



## **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.

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## **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

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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 (ESEE) 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.

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(f) Supporting the formalization of SMEs in line with the forthcoming Recommendation on the transition from the informal to the formal economy.<sup>1</sup>

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:

<sup>1</sup> After the possible adoption of the Recommendation by the Conference, on 12 June, the word “forthcoming” will be removed and the reference will include the exact title and number of the Recommendation.

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- (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.

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**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

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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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