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THEMATIC Labour Overview

Small Enterprises, Large Gaps

Employment and Working Conditions in Micro and Small Enterprises in Latin America and the Caribbean

Regional Office for Latin America and the Caribbean

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Foreword

The Latin American and Caribbean region has a high concentration of micro and small enterprises (MSEs) with few medium-sized enterprises.

According to the most recent available data, the region has 11 million economic units with at least one worker in addition to the employer. The vast majority –some 10 million– are MSEs. Only a million are medium-sized and large enterprises.

MSEs generate 47% of employment, in other words, they provide jobs to some 127 million people in Latin America and the Caribbean. In addition, the region's 76 million own-account workers represent 28% of total employment. Together, MSE and own-account workers account for nearly three-quarters of employment in the region. Another 5% corresponds to domestic work.

Medium-sized and large enterprises account for just 19% of employment in the region.

This production structure dominated by MSEs and own-account employment, coupled with the dearth of medium-sized enterprises, hinders the growth of productivity and quality jobs in the region.

This structure of smaller economic units means that 80% of the labour force works in sectors with productivity rates below the average for the region while just 20% of the labour force is employed in sectors with productivity rates above the average. This directly contributes to labour market inequality.

The predominance of MSEs and own-account employment is also associated with the persistent gaps in decent work and respect for labour rights in the region.

Employment in high-productivity sectors is limited while most of the workforce is employed in low-productivity sectors –with lower wages, less favourable working conditions and limited access to social protection. This situation affects the functioning of economies as a whole, limits production linkages and reinforces income inequality.

Achieving sustainable, inclusive development in the region requires coordinated labour market and productive development policies: the former to reduce decent work gaps in the MSE sector and the latter to promote a business ecosystem that eliminates barriers to growth of a segment of medium-sized enterprises. Both types of policies contribute to reducing informality and promoting formalization.

We hope that the information in this report will contribute to the development of better policies, both of the labour market and of productive development, in accordance with the conclusions of the Committee on SMEs and Employment Creation adopted during the 104th Session of the International Labour Conference in June 2015.

I would like to acknowledge and express my gratitude to Elizabeth Tinoco, my predecessor as Regional Director, for her vision in choosing such a relevant topic for this edition of the Thematic Labour Overview.

José Manuel Salazar-Xirinachs
ILO Regional Director for Latin America and the Caribbean

September 2015

Introduction[1]

Over the past 15 years, the Latin American and Caribbean region has experienced its strongest growth since the 1960s, with major improvements in income distribution. Nevertheless, the region remains one of the most unequal in the world. During this period of economic growth, unemployment rates declined sharply while some indicators associated with employment quality improved significantly, such as the increase in social protection coverage and the moderate reduction in informal employment. Important gaps persist, however, which are reflected in the fact that more than 130 million workers are still informal.

During the past two decades, productivity rates in the region have remained at almost half of those of more advanced economies. What is worse, this productivity gap is expanding rather than narrowing (ILO 2014a). According to several estimates, even during the period of robust economic growth, the regional productivity rate grew at a slower pace than that of the rest of the world, and the world average output per worker exceeded that of the region.

As this report demonstrates, the economic structure of Latin America and the Caribbean is characterized by the predominance of one-person economic units (own-account workers) and of microenterprises, as well as by the limited number of medium-sized enterprises. This structural characteristic is clearly a leading cause of the productivity gap between the countries of the region and more developed countries. The predominance of micro and small enterprises (MSEs) and the dearth of medium-sized enterprises hinder growth of enterprises, as well as the associated reallocation of productive resources and the transition of the labour force from low productivity activities to those of higher productivity. In other words, there has been little change in production structures of the region. This transformation is essential for sustained, inclusive growth. Currently, labour markets in the region have major gaps in productivity, inequality, employment and working conditions.

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1 The ILO Regional Office for Latin America and the Caribbean would like to thank Carlo Ferraro and Sofía Rojo for contributing to the preparation of this report, as well as the team of the ILO Latin America and Caribbean Information System (SIALC/Panama), which processed the statistical information. Thanks are also due to Linda Deelen, Mario Berrios, Phillipe Vanhuynegem, Álvaro Ramírez, David Glejberman, Julio Gamero, Florencio Gudiño, Claudia Ruiz and Juan Chacaltana for their valuable comments.

The volume and quality of job creation in MSEs is important because this sector creates the largest share of jobs in all countries of the region and because working conditions in this sector are considerably worse than those in larger enterprises. The high concentration of low quality jobs in low productivity enterprises and sectors limits the creation of sufficient decent work and wage earnings to free people from informal employment and poverty, or to reduce labour market inequalities in the region. In other words, this characteristic affects and defines the functioning of the economy as a whole.

The region has implemented several initiatives for the economic and institutional development of MSEs. However, it is noteworthy that the improvement in employment quality in this segment of enterprises, and the policies to ensure that a significant proportion of these enterprises grow into medium-sized ones, does not usually form part of productive policy agendas in the countries. Frequently, labour issues are viewed only in terms of costs for smaller enterprises rather than as a source of comparative advantages and a requisite for improving productivity. This is the case even though adequate working conditions are crucial for improving productivity, beyond their importance in terms of equality and inclusion of rights. Improving human capital (educational level, professional training, management models and working conditions) is a key strategy for increasing productivity of smaller enterprises, especially since this usually entails less costly investments and tends to produce rapid results.

Accordingly, it is crucial to align productive and labour agendas, as well as to strengthen the institutions responsible for productivity development and labour market policies, especially in terms of their capacity to reach MSEs to achieve increased productive and social inclusion.

During the 104th Session of the International Labour Conference (Geneva, June 2015), the Committee on SMEs and Employment Creation recognized that micro, small and medium-sized enterprises are vital for decent and productive work and prosperity. The Committee emphasized the key role of governments and social partners in promoting SMEs. It also acknowledged that the central role of the government is to: a) create and improve an enabling environment for the promotion of sustainable SMEs and decent work; b) ensure the enforcement of labour and environmental standards and easily accessible, well-functioning public services; c) design, fund or facilitate funding, implement, monitor and evaluate policies or programmes targeting SMEs; d) collect and report data on qualitative and quantitative aspects of SME development and employment; e) act as responsible procurers of goods and services from SMEs; f) promote, facilitate and participate in social dialogue; and g) endeavour to ensure that workers in SMEs can exercise their fundamental rights at work.[2]

The report also offers recommendations to employers' and workers' organizations for improving productivity and working conditions. The Committee highlighted the pivotal role of representative organizations in helping SMEs overcome their constraints. It recommended that social partners increase representation of SMEs and their workers in their organizations, improve social dialogue and assist their members with collective bargaining. It urged these organizations to strengthen services for SMEs and their workers, including information on labour standards, laws and regulations, social protection and legal assistance, as well as training, especially in entrepreneurship, accessing public and private business support services, links to research and consultancy resources, business matchmaking and advice on responsible workplace practices.

The current study reviews recent data on key features of production, employment and working conditions of MSEs. Given the absence of surveys of comparable enterprises in the different countries of Latin America and the Caribbean, this analysis is based mainly on the processing of household survey data, specifically the responses of household heads concerning the characteristics of their workplaces. The study mainly uses data from 2013 for 18 countries, and wherever possible compares this information with that of 2003.

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2 ILO (2015a). The report of the Committee on SMEs and Employment Creation makes reference to micro, small and medium-sized enterprises (p. 2).

Importance of MSEs in the economy: GDP, employment and productivity

Although from a conceptual perspective, MSEs are at the lower end of the distribution of enterprises in an economy, from an operational perspective, the limits separating this segment of enterprises from other economic agents are not clear-cut.[3] For purely analytical purposes, this report defines firm size based on the number of workers.[4]

MSEs are the leading creators of employment in the region

Based on this classification system and using the number of people who claim to own a business as a proxy variable of the total enterprises, an estimated 11 million economic units with at least one worker (besides the employer) existed in the region in 2013. Of these, most were MSEs (some 10 million), and the other million were medium-sized and large firms (Figure 1, bottom panel).

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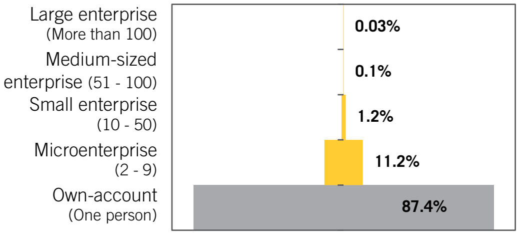
3 Different criteria are used to define enterprise size (such as number of workers employed in the enterprise, sales volume, value of assets and others), with diverse limits established in the different countries. In many cases, the definitions imply eligibility for public policies; however, this hinders international comparability (ECLAC 2012 and Ferraro 2011). There are other internationally standardized indicators based mainly on household surveys, with statistical definitions usually associated with employment, although with different criteria to respond to the needs of each study (IDB 2010).

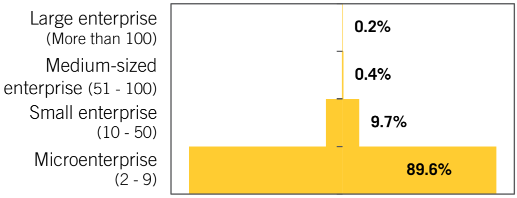
4 The following criteria are used to define segments of enterprise size: own-account or one-person enterprise, microenterprise (two to 10 workers), small (11 to 50), medium-sized (51 to 100) and large (101 and above, this last category includes the public sector). This study analyzed data from 18 countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. The tables and figures in this report include workers in enterprises of unknown size.

Figure 1. Latin America: People who report that they own a business and own-account workers 2013 (percentages)

a. People who report that they own a business and own-account workers



b. People who report that they own a business



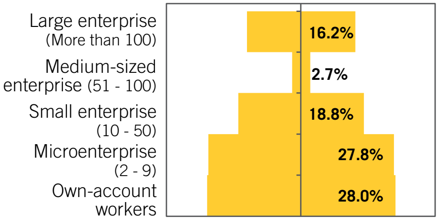
Source: ILO estimates, based on information from household surveys of 18 countries. See footnote 4.

There are also an estimated 76 million own-account workers, who generally do not consider themselves entrepreneurs, although some of these individuals could be considered as economic units or one-person firms.

The characteristic distribution shown in Figure 1 is found in middle-income countries as well as in less developed countries with smaller economies. This confirms the results of several previous studies, which reported that Latin America and the Caribbean is a region characterized by a large number of very small enterprises.

This structure of economic units sheds light on the employment structure by enterprise size. Own-account workers account for 28% of employment; MSEs are responsible for 47%; and, medium-sized and large enterprises generate 19% (Figure 2).

Figure 2. Latin America: Structure of employment by enterprise size 2013 (percentages)



Source: ILO estimates, based on information from household surveys of 18 countries. Domestic work was not included in the figure (5% of total employment). See Footnote 4 and Table A4 notes in Annex 1.

The characteristics of the economic units in this study vary considerably. These units range from subsistence enterprises with little market interaction to firms serving large-volume, sophisticated external markets.

MSEs have low productivity levels

The MSE sector –with its large number of economic units and high levels of job creation– reflects the wide range of productivity rates in the region. This is manifested at both the inter-sector level (across types of economic activity[5]) as well as at the intra-sector level (across enterprise segments). Both dimensions reveal that the labour force in the region has not transitioned from low productivity sectors to those of higher productivity. Unfortunately, the opposite seems to have occurred in many countries. There has not been a transformation that reallocates resources more productively and efficiently. The sector adjustments observed have responded more to cycles of growth and increased global demand than to an effort to implement productive development policies to facilitate this change. In this context, new or existing enterprises have responded to conditions of growth and higher demand but without transforming their productive and productivity characteristics (Berrios 2013, 2015a and 2015b).

