



*Series on Conducive Policy Environment for Small Enterprise Employment*

# **Assessing the influence of the business environment on small enterprise employment**

## **An assessment guide**

by Simon White

InFocus Programme on Boosting Employment  
through **S**mall **E**nterpris**E** Development  
Job Creation and Enterprise Department

International Labour Office · Geneva

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## Foreword

Policies, regulations and institutions that provide an enabling environment for small enterprises can make a substantial contribution towards employment creation and poverty reduction. Most governments have made special efforts to support the development of small enterprises. Yet, millions of people continue to work in small enterprises where they are paid low incomes, have little or no social protection, are exposed to dangerous working conditions, and lack representation. This paradox stems from a policy and regulatory environment that is intended to help the development of small enterprises and improve the quality of the jobs provided by them, but in practice often is biased against the owners and workers in small enterprises and constrains growth.

A starting point for policy reform is to know how the current policy and regulatory framework affects small enterprises. By mapping and assessing the effects of existing laws and regulations on small enterprises, advocates of reform will have a credible information base, thus taking a significant step towards improving the business environment, and helping to determine priorities for reform.

The ILO's SEED programme has developed this guide to assist policy-makers, researchers, evaluators, programme managers, employers' and workers' representatives or anyone who wants to determine the effect that external influences have on employment in small enterprises. It is a significant element of a strategy to improve the business environment for small enterprises so that they can better contribute to the goal of decent work. It is a guide and resource, rather than a blueprint and aims to add value to assessment efforts, rather than prescribe detailed assessments.

While the guide requires some familiarity with research and assessment procedures, it uses a simple and practical approach to assessment that can be applied by people with a range of skills and experiences.

In addition to this assessment guide, another has been designed: the Small Enterprise Employment Survey Kit. This is presented in a separate guide because it deals specifically with a survey approach to assessment. The survey described can be used to determine the influence that the policy and legal framework and the broader business environment has on the employment and investment decisions of small enterprise owner-managers.

This assessment guide has grown out of the research undertaken by SEED in Chile, Guinea, Pakistan, Peru, South Africa, Tanzania and Viet Nam. SEED's research produced country reports that in several cases triggered policy reform and it culminated in the ILO publication *Policies for small enterprises – creating the right environment for good jobs* by Gerhard Reinecke and Simon White. The research activities have led to new ILO policy training programmes and policy guidelines. Through a number of action programmes, the SEED Programme works with national stakeholders to enable them to assess the policy environment and to strengthen national and local capacities to design, implement and evaluate policy reform. A database on national policies, laws and regulations pertaining to small enterprises and a range of survey data can be consulted on the ILO website at [www.ilo.org/seed](http://www.ilo.org/seed).

This guide was written by Simon White, with additional inputs from ILO staff and a range of external consultants.

Gerry Finnegan  
Director a.i.  
SEED Programme



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## Acknowledgements

The tools and processes contained in this kit have been drawn from fieldwork undertaken by the ILO in many countries (e.g. Chile, Guinea, India, Nepal, Pakistan, Peru, South Africa, Tanzania, and Viet Nam). They have also been tested in a variety of settings including research projects and larger projects focussing on the reform of the business environment. The following consultants have used and commented on earlier versions of this guide: Carolina Flores in Chile, Moussa Kourouma in Guinea, Atif Salim Malik from the Small and Medium Enterprise Development Authority in Pakistan, Juan Chacaltana in Peru, Jennifer Mollentz from the Community Agency for Social Enquiry in South Africa, Paula Tibandebage from the Economic and Social Research Foundation in Tanzania, and Pham Thi Thu Hang from the Vietnam Chamber of Commerce and Industry.

The following ILO staff in Geneva contributed to the content of this guide: Gerhard Reinecke, Christine Enzler, Jens Dyring Christensen, Martin Clemensson, Rie Vejs-Kjeldgaard, and Christine Evans-Klock. Paul Vandenberg provided editorial comments. In addition, Gopal Joshi from the ILO's Sub-Regional Office in India has also contributed to the material contained in this guide.

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## **Purpose of this guide and intended users**

This guide has been prepared to guide and assist policy makers, researchers, evaluators, programme managers, or anyone else who wants to determine the effect that external influences have on employment in small enterprises. It is a guide and resource, rather than a blueprint; it aims to assist and add value to assessment efforts, rather than prescribe the details of every assessment.

The guide has been prepared for use by a range of actors in the business environment, public sector agencies, private business organizations, worker organizations, and various kinds of civil society institutions.

This guide has been designed for use by people from different backgrounds. While it requires familiarity with general research and assessment procedures, it uses a simple and practical approach to assessment that can be applied by people with a variety of skills and experiences.

In addition to the three fields of assessment contained in this guide, a fourth field has been designed: The Small Enterprise Employment Survey Kit. This is presented in a separate document because it deals specifically with a survey approach to assessment. The survey described can be used to determine the influence the policy and legal framework and the broader business environment has on the employment decisions of small enterprise owner-managers.



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## 1. Introduction

In recent years, greater significance has been given to the role of the business environment in small enterprise development. Unlike internal influences on small enterprise employment, such as business management and production cycles, the business environment is an external influence that is affected by governments and other institutional stakeholders. In some cases, the business environment can be found to support the development of small enterprises and employment creation while maximizing the contribution small enterprises can make to the reduction of poverty. However, in other cases the business environment can inadvertently constrain employment growth, reduce the quality of small enterprise employment, and contribute to poverty through low wages and a lack of social protection.

