



International  
Labour Office

Small Enterprise Development  
An Introduction to the  
**Policy Challenge**



**Small Enterprise Development**  
**An Introduction to the**  
**Policy Challenge**



InFocus Programme on Boosting  
Employment through Small  
Enterprise Development

Job Creation and Enterprise Department  
International Labour Office

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This booklet introduces the policy and legal framework as an important external influence on the capacity of small enterprises to create more and better jobs. Unlike internal influences on small enterprise employment, such as business management and production cycles, the policy and legal framework is an external influence affected by governments and other institutional stakeholders.

The policy and legal framework can support the development of small enterprises and employment creation while maximising the contribution small enterprises make to the reduction of poverty. However, government policies, laws and regulations can unintentionally constrain employment growth, reduce the quality of small enterprise employment, and contribute to poverty through low wages and a lack of social protection. This booklet identifies the key features of a policy and legal framework that enables small enterprises to establish and expand.

Drawing from the global experience of the International Labour Organization (ILO) and promoting best practice approaches to the development of small enterprises, this booklet gives practical advice and tips on the design and reform of the policy and legal framework. The booklet expands upon Recommendation 189 of the International Labour Conference entitled, General Conditions to Stimulate Job Creation in Small and Medium Enterprises. Some simple proposals for action are also presented.





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# Introduction

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

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

The provision of financial and business development services is an important way of promoting small enterprises and the growth of employment within this sector. These interventions address the internal constraints that many small enterprises experience. However, it has become clear that the design of an 'enabling' policy and legal framework also plays a considerable role in the promotion of small enterprises. Such a framework is external to the enterprise, but can encourage employment practices within small enterprises that are conducive to good quality jobs.

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

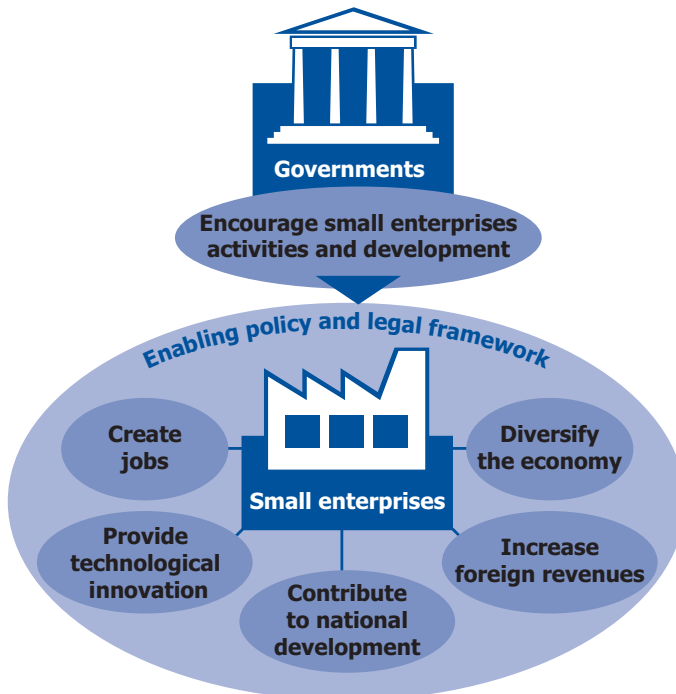


One of the main issues underpinning efforts to promote small enterprises concerns the role of government.

Government establishes policies and laws that are enforced by a range of institutions, all of which affect small enterprises and the broader economy. Politicians and government bureaucrats are often suspicious of business. In some cultures and societies business can have a negative connotation and its functions in the broader economy are not fully understood. Similarly, government officials are usually unaware of the specific needs and requirements of small enterprises. Consequently, they can be unaware of the impact their actions have on enterprises and the broader economy as a whole.

