of jobs created by MSMEs is therefore given by:

$$\beta = \frac{s_t J_t - s_o J_0}{J_t - J_0}, (3)$$

The future share of employment in MSMEs can be defined as a fraction λ of today's share:

$$s_t = \lambda s_0, (4)$$

where $(1 - \lambda)$ is the reduction in the share of employment in MSMEs that is expected between time 0 and time t. The condition $\lambda > J_0/J$ needs to apply to ensure that $\beta > 0$. Essentially, by how much the share of employment in MSMEs can be reduced depends on how many new jobs are created. If, at the extreme, no new jobs are created, the share cannot change.

Future jobs, on the other hand, are a function of the growth rate n of the working-age population:

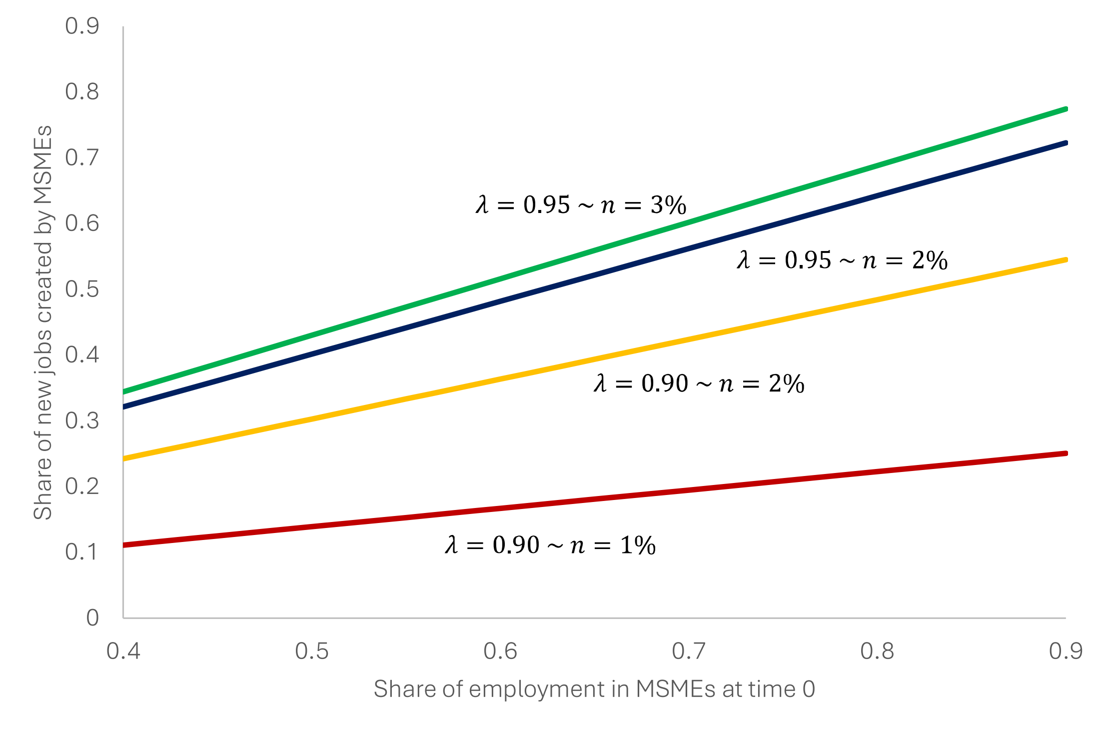
$$J_t = J_0(1 + n)^t = J_0\eta, (5)$$

By replacing (4) and (5) in (3), the share of new jobs created by MSMEs is given by:

$$\beta = \frac{s_0(\lambda\eta - 1)}{\eta - 1}, (5)$$

Thus, if there is an estimate of λ, equation (5) can be used to estimate the fraction of new jobs that would need to be created by MSMEs. That fraction increases with the share of employment in MSMEs today and the expected growth rate of employment. Hence, other things being equal, countries where the working-age population is growing faster will have to rely more on MSMEs for employment creation (see Figure 2). For instance, in a country where the current share of employment in MSMEs is 70 per cent, these enterprises would have to contribute between 40 per cent and 60 per cent of the new jobs if employment is growing at 2 per cent, but only 15 per cent if employment is growing at 1 per cent.