The tools and processes described in this guide have been designed to assess different aspects of the business environment. The term ‘business environment’ refers to those elements that are external to the enterprise itself. Specifically, the business environment contains:

- ***The policy, legal and regulatory framework that governs the activities of small enterprises***

The policy, legal and regulatory framework exists to perform two broad functions. Firstly, it provides the means by which government can manage the economy so as to achieve sustainable social and economic outcomes. That is, government develops policies, laws and regulations to achieve a desired purpose. The second function of the policy, legal and regulatory framework is to protect and assist the small enterprise itself. Small enterprises require space to operate and physical facilities in which to conduct their business. They need protection in terms of physical protection against unlawful behaviour of others (e.g. theft, unlawful seizure of property), but also in the sense of having legal forms available to improve the conduct of business (e.g. protection against unfair competition), and incentives to prompt the start of the business.

A policy, legal and regulatory framework is necessary for the proper functioning of the economy and the protection of basic individual rights and economic and social functions. However, in the search for control and in the desire to manage, some governments and their executives can overdo it. They can create a policy, legal and regulatory framework that has the effect of reducing the capacity of small enterprises to grow and develop, thereby limiting the employment potential within the small enterprise sector.

- ***The organizational framework in which small enterprises are promoted, regulated and represented***

Policies, laws and regulations require implementation and enforcement. Governments create organizations to perform these functions (e.g. ministries, departments, authorities, agencies). There are also other organizations that are formed – non-government organizations – to perform specific functions in the business environment. These include chambers of commerce, business associations, trade unions, research agencies, and private organizations (e.g. accountancy and consultancy firms).

The organizational framework is made up of organizations that perform specific functions in the business environment. Six functional areas are described in this guide:

- 
- Policies, laws and regulations: This refers to those organizations engaged in formulating policies, laws and regulations, as well as those that regulate the small enterprise sector (e.g., economic courts, registration authorities, labour commissions).
  - Research and advice: This refers to those organizations engaged in activities to better understand the small enterprise sector (e.g. research institutions, policy advice units).
  - Advocacy and representation: This refers to those organizations that represent the small enterprise sector and advocate for new programmes, services, policies or other forms of support. It is important to ensure that you consider the representation of small enterprises here, and not only those organisation that represent mainly large enterprises. Remember to consider organizations that may represent informal enterprises.
  - Business development services: This refers to those organizations that provide non-financial services to small enterprises (e.g. training, information, advice, mentoring, networks, business linkages).
  - Financial services: This refers to those organizations that provide financial services to small enterprises (e.g. credit services, micro finance).
  - Provision of infrastructure: This refers to those organizations that plan for, or provide infrastructure that is used by small enterprises.

■ ***The social and economic settings in which commercial activities occur, including the role of markets***

Beyond the policies, laws, regulations and the organizations that make up the business environment, there is a range of social and economic influences that affect small enterprises and their potential to provide more and better jobs for women and men. Social and economic institutions shape behaviour through rewards and punishments. Many societies that value the importance of business and foster entrepreneurship have a business environment that is more conducive to small enterprise development. Those that are, or were previously, suspicious of private enterprise (e.g. former socialist economies) have prevailing social and economic institutions that are less encouraging of small enterprise development.

Much of the business environment is influenced by markets. A sound business environment allows markets to operate as efficiently as possible. Market constraints are found only when they are considered socially desirable and have a specific focus (e.g. to promote social equity or protect the environment).

### **Three areas of assessment**

Assessing the business environment can require investigations into a wide range of issues that can influence the potential of small enterprises to create employment. However, there is a need to focus on those issues that are pertinent to such an investigation in most countries.

There are three topics of assessment described in this guide.

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1. **Profiling small enterprises and small enterprise employment**

The guide provides guidance on the preparation of a profile that describes the contribution and character of small enterprise employment. The preparation of a profile of small enterprise employment sets the context in which the policy and legal framework can be assessed and can be used to highlight the need for reform.

This topic is addressed in Chapter 3.

2. **Assessing the policy, legal and regulatory framework for small enterprise development**

The guide takes a step-by-step approach to assessing the policy, legal and regulatory framework in which small enterprises start-up and operate, giving special attention to employment. The issue of administration and organizational frameworks is also dealt with here, dealing with the implementation of policies and the enforcement of laws and regulations.

This topic is addressed in Chapter 4.

3. **Assessing markets and the business environment for small enterprises**

The guide provides guidance for capturing the dynamics of the business environment in which policies, laws and regulations operate. It examines the broader environment in which small enterprise employment occurs, particularly the role of markets.

This topic is addressed in Chapter 5.

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## 2. Organizing an assessment project

This chapter briefly describes the main issues and questions faced when organizing an assessment of the business environment on small enterprise employment.

It is important to give consideration to a number of issues before you begin an assessment of any of the fields contained in this guide. Success in these assessments is directly related to setting the right conditions in which assessment takes place.

### 2.1 Issues to consider

There are four key issues to consider. These are described below.

#### *Clarifying the purpose of assessment*

It is important to be clear about the purpose of the assessment that is to be undertaken and that all parties involved in the project share the same view. The purpose of assessment will affect the way the assessment is conducted and how the results are presented.

Discuss this issue fully and ensure that before you begin, you have a written list of objectives that clearly state:

- Why you are doing this assessment.
- What you want to find out.
- How you plan to conduct the assessment. (Who will do it? What institutions are involved?)
- What you plan to do with the information obtained by the assessment.
- What you hope to achieve as an overall outcome.

#### *Defining small enterprises*

It is necessary to define small enterprises and categories of enterprises (e.g. micro, small, medium-sized enterprises) before you begin. In most cases, you will probably choose to use the official government definition, but in those situations where there is no official definition or where there is more than one definition used, then you should decide which definition is best for your assessment.

In some cases, an assessment exercise has used the following definitions in the absence of any official or otherwise common definition used in the country:

Micro enterprise:	1 to 5 workers (full- or part-time)
Small enterprise:	6 to 20 workers (full- or part-time)
Medium enterprise:	21 to 50 workers (full- or part-time)
Large enterprises:	51 or more workers (full- or part-time)

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You should also decide on whether you wish to assess the environment for all small enterprise employment, or for specific sectors or areas of interest. For example, you may wish to exclude agricultural enterprises. In some countries (i.e. socialist countries, or those with a recent socialist history) the government's definition of small enterprise includes State-owned enterprises. Do you want to include these in your assessment?