The term 'enabling environment' is used when referring to the variety of elements that are external to the enterprise itself. Among these is the policy and legal framework. An enabling policy and legal framework encourages the activities and development of small enterprises, recognising them as important contributors to the broader economy. Such a framework accommodates the different needs of small enterprises compared to those of large-scale enterprises. This does not mean that small enterprises operate free from any government regulation, control or monitoring; just that the constraints and limitations of the sector are reduced as much as possible without undermining any other social, humanitarian, welfare or equity objectives of government.

Whilst small enterprises are required to act within the parameters of State structures, it is also possible to stimulate and enhance their contribution to the national economy. Not only can small enterprises contribute to national development through a broadening of the revenue base of the State; they can also create jobs, diversify the economy and increase foreign revenues. Additionally, they can provide a mechanism for the transfer and adaptation of new technologies. An enabling environment for small enterprise should contain a policy and legal framework that is based upon an understanding of these features and comprise a set of policy initiatives that realise these outcomes.



Policies and laws reflect the relationship between the State and small enterprises. There are three common roles describe the ways in which governments view their relationship with small enterprise. These are as follows:

- 1 **Government as a regulator:** Designing and implementing laws and regulations that govern the activities of small enterprises.
- 2 **Government as a facilitator:** Providing an environment that is conducive to enterprise promotion and bringing key stakeholders together in the initiation and support of small enterprise development efforts, mobilising civic, private and public sector resources.
- 3 **Government as a promoter:** Where the government intervenes directly with small enterprise development projects and processes, allocating resources (human, financial or physical) through financial and business development services to achieve specific development outcomes.

In many instances, governments perform all three of these roles simultaneously. However, in recent years the facilitation role has become more prominent. Governments can establish an enabling environment in order to encourage entrepreneurship, investment and innovation. They can facilitate joint action by key stakeholders in the delivery of financial and business development services. They can also review their policies and laws to ensure that these are responsive to small enterprise experiences, and make compliance easier and more beneficial for enterprise owner-managers.

**Consider the role that has been assigned to small enterprises by government in your country.**

**Does government focus on a narrow set of issues relating to the small enterprise sector alone? Or is the development of small business integrated into the overall social and economic development of the country?**

**ACTION**

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



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**S**mall enterprises are essential actors in the development process. Together with larger enterprises, they play an important role in mobilising resources and allocating them amongst productive activities. They are a driving force behind the related flows of trade, investment and technology, on which the strength and dynamism of an economy depends.

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

The ILO Member States have recognised the many contributions that small enterprises make to their economies through Recommendation 189 of the International Labour Conference, entitled, General Conditions to Stimulate Job Creation in Small and Medium Enterprises.

This Recommendation seeks to recognise and promote the fundamental role that small enterprises can play in:

- ◆ promoting full, productive and freely chosen employment;

- ◆ providing greater access to income-earning opportunities and wealth creation leading to productive and sustainable employment;
- ◆ enabling sustainable economic growth and the ability to react with flexibility to changes;
- ◆ increasing economic participation of disadvantaged and marginalized groups in society;
- ◆ increasing domestic savings and investment;
- ◆ training and developing human resources;
- ◆ balancing regional and local development;
- ◆ providing goods and services that are better adapted to local market needs;
- ◆ improving the quality of work and working conditions which may contribute to a better quality of life, as well as allow large numbers of people to have access to social protection;
- ◆ stimulating innovation, entrepreneurship, technology development and research;
- ◆ providing access to domestic and international markets; and
- ◆ promoting good relations between employers and workers.

# 2

## THE ROLE OF SMALL ENTERPRISES



Deloche - ILO

Whilst small enterprise development may be recognised as a valuable tool for broader economic and social development, there are a number of special needs the small enterprise sector experience. In many circumstances policies affecting economic development are weighted in favour of large-scale enterprises, leaving small enterprises in a vulnerable position and surrounded by barriers or constraints to their expansion. For example, many small enterprises have very limited access to foreign exchange and to bank or institutional credit, whilst this is usually not the case for larger firms. There is a need to find a balance, in policy terms, between addressing the needs and capacities of the small enterprise sector and those of large-scale industries.