5 In the analysis of inter-sector variability, it should be noted that while labour productivity of the agricultural sector is slowly approaching that of the manufacturing sector, the gap between the two sectors remains significant. By contrast, average productivity of the service sector has been decreasing in relation to that of the manufacturing sector. Given its high volume, the performance of the service sector is crucial for increasing aggregate productivity in Latin America and the Caribbean.

A stylized fact in the specialized literature is that MSEs operate at reduced levels of relative productivity.[6] Using thresholds of enterprise size based on national definitions, Stumpo (2013) and Ferraro (2011) estimated that micro, small and medium-sized enterprises contributed approximately 30% of regional GDP and 10% of all exports.[7] Infante (2011a) used standardized definitions to determine that the low productivity segment (maximum of five workers) accounts for 14% of GDP whereas medium-sized enterprises (6 to 199 workers) generated 25% of regional GDP in 2009. According to Infante, low productivity sectors have a productivity rate equivalent to 6% of that of large enterprises, while the medium-sized sector has a productivity level equivalent to 22% of that of large enterprises.

Some studies found that these productivity gaps are not only large in comparison with other regions and countries, but also in terms of the characteristics of the production structure of Latin America and the Caribbean 50 years ago (Infante 2011b). In other words, not only has the productivity gap failed to narrow, it has actually expanded over time. The persistence of this phenomenon is a clear reflection of the structural heterogeneity characterizing the region.

These estimates point to an employment structure that does not necessarily coincide with the estimates of this study. Nevertheless, this information provides a useful overview of existing productivity gaps. Figure 3 illustrates the heterogeneous economic structure of the region considering these enterprise segments. It shows that 80% of the workforce is employed in sectors with productivity rates below the average for the region. Just 20% of the labour force works in sectors with rates exceeding the regional average.

The high concentration of employment in smaller enterprises with lower productivity levels directly leads to inequalities or gaps in the labour market. There are few jobs in high productivity sectors while the majority of the labour force works in sectors of lower productivity – with lower wages, less favourable working conditions and limited access to social protection (Figure 3).[8]

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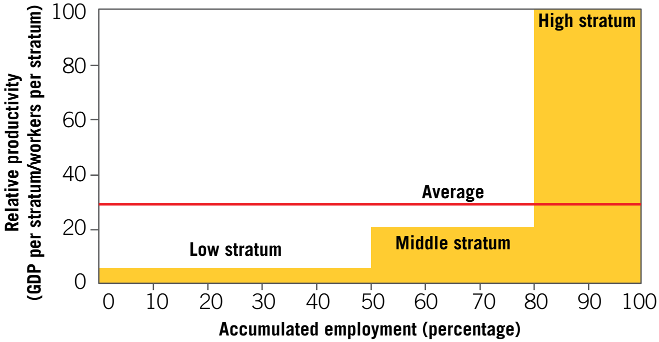
6 World Bank (2012a).

7 The region allocates only a fourth of its GDP to the international market, which is highly concentrated in large-scale primary sectors. MSMEs (micro, small and medium-sized enterprises) contributed just 10% to this low figure. According to the OECD (2005), in the United States, SMEs were responsible for nearly a third of exports in 2001.

8 ILO (2014a), ECLAC (2010) and ECLAC (2012).

Figure 3. Latin America: Productivity in relation to the high stratum and share of employment by productivity stratum 2009 (percentages)



Note: Low stratum: 1-5 workers, domestic work and unpaid work. Middle stratum: 6 -199 workers. High stratum: 200 or more workers.
Source: ILO, based on estimates by Infante (2011a).

The small number of enterprises with intermediate employment and output levels describes a "missing middle" configuration, which has an impact on the aggregate productivity of the region, seriously limiting production and employment linkages. Recent evidence from some countries points to a sharp rise in the number of microenterprises and a relative decline in formal small enterprises, resulting in the increased polarization of the two sectors - the microenterprise sector and that of large enterprises, which have significant capacity for generating added value.[9]

The magnitude and persistence of this heterogeneous structure negatively affects both the growth capacity and performance of economies, as well as working conditions in MSEs. Several factors contribute to this production structure, which is characterized by a high concentration of very small enterprises and the relative lack of medium-sized enterprises. Some are structural, such as the small size of domestic markets – the size of economic agents tends to proportionally reflect market size– and sector specialization – economies specializing in activities with fewer scale requirements tend to have more small enterprises (Bartelsman et al, 2004). Other factors are associated with the economic, regulatory and institutional context and with inadequate development, or with constraints to the

9 (Berrios 2013, 2015a and 2015b).

scaling up of firms and the transition to more complex management models (OECD and ECLAC 2012, IDB 2010). Limitations may also exist in the design, implementation and evaluation of public policies. In many countries, training and financing programmes do not include complementary interventions such as technical assistance services and monitoring in the workplace. These are key factors for strengthening the transition to larger firms.

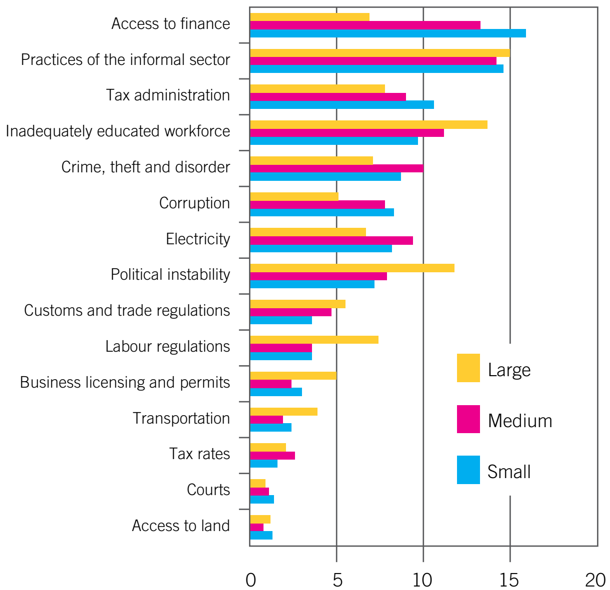
A negative consequence of this type of structure is that the concentration of workers in low productivity sectors limits the development of demand for skills or for innovation in most of the labour force. Additionally, it contributes to low earnings, which in turn results in reduced consumption and ultimately, few incentives to create enterprises. At the macroeconomic level, this context tends to maintain a suboptimal equilibrium of low wage income, low MSE profitability and low levels of savings, which do not provide sufficient domestic resources to finance a major investment. This vicious circle could explain – at least in part– the slow growth of aggregate productivity in the region.

MSE characteristics and dynamics

The large MSE sector is quite diverse. It encompasses everything from precarious agents to dynamic entrepreneurs who are at the forefront of the renewal and transformation of production and the economy. Nevertheless, the specialized literature has identified some shared characteristics of this segment.

One literature source is the World Bank (2012b), which surveyed enterprises on the main obstacles to their development. This information is disaggregated by enterprise size, starting with five workers. Figure 4 lists these obstacles according to the ranking of the responses of the smallest firms (five to 19 workers). The five most frequently cited obstacles are: access to finance, practices of the informal sector, tax administration, inadequately educated workers and crime, theft and disorder. Many of the barriers identified are associated with an environment that is not conducive to enterprise development. The order of priority is generally similar for all enterprise sizes, but in areas such as access to finance, the difference between smaller and larger firms is more significant.

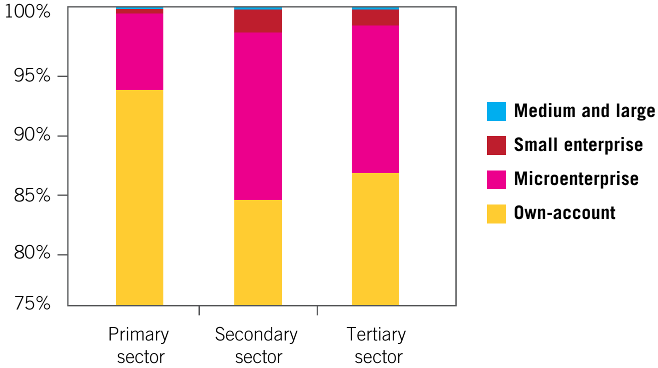
Figure 4. Latin America and the Caribbean: Biggest obstacle to business development 2010 (percentages)



Notes: Small (5-19 workers), medium-sized (20-99) and large (100 or more workers). Includes only formal sector enterprises of the manufacturing sector.
Source: ILO, based on World Bank data (2012b).

The specialized MSE literature has identified additional relevant factors. These include, for example, the lack of density of the productive fabric, which is reflected in incomplete inter-sector relations in terms of intermediate production linkages. Nearly all MSEs are concentrated in local markets with basic levels of organization. Linkages with large, sophisticated enterprises and external markets are indirect at best. A comparison of sectors reveals that the primary sector has the highest level of own-account employment whereas the secondary sector has the largest number of MSEs (Figure 5).

Figure 5. Latin America: People who report that they own a business and own-account workers by activity sector 2013 (percentages)

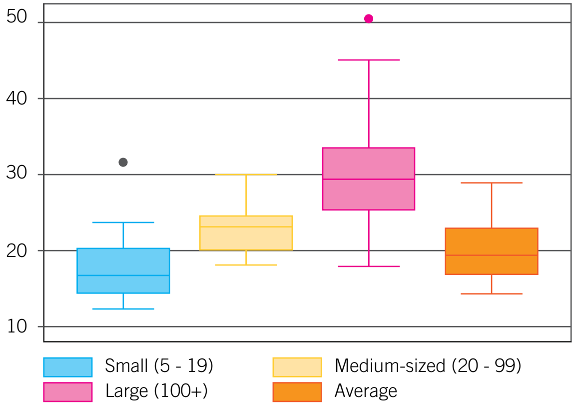


Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4.

A large share of MSEs in the region produces traditional goods that are not knowledge-intensive. They compete for prices with large scale production and/or with large commercial establishments. Due to the emphasis on cost reduction, this specialization profile hinders growth based on the creation of quality jobs (Reinert 1994). Possibilities for productivity gains, genuine growth and quality job creation depend on the type of linkages MSEs establish with other economic agents (Altenburg and Eckhardt 2006). To promote these linkages, improvements are needed in the approaches and tools used to analyze and develop services, policies and regulations in the environment where the value chain operates. Another key feature of MSEs mentioned in several studies is that these firms have high birth but also high mortality rates.

In other words, rates of new enterprise creation tend to be high in the region, but the firms created struggle to survive, especially during the early years, in comparison with those in other regions. There is little comparable empirical evidence at the regional level on the age of enterprises, especially in the smaller enterprise segment. Data from the World Bank's enterprise surveys reveal that larger enterprises tend to be older. While small enterprises (five to 19 workers) are less than 20 years old, on average, medium-sized enterprises (20 to 99 workers) have an average age of 25 years and large enterprises (100 or more workers) are 30 years old, on average (Figure 6).

Figure 6. Latin America and the Caribbean: Age of enterprise 2010 (years)



Notes: Small (5-19 workers), medium-sized (20-99) and large (100 or more workers). Includes only formal sector enterprises of the manufacturing sector.
Source: ILO, based on World Bank data (2012b).

Some studies show that in Argentina and Brazil, the rates of enterprise creation and destruction are around 12% and 8%, respectively. They also have identified a group of young enterprises with very rapid employment growth (IBGE 2008, Kantis and Federico 2014)[10]. The Statistical Institute of Jamaica (STATIN 2013) estimates that 6,000 firms are established in that country every year. However, the failure rate is approximately 50% after three to five years. Some studies indicate that only a small number of MSEs manage to grow beyond that enterprise segment.[11] The Global Entrepreneurship Monitor (2012) found that 64% of business closures result from losses and financial difficulties.