### ***Managing and guiding assessment efforts***

It is important to consider the processes and mechanisms that will be used to manage and guide the assessment. Of particular interest are the following:

- How to bring all the key stakeholders together: Try to involve all stakeholders in the assessment process. This will help in the assessment itself, as well as in the actions that follow the assessment.
- How to obtain political support for the reform agenda that will emerge from this process: It is important to get political support for your efforts as quickly as possible. This includes support from senior politicians and bureaucrats (e.g. minister, deputy minister, permanent secretary, director general) as well as from senior levels of government. It is important to note that, while employment in small enterprises is a major focus of this assessment, the department or ministry of labour may not be the only key agency. Often, support from the department or ministry of trade and industry or commerce will be essential. Support from senior agencies such as the cabinet, the president's office, the prime minister's office, or the department of finance should also be sought.
- How to build general support and 'ownership' among all stakeholders: Try to involve key private sector and development agencies wherever possible. If there are associations of small enterprises, worker organizations, employer organizations or chambers of commerce, then these groups should also be involved.

Specific 'processes' and 'mechanisms' need to be designed to address these issues. Processes are activities or tasks that should be undertaken, such as consulting with key organizations, surveying attitudes, using talkback radio, writing letters, etc. Mechanisms are the structures or organizations that are created for specific purposes (e.g. to carry out certain processes). Examples of mechanisms include steering committees, advisory boards, inter-ministerial bodies, one-stop shops, and specific agencies for the public or private sector.

### ***The circular process of assessment and reform***

Assessment is rarely an isolated activity. It is usually conducted to produce a change of some kind, such as an improvement in the business environment for small enterprise employment. Thus, it is important to recognize the role this assessment project will perform in the broader process of reform. This will affect the way you set up the project and present its findings. It will affect the organizations involved in a steering committee and those that are invited to focus group discussions and other forms of consultation.

## **2.2 The use of consultants**

It is most likely that you will engage the services of one or more consultants in this assessment project. Indeed, the following chapters have been designed for the use of consultants that have been commissioned to undertake this assessment work.

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Annex 1 contains a series of sample terms of reference that can be modified to suit the demands of your project. The terms of reference contained in this annex respond to the three fields of assessment described in the guide. In addition, there are two support functions outlined: project coordination and technical supervision.

- Terms of reference for a consultant to prepare a profile on small enterprise employment.
- Terms of reference for a consultant to assess the policy and legal framework.
- Terms of reference for a consultant to assess markets and the business environment for small enterprises.
- Terms of reference for a consultant to provide project coordination.
- Terms of reference for an international consultant (to provide technical supervision for the work performed by national consultants).

These terms of reference rely on the use of national consultants, although the last case involves an international consultant who may be used to provide technical supervision for the work performed by national consultants. Of course, it may be possible for a consultant to do more than one of these pieces of work.

Consultants may be independent contractors or technical staff associated with a university, government agency or business agency.

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### 3. Preparing a profile of small enterprise employment

This chapter provides guidance on the preparation of a profile that describes the contribution and character of small enterprise employment. The preparation of a profile of small enterprise employment sets the context in which the policy and legal framework can be assessed and can be used to highlight the need for reform.

#### 3.1 Why prepare a profile of small enterprise employment?

Understanding the size and character of the small enterprise sector and how it contributes to employment is an important starting point when assessing the effect of the external environment on small enterprises. In most cases, this information achieves the following purposes:

- Highlights the significance of the small enterprise sector in employment creation.
- Identifies the critical sectors in which small enterprise employment is found.
- Identifies the concerns or threats to employment found in the small enterprise sector.
- Highlights the need for more systematic data regarding the volumes and nature of employment in this sector.

Ultimately, a profile of small enterprise employment can be used to highlight the importance of small enterprises in employment terms, which can then be used to advocate for policies, laws and regulations that are more appropriate to the sector.

#### 3.2 What does a profile of small enterprise employment contain?

Basically, the profile of small enterprise employment is concerned with two broad themes. Firstly, the profile focuses on the *volume or amount of employment* that small enterprises create. The number of people employed by small enterprises is a simple first step when dealing with volumes and this can help to highlight the contribution small enterprises make to total employment in the country. However, this does not explain whether small enterprises have created these jobs, or whether people have moved into small enterprises because of a loss of jobs elsewhere. Thus, it is necessary to look closer at these dynamics where the data can be found.

Secondly, a profile of small enterprise employment should examine the *qualitative aspects of employment*. This involves an assessment which is made, based upon certain criteria, regarding the quality of employment in small enterprises. Often, this involves comparative assessments between small enterprise employment and employment that is found in the public sector, or in large enterprises.

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### 3.3 Steps to be taken when preparing a profile

When analyzing aggregate employment outcomes, you should follow these steps:

Step 1: Assessing the size of the small enterprise sector and its contribution to national development.

Step 2: Assessing employment in small enterprises.

Step 3: Determining employment quality in small enterprises.

For each of these steps, you should give priority to analysis by enterprise size classes (comparing the situation in small enterprises to the situation in larger enterprises) and disaggregate data by workers and enterprises' characteristics. In some cases the situation in small enterprises could be compared with the other 'alternative', such as that of poverty or no employment.

The steps and methodology you could follow are described in full below.