▶ **Figure 2. Share of new jobs created by MSMEs as a function of the current share and employment growth**

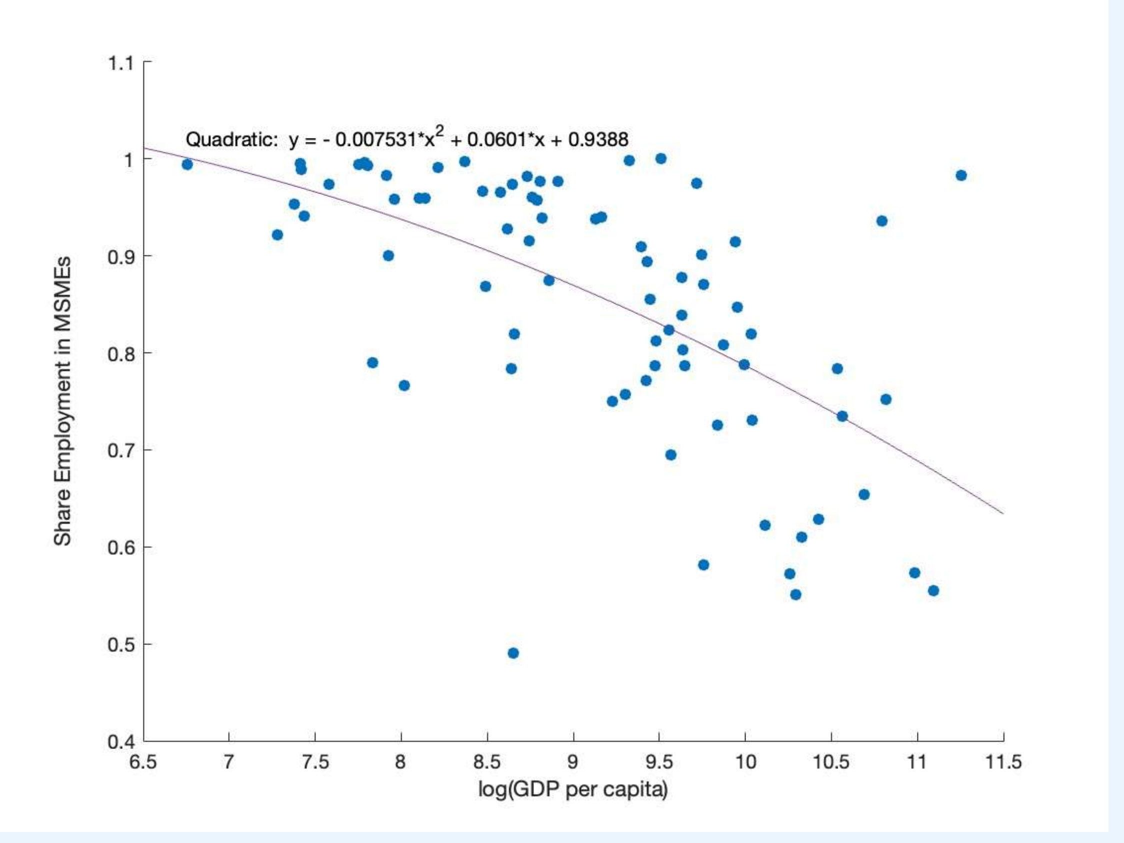


Source: Authors
Note: The figure is based on equation (5), assuming a time frame of t=15 years.

In the projections, it is assumed that λ is a function of GDP per capita. Indeed, the share of employment in MSMEs in a given country is correlated with its level of income (see Figure). It is estimated that, on average, for every doubling in GDP per capita (that is, a change in the log of GDP of around 0.693), the share of employment in MSMEs declines by 5 percentage points).

Doubling GDP per capita over a period of 15 years, between now and 2040, would require a growth rate of GDP per capita of around 5 per cent per year. Hence, in a country growing at this rate, λ would be equal to 0.95. Even if the reduction in the share of employment in MSMEs were twice as fast, λ would still be unlikely to fall below 0.9.