Demographic patterns of enterprises in the region point to the existence of enabling environments for new enterprises, but not for their consolidation (OECD and ECLAC 2012). Consequently, firms in the

10 The creation (or start-up) rate of enterprises refers to the ratio between new enterprises created in a year and the stock of existing enterprises. The destruction rate (or closure) of enterprises refers to the number of enterprises that cease operations in a specific year as compared to the stock of existing enterprises.

11 Failure rates are higher in Jamaica than in the other countries mentioned due to restrictions in the financial system (loan processing is complex, particularly for MSEs). Other reasons why few microenterprises manage to grow in that country include the economic crisis of the past decade and the devaluation of the Jamaican dollar, which triggered the decline in domestic consumers' purchasing power.

region have higher turnover rates than in more developed countries, which lead to increased labour mobility: to the extent that enterprises are created and destroyed, employment is created and destroyed. Better jobs tend to be concentrated in consolidated enterprises.[12]

The expansion of enterprises in operation is the main source of job creation whereas enterprise start-up and closure processes tend to be secondary sources. Given that the net growth rate of firms in the region can reach 2% in a year of economic growth and that these new enterprises create an average of four jobs during their first year, new enterprises contribute significantly to job creation.[13] Moreover, the contribution of new enterprises to job creation is not exhausted when the firms are created. To the contrary, young consolidated enterprises tend to have high growth rates, creating more jobs. An ILO (2015b) study found that while few start-ups grow above 10 workers, they still make a substantial contribution to job creation. By contrast, subsistence enterprises usually do not grow, but they do provide income and employment for the firm owner and his or her family.

A major gap exists in terms of education: only 13% of own-account workers have a tertiary education while 66% of employers of medium-sized and large enterprises have achieved that educational level. This indicator is 30% for microenterprise employers and 55% for employers of small enterprises (Table 1). The specialized literature emphasizes that many MSEs are limited by their managers' lack of skills to carry out processes of development, technology adoption and innovation or to enter new sectors or markets, which clearly represents a constraint to increased productivity. These differences reveal a strong asymmetry among entrepreneurial skills of employers of different-sized firms, and are another dimension of the heterogeneous nature of the region's production structure. The low level of formal education among employers reflects the difficulties MSEs face for accessing the human capital necessary to increase productivity. Moreover, there are few quality business services tailored to this type of employer, where investment in training and technical assistance is low.

Table 1 lists other characteristics of employers. MSEs are generally led by men. Women's participation among employers decreases as enterprise

12 A key area for study is the significant variation observed among the entry rate of enterprises (start-up rate). Entry density may well be a better reflection of the level of entrepreneurship and dynamism in an economy than data on the share of employment or job creation attributable to MSEs, and shows a greater covariation with income level of countries. (ILO 2015b).

13 See *Dinámica del Empleo y Rotación de Empresas*, MTEYSS (2003, 2013).

size increases. Women represent 26% of microenterprise employers; 23% of small enterprise employers; and just 15% of medium and large enterprise employers. Nevertheless, between 2003 and 2013, following the trend in women's increased labour force participation, the share of women in the group of employers also rose, by approximately 2% over the past decade. The largest increase in women's participation occurred in small enterprises, where it rose from 17% to 23% (Table A3 of the Annex). The lower participation of female employers and workers in MSEs –as compared with the segment that includes large enterprises and the public sector– suggests fewer opportunities for women in smaller enterprises (see the section below).

Table 1. Latin America: Number and characteristics of people who report that they own a business and own-account workers 2013 (percentages)

	Total employers and own-account workers	Own-account	Microenterprise employer	Small enterprise employer	Employer of medium and large enterprises
Educational level					
None and primary	53.9	57.1	33.8	14.2	6.2
Secondary	30.9	30.2	36.1	30.7	27.8
Tertiary	15.2	12.7	30.1	55.2	66.0
Sex					
Men	63.1	61.4	74.5	77.0	85.3
Women	36.9	38.6	25.5	23.0	14.7
Age					
Youth	7.8	8.5	3.2	1.5	0.9
Adult	92.2	91.5	96.8	98.5	99.1

Source: ILO estimates, based on information from household surveys of 18 countries. See footnote 4.

It is also noteworthy that 92% of firm owners are adults (over age 25). Percentages for this indicator increase with enterprise size, reaching 99% in the case of medium-sized and large firms. This is consistent with the literature on youth employment, which indicates that youth usually begin their working lives as wage earners. Opportunities for own-account employment or owning a business become more common in adulthood.

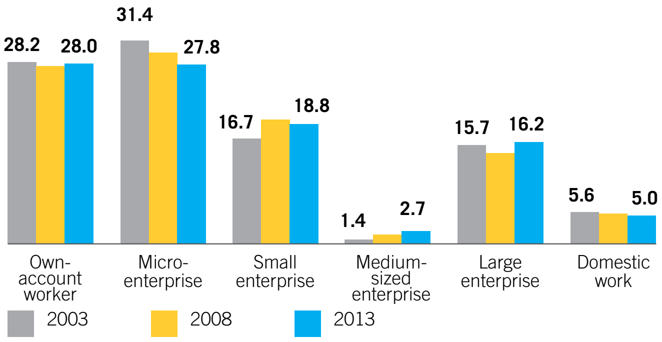
Employment and working conditions in MSEs

The concept of smaller enterprises hides marked differences in terms of their characteristics as economic units and with respect to the jobs they create. This section examines the main features of employment created in MSEs.[14]

High concentration of employment and less wage employment

As mentioned, a large share of workers in Latin America and the Caribbean is employed in very small economic units. This reality has changed little over the past decade (Figure 7). Own-account employment remains at approximately 28% of the total. Microenterprise employment has declined slightly, from 31% to 28%, compensated by a growth in employment in small enterprises, from 17% to 19%. Employment in medium-sized and large enterprises has also risen slightly, although it remains low in medium-sized enterprises.

Figure 7. Latin America: Structure of employment by enterprise size 2003, 2008 and 2013 (percentages)



Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4 and Table A4 notes in Annex 1.

14 Working conditions include issues such as occupational safety and health, number of hours worked, holidays, existence of child labour, equality, types of employment contracts, social security, wages, collective bargaining, unionization, etc. Although all are important, this section focuses on those with household survey information that can be compared across the region.

Wage employment is the leading type of employment in the region. Nevertheless, it is less common in microenterprises, where the percentage of wage workers is 71%, as compared to 97% for other firms. In 2013, moderate changes occurred in comparison with the previous decade (Table 2). Wage employment increased overall, which is attributable to wage employment in microenterprises and a decrease of contributing family workers, which practically exist in microenterprises only. However, the microenterprise sector reduced its share of employment with respect to 2003. Many of the labour gains of the past decade resulted from the relative increase in wage employment associated with the favourable economic cycle the region experienced and to specific public policies in several countries.

Table 2. Latin America: Structure of employment by status in employment and enterprise size, 2003 and 2013 (percentages)

	Total workers	Own-account worker	Micro-enterprise	Small enterprise	Medium-sized enterprise	Large enterprise
2003						
Own-account worker	28.2	100.0				
Employer	4.4		12.6	2.3	0.9	0.1
Wage-earner	60.0		64.4	96.8	98.6	99.8
Cont. fam. worker	7.1		22.3	0.3	0.3	0.1
Others	0.3		0.7	0.6	0.1	0.1
2013						
Own-account worker	28.0	100.0				
Employer	4.0		12.9	2.1	0.7	0.1
Wage-earner	63.5		71.2	97.4	99.1	99.8
Cont. fam. worker	4.4		15.8	0.2	0.1	0.1
Others	0.1		0.1	0.3	0.1	0.0

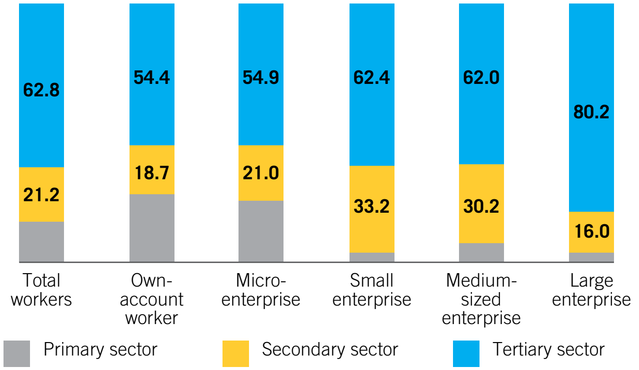
Source: ILO estimates, based on information from household surveys of 18 countries. Each column totals 100%. See Footnote 4 and Table A4 notes in Annex 1.

Specialization in the primary sector and in services of lower added value

As Figure 8 shows, own-account employment and employment in microenterprises are overrepresented in the primary sector (where agriculture predominates). Approximately 25% of employment in both categories is concentrated in this sector (10 percentage points above the percentage for total employment). These figures reflect the prevalence of employment in less capital-intensive activities of the primary sector, which concentrates a large share of contributing family workers. Employment in small and medium-sized enterprises is also relatively specialized in the secondary sector (accounting for over 30% of employment in these sectors), while employment in large enterprises and the public sector is concentrated in the tertiary sector (80% of the total).

Some studies have found that sector specialization characterizes MSEs and their employment. While these types of agents are present in most economic sectors, they tend to specialize in certain activities, in response to factors such as the basic requirements of economies of scale, capacities, complexity and other entry barriers (Caves 1998 and Burachik 2002).[15]

Figure 8. Latin America: Structure of employment by enterprise size and activity sector 2013 (percentages)



Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4.

15 An analysis of economic activities with high (retail trade, construction, agriculture and services with low human capital requirements), intermediate and low labour mobility –mainly the manufacturing industry with its requirements for economies of scale and complex services (Davis et al 2006, Castillo et al 2012)–reveals that employment of smaller enterprises is concentrated in segments of higher labour mobility.

A more disaggregated analysis at the sector level reveals that microenterprise employment is highly concentrated in the retail trade and in some services of low added value. Employment in small enterprises also demonstrates an important concentration in retail trade and in low-tech manufacturing. In some countries, construction also accounts for a large share of MSE employment. By contrast, in medium-sized enterprises, manufacturing is the sector with the largest share of workers in several countries, although retail trade maintains its relative weight. In large enterprises, manufacturing and some services of higher added value (telecommunications and financial intermediation) account for the majority of employment (OECD and ECLAC 2012, Ferraro 2011).

Difficulties for incorporating human capital

Recently, several countries in the region have made significant progress in education, which has led to improved access and coverage, especially in terms of the progressive increase in the number of years of schooling of the economically active population. In the period 2003-2013, workers with a secondary school education increased by nine percentage points. The group of workers with a tertiary education also rose (by 4.6 percentage points), from 18% to 22% of the employed population. Despite these advances, the region still lags behind in terms of access, coverage and number of years of schooling of the population, as well as in the quality of education.

The educational level of the labour force differs by enterprise size (Table 3). In 2013, 57% of own-account workers and 43% of those employed in microenterprises had a primary school education only, as compared with 13% of workers in large enterprises. By contrast, the share of workers with a tertiary education is higher in larger enterprises (reaching 50%) but represents just 15% of microenterprise workers. With respect to 2003, the main difference is the increased share of workers with secondary and tertiary education in all categories of firm size; nevertheless, gaps by enterprise size remain.

Table 3. Latin America: Educational level of workers by enterprise size 2003 and 2013 (percentages)

	Total workers	Own-account worker	Micro-enterprise	Small enterprise	Medium-sized enterprise	Large enterprise
2003						
None and primary	52.2	68.8	56.8	39.6	28.3	20.9
Secondary	29.7	21.5	30.7	38.9	36.6	34.2
Tertiary	18.1	9.7	12.5	21.5	35.2	44.9
2013						
None and primary	39.1	57.1	42.9	27.2	19.0	12.7
Secondary	38.2	30.2	41.8	45.3	43.9	37.2
Tertiary	22.7	12.7	15.2	27.5	37.1	50.1

Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4 and Table A4 notes in Annex 1.