Often governments will provide tax-free breaks and other special incentives to large domestic and foreign-owned businesses whilst being overly restrictive to the operations of their domestic small enterprises.





Maillard - ILO

Governments that recognise the value of a strong and vibrant small enterprise sector and give priority to promoting this sector will be more likely to develop a policy and legal framework that enables the growth of small enterprises and enhances their contribution to broader development objectives.

There are many ways in which complementary policies and structures can be developed in support of small enterprises and large-scale industries. A diverse and healthy economy will contain small, medium and large enterprises and will promote sub-contracting and trading arrangements between them.

Some issues of critical concern to small enterprises are their vulnerability to unfavourable treatment by larger enterprises; their limited internal resources (human, financial and material); their sensitivity to market changes; and their limited management and technical capacities.



**T**he environment in which small enterprises operate contains many elements. These include:

- ◆ the policy and legal framework;
- ◆ the institutional arrangements for governing, promoting and representing the small enterprise sector;
- ◆ market opportunities (i.e., those that shape where an entrepreneur can buy from and sell to);
- ◆ the prevailing culture, which may for example, be traditionally biased against business or entrepreneurial;
- ◆ the availability of resources, such as access to credit, skills, advice or information; and
- ◆ public investment, affecting infrastructure, telecommunications and the provision of business development services, for example.

The degree to which the environment enables or constrains small enterprise activity is not a function of one of these elements alone. It is important to understand how these elements combine to influence the potential of small enterprises. While the policy and legal framework is only one element of influence on small enterprises, as mentioned above, it can have an affect on all the others.

The policy and legal framework provides the means by which government can manage the economy so as to achieve sustainable social and economic outcomes. Government develops policies and laws to achieve a desired purpose. Thus, the policy and legal framework protects and assists small enterprises by providing them with the legal space they require to operate and a market in which to conduct their business. They are protected physically, against the unlawful behaviour of others, but also legally (e.g., protection against unfair competition). An enabling environment can take these functions further by providing incentives to encourage entrepreneurship and job creation among small enterprises.

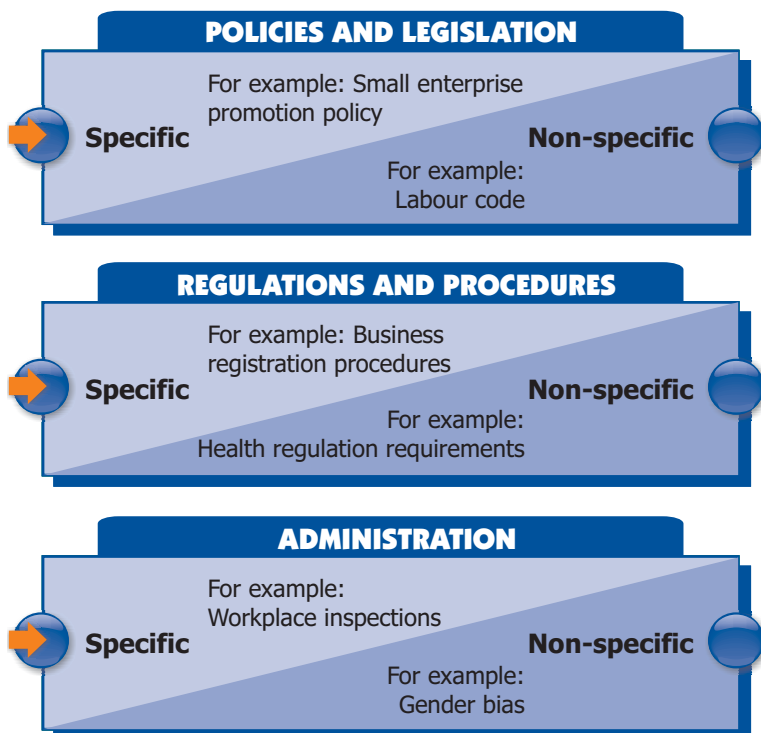
In the search for control and the desire to manage, some governments and their executives can overdo it. They can create a policy and legal framework that has the effect of reducing the capacity of small enterprises to grow and develop, thereby limiting the employment potential of the small enterprise sector.