▶ **Figure 3. Share of total employment in GDP and income per capita**

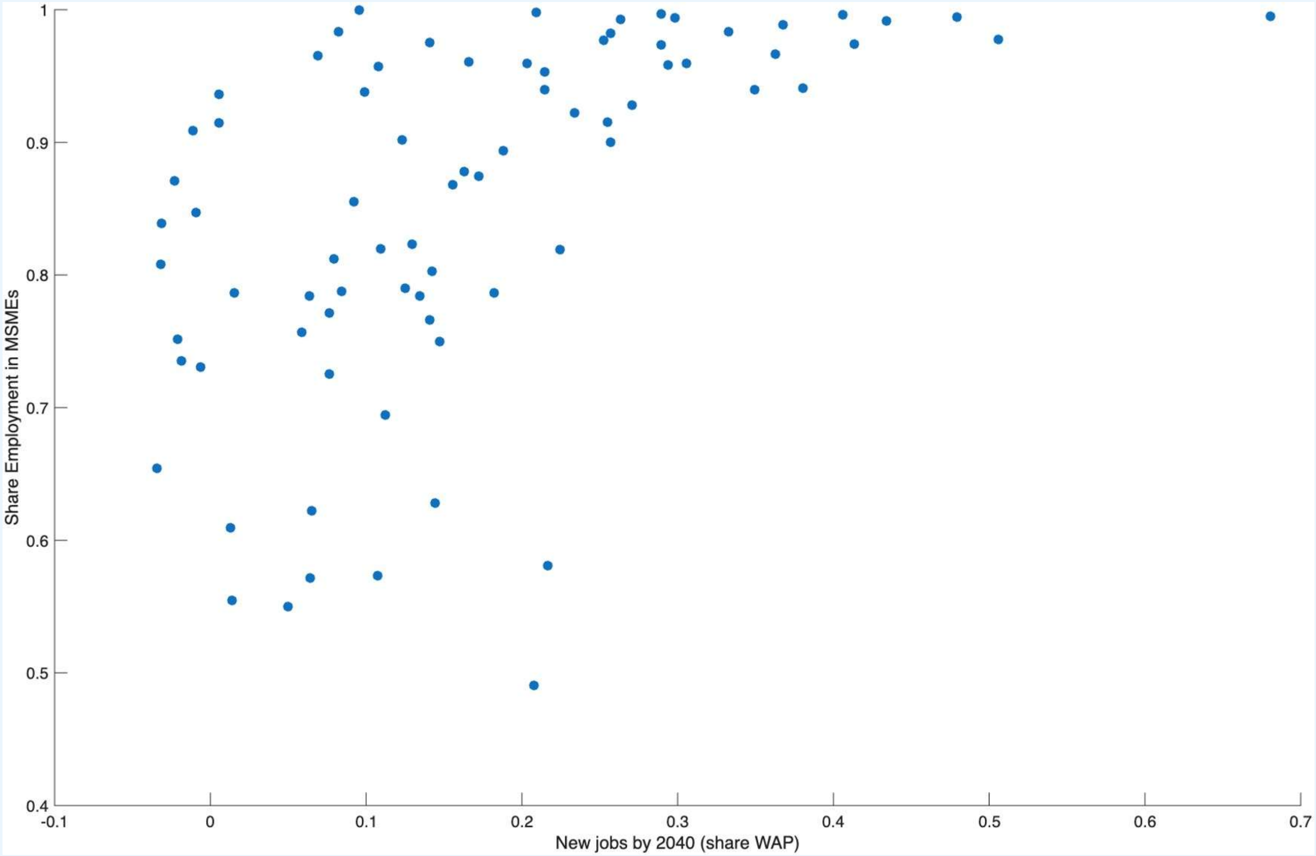


Source: Authors, based on ILO Stats and World Bank Development Indicators

In the countries in the sample, the share of employment in MSMEs is also correlated with the number of jobs that would need to be created by year 2040 (normalized as a share of the current working-age population). The higher this share, the higher the share of employment in MSMEs. This implies that lower-income countries also need to make a greater effort in terms of employment creation, given their younger demographics (see Figure).