#### ***Step 1: Assessing the size of the small enterprise sector and its contribution to national development***

As a first step, you should prepare a profile of the small enterprise sector detailing:

- Size of the small enterprise sector, i.e. number of establishments based on size (i.e. micro, small and medium).
- Geographical distribution of small enterprises.
- Variations found among public- and private-owned enterprises.
- Sector distribution of small enterprises according to service, trade and major manufacturing sectors.
- Profile of small enterprise owner-managers in terms of gender, and levels of education and literacy.
- Contribution of small enterprises to national social and economic development goals (e.g. employment, productivity, gross domestic product).

To prepare this profile, you will need to consult with a range of existing data sources. These will include:

- Household surveys.
- Establishment surveys.
- Census surveys.
- Labour administration data sources.



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- Social security institutions.
  - Local government authorities.

## **Step 2: Assessing employment in small enterprises**

While Step 1 refers to employment in general terms, Step 2 attempts to take this analysis further by focusing on the net volume of jobs created in the small enterprise sector, as well as the quality of those jobs.

When compiling and analysing employment data by enterprise size, you should try to answer the following questions:

- What is the relative share of small enterprises in total employment?

The answer to this question gives a static picture of small enterprises as employers. Within the total share of small enterprise employment, you should distinguish between the self-employed or own-account workers on the one hand, and other small enterprises on the other.

- What has been the evolution of the distribution of employment by enterprise size?

This question can only be answered when comparable data by enterprise size over time is available. It will be particularly interesting to determine whether there is a tendency towards an increased share of employment in small enterprises compared to total employment.

- Are increases in employment in small enterprises related to lower rates of unemployment or underemployment, or with periods of economic decline or prosperity?

This will help to determine the main reasons for the creation of small enterprises: Whether this occurs as an option of last resort (such as when the economy is in decline), or as an opportunity for development (when the economy is growing).

The share of employment by enterprise size illustrates the importance of enterprises of different size classes in providing total employment and can show the changing weight of small enterprises in this regard. However, there are serious limitations to this indicator. It does not:

- provide any indication of employment creation in small enterprises – an increase in the number of workers in small enterprises can result from the ‘downsizing’ of larger enterprises rather than from the net creation of jobs;
- give any information on the quality of employment in small enterprises – the characteristics of workers in small enterprises or the quality of their employment; or
- permit an analysis of the reasons behind the situation described – where for example, a decrease in employment can reflect depressed markets, but can also be a consequence of an entrepreneurial decision of increasing productivity by restructuring its enterprise (even within expanding markets).

It may not be possible to address these limitations. However, if relevant data can be found, then the share of employment by enterprise size should be completed by an

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analysis of employment flows over time – using longitudinal data. This will help us understand the reasons behind the changes of employment share by enterprise size classes over time. (This is referred below to as ‘Employment Flows’.)

Finally, it will be important to distinguish between employment in micro enterprises and those who are self-employed or own-account workers.

### **Step 3: *Determining job quality in small enterprises***

The measurement of employment in small enterprises should include the measurement of the quality of the employment created. The term ‘job quality’ refers to a range of employment-related factors that have an influence on the economic, social and psychological well-being of workers. It includes fundamental human rights at work, as identified by the International Labour Conference in its 1998 Declaration on Fundamental Principles and Rights at Work, as well as other dimensions of work. The following is a list of dimensions of job quality. Because job quality can be difficult to define, each of its dimensions listed below may be assessed according to a series of indicators. Examples of these indicators are described in the matrix presented further below.

- **Remuneration levels:** This can be measured through indicators such as the level of earnings, fringe benefits and non-wage benefits. The assessment of remuneration levels must take the number and distribution of working hours into account. In virtually all countries, women have lower remuneration levels than men for comparable skill levels and working hours.
- **Job security:** As evidenced by the regularity and reliability of work and income; the existence of employment contracts and the length of tenure – which can provide a sense of long-term stability for workers.
- **Social protection:** The provision of health, life, disability and unemployment insurance, as well as pension schemes, childcare, and maternity leave can be indicators used to measure social protection for workers.
- **Working conditions:** This refers to the prevention of occupational accidents and diseases, the containment of environmental hazards as well as the promotion of health in the workplace. It also includes adequate physical working conditions as demonstrated by space, sanitary installations and eating facilities.
- **Human resource development:** This includes the provisions of education and training opportunities, prospects of promotion and incentives for improvement.
- **Management and organization:** This may be assessed according to the existence of contemporary management methods, sound industrial relations practised, freedom of association and opportunities for participation and involvement encouraged.
- **Freely chosen employment:** Concerns areas such as the existence and character of bonded labour and exploitative apprenticeship arrangements.

While it is recognized that many small enterprises do not provide employment of this type, it is essential that such qualitative aspects become an integral part of job creation in this sector. Safe and secure workplaces not only meet vital human needs, they also boost productivity and enable businesses to grow. Hazardous working conditions create risks and harm workers. They also decrease productivity. This reduces income, which also decreases health and subsequently, productivity. At the same time, many

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workers in small enterprises are facing a high degree of risk due to their poor incomes and lack of access to social services. This makes them more vulnerable in time of crisis.

Of course it is difficult to determine what is a good or bad job – decent or unsatisfactory employment. These are value-laden concepts that require careful consideration before applying them. They are also technically difficult to measure. One point to remember is that the source of information on job quality can bias its findings. It is likely, for example, that information provided by small enterprise owners/managers will express a more favourable view than if workers themselves provided it. The assessment of job quality within small enterprises faces some major problems. The data on these issues can be hard to find; precise measurements can be hard to make; and it is difficult to compare across countries.

When attempting to assess employment quality in small enterprises, you may find it useful to give some commentary on the data you find and use. When using job quality data, it may be difficult to let the data ‘speak for itself’. It may also be appropriate to use more than one indicator per theme (see below). Finally, drawing from anecdotal evidence provided through interviews with key stakeholder organizations can help the reader to properly interpret the data you are presenting.

The following matrix may help you to examine job quality factors.