ILO research has shown that governments can create a business environment that facilitates employment creation in small enterprises. Policies and laws can be designed to help enterprises grow by removing unnecessary legal and regulatory barriers and facilitating compliance with regulatory bodies. Through these efforts, small enterprises are given legitimacy and recognition, which can improve their access to markets (national and foreign) as well as their access to the inputs they require, such as finance and raw materials. Thus, by addressing the barriers and constraints to small enterprise growth, governments can provide a more enabling environment that improves the prospects for employment creation.

There are three layers of government activity that shape the policy and legal framework for small enterprises (Figure 1). The first, **policies and laws**, set the directions and intentions of government. They underpin development efforts and influence the role the small enterprise sector performs in national, provincial and local economies. Policies and laws provide the justification for programme and regulatory action. They establish a stable economic climate where the rule of law promotes transparent and enforceable transactions between government and small enterprises as well as in the commercial transactions of the private sector.

The second layer concerns **regulations and procedures**. These are a means through which policies and laws are implemented. Regulations and procedures represent the 'tools' that are used to enact the policies and legislation.

**Figure 1:**  
**Three layers of the policy and legal frame work**



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

The policy and legal framework in which businesses operate can be affected by factors that have been deliberately designed to do so. However, it can also be influenced by factors that were not primarily intended for this purpose. Figure 1 illustrates this point. It shows how each layer of the policy and legal framework contains elements that are specific and non-specific in regards to small enterprises. While specific forms are designed with small enterprises in mind, non-specific forms are not. However, non-specific forms can still affect the operations of a small enterprise. The policy and legal framework can enable or promote business activity, and it can restrain other types of business activity or prevent activity that is harmful to workers, society or the natural environment. Thus, policies and laws, regulations and administrative mechanisms can enable and they can restrict. They can do this intentionally, through specific measures, or unintentionally, through non-specific measures.

An enabling policy and legal framework is not biased against small enterprises. It keeps transaction costs for small enterprises low and provides benefits to the enterprise for compliance. An enabling framework responds to the needs, constraints and vulnerabilities of small enterprises, while opening up new commercial opportunities and promoting competitiveness. A policy and legal framework that is not enabling for small enterprises creates high transaction costs stemming from a bias that favours large enterprises over small.

These three layers of the policy and legal framework are examined in more detail below.

## **The first layer of the framework**

**C**reating an enabling framework for the development of small enterprises implies the creation of a favourable overall policy and legislative base for the development of enterprise and the promotion of entrepreneurship. Conducive policies and laws create confidence among economic actors in the management and evolution of the economy.

Specific small enterprise promotion policies—dealt with later in this booklet—can become an important element of the policy and legal base that influence the opportunities and potential of small enterprises. However, there are many policies and laws that can impact upon the operations of small enterprises and combine to create an overall policy environment for small enterprises (see Box 1).

Policies and laws do not exist in isolation. They are created in response to different influences and expectations and generally reflect the government's attitude toward small enterprises. In some cases, however, policies and laws that affect small enterprises may not reflect the government's position. This may be due to a number of reasons, such as those listed below.

- ◆ **Old and out-dated policies and laws:** For example, the government currently in power has not been responsible for the formulation of the existing policy base. This may typically occur when a new government comes into power. It can also be found in countries that have undergone recent significant structural change in terms of their political and economic systems.
- ◆ **Poorly defined policies and laws:** Where policies and laws are formulated in an unclear or ad hoc manner. This may be for a number of reasons, including a lack of understanding regarding the development

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

## ACTION

needs and potential of small enterprises; a lack of interest in, or priority for, small enterprise promotion (usually because of a greater interest in large-scale enterprises); unforeseen impacts of policy; and a lack of co-ordination (e.g. no minister to take overall responsibility).