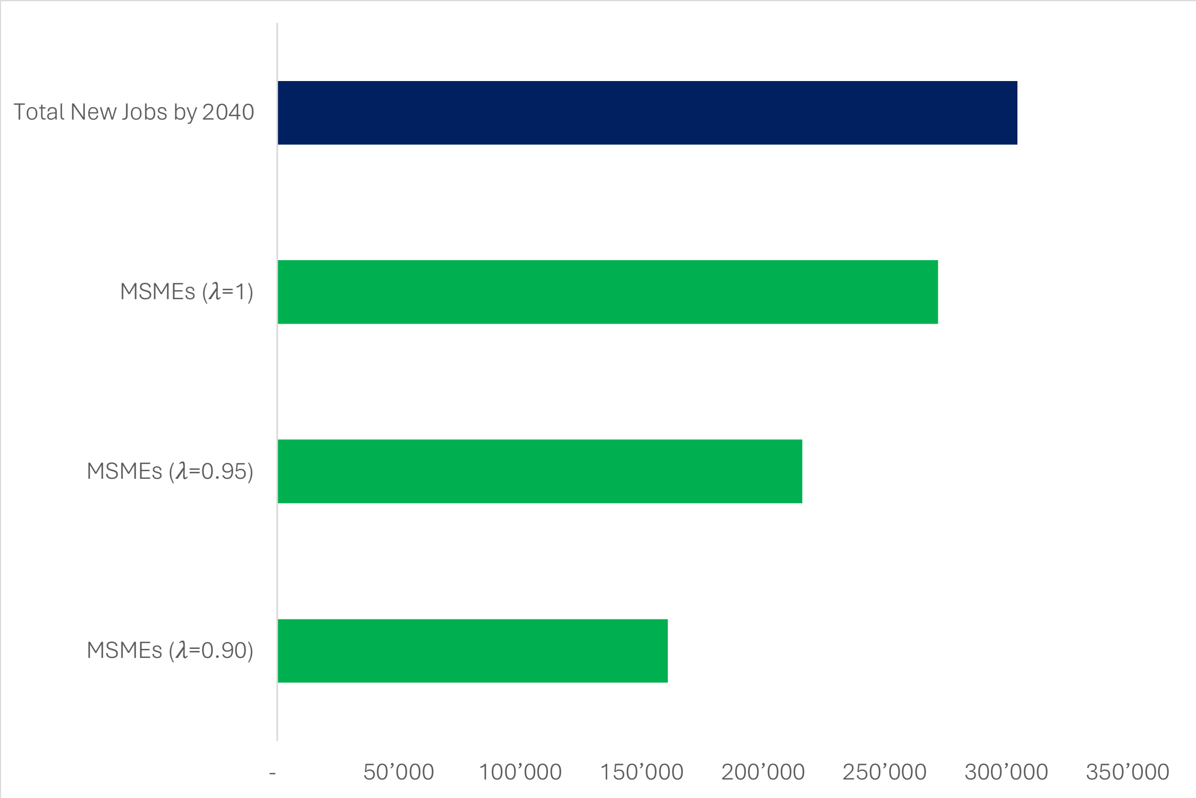
In aggregate, the 77 countries for which data of employment by establishment size are available would need to create around 304 million jobs between now and 2040. Depending on the value of λ the contributions from MSMEs would range between 160 million ($\lambda = 0.9$) and 270 million ($\lambda = 1$). Hence, even under optimistic assumptions about the reductions in the share of employment in MSMEs, these enterprises would need to contribute around 50 per cent of new jobs, but more likely around two thirds (see sFigure).

▶ Figure 4. Share of employment in MSMEs and needs in terms of employment creation



Source: Authors, based on ILO Stats and United Nations Population Projections.

▶ sFigure 5. Needs in terms of new jobs created and contributions from MSMEs



Source: Authors based on ILO Stats, United Nations Population Projections and equation (5).