*Note: The ILO has a range of additional resources on the topic of job quality. See the ILO Website.*

**Figure 1: Job quality matrix (assessment tool)**

<b>Dimension</b>	<b>Possible indicator(s) (examples)</b>	<b>Possible source(s)</b>
Remuneration levels	<ul style="list-style-type: none"> <li>• Average earnings in small enterprises compared to larger enterprises and poverty situations</li> <li>• Average female earnings compared to average male earnings</li> <li>• Share of small enterprise workers receiving benefits e.g. transportation</li> <li>• Average number of weekly working hours compared to national average</li> <li>• Leave entitlements</li> <li>• Share of small enterprise workers working on weekly days off, during holidays and at night</li> </ul>	<ul style="list-style-type: none"> <li>• Household surveys</li> <li>• Establishment surveys</li> </ul>
Job security	<ul style="list-style-type: none"> <li>• Regularity and reliability of work and income (e.g. turnover and average job tenure of workers)</li> <li>• Contractual status: existence and type of work contract (e.g. permanent, fixed-term, other)</li> </ul>	<ul style="list-style-type: none"> <li>• Household surveys</li> <li>• Establishment surveys</li> <li>• Labour administration</li> </ul>
Social protection	<ul style="list-style-type: none"> <li>• Coverage of social security contributions and benefits, sick leave entitlements, etc. in small enterprises, health, life, disability, unemployment insurance, pension schemes</li> <li>• Remuneration during sick leave</li> <li>• Arrangements for maternity leave and childcare.</li> </ul>	<ul style="list-style-type: none"> <li>• Household surveys</li> <li>• Establishment surveys</li> <li>• Social security institutions</li> </ul>
Working conditions	<ul style="list-style-type: none"> <li>• Frequency and severity of work accidents compared to larger enterprises</li> <li>• Percentage of workers who have been treated for work-related diseases in the past year</li> <li>• Percentage of workers who have died of work-related accidents or diseases in the past year</li> <li>• Share of establishments having minimum sanitary installations</li> <li>• Percentage of establishments in permanent premises</li> <li>• Use of protective clothing</li> </ul>	<ul style="list-style-type: none"> <li>• Insurance institutions</li> <li>• Labour inspections</li> <li>• ILO/SEED need assessments on job quality</li> </ul>
Management and organization	<ul style="list-style-type: none"> <li>• Existence of trade unions</li> <li>• Unionization rate</li> <li>• Rate of membership in business associations</li> <li>• Incidence of strikes and lockouts</li> </ul>	<ul style="list-style-type: none"> <li>• Household surveys</li> <li>• Establishment surveys</li> <li>• Trade unions</li> <li>• Business associations</li> </ul>
Staff development	<ul style="list-style-type: none"> <li>• Opportunities for personal and professional development</li> <li>• Share of workers (men and women) having participated in professional training</li> </ul>	<ul style="list-style-type: none"> <li>• Household surveys</li> <li>• Establishment surveys</li> <li>• Training institutions</li> </ul>
Freely chosen employment	<ul style="list-style-type: none"> <li>• Absence of child and bonded labour</li> </ul>	<ul style="list-style-type: none"> <li>• Household surveys,</li> <li>• Specific surveys on child labour or bonded labour</li> </ul>

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Although often collected, employment quality indicators by enterprise size classes are rarely published. They can be obtained by requesting special tabulations from national statistic offices or via access to micro-data. These indicators allow an assessment of the quality of employment in small enterprises that focuses on the:

- Differences between smaller and larger enterprises.
- Differences between men and women.
- Differences between different categories of workers and enterprises.
- Evolution over time and the quality of new jobs created.

Earnings and hours of work are also a valuable indicator of employment quality. The income-generating function of employment is directly linked to remuneration per hour and the number of hours worked. The measurement of underemployment<sup>1</sup> and inadequate employment situations<sup>2</sup> are related to hours of work. Improving the quality of employment in small enterprises then can be achieved by decreasing underemployment and not only by creating new jobs.

Statistics on earnings and related concepts should be expressed in national currency. When a time-series can be obtained, constant prices and index in real terms are obtained by deflating data in current prices by the consumer price index (CPI). Data for this analysis are mainly available from enterprise-based surveys (wages, labour costs, hours of work) and household-level sources (income, sometimes hours of work).

In addition to the analysis by enterprise size class, incomes should be compared with a situation of poverty or under-employment, as many workers' incomes are insufficient to move the household they live in beyond the poverty line. A possible indicator could be the share of small enterprise workers earning below a certain minimum level (e.g. poverty line for an average household divided by the average number of persons employed per household, or a legal minimum wage).

The choice of which aspect of earnings and hours of work should be assessed in the analysis is up to you. You should also feel free to use other indicators that may be more relevant to your study. You may also wish to use additional forms of assessment and comparison, such as hours of work for specific categories of workers such as for persons working part-time, or for full-time, casual or temporary workers.

<sup>1</sup> Time-related underemployment exists when the hours of work of an employed person are insufficient in relation to an alternative employment situation in which the person is willing and available to engage (Resolution concerning the measurement of underemployment and inadequate employment situations 16th ICLS, October 1998 in ILO, 2000).

<sup>2</sup> Particular types of inadequate employment situations are skill-related inadequate employment, income-related inadequate employment and inadequate employment related to excessive hours (Resolution concerning the measurement of underemployment and inadequate employment situations).

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### 3.4 Checklist for data

Here is a list of data required to adequately fulfil your assessment. Go through this list to check that you have all the data you require.

#### ***Employment in small enterprises***

##### Definitions

- Where possible, apply the national definition of employment and national definitions of small enterprises – or, in the absence of national definitions, use our recommended ‘international’ definitions.