- ◆ **Policies and laws are too complex:** This situation is often created when policy is formulated in a piecemeal manner creating duplication or a confusing collection of priorities and directions, the impact of which may often result in a lack of direction. Over time, policies and laws can accumulate and become cumbersome and stifling to the operations of small enterprises.
- ◆ **No policies or laws:** Where there are gaps in the overall policy and legislative framework that relate to small enterprises. These are areas where there is no clear understanding of the government's intention.

It is important to have some idea as to what constitutes 'good' policy, i.e., policy that promotes more and better employment in small enterprises, either directly or indirectly (see Box 2). That is, what are the qualities we should look for in policy? A 'good' policy is not necessarily one that gives an open door to all small enterprises or favours small enterprises over firms of other sizes. It is important to recognise that there may be a need for restrictions. Environmental policies, for example, may prevent the operation of enterprises that threaten the environment (e.g. the slaughter of rare and endangered animals).

**Box 1: List of relevant policy areas**

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

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

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

- 1 What is the perceived role of small enterprises in national development objectives and strategies? (i.e., Does the government see small enterprises as a resource that can be enhanced for the benefit of all, or as an unruly obstacle to smooth governance?)
- 2 To what extent are the special needs or opportunities of small enterprises recognised? (i.e., Is there an understanding

of the needs of small enterprises compared to those of large-scale enterprises?)

- 3 Has some degree of priority been given to small enterprises within the broader economy?

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

## **Box 2: Checklist for 'good' policies and laws**

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

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



## **The second layer of the framework**

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

Regulations and procedures are tools that are used to enact specified laws and policies. A good example of this can be found in the regulations and procedures that are used in the registration and licensing of businesses and in the regulation of labour laws.

Box 3 provides a series of basic questions that can be asked when examining the regulations and procedures that small enterprises must comply with.



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

**ACTION**

### **Box 3: Checklist for 'good' regulations and procedures**

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

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



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

- ◆ **Too much regulation:** Preventing, for example, small enterprises from taking advantage of market opportunities or obtaining inputs at competitive prices.
- ◆ **Inadequate regulations:** Providing insufficient protection to the entrepreneur (e.g. ambiguous property rights and enforcement of contracts).
- ◆ **Lack of clarity:** Where regulations are too complex and convoluted requiring a lot of time to meet and complete, too many forms, too many government agencies to deal with, too many obligations, high reporting costs.

- ◆ **Duplication:** Where regulations and procedures duplicate one another or are not compatible.
- ◆ **High cost of compliance:** Where small enterprises are faced with a higher cost of compliance with regulations than large enterprises.
- ◆ **Frequent changes to regulations:** Where a government authority makes frequent changes to the regulations required by legislation, making it very difficult for business people to keep up to date with what is required of them.
- ◆ **Lack of awareness:** Where regulations and procedures are not properly communicated, interpreted or promoted to the small enterprise owner, or where there is a lack of understanding of these matters by the enforcers of the regulation (e.g. the health inspector).
- ◆ **Regional disparities:** where the impact of regulatory and procedural instruments create restrictive biases between urban and rural settings.

## The third layer of the framework

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

Administration procedures require careful attention to ensure they are consistent with their policy, legislative and regulatory base. They are the interface between the government and the small enterprise owner-manager and usually have scope for adjustment. As a result, administrative reforms can have a great potential for improving the environment in which small enterprises operate.

It is important to minimise the administrative burdens on small enterprises because they can hinder the development of enterprises and the growth of employment (see Box 4). An environment that does not support enterprise can be particularly damaging to small enterprises because they do not have the reserves and resources to fall back on. Neither do they have then the managerial and technical capacity to deal with changing economic and business policies, complex licensing and authorisation procedures, and fluctuating fiscal and monetary regulations.