This contrasts with the fact that some 37% of MSEs in the region consider the skills gap as a major obstacle to their regular operation.[16] Here again is a vicious circle. On the one hand, the low productivity, income and poor working conditions in which MSEs operate discourages human capital investments and/or attracts fewer skilled workers. On the other, the lack of qualifications generates and contributes to lower productivity, income and working conditions. Medium-sized and large enterprises are in a better position to offer higher wages and more attractive incentives, along with possibilities for promotion and internal mobility, a reputation associated with the firm and training opportunities within the enterprise, among other advantages. This situation is further complicated by the fact that

16 World Bank (2012b).

knowledge transfer channels among enterprises also have limitations given the fragmented production structure of the region.[17]

Countries of the region have addressed these challenges through programmes tailored to the needs of the production sector and MSEs. However, decisive government action is needed to strengthen institutions and policies to better align the education system with the labour market, fostering training paths that combine classroom learning with on-the-job training, adding new skills and abilities to training curricula; develop certification programmes for acquired skills and abilities; maintain flexibility and adaptability in the education supply; and establish institutional frameworks to promote cooperation among SMEs (OECD and ECLAC 2012). Technical and professional training systems are essential, but smaller enterprises have more difficulties in accessing them given that these systems are generally designed to meet the needs of formally established enterprises only (ILO 2008).

High level of participation of youth and barriers to women's participation

Overall, the region has made advances in women's labour market inclusion in terms of increasing their labour participation rates and employment-to-population ratios. Nevertheless, significant gaps exist between the labour force participation rate of men and women, with the rate among women being 30% lower than that among men (ILO 2014c). This figure underscores the difficulties inherent in closing gender-based employment gaps. Women also face higher unemployment rates, earn lower wages and are more likely to be informally employed (ILO 2014c).

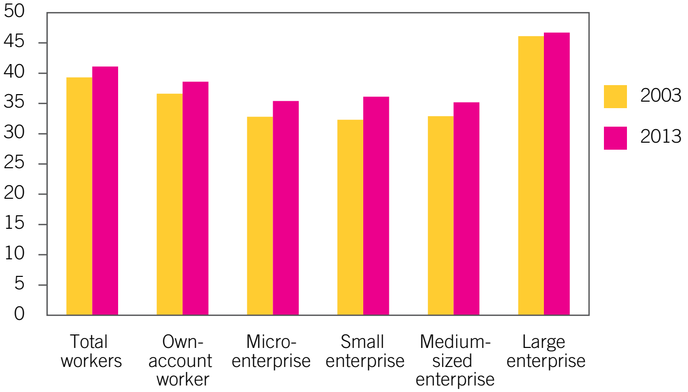
In 2013, women accounted for 41% of total employment, as compared with 39% in 2003. The growth in women's employment was higher in MSEs, where working conditions are less favourable. In general, 2013 figures by firm size point to women's lower participation in all enterprise segments. The gap is particularly wide in microenterprises

17 The literature defines three main knowledge transfer mechanisms among enterprises of different sizes: i) imitation of good production and management practices; ii) labour mobility; and iii) development of supply chains (Dahl 2002, Lundmark and Power 2004). Nevertheless, asymmetries in working conditions, which are more significant than in the economy as a whole, greatly limit the possibilities for knowledge transfer from the modern sector to other sectors. A study in Costa Rica demonstrated that knowledge transfer occurs mainly within the modern sector, from large firms to the smaller ones with which they maintain linkages (Monge-González 2009).

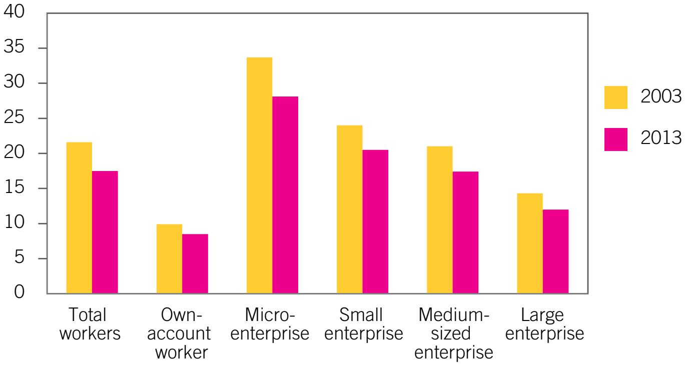
(where women account for 35% of employment), in small enterprises (36%) and in medium-sized enterprises (35%). Only in large enterprises does the women's employment rate exceed the average (Figure 9).

Figure 9. Latin America: Share of youth and women in employment by enterprise size 2003 and 2013 (percentages)

a. Women (percentage)



b. Youth 15-29 (percentage)



Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4 and Table A4 notes in Annex 1.

An analysis by enterprise size reveals that youth (15 to 24 years) face even greater employment difficulties. In the period 2003-2013, their employment rate declined (from 22% to 18%). Several studies have associated this trend with youths' increased permanence in school

(ILO 2014c; ECLAC and ILO 2013). However, youth employment in microenterprises has also risen sharply. Youth employment declines as enterprise size increases. For many youth, microenterprises are the gateway to the labour market. This suggests that many of the characteristics of youth employment, such as job instability and high levels of informality, actually correspond to the profile of jobs created in microenterprises.

Sixty-seven percent of workers under age 25 find their first jobs in MSEs (as compared with 42% of adults). Many youth begin their working lives as contributing family workers in microenterprises. This type of employment can be explained both by the low-income situation of some families and by the fact that it enables youth to acquire knowledge and skills in certain fields, which facilitate their subsequent access to a job and earnings (ILO 2008a).

Moreover, the limited participation of youth in own-account employment is attributed to the fact that youth are still in a formative stage (ILO 2008a). Own-account work or entrepreneurship often becomes more of an option in adulthood.

Several ILO studies have stressed the need to ensure that youth begin their working lives under favourable conditions, whatever their status in employment, because first jobs have a significant impact on future work and personal paths (ILO, 2007; 2010 and 2014d). A recent study by Dema et al (2015) found that a quality first job significantly improves young people's working conditions in future jobs.

A large number of informal enterprises and high rates of informal employment

In the MSE sector, lower productivity levels lead to less favourable working conditions for their workers, which in turn contribute to higher levels of informality. This also implies greater difficulties for accessing contributory social protection systems such as healthcare.

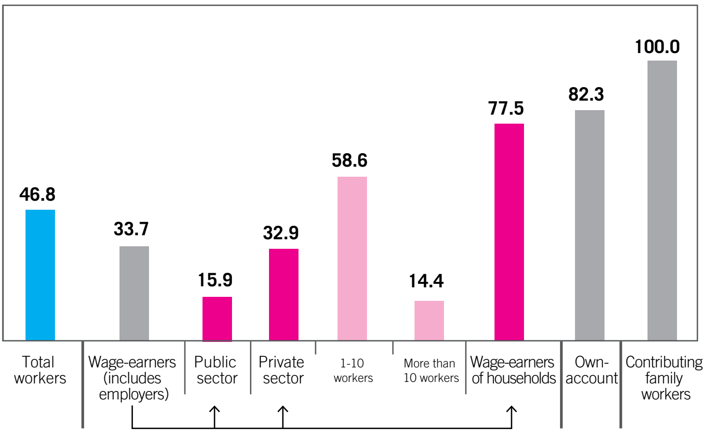
Statistics confirm the high informality rates among smaller enterprises. Nearly 60% of employment in enterprises with a maximum of 10 workers in Latin America is informal, according to ILO data for 2013.[18] Additionally, own-account workers and enterprises with a maximum

18 Levels of informality vary in enterprises given the different types of formality: tax, registration, property, etc.

of 10 workers account for nearly 70% of all informal employment in the region. 78% of household wage earners (domestic workers) are informal.

Informality is a multifaceted phenomenon in which a variety of economic, structural, institutional and political factors come into play, as discussed in the International Labour Conferences of 2014 and 2015. Informality refers to the informal sector (of the enterprise) and informal employment (of the worker). Just because an enterprise is formal is no guarantee that employment will be formal and vice versa.

Figure 10. Latin America: Non-agricultural informal employment by enterprise size 2013 (percentages)



Source: ILO (2014a).

An ILO (2014a) study highlights four factors that strongly influence the level of formalization of production units, particularly MSEs. First, these enterprises' low productivity impedes them from assuming the costs of formalization. Second, burdensome procedures and inadequate regulation of these enterprises hinder formalization. Third, enterprise owners believe formalization provides few advantages, and fourth, there is limited labour inspection and a lack of social control.

Countries of the region have implemented a variety of policies to promote enterprise formalization. These can be grouped into four main areas, according to the ILO (2014b) and Deelen (2015). First are policies to streamline and reduce costs of administrative procedures for start-ups. The most common strategies to facilitate the establishment of new firms are: 1) one-stop shop services; 2) business licensing reform; 3) administrative deadlines and positive administrative silence; 4) reduction or elimination of minimum capital requirements, 5) new legal arrangements for microenterprises; 6) simplification of administrative processes; 7) electronic services; and 8) information and increased dissemination.

A second group of policies focus on tax incentives such as: 1) special tax regimes for MSEs; 2) simplified accounting systems, reporting requirements and tax payment arrangements within the general tax regime; 3) information and technical assistance; and 4) improved inspection to reduce tax evasion. In some countries, the existence of incentives for small enterprises has been associated with potential disincentives for scaling up to larger enterprises, which are not eligible for these benefits (Deelen 2015).

Box 1. Formalizing enterprises and employment in Peru

A subject that has received little attention until recently is the relationship between the process to formalize enterprises and its link with formalizing employment. Naturally, this process varies by country. In Peru, the procedure has several stages.

- A first step for formalizing an enterprise is to register it with the tax authority (SUNAT) to obtain a Tax Registration Number (RUC). Just 30% of MSEs (individuals who claim to own a business) have a RUC.
- In addition to a RUC, new enterprises require an operating license issued by the local municipality. A survey of MSEs registered with the tax authority (EMYPE 2013) found that just 69.2% had a municipal operating permit.
- An enterprise is registered (as a formal enterprise) when it has a RUC and an operating permit; however, this does not necessarily guarantee the formalization of its workers (formal employment). In order to formalize their workers, enterprises must register their payroll (an obligation for firms with three or more workers). The survey found that just 56.8% of enterprises with a RUC had registered their payrolls.

These statistics demonstrate that enterprise formalization is not necessarily equivalent to employment formalization.

Source: Survey of Micro and Small Enterprises - EMYPE. www. inei.gob.pe/ bases-de-datos

A third type of policy centres on access to social security, which is associated with the limited contributory capacity of firms and their irregular income. Informal microenterprises frequently cut costs by reducing social security payments and at times by incorporating contributing family workers. In this case, efforts should be made to identify characteristics of general social security systems that favour the formalization of employment in economic units. These include: 1) progressive payments; 2) payment subsidies; 3) a basic tax-financed plan; and 4) a reduction in the administrative costs of the social security system.

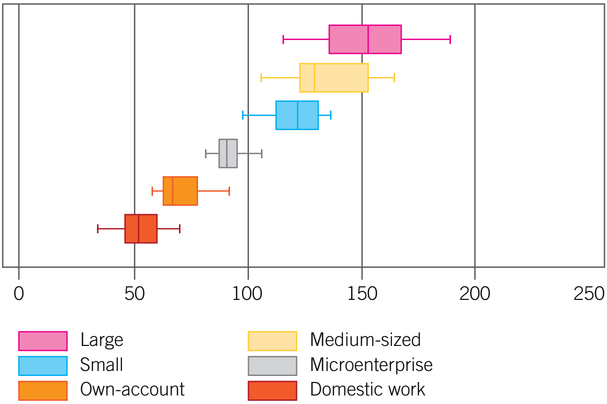
Finally, small enterprise control policies serve to complement legislative reforms to promote the formalization of MSEs with information campaigns and training activities. Officials of the administrative entities that interact with employers should be trained to enable them to transmit the correct information, provide efficient services and process requests in accordance with regulations. Training programmes and information campaigns for employers and workers should also be expanded to ensure that these individuals have access to important information about their rights and responsibilities.