##### Number of people employed in small enterprises

- Actual numbers of people employed in small enterprises – where possible, compare this with employment in medium and large enterprises.
- Share of small enterprises in employment and share of other enterprise size groups (i.e. medium-sized and large enterprises).
- Check for instances of existence of a ‘missing middle’ syndrome (i.e. where there are fewer medium-sized enterprises than large and small enterprises).

##### Employment quality

- Remuneration levels for employees as well as owner-managers – where possible, compare this with employment in medium and large enterprises.
- Job security for employees as well as owner-managers – where possible, compare this with employment in medium and large enterprises.
- Social protection for employees as well as owner-managers – where possible, compare this with employment in medium and large enterprises.
- Working conditions for employees as well as owner-managers – where possible, compare this with employment in medium and large enterprises.
- Staff development – where possible, compare this with employment in medium and large enterprises.
- Management and organization – where possible, compare this with employment in medium and large enterprises.
- Equal employment opportunities.
- Freely chosen employment (e.g. lack of bonded labour).

##### Characteristics of employees in small enterprises

- Age distribution.
- Sex distribution.
- Education levels.

- 
- Employment status.
  - Race or ethnicity.

#### Characteristics of economic units

- Size of the small enterprise sector.
- Sectors (i.e. trade, services, manufacturing, agriculture).
- Ownership – sex of owners (e.g. WOE, MOE) and ownership structure (e.g. sole proprietor, corporate entity, partnership).
- Characteristics of these sectors in terms of employment share, GDP contribution, investment, export (e.g. Are small enterprises in dynamic sectors?).
- Location: region, urban and rural.
- Economic performance indicators.
- GDP contribution.
- Productivity levels.
- Investment levels.
- Export.
- Evidence of links between selected economic indicators and small enterprise sector performance (e.g. economic growth and a growth/decline in the number of small enterprises or in small enterprise employment).

### 3.5 Possible outline for a report on the profile of small enterprise employment

You may find the following structure useful when preparing your final report on the profile of small enterprise employment.

- **Title page**
  - **Table of contents**
  - **Executive summary:** This should be a two- to three-page summary of the main findings of the study.
  - **List of abbreviations used:** Make sure you list only the abbreviations you have used. (It is common to find reports where this list has been copied from elsewhere and contains a number of abbreviations that are not actually used in the report!)
1. **Introduction:** It should describe:
    - Purpose of the profile (this should include a description of how the profile complements any other reports, such as the other fields of assessment contained in this guide).

- 
- Agency (or agencies) that initiated the profile and the reasons for the profile.
  - Proposed use of the information contained in the report (i.e. why this report is relevant and how it will be used).
  - Any other relevant background information.
  - The definition you have applied in the report when referring to ‘micro enterprises’, ‘small enterprises’, ‘medium-sized enterprises’, ‘large enterprises’, etc. (Note: This is likely to be drawn from some form of official definition, but there are likely to be cases when some of the data you present applies definitions that are somehow different to these definitions, in which case you will need to clearly indicate such variations.)
  - Structure of the report.

**2. Profile of small enterprises:** This chapter should present the following information:

- Size of the small enterprise sector, i.e. number of establishments based on size.
- Geographical distribution of small enterprises.
- Description of any variations found among large, medium, small, and micro enterprises.
- Sector distribution of small enterprises according to service, trade and major manufacturing sectors.
- Profile of small enterprise owners and managers in terms of gender, and levels of education and literacy.
- Contribution of small enterprises to gross domestic product and productivity.

It is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

**3. The contribution of small enterprises to employment:** This chapter should present the following information:

- The share of employment found in small enterprises.
- The characteristic of small enterprise employment – disaggregating employment figures by:
  - Sex
  - Age
  - Occupational fields
  - Skill-level of employees
  - Location (e.g. urban, rural, semi-urban)



- 
- Employment flows in small enterprises over time. Describing the changes in employment shares in the small enterprise sector over the last ten or fifteen years.

Again, it is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

**4. The quality of employment in small enterprises:** This chapter should present data showing the extent to which the indicators of job quality within small enterprises can be measured, as compared to employment found in large enterprises and the public sector:

- Remuneration levels
- Job security
- Social protection
- Working conditions
- Human resource development
- Management and organization
- Freely chosen employment.

This may include employers' and employees' perceptions of problems and constraints related to job quality in small enterprises.

Here too, it is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

**5. Summary and conclusions:** This chapter should present a summary of the findings contained in the previous chapters, highlighting the major findings. It should then come to some conclusions. These conclusions should address the main purpose of the study and its contribution to the broader assessment project. For example, the conclusions may address the:

- Overall contribution of small enterprises to national social and economic development goals.
- Variations found in the distribution, ownership, and sectoral spread of small enterprises.
- Key concerns regarding the quality of employment in the small enterprise sector.

It would be unusual for a report of this kind to present recommendations because this report mainly describes the current situation with regard to small enterprise employment. Recommendations are more likely to stem from the findings of the overall collection of studies undertaken in an assessment project.

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- List of references: Make sure you are consistent in your use of references. The agency that has commissioned this research may have specific requirements regarding the referencing system you use, so it will be important to ask about this. Annex 3 contains information on the ILO's preferred referencing system.
  - Appendices: The appendices should contain any information that you think the reader may wish to refer to. This information may include tables that are too detailed or long for inclusion in the core of the report, lists of people or organizations consulted, useful excerpts from other reports, etc.

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## 4. Assessing the policy and legal framework

This chapter takes a step-by-step approach to assessing the policy, legal and regulatory framework in which small enterprises start-up and operate, giving special attention to employment.