The creation of an enabling environment for small enterprise development is critical to successful business development efforts. At the local level there can be great risks that administrative systems will constrain small enterprise growth. The decentralisation of government services can mean that provincial and local levels of government are required to deal with many more regulatory and administrative functions affecting small enterprise.

## Box 4: "Good" administration checklist

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

- ✓ **Transparency:** The process for administration should be clear and transparent so the small enterprise owner-manager who registers a business knows what happens to the information that is submitted. There will also be a need to know what rights of appeal exist.
- ✓ **Simplicity:** Good administration procedures will be ones that most people can understand and follow. The simpler the better.
- ✓ **Fair treatment:** Ensuring that small enterprise owner-managers are not subjected to rent seeking, corruption or other exploitative treatments of officials.
- ✓ **Consistency and co-ordination:** Administration procedures that are well co-ordinated with other departments or with the other requirements of entrepreneurs require a degree of consistency. Where the various 'arms' of central government and the different levels of (e.g. central, provincial and local) are working co-operatively to ensure consistency.
- ✓ **Communication:** Entrepreneurs will need to know what is required of them and how they can or should meet these obligations.
- ✓ **Decentralisation:** Small enterprises are spread all over the country. There is a great value in providing decentralised administration centres where entrepreneurs can report to fulfil their legal and regulatory responsibilities.

# 6

## ADMINISTRATION

Around the world, the processes and culture of administration and the functions of government are changing. Some of the new developments in government administration have been referred to as 'entrepreneurial'. Entrepreneurial governments are less involved in direct service provision, preferring instead to promote competition between service providers.

They empower their citizens by giving them more control in decision-making processes. They measure the performance of their agencies by their outcomes, not on their inputs. They are driven by their goals and not by their rules and regulations. They redefine their clients as customers and offer them choices.



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

## ACTION

They decentralise authority and prefer market mechanisms to bureaucratic ones. They do not simply focus on providing public services, but on facilitating all sectors—public, private and civic—into action to solve their community's problems.

Sometimes, government can support small enterprises through policies and practices that stem from a different field. Sub-contracting and procurement policies, for example, can be used to support local small enterprises. Decentralisation is also a practice that can bring governments and small enterprises closer, creating opportunities for government to respond to the needs and opportunities of the local small enterprise sector.



**P**olicies that have been specifically designed to promote small enterprises can create a useful foundation for government efforts to support and encourage small enterprise employment. Recommendation 189 of the International Labour Conference, Concerning the General Conditions to Stimulate Job Creation in Small and Medium Enterprises, encourages member States to design policies promoting efficient and competitive small enterprises that provide productive and sustainable employment under adequate social conditions. To achieve this, it is necessary to create conditions that provide access to credit, foreign exchange and imported inputs, and fair taxation. It is also necessary to provide effective labour laws and regulations to raise the quality of employment in small enterprises and compliance to international labour standards.

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

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

**Obtain a copy of the International Labour Conference Recommendation 189 and ensure that relevant politicians and policy-makers also have a copy to read and to be inspired by.**

**ACTION**

women, young people, people with disabilities, indigenous or tribal groups, and ex-combatants.

Upgrading enterprises that participate in the informal economy is also a common concern to many governments. Specific policies and incentives can be developed to assist these enterprises to participate more fully in the formal economy. These policies recognise the potential of the informal economy as an expression of both need and opportunity.

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

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

**ACTION**

**C**reating the right policy and legal framework for small enterprise development is as much to do with analysis as it is to do with design. Rarely, are policies and laws designed from scratch. In most cases there will exist policies or laws in place that have to be assessed.