According to the report T*ransitioning from the informal to the formal economy* (presented at the International Labour Conferences in 2014 and 2015), results have been most promising in cases where integrated approaches were adopted. An integrated policy framework should prioritize sustained economic growth with quality employment; improve the regulatory framework; strengthen institutions; promote social dialogue; favour the organization and representation of workers; promote equality and the elimination of all types of discrimination; support entrepreneurship; and contribute to increased vocational skills, financing, social protection and local economic development.

Wage gaps and income distribution

Figure 11 demonstrates that inequality in earnings –which reflects differences in educational levels and other factors – is strongly associated with enterprise size. Average earnings of own-account workers and microenterprise workers are 30% and 10%, respectively, below the average for all workers, according to 2013 figures. Own-account workers earn just 47% of what workers employed in large enterprises earn. For microenterprise workers, this figure is 62% while workers in small enterprises earn 82% of what their counterparts in large enterprises earn (Figure 11).

Figure 11. Latin America: Earnings by enterprise segment in relation to average wages 2013 (percentages)



Notes: Average monthly earnings of each enterprise size or category / Average monthly earnings of all workers (100 = monthly earnings of all workers).
Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4.

Earnings dispersion among microenterprises tends to cluster around very low averages. Workers in small, medium-sized and large enterprises earn more than the average for their economies, by 24%, 23% and 54%, respectively, and the dispersion is also larger.

Wages largely depend on productivity levels and trends. The wide gaps between the wages paid in each enterprise segment grow even larger as productivity gaps increase. In other words, the dissimilar level and growth of productivity largely explain the fact that remuneration of workers in the modern segment far exceeds that of other enterprise sectors. Moreover, a large percentage of workers remain in the lowest productivity segment. Accordingly, the unequal distribution of income in the region is firmly rooted in this sector heterogeneity and in the gap in productivity rates across enterprise segments.

Estimates for 2013 with respect to the distribution of workers by labour earnings quintiles demonstrates that approximately 22% of own-account workers and 16% of microenterprise workers belong to the 20% of households with the lowest income. Among large enterprises, just 3% of workers are in the group of lowest-income households. There was little change in this distribution pattern between 2003 and 2013, which suggests that it is a structural trend (Table 4).

Table 4. Latin America: Structure of employment by enterprise size and income quintile 2003 and 2013 (percentages)

	Total workers	Own-account worker	Micro-enterprise	Small enterprise	Medium-sized enterprise	Large enterprise
2003						
Quintile I	15.7	23.7	19.3	5.6	2.7	3.4
Quintile II	19.9	22.2	22.7	15.2	13.0	10.3
Quintile III	20.4	19.9	20.8	20.1	21.3	18.2
Quintile IV	22.5	19.1	20.5	27.5	29.4	28.3
Quintile V	21.5	15.1	16.7	31.5	33.6	39.8
2013						
Quintile I	14.0	22.4	16.1	6.6	4.0	2.7
Quintile II	20.0	22.9	22.9	16.8	11.8	9.3
Quintile III	20.3	19.6	21.4	19.7	21.4	18.0
Quintile IV	23.4	19.2	22.0	27.2	28.9	29.7
Quintile V	22.3	15.9	17.7	29.6	33.9	40.4

Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4 and Table A4 notes in Annex 1.

Labour institutions such as the minimum wage – which tends to reduce wage gaps – are difficult to enforce in smaller enterprises. In addition to institutional factors associated with control, minimum wage compliance in the region depends on the gap between this wage and the average wage in the economy. In sectors where the minimum wage is excessively high, non-compliance rates tend to be higher (Marinakis 2014). In other words, workers in smaller enterprises in the region are less protected by the minimum wage as compared with workers in larger enterprises. Reasons for this include: (i) wage employment is less common in smaller enterprises; (ii) minimum wage compliance tends to be more difficult among enterprises of lower productivity; (iii) government control is more limited, and labour inspection is less common in rural areas and in smaller firms; and (iv) union representation in microenterprises is practically non-existent.

Union membership and collective bargaining

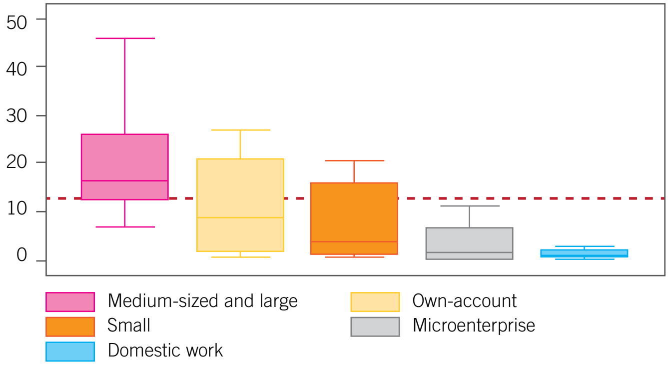
Labour relations and collective bargaining play a key role in improving job security and working conditions. For this reason, the ILO urges MSEs and their workers to ensure representation, in accordance with the principle of freedom of association and the right to organize. However, labour relations continue to be fragile and union membership rates are low in MSEs.

The restricted union representation in smaller enterprises limits possibilities for participating in negotiations to improve working conditions and the defense of workers' rights. Workers in these enterprises must rely on government interventions or individual actions from a position of increased vulnerability to exercise their rights.

The importance of unionization (measured as the number of unionized workers as a share of total workers) varies significantly among the countries of the region, depending on national law and the different contractual arrangements, such as subcontracting, which may discourage worker organization.

According to 2013 estimates for nine countries of the region, unionization rates increase as enterprise size increases. In small, medium and large enterprises this rate is less than 16%, on average, but is especially low in microenterprises, at just 5% (Figure 12).

Figure 12. Latin America: Unionized workers 2013 (percentages)



Source: ILO estimates, based on information from household surveys of nine countries. See Footnote 4 and Table A4 notes in Annex 1.

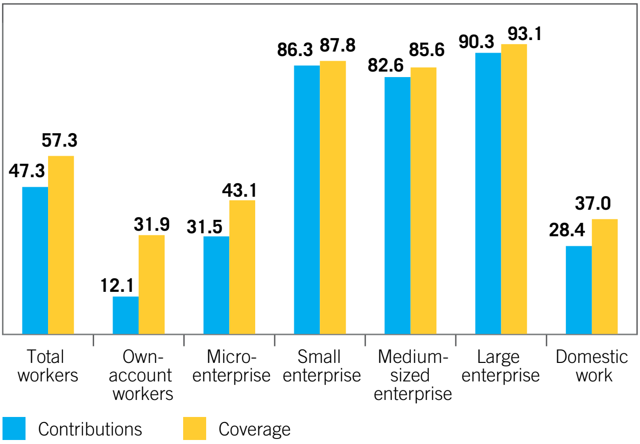
Social contributions and healthcare coverage

According to information for 2013, 47% of workers in the region contribute to some sort of healthcare system although 57% are covered through non-contributory regimes (Figure 13). These average values hide significant gaps among workers in enterprises of different sizes.

Just 12% of own-account workers contribute to a healthcare system versus 31% of microenterprise workers. Over 90% of workers in large enterprises pay into a healthcare system.

The coverage indicator follows a similar trend, although rates are higher due to the existence of non-contributory regimes. Own-account workers are the most vulnerable group given that just 32% have healthcare coverage. Similarly, only 43% of microenterprise workers receive healthcare benefits. The SME segments present a different scenario, with considerably higher coverage rates, although with variations: in small and medium-sized firms, approximately 86% of workers have coverage whereas the percentage is 93% for those working in large enterprises.

Figure 13. Latin America: Social security (health) contributions and coverage (percentages)



Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4 and Table A4 notes in Annex 1.

The low healthcare coverage rates in the region reflect the high levels of labour informality, which in turn is associated with the predominance of own-account employment and employment in microenterprises documented in this report. Individuals excluded from formal employment are also excluded from social protection institutions such as the healthcare system.

The high level of vulnerability of workers employed in the smallest enterprises underscores the need to achieve more inclusive social protection systems through social dialogue.

Conclusions and policy recommendations

This study highlights the crucial importance of MSEs in Latin America and the Caribbean for the development of labour markets and job creation. It also stresses the need to promote their productive transformation and increased productivity to further inclusive economic and social development.

Production structure and labour overview

The region's production structure has a high concentration of MSEs with low productivity levels. These enterprises are responsible for a large share of employment. MSEs have few linkages with larger enterprises, which limit their growth and possibilities for technology adoption.

In terms of employment, this situation is reflected in major gaps in decent work and working conditions with respect to larger firms: quality of employment, earnings, productivity, educational levels, social security coverage, level of unionization and informality. This report illustrates the magnitude of these gaps in all of these dimensions, for example:

- The wide productivity gap: large enterprises have productivity rates up to 16 times higher than those of small firms.
- The percentage of contributing family workers (unpaid) in microenterprises is 16% and less than 1% in large enterprises.
- Average wages of own-account workers are between 52% and 47% of wage earnings of workers in medium-sized and large enterprises. For microenterprise workers, these percentages are 68% and 62%, respectively.
- Just 15% of microenterprise workers have a tertiary education, as compared with 28% of those in small firms, 37% in medium-sized enterprises and 51% in large firms.
- Only 12% of own-account workers and 32% of microenterprise workers pay into healthcare systems, as compared with 80% of workers in larger enterprises.
- Healthcare coverage rates surpass social security contribution rates in all enterprise segments, but gaps continue to be large: 32% for own account workers, 43% for microenterprise workers and over 85% for those working in larger firms.

- Although workers' participation in representative organizations or unions is limited in enterprises of all sizes, it is much lower in microenterprises, which affects workers' freedom of association and collective bargaining rights.

The predominance of MSEs and own-account employment is a key contributing factor to the high informality rates characterizing the region given that these sectors account for three of every four informal jobs in Latin America and the Caribbean.

To address this issue, productive development policies are needed to transform, diversify and better link the production structure, promote a more knowledge-intensive production with higher productivity and thus to generate more and better jobs. These policies should be aligned with labour, education and training policies that improve employment quality and respect for labour rights.[19]

Production and labour agendas should be coordinated rather than separated as they frequently are today. International experience demonstrates that these policies are mutually reinforcing and therefore should be aligned.

Growth model

It is also clear that in Latin America and the Caribbean, growth alone has been insufficient to modify gaps in productivity, working conditions and informality rates among enterprises of different sizes. This has occurred throughout the history of the region and also applies to the recent period of high growth, which has now ended in most of the countries in the region.

The productive specialization typical of the region, which is highly dependent on commodities and lacks diversity and economic complexity, generates low-tech activities, few linkages and a wide range of productivity levels across activities and regions.

The predominance of MSEs not only leads to major gaps in terms of decent work and employment quality; it also hinders inclusive economic and social development.

19 See, for example, Salazar-Xirinachs, et al (2014) and Salazar-Xirinachs (2015).

Sustainable enterprises: environment, productivity, employment quality and inequality

There are four closely-related characteristics in this area: an environment that is not conducive to the development of sustainable enterprises; heterogeneity of the production structure; less favourable working conditions in MSEs; and inequality.