### 4.1 Brief introduction to policy, legal and regulatory frameworks

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

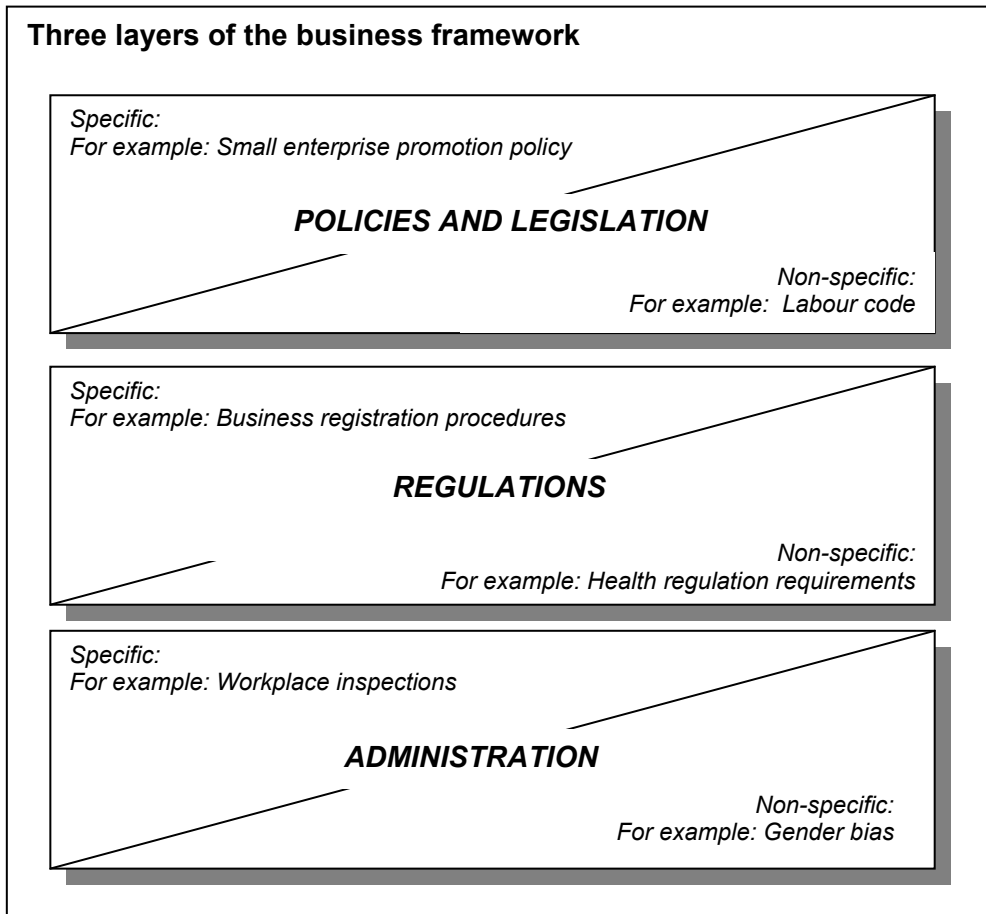
In the search for control and in the desire to manage, some governments and their executives can overdo it. They can create a PLRF that has the effect of reducing the capacity of small enterprises to grow and develop, thereby limiting the employment potential within the small enterprise sector.

There are three layers of government activity that shape the environment for small enterprises (Figure 2). 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 can also 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 the regulations. These are a means through which policies and laws are implemented. Regulations represent the ‘tools’ that are used to enact the policies and legislation.

The third layer of activities is that of administration. This refers to the ways in which policies, laws 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 them.

**Figure 2: Three layers of the business framework**



The environment 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 2 illustrates this point. It shows how the three different layers of the PLRF each contain factors that are specific and non-specific in regards to small enterprises. Whilst specific forms are designed with small enterprises in mind, non-specific forms were not, yet they can still affect the operations of a small enterprise. The environment in which small enterprises operate 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, 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.

***Different tiers of government***

There is more than one government in most member States of the ILO. Whilst central or national governments set the national framework (e.g. the Constitution) and direction (e.g. National Development Plan) for the country, there are other levels of government that undertake activities that affect small enterprise development. These may be provincial, state, regional, local, town or village governments, authorities or councils. What ever they are called, their operations have a significant affect on the contribution small enterprises make to the economy.

Figure 3, below, displays the multiple layers of influence affecting small enterprises. It illustrates how central, provincial and local governments can all be engaged in the design of policy and legislation that affect the sector. Each of these levels of government can also design and implement regulations that affect small enterprises, which all require administrative mechanisms. Care must be taken when interpreting this chart, however, whilst local governments may be involved in the implementation of central government policies, laws and regulations, it is unlikely central government agencies will do likewise for local governments.

**Figure 3: Three tiers of government and the relationship with the local policy and legal framework**

	<b>Central government</b>	<b>Provincial government</b>	<b>Local government</b>
Policy	National policy development, with possible area or sector differentiation.	Policy development within its area of jurisdiction and within the framework of national policy. Often involved more with development planning.	Policy development within its area of jurisdiction and within the framework of national and provincial policy. Often involved more with development planning and land use planning (e.g. Zoning, city planning).
Legislation	National legislation, with possible area or sector differentiation.	Legislation development within its area of jurisdiction and within the powers given to it by central government.	Legislation – usually in the form of by-laws – development within its area of jurisdiction and within the powers given to it by central government.
Regulations	National legislation will usually set the parameters for regulations that are used to enforce it.	Required to establish regulations to enact their own policies and laws, but may also do this for national policies and laws.	Required to establish regulations to enact their own policies and laws, but may also do this for national or provincial policies and laws.
Administration	Administration can be performed through national agencies, some of which may be decentralized. There is a growing tendency toward decentralizing administration to more local levels of government.	Required to administer their own activities and possibly those of central or provincial governments.	Required to administer their own activities and possibly those of central or provincial governments.

## Central government

Central Government is primarily concerned with the nation as a whole. It will, therefore, develop national policies, laws, and regulations. These may be specifically oriented to small businesses, as well as a wide variety of other concerns. Central government also has an administrative mechanism to enact government functions.