Policy analysis is a continuous activity. It encompasses two broad areas: The first is the collection of national data on the small enterprise sector, covering quantitative and qualitative aspects of employment. This should improve the understanding of how small enterprises contribute to total employment, without creating undue reporting burdens for small enterprises.

Secondly, policy analysis involves an impact assessment. This includes an assessment of the direct and indirect impact of policies and laws on small enterprises. Impact assessments may be done on all new policies and laws before they are introduced (in a similar manner to environmental impact assessment reports), but they can also be performed on existing policies and laws. Impact assessment can include a specific focus on employment in small enterprises. Will a proposed export incentive policy, for example, reduce the protection and working conditions of small enterprise workers?

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

The ILO and other major donor and development organisations recommend participatory approaches to assessing and reforming the conditions in which small enterprises operate. Such approaches promote joint efforts between government, the private sector and labour. Political

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

## ACTION

will is required to create change, as well as a broad understanding and acceptance of change by the relevant authorities, organisations and the public in general. The achievement of a clear output, such as comprehensive and defined strategies for change is also necessary.

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

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

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

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

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

### **1 Dialogue strategies**

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

### **2 Collaboration strategies**

Collaboration provides a means where different groups in society come together. Since small enterprise development requires efforts from a number of different stakeholders in the economy, effective collaboration is essential.

Collaboration is a mutually beneficial and well-defined relationship entered into by two or more organisations to achieve common goals. It represents much more than co-operation or co-ordination. Collaboration in small enterprise development can be achieved through:

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

## ACTION

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

### **3 Co-ordination strategies**

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

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

## SUMMARY AND AVAILABLE SUPPORT

**T**his booklet has given a general introduction into one element of the environment in which small enterprises operate. It has argued for a policy and legislative framework that recognises the special needs, constraints and opportunities of small enterprises. The impact of specific small enterprise policies and other, non-specific policies, on small enterprise development has been illustrated, as has the potential impact of regulations and administrative systems. In each case, critical points to look for have been identified.

The importance of a policy and legal framework that is conducive to small enterprise development cannot be overstated. It provides the basis on which more effective financial services and business development programmes can be designed and encourages sustainable development that reaches all small enterprises. Assessing the policy and legal framework is not easy. It is a process that is often embedded within social, economic, cultural and historical contexts specific to each country.

The ILO's International Focus Programme on Boosting Employment through Small Enterprise Development (SEED), develops and co-ordinates the production of practical resource materials for use by policy-makers, researchers, regulators, small enterprise development practitioners, ILO constituents and other interested groups. It also supports national policy development and reform initiatives geared toward improving the policy and legal framework for small enterprises and conducts research into the impact of policies and laws upon employment within the small enterprise sector.

Of particular relevance is the four-step approach to participatory policy reform advocated by SEED:

**Step 1: Analysis:** Working with relevant stakeholders to analyze the current situation, then identifying and ranking targets for reform.

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

## ACTION

- Step 2: Learning from good practice:** SEED can provide key stakeholders with examples of good practice to help in the design of reform processes and policy and legal frameworks.
- Step 3: Facilitating policy reform:** SEED can strengthen and add value to the efforts of key stakeholders in setting up action plans for reform, policy design and implementation.
- Step 4: Monitoring the effects of reform:** Because good intentions do not guarantee good results, SEED can help with systems and tools for measuring the impact of reforms and monitoring areas of interest and concern to small enterprises.

## TOOLS AND RESOURCES AVAILABLE

- ◆ Tools for assessing the policy and legal framework
- ◆ Small enterprise survey kit
- ◆ Working Papers containing a range of research reports and other material
- ◆ Database of small enterprise promotion policies





InFocus Programme on Boosting Employment  
through Small Enterprise Development (SEED)

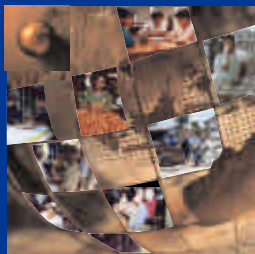
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