According to surveys of firms, the main constraints to MSE development include: access to financing; competition of the informal sector; tax systems; an inadequately educated labour force; and crimes, theft and disorder. These and other environmental factors negatively affect business development in general and that of MSEs in particular. An environment that is not enabling for enterprise development is behind the enormous productivity gaps observed, as well as the gaps in productive, quality employment.

Several studies have demonstrated that income inequality is rooted in a highly heterogeneous production structure. In other words, inequalities are based on the extremely diverse growth and productivity rates, which combine a few sectors with high productivity and wages with a large majority of sectors and activities of low productivity and earnings.

A more enabling environment would eliminate these and other obstacles to MSE growth and would help to enlarge the segment of medium-sized enterprises. This is the structural change the region needs to increase its productivity, create more and better jobs and reduce inequality.

An enabling environment for sustainable enterprises must be developed with the participation of social partners, and in keeping with the Tripartite Conclusions of the 2007 International Labour Conference (ILC) and the Conclusions concerning Small and Medium-sized Enterprises and Decent and Productive Employment Creation of the 2015 ILC.

Policy recommendations

The objectives of diversifying the economy and creating more and better jobs cannot be achieved without MSE support policies. These should be a mix of productive development, labour market, education and training policies, along with the following measures and others set forth in the Conclusions concerning Small and Medium-sized Enterprises and Employment Creation (ILC 2015):

- Simplify or revise burdensome regulations.
- Increase access to financing.
- Support enterprise formalization and expansion.
- Promote initiatives for the establishment of new enterprises and for strengthening young firms in their early development stages, when there is a greater chance of failure.
- Establish clusters, networks and connections to technological platforms, and promote value chains and local economic development
- Address the deficit in decent work and productivity with measures such as:
  - Support to the implementation of more modern management models in which workers and managers work together to incorporate processes of innovation, continuous improvement, skills-based training and measurement of advances.
  - Strengthening of the role of workers in innovation and continuous improvement processes in smaller enterprises.
  - Strengthening of skills-based training systems.
  - Strengthening of labour inspection to ensure compliance with labour rights.

Nearly all countries of the region have MSE support programmes or policies, which can be improved in terms of design and implementation.

Existing programmes cover a wide range of interventions: training, technical assistance, financing for technological modernization and innovation, as well as increased linkages and productive clusters, business incubators and accelerators, mentorships and others. Programmes in the different countries focus mainly on improving MSE productivity and competitiveness. Frequently, they target MSEs with the best potential for growth and participation in international markets.

These MSE support policies have a variety of objectives, which are not always in line with the country’s development strategies. Additionally, few resources are allocated for promoting these types of firms (SELA, 2015). The diversity of objectives and limited targeting of these interventions make them less effective. Analyzing such a large, varied set of support policies without prioritizing issues or clearly defining goals may lead to the implementation of broad-based, ambiguous programmes that produce results which are difficult to measure, at least in the short term. They may also result in interventions of which beneficiaries take only partial advantage.

More often than not, these initiatives have ignored the heterogeneous nature of MSEs, not only in terms of size but fundamentally with respect to age, sector, growth capacity, role of technology and other factors. In other cases, the underlying mechanisms affecting the quantity and quality of employment in market systems and value chains have not been analyzed.

Important advances have been observed, however. Some countries have progressed in the design of specific instruments that introduce some distinctions to improve targeting within the universe of policies to promote smaller enterprises. For example, some countries consider the different stages in the lifecycle of the firm to design specific policies (in Brazil, for example, there are policies for entrepreneurs who want to create a business and for enterprises that are less than two years old). Others differentiate enterprises to reflect different stages in micro, small and medium-sized enterprise development (for example, start-up, gazelle and tractor enterprises in Mexico). This helps improve resource allocation and the eligibility of the different types of firms to support programmes. Overall, however, the impact of support tools is unknown given the lack of monitoring and rigorous evaluation of results.

More progress is needed is aligning productive development, labour and human resource policies. This involves making the labour component the central focus of the MSE development agenda. In other words, to improve MSE productivity also requires increasing employment quality. This means going beyond the narrow perception of productivity in terms of efficiency only (produce more with less) to acknowledge the need not only to produce more but to produce better. Tools exist to guide enterprises in this process, such as the ILO's Score Programme (Box 2).

Box 2. The ILO's SCORE Programme

The ILO has prioritized improving the productivity of small enterprises, with an emphasis on the relationship between working conditions and productivity of firms. Improvements in working conditions and skills are a source of productivity. Unfortunately, many small and medium-sized enterprises in the region still view labour conditions only in terms of costs rather than advantages.

One ILO initiative in this direction is the SCORE programme (*Sustaining Competitive and Responsible Enterprises*), which provides support to SMEs to promote their growth and quality job creation by increasing competitiveness, quality, productivity and good practices in the workplace. The programme promotes a change in management style and cooperation to generate improved labour relations and to foster communication between managers and operators in the workplace.

In firms where the programme was implemented, the workplace climate improved, production became cleaner, there were fewer work-related accidents and productivity increased. With support from local partners, and in close coordination with governments and employers' and workers' organizations, the programme offers training for workers and managers, followed by technical assistance visits to firms and advisory services tailored to the specific needs of each firm. Although the ILO focuses its intervention on small and medium-sized enterprises, some large enterprises are also using the methodology through the network of private suppliers of SCORE services created in the countries.

The SCORE methodology has been applied in over 90 enterprises in the Andean region, directly and indirectly benefiting thousands of workers (Table A2 of the Annex). With SCORE, the ILO has contributed a practical tool for promoting decent work while at the same time increasing productivity.

Source: http://www.ilo.org/empent/Projects/score

Improving production involves strengthening the concept and culture of quality as a fundamental dimension of production and productivity. This entails improving the quality of education, vocational training, human resource management and working conditions, as well as the efficiency of the production process with the introduction of innovation in the workplace.

Programmes such as SCORE demonstrate that it is possible to improve business performance and working conditions at the same time through the strengthening of business management systems that focus on workplace cooperation, quality, human resources, cleaner production and occupational safety and health.

Advances achieved through the strengthening of management systems and labour relations within firms should be complemented by efficient, effective systems of inspection and labour administration. Both are key components of a policy and governance framework that promotes labour relations that reduce decent work deficits in MSEs and increased compliance with labour law.

Aligning productive development and labour policies should not be limited to production units only; it should also encompass sector environments, value chains and the economy as a whole. There is a growing consensus that large enterprises and leaders should assume responsibility for the quality of their goods and production processes in their own and their suppliers' workplaces, as well as for the management of labour, social and environmental aspects in their supply chains. This issue will be discussed at the ILO's International Labour Conference in 2016.

Finally, among recent trends in policies to support MSEs, there has been a heightened awareness of environmental sustainability, which aims to increase green activities in enterprises to facilitate their entry into markets of ecological goods or services.

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Annex

Annex 1

Table A1. Examples of size definitions adopted by the countries (six countries)

		Microenterprise	Small enterprise	Medium-sized enterprise
Argentina[1]	**Maximum annual sales by sector**	US$ 148,000 - 600,000	US$ 1 million – 3.5 million	US$ 6 million - 28 million
Brazil[2]	**SEBRAE (workers)**	1-9 (manufacturing and construction)/1-9 (trade and services)	20-99 (manufacturing and construction)/10-49 (trade and services)	–
	SME Statute (annual billing)	US$ 150,000	US$ 1.5 million	–
Chile[3]	**SME Statute (sales)**	US$ 110,000	US$ 1.1 million	US$ 4.5 million
	10 - 49	50 - 199		
Colombia[4]	**11 - 50**	51 - 200		
	US$ 1.4 million	US$ 8.9 million		
Mexico[5]	**11-30 (trade)/11-50 (manufacturing and services)**	Up to 100 (trade and services)/ Up to 250 (manufacturing)		
	US$ 8 millions	US$ 20 million		
El Salvador[6]	**11 - 50**	51 - 100		
	US$ 1 million	US$ 7 million		

Source: ILO, based on Goldstein and Kulfas (2011).

Notes:
1 Sales volumes are established by sectors, with agriculture (and trade) have the lowest volumes and manufacturing and mining having the highest.
2 There is no unified classification system. Besides those presented, there are those of the Brazilian Institute of Geography and Statistics (IBGE) and the National Economic and Social Development Bank (BNDES).
3 According to the SME Statute, classification is by sales, except where regulations state otherwise.
4 Both criteria must be fulfilled.
5 A combined maximum is established = (workers) x 10% + (annual sales) x 90%.
6 Both criteria must be fulfilled.

Table A2. Results of the SCORE Programme of the ILO Office for the Andean Countries

Country	Description	Some results
Colombia	Since 2010, with support from local partners, SCORE has been working with the flower and textile production and private security sectors. During Phase I, the programme helped improve labour relations and productivity in 35 SMEs. SCORE's Module 1 was subsequently applied in 20 firms that supply the mining sector (coal, gas and salt).	Results reported by participating enterprises include: › 61% of SMEs adopted the practice of daily meetings with workers and managers, resulting in a significant increase in both trust and communication to strengthen collaboration. › 54% of enterprises reported savings in production costs. › 43% of SMEs adopted quality policies. › 24% of organizations reported a decline in complaints thanks to improvements in the workplace environment. › 18% of enterprises reported a reduction in the use of materials. › Enterprises reported a 14% decrease in waste materials.
Peru	The SCORE pilot programme in Peru focused on agricultural export firms, with funding from Canada's Ministry of Employment and Social Development and the ILO. Module 1 was implemented in 12 enterprises and Module 5 was implemented in 8 enterprises. The pilot programme benefitted approximately 4,540, either directly or indirectly.	SCORE results in 12 enterprises during the first three months of implementation are: › Cost savings ranging from USD 400 to USD 11,000 › A 20% decrease in job absenteeism. › A 20% reduction in work-related accidents. › A 43% increase in production levels. › Reduction in staff turnover (by an average of 45%). › Use of unused physical spaces in maintenance area (5%-30%).ç Results of the SCORE pilot programme in Peru included: Workplace cooperation between managers and workers has improved. For example, a worker presented an idea that innovated the avocado peeling process in one firm, which directly improved production and product quality and reduced work-related accidents and incidents. The implementation of a system to collect suggestions and hold daily meetings with workers in one area of production led to a 40% production increase. Innovative ideas from workers helped improve the design of work clothes for asparagus harvesting, contributing to workers' comfort and their use of protection equipment. Occupational health and safety systems were strengthened in firms through training in the identification of dangers and risk assessments by workers, which contributed to improving productivity by avoiding work accidents and incidents. The workplace environment and teamwork have improved in the enterprises. For example, the open door policy has become a good practice in firms where SCORE was implemented.
Bolivia	In Bolivia, the implementation of the SCORE programme promoted dialogue between the three main actors in the world of work: the Confederation of Private Entrepreneurs of Bolivia, the Bolivian Workers' Union and the Ministry of Labour, Employment and Social Protection. The tripartite roundtable of these constituents has assumed responsibility for programme planning and monitoring. SCORE has been implemented in 18 enterprises to date.	Participating enterprises reported the following results during the initial implementation phase in Bolivia: › A 22% decrease in job absenteeism. › A 44% reduction in work-related accidents. › A reduction in staff turnover (average, 44%). › A 33% reduction in product defects.

Table A3. Latin America: Characteristics of employers and own-account workers, by sex and enterprise size. 2003, 2008 and 2013 (percentages)

		Total Employers and own-account workers	Own-account	Microenterprise employer	Small enterprise employer	Employer of medium-sized and large enterprises
By sex						
2003*	**Total**	100.0	100.0	100.0	100.0	100.0
	Men	65.5	63.4	78.2	82.8	88.1
	Women	34.5	36.6	21.8	17.2	11.9
2008	**Total**	100.0	100.0	100.0	100.0	100.0
	Men	63.3	61.1	75.7	79.3	85.7
	Women	36.7	38.9	24.3	20.7	14.3
2013	**Total**	100.0	100.0	100.0	100.0	100.0
	Men	63.1	61.4	74.5	77.0	85.3
	Women	36.9	38.6	25.5	23.0	14.7
By age						
2003*	**Total**	100.0	100.0	100.0	100.0	100.0
	Youth	9.2	9.9	4.5	2.6	0.5
	Adult	90.8	90.1	95.5	97.4	99.5
2008	**Total**	100.0	100.0	100.0	100.0	100.0
	Youth	8.5	9.4	3.4	1.8	0.4
	Adult	91.5	90.6	96.6	98.2	99.6
2013	**Total**	100.0	100.0	100.0	100.0	100.0

(continued)

		Total Employers and own-account workers	Own-account	Microenterprise employer	Small enterprise employer	Employer of medium-sized and large enterprises
	Youth	7.8	8.5	3.2	1.5	0.9
	Adult	92.2	91.5	96.8	98.5	99.1
By educational level						
2003*	Total	100.0	100.0	100.0	100.0	100.0
	None and primary	65.2	68.8	43.8	20.9	20.6
	Secondary	22.5	21.5	29.4	29.5	23.7
	Tertiary	12.3	9.7	26.9	49.6	55.7
2008	Total	100.0	100.0	100.0	100.0	100.0
	None and primary	58.6	62.3	38.2	16.1	9.1
	Secondary	28.2	27.2	34.7	30.0	18.3
	Tertiary	13.2	10.5	27.1	54.0	72.6
2013	Total	100.0	100.0	100.0	100.0	100.0
	None and primary	53.9	57.1	33.8	14.2	6.2
	Secondary	30.9	30.2	36.1	30.7	27.8
	Tertiary	15.2	12.7	30.1	55.2	66.0
By activity sector						
2003*	Total	100.0	100.0	100.0	100.0	100.0
	Primary	28.8	30.5	18.9	11.9	18.0
	Secondary	19.6	18.8	23.2	36.0	35.3
	Tertiary	51.6	50.7	57.9	52.1	46.7

(continued)

		Total Employers and own-account workers	Own-account	Microenterprise employer	Small enterprise employer	Employer of medium-sized and large enterprises
2008	**Total**	100.0	100.0	100.0	100.0	100.0
	Primary	26.5	28.2	16.6	10.1	11.3
	Secondary	20.1	19.2	24.7	33.8	26.3
	Tertiary	53.4	52.6	58.8	56.1	62.4
2013	**Total**	100.0	100.0	100.0	100.0	100.0
	Primary	25.2	26.8	14.4	8.8	11.4
	Secondary	19.6	18.7	24.7	30.5	28.1
	Tertiary	55.2	54.4	61.0	60.7	60.5

Source: ILO estimates, based on information from household surveys of 18 countries. See footnote 4.
Notes: (*) 2003 data are not strictly comparable with subsequent years as information from Colombia and Nicaragua is not available.

Table A4. Latin America: Characteristics of employment, by sex and enterprise size. 2003, 2008 and 2013 (percentages)

		Total workers	Own-account worker	Micro enterprise	Small enterprise	Medium-sized enterprise	Large enterprise	Domestic work
Structure of employment								
2003*	**Total**	100.0	28.2	31.4	16.7	1.4	15.7	5.6
2008	**Total**	100.0	27.6	29.6	19.6	2.2	14.5	5.3
2013	**Total**	100.0	28.0	27.8	18.8	2.7	16.2	5.0
Sex								
2003*	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Men	60.7	63.4	67.2	67.7	67.1	53.9	6.8
	Women	39.3	36.6	32.8	32.3	32.9	46.1	93.2
2008	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Men	59.5	61.1	65.3	66.0	64.9	53.1	6.2
	Women	40.5	38.9	34.7	34.0	35.1	46.9	93.8
2013	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Men	58.9	61.4	64.6	63.9	64.8	53.3	6.9
	Women	41.1	38.6	35.4	36.1	35.2	46.7	93.1
Age								
2003*	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Youth	21.6	9.9	33.7	24.0	21.0	14.3	24.8
	Adult	78.4	90.1	66.3	76.0	79.0	85.7	75.2
2008	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Youth	19.5	9.4	30.2	22.7	19.8	12.6	17.8

(continued)

		Total workers	Own-account worker	Micro enterprise	Small enterprise	Medium-sized enterprise	Large enterprise	Domestic work
	Adult	80.5	90.6	69.8	77.3	80.2	87.4	82.2
2013	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Youth	17.5	8.5	28.1	20.5	17.4	12.0	12.9
	Adult	82.5	91.5	71.9	79.5	82.6	88.0	87.1
Educational level								
2003*	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	None and primary	52.2	68.8	56.8	39.6	28.3	20.9	76.3
	Secondary	29.7	21.5	30.7	38.9	36.6	34.2	21.8
	Tertiary	18.1	9.7	12.5	21.5	35.2	44.9	1.9
2008	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	None and primary	44.7	62.3	49.3	30.7	23.6	15.9	69.3
	Secondary	35.8	27.2	37.6	44.9	42.2	37.7	28.1
	Tertiary	19.5	10.5	13.1	24.5	34.1	46.4	2.6
2013	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	None and primary	39.1	57.1	42.9	27.2	19.0	12.7	62.9
	Secondary	38.2	30.2	41.8	45.3	43.9	37.2	33.3
	Tertiary	22.7	12.7	15.2	27.5	37.1	50.1	3.8
Status in employment								
2003*	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(continued)

		Total workers	Own-account worker	Micro enterprise	Small enterprise	Medium-sized enterprise	Large enterprise	Domestic work
	Own-account	28.2	100.0	n.a.	n.a.	n.a.	n.a.	n.a.
	Employer	4.4	n.a.	12.6	2.3	0.9	0.1	n.a.
	Wage-earner	60.0	n.a.	64.4	96.8	98.6	99.8	100.0
	Contrib. family worker	7.1	n.a.	22.3	0.3	0.3	0.1	n.a.
	Others	0.3	n.a.	0.7	0.6	0.1	0.1	n.a.
2008	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Own-account	27.6	100.0	n.a.	n.a.	n.a.	n.a.	n.a.
	Employer	4.6	n.a.	14.0	2.2	0.5	0.0	n.a.
	Wage-earner	62.1	n.a.	67.2	97.3	99.3	99.8	100.0
	Contrib. family worker	5.6	n.a.	18.7	0.2	0.2	0.1	n.a.
	Others	0.1	n.a.	0.1	0.3	0.0	0.0	n.a.
2013	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Own-account	28.0	100.0	n.a.	n.a.	n.a.	n.a.	n.a.
	Employer	4.0	n.a.	12.9	2.1	0.7	0.1	n.a.
	Wage-earner	63.5	n.a.	71.2	97.4	99.1	99.8	100.0
	Contrib. family worker	4.4	n.a.	15.8	0.2	0.1	0.1	n.a.
	Others	0.1	n.a.	0.1	0.3	0.1	0.0	n.a.
Activity sector								
2003*	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(continued)

		Total workers	Own-account worker	Micro enterprise	Small enterprise	Medium-sized enterprise	Large enterprise	Domestic work
	Primary	19.8	30.5	31.1	5.3	8.4	2.6	n.a.
	Secondary	21.2	18.8	20.1	37.0	37.3	15.6	n.a.
	Tertiary	59.0	50.7	48.8	57.6	54.3	81.8	100.0
2008	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Primary	17.5	28.2	27.5	4.8	6.9	3.0	n.a.
	Secondary	22.0	19.2	21.1	35.6	34.6	16.0	n.a.
	Tertiary	60.4	52.6	51.4	59.6	58.5	81.0	100.0
2013	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Primary	16.0	26.8	24.2	4.4	7.8	3.8	n.a.
	Secondary	21.2	18.7	21.0	33.2	30.2	16.0	n.a.
	Tertiary	62.8	54.4	54.9	62.4	62.0	80.2	100.0
Income quintile								
2003*	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	I	15.7	23.7	19.3	5.6	2.7	3.4	18.8
	II	19.9	22.2	22.7	15.2	13.0	10.3	28.5
	III	20.4	19.9	20.8	20.1	21.3	18.2	25.1
	IV	22.5	19.1	20.5	27.5	29.4	28.3	19.6
	V	21.5	15.1	16.7	31.5	33.6	39.8	8.0
2008	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	I	15.7	23.7	19.0	6.9	5.6	3.0	21.2

(continued)

		Total workers	Own-account worker	Micro enterprise	Small enterprise	Medium-sized enterprise	Large enterprise	Domestic work
	II	19.8	22.2	22.3	16.3	14.1	9.8	28.0
	III	20.5	20.3	20.9	20.5	20.5	17.8	23.9
	IV	22.5	19.0	20.5	26.7	27.4	28.6	19.5
	V	21.5	14.8	17.2	29.6	32.4	40.7	7.3
2013	**Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	I	14.0	22.4	16.1	6.6	4.0	2.7	18.8
	II	20.0	22.9	22.9	16.8	11.8	9.3	27.4
	III	20.3	19.6	21.4	19.7	21.4	18.0	23.9
	IV	23.4	19.2	22.0	27.2	28.9	29.7	20.9
	V	22.3	15.9	17.7	29.6	33.9	40.4	9.0
Contribute to healthcare system								
2003*	**Total**	39.3	8.1	24.4	81.1	77.9	83.0	21.5
2008	**Total**	43.2	9.7	27.3	83.6	80.0	87.7	22.3
2013	**Total**	47.3	12.1	31.5	86.3	82.6	90.3	28.4
Healthcare coverage								
2003*	**Total**	39.9	9.1	25.1	81.2	78.2	83.4	21.8
2008	**Total**	50.7	24.1	35.8	84.8	83.2	90.5	29.1
2013	**Total**	57.3	31.9	43.1	87.8	85.6	93.1	37.0

Source: ILO estimates, based on information from household surveys of 18 countries. See Footnote 4.
Notes: (*) 2003 data are not strictly comparable with subsequent years as information from Colombia and Nicaragua is not available.
Nota: N.A. = Not applicable.

Annex 2

International Labour Conference
Provisional Record 11-1
104th Session, Geneva, June 2015

Fourth item on the agenda: Small and medium-sized enterprises and decent and productive employment creation

Reports of the Committee on SMEs and Employment Creation: Resolution and conclusions submitted for adoption by the Conference

This *Provisional Record* contains the text of the resolution and conclusions submitted by the Committee on SMEs and Employment Creation for adoption by the Conference.

The report of the Committee on its proceedings has been published on the Conference website in *Provisional Record 11-2* and is submitted for adoption by the Conference subject to corrections, which committee members will be able to submit until 13 June 2015, 13h00.

Proposed resolution concerning small and medium-sized enterprises and decent and productive employment creation

The General Conference of the International Labour Organization, meeting in Geneva at its 104th Session, 2015,

Having undertaken a general discussion on the basis of Report IV, *Small and medium-sized enterprises and decent and productive employment creation*,

1. Adopts the following conclusions; and

2. Invites the Governing Body of the International Labour Office to give due consideration to them in planning future work and to request the Director-General to take them into account when preparing future programme and budget proposals and to give effect to them, to the extent possible, when implementing the Programme and Budget for the 2016–17 biennium.

Conclusions concerning small and medium-sized enterprises and decent and productive employment creation

The contribution of small and medium-sized enterprises to decent and productive employment creation

1. Micro-, small and medium-sized enterprises are vital to achieving decent and productive work and prosperity. Globally, they account for two-thirds of all jobs and also create the majority of new jobs. They contribute to economic growth, along with other enterprises, spur innovation and economic diversification, and provide livelihoods.

2. Small and medium-sized enterprise (SME) promotion is a means to create more and productive employment and decent work for all. Sustainable SMEs grow productive jobs and income, reduce poverty and inequalities, and overcome decent work deficits. The Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189); the Social Protection Floors Recommendation, 2012 (No. 202); the Conclusions concerning the promotion of sustainable enterprises adopted by the 96th Session (2007) of the International Labour Conference; the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up (1998); the Global Employment Agenda (2003); and the ILO Declaration on Social Justice for a Fair Globalization (2008) continue to provide guidance to interventions for SME promotion.

3. SMEs vary by size, sector, rural versus urban economy, degree of formality, turnover, growth and age of the enterprise as well as countries. The diversity of micro-, small and medium-sized enterprises poses a challenge for policy formulation. There are no one-size-fits-all SME policies.

4. Member States should define SMEs in consultation with the representative organizations of employers and workers, taking into account the national social and economic conditions. These definitions are usually based on the number of employees, the annual turnover or the value of assets of enterprises.

5. There is solid empirical evidence on the number of jobs created by SMEs, particularly for formal enterprises. There is insufficient and inadequate evidence on the quality of jobs in SMEs as well as on productivity and sustainability of SMEs.

Identifying and overcoming the constraints faced by SMEs and their workers

6. Constraints faced by SMEs vary significantly, and should be analysed within their specific national context and differentiated by enterprise characteristics. Recognizing that an enabling environment is vital for the SME to grow and reduce decent work deficits, member States should collect and periodically update information on SMEs, differentiated by enterprise characteristics, in order to lay the foundation for evidence-based policy-making in this area.

7. Where data are available, they indicate that decent work deficits are generally more significant in SMEs than they are in large establishments. However, it is necessary to have more information on the scale and scope of these deficits. Substantial progress has been made on an operational definition of the quality of employment. While the Governing

Body of the ILO has not yet agreed on the ILO Decent Work Indicators, these provide a useful reference framework for assessment, which member States may use to generate information specific to SMEs. Workers in SMEs in some contexts are fully or partially excluded from labour legislation, including the rights to freedom of association and to collective bargaining. Supporting legislation should ensure appropriate coverage and protection of all categories of workers and economic units.

8. An enabling environment is particularly important for overcoming constraints faced by SMEs and their workers and for the creation of decent and productive employment. An enabling environment is crucial for new enterprise formation and sustainability. The ILO's methodology for creating an Enabling Environment for Sustainable Enterprises (EESE) is a promising tool that can be used to establish roadmaps for reforms, based on social dialogue, including measures to improve conditions for workers, as well as SMEs' sustainability. An enabling environment for sustainable enterprises seeks at once to improve the economic prospects of SMEs, overcome decent work deficits for workers and ensure that economic activities are environmentally sustainable.

9. Specific measures to improve the enabling environment should be in line with, but not limited to, the 2007 Conclusions concerning the promotion of sustainable enterprises. They should include:

(a) Simplifying overly complex regulations, in consultation with the most representative organizations of employers and workers, while ensuring protection and working conditions for workers. New rules and regulations should be designed with regard to their possible effects on SMEs and the well-being of workers in SMEs before they are introduced.

(b) Improving SMEs' access to finance through measures such as loan guarantees, start-up grants, facilitation of crowd-funding or group funding, sector-specific financial institutions, improved financial literacy or improved financial inclusion as part of policies for the formalization of micro- and small enterprises.

(c) Clustering, networking, linking into technology platforms, and value chain and local economic development to address the lack of scale and scope of SMEs. Cooperatives and mutual associations can be effective ways of achieving scale and a better position in supplier and end markets, as well as mobilizing savings and enhancing social security coverage. Special attention should be given to creating an enabling environment for cooperatives, in particular in rural areas.

(d) Addressing decent work deficits in SMEs such as the constraints to the exercise of the fundamental rights of workers and achieving better working conditions. Clear measures to overcome these deficits are needed.

(e) Public investment in infrastructure as well as education and training and technology, on which SMEs rely. Improvements can most effectively be achieved by embedding specific SME policies in national development plans and generic policies. This includes special attention to the modernization of technical and vocational education and training (TVET) systems, lifelong learning and to quality apprenticeship schemes in cooperation with social partners to respond to the skills needs of SMEs and offer the opportunity to link vocational and entrepreneurship training. For small traders, simplified access to public trading areas and business zoning availability assist fair competition.

(f) Supporting the formalization of SMEs in line with the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

10. SMEs are one of the main providers of employment but have significantly lower levels of productivity. Upgrading to higher value added activities and improved total factor productivity, with good workplace relations to enhance product quality and improve resource and energy efficiency, can help overcome this constraint.

11. Occupational safety and health (OSH) frameworks should be adapted to establish a preventative safety and health culture and to address the disproportionate incidence of occupational accidents and health problems in SMEs. This not only prevents human tragedy but is also highly cost-effective and improves productivity. This requires a proper legal framework, appropriate enforcement capacity, readily accessible assessment tools, customized guidance as well as effective outreach to SMEs and their workers to overcome information gaps.

What works? Effective SME policies to create productive employment and decent work

12. Well-designed SME policies in line with national circumstances can help to create more and better jobs and contribute to sustainable economic growth. They should align with sound macroeconomic policies, strategies aimed at improving enforcement and compliance, education and skills policies and promotion of social dialogue, freedom of association, collective bargaining and social protection.

13. Policies and interventions should take into account specific enterprise characteristics, the characteristics of target groups and national circumstances. Future interventions should focus support in an integrated way, as this has proven to be more effective than stand-alone programmes, and should incorporate monitoring of job quality and enterprise sustainability. Social dialogue is essential to support effective SME policies.

14. SME policies need to be coherent and evidence-based. Attention needs to be given to evaluation of the effectiveness and cost-efficiency of SME interventions.

Roles of governments and social partners in promoting productive employment and decent work in SMEs

15. The Committee reaffirms the roles of governments and the social partners in the promotion of SMEs to contribute to productive employment and decent work as stipulated in Recommendation No. 189 and the 2007 Conclusions concerning the promotion of sustainable enterprises.

16. The role of government is to:

(a) create and improve an enabling environment for the promotion of sustainable SMEs and decent work as highlighted under points 8 and 9;

(b) ensure the enforcement of labour and environmental standards and easily accessible, well-functioning public services and robust institutions;

(c) design, fund or facilitate funding, implement, monitor and evaluate policies or programmes targeted at SMEs and strengthen generic policies that are of specific importance for overcoming constraints faced by SMEs and their workers;

(d) collect and report data on qualitative and quantitative aspects of SME development and employment, paying particular attention to gender, when considering wages, working hours and work–life balance, OSH, social protection, social dialogue, trade union representation and collective bargaining;

(e) act as responsible procurers of goods and services from SMEs;

(f) promote, facilitate and participate in social dialogue; and

(g) endeavour to ensure that workers in SMEs can exercise their fundamental rights at work; enforce labour standards through efficient and effective labour inspection and administration systems; promote industrial relations systems that reduce decent work deficits in SMEs; establish legal frameworks for the governance of quality apprenticeship schemes, guided by the *Joint Understanding of the B20 and the L20 on Key Elements of Quality Apprenticeships*, that correspond to the needs of businesses and interests of apprentices, guarantee high quality and up-to-date TVET and include contractual arrangements for the apprentices.

17. Employers' and workers' organizations can play an important role in helping SMEs and their workers to overcome constraints. They should increase the representation of SMEs and their workers in both types of organizations and improve social dialogue and assist their members with collective bargaining. The social partners should strengthen services that are beneficial to their members in SMEs. These services include tools and information on labour rights, laws and regulations, social protection and legal assistance, as well as training including entrepreneurship, guidance on how to access public and private business support services, links to research and consultancy resources, business matchmaking and advice on responsible workplace practices. They can further provide services through institutions such as cooperatives and mutual associations and help with the creation of producers' and workers' cooperatives. Finally, they should engage with governments to assess and improve the enabling environment.

Future work of the ILO on productive employment and decent work in SMEs

18. The ILO should assist member States in formulating and implementing SME policies that create productive employment and decent work. The ILO should give due consideration to the specific needs of SMEs and their workers in developing its policies and guidance. The ILO should systematically integrate measures to promote an enabling environment for sustainable enterprises and rights at work, including OSH, into SME policies and promote effective labour inspection, work quality and social protection mechanisms in consultation and collaboration with employers' and workers' organizations.

19. The ILO should develop policy guidance that takes into account the specific situation of regions and sectors.

20. The ILO should maintain its current portfolio of interventions and build on the results achieved at the global and country levels with the full involvement of the social partners. The ILO's actions need to be strategic and measurable and generate rigorous data and analysis to orientate governments and social partners on SME policies. It should put particular emphasis on the following:

(a) It should expand and improve measures combining entrepreneurship development, rights at work and financial services. Interventions should be customized for specific target groups, such as women entrepreneurs, young people and high-growth enterprises, and should enhance management capacities and provision of financial services.

(b) The EESE programme should be reviewed with the full involvement of social partners with a view to expanding the programme. Such an expansion might involve:

(i) Creating stronger links to work on ILO employment and quality of work policies as well as Decent Work Country Programmes;

(ii) Going beyond the level of assessments to include support and capacity development of constituents to identify, implement and monitor reforms to improve the business environment for SMEs and conditions of work for workers; and

(iii) Expanding the EESE approach to support enterprise formalization.

(c) The ILO should expand its work on proven programmes that aim to facilitate the transition to formalization of informal SMEs. The ILO should build more robust knowledge on approaches that promote SME formalization and compliance with labour and social legislation.

(d) Regarding the improvement of productivity and working conditions in SMEs, the ILO should develop models aiming at scaling up interventions, such as SCORE, that can be integrated into national policies and programmes, based on social dialogue and informed by solid impact assessments. The ILO should strengthen the capacity of the social partners to monitor, assess and contribute to such interventions.

(e) The work of the ILO on value chain and sectoral development has high potential for impact and should be scaled up, improving the access to markets for SMEs, analysing and contributing to improve working conditions in identified sectors in cooperation with business associations, trade unions and cooperatives, as appropriate. The ILO should conduct research on good practices for the procurement of goods and services by large enterprises in supply chains and SME strategies that better enable and support SMEs to capture added value, so as to inform the discussion concerning decent work in global supply chains at the International Labour Conference in 2016.

(f) The work of the ILO on cooperative enterprises should be expanded to develop intervention models to provide support to enterprises and trade unions in the provision of finance and business services that are scalable and replicable. The ILO should continue and expand upon its technical assistance on policy and legislative reform of cooperatives as outlined in the Promotion of Cooperatives Recommendation, 2002 (No. 193).

21. In order to establish what works in SME development, more emphasis should be placed on data collection, evidence-based policy design, monitoring, and rigorous evaluation and impact measurement, in particular regarding the sustainability of enterprises, the improvement of working conditions as well as entrepreneurship for women, young people and vulnerable groups. The ILO work on statistics on cooperatives should be accelerated. The ILO should also continue to develop its work on environmental sustainability of SMEs and a just transition to a low-carbon economy for SMEs and their workers. Further, the ILO should provide evidence-based research on the impact of social dialogue and collective bargaining systems on working conditions in SMEs and information and consultation of workers in SMEs.

22. The ILO should further strengthen its work on training in technology and facilitating technology transfer, where it is in line with its mandate, in collaboration with other partners and expand its work on TVET for the development of SMEs and their workers.

23. The ILO should expand its collaboration and partnerships in the area of SME development with international and regional organizations and institutions, within and beyond the UN system. In particular, the ILO should strengthen its cooperation with other organizations, including but not limited to closing the significant knowledge gap related to the quality of jobs in SMEs as well as the productivity and sustainability of SMEs.

24. An action plan including objectives, timelines and resource requirements, integrated into the agreed programme and budget and its outcomes, should be submitted to the Governing Body in November 2015.

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