Much of this guide is concerned with the operation of central government. Thus, unless otherwise mentioned, you should interpret the information presented in this guide as being relevant to central governments.

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## Sub-national governments

The powers of sub-national (i.e. regional and provincial) government range enormously from one country to the next. In some cases, they have more of a planning and strategic development function. In others they are empowered to provide direct services. In some cases, they have the power of taxation, in others they simply receive funds allocated by Central Government. For this reason, it is difficult to describe all the possible roles of sub-national government.

Regional and provincial governments do, however, impact upon the conditions in which small enterprise development is possible. Thus, it is important to ensure that policies, laws and regulations at this level of government complement those of other levels of government.

- From a planning and strategic development perspective it is important that small enterprises are acknowledged for their contribution, both current and potential, to the social and economic development of the region or province. This should be clearly expressed in regional development plans. Furthermore, there should be formal and informal ways through which small enterprise organizations are represented in decision-making forums of government at this level.
- From a business development perspective, it is important to ensure that policies and strategies are responsive to the needs, opportunities, constraints and concerns of small enterprises in the region or province. Small enterprises in the region or province should be consulted and encouraged to participate in the design, implementation, monitoring and evaluation of enterprise development programmes.
- From a regulatory and procedural perspective, it is important that small enterprises in the region or province are not unnecessarily or overly hindered, constrained or otherwise restricted in their activities when compared to other regions or provinces. Moreover, it will be valuable to assess all regulations of government at this level to determine what reforms may be possible to make the region or province more conducive to business establishment and expansion.

## Local governments

The function and resources of local government can vary dramatically and for this reason it is difficult to be prescriptive about the capacity for local government to create an environment that is conducive to small enterprise development. However, local government are often in a unique position to assist small enterprise development. This is because they are:

- The most local level of government – giving it greatest opportunity for direct contact with local entrepreneurs.
- Often assigned practical administrative functions (e.g. licensing).
- Often required to deal with local issues.
- Comprised of locally elected representatives who can advocate to other levels of government concerning local issues.

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The variety of actions that local governments can perform to assist in the process of small enterprise development may include:

- Provide information and direct assistance.
- Bring local small businesses together for meetings or discussion on the legal and regulatory framework.
- Act as a catalyst and facilitator in identifying small enterprise needs and opportunities.
- Advocate for local entrepreneurs on specific development proposals.
- Improve reporting and other regulatory procedures that fall under the control of the local government.
- Develop a local data base on small enterprise activity in the area.
- Introduce specific policies and regulations that promote local small enterprises (e.g. local purchasing policies).

The choice of action will depend on many things, including the capacity of the local authority to provide services and respond to the demands of the local small enterprise sector. The creation of an enabling environment for small enterprise development is critical to successful business development efforts. At the local level there is a high potential for regulatory functions to constrain small enterprise growth.

The decentralization of Central Government services can mean local government is required to deal with many more regulatory and administrative functions affecting small enterprises. It is important to minimize the administrative burdens on small enterprises as far as possible because they hinder the development of enterprises and the growth of employment.<sup>3</sup> An environment that does not support small enterprises can be particularly damaging to this sector because small enterprises do not have the 'reserves and resources to fall back on, nor the managerial and technical capacity to deal with variable economic and business policies, complex licensing and authorization procedures, and fluctuating fiscal and monetary regulations'.<sup>4</sup>

## **4.2 Steps to be taken when assessing the policy and legal framework**

When analysing the policy, legal and business environment for small enterprises, you should take the following steps:

Step 1: Describe the system of governance and powers

Step 2: Select policy domains for assessment

<sup>3</sup> The European Observatory for SMEs (1995) *Third Annual Report*, p. 280.

<sup>4</sup> Tolentino, A. and Theocharides, S. (1992) *Strengthening existing small enterprises*, Small Enterprise Development Programme. Geneva, ILO.

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Step 3: Map the policy and legal instruments

Step 4: Assess the policy and legal framework for selected domains

Step 5: Map the organizational arrangements for small enterprise regulation, representation and promotion

Step 6: Synthesizing your findings.

These steps are described in full detail below.

*Step 1: Describe the system of governance and powers*

It is important to briefly explain the system of governance, policy and law that operates in the country before mapping the relevant policy fields that affect small enterprises. This is important because there will be readers of your work – within the country and from outside – that don't fully understand these arrangements.

This description should include the various powers assigned to central, provincial and local levels of government. This will help the uninitiated reader to understand the hierarchy of policies, laws and regulations, and how the process of governance works. This should also include a description of the powers and responsibilities of government structures at the national, provincial/district, and local levels.

There are three general layers of government activity that usually shape the environment for small enterprises. It is necessary for you to describe the instruments that are used in each of these layers. Some of the possibilities are now described.

- A. Policies and laws:** These set the directions and intentions of government. They underpin development efforts and influence the role small enterprises perform in the national, district and local economies. They provide the justification for regulatory action. Policies, like all the other fields of government activity listed here, can be developed at national, regional and local levels. In countries where an English or Roman system of government operates, for example, policy documents may be called a 'White Paper' or simply a 'Policy'. In other countries, a Presidential Decree sets the framework for government. Legislation is the act of giving laws; it is the exercise of a sovereign power. These laws may be passed by a parliament or congress (sometimes there are two houses of parliament through which a bill must pass before it becomes law). Laws may take the shape of published legislation, or cabinet, congressional or presidential decrees.
- B. Regulations:** These are the means through which policies and laws are implemented. Regulations are rules or procedural directives issued by administrative agencies to implement laws. These agencies must have specific authorization to issue directives and must usually adhere to procedures and conditions that are prescribed by the parliament or congress. Regulations represent the 'tools' that are used to enact the policies and legislation in the pursuit of desired outcomes.
- C. Administration:** This refers to the ways in which policies, laws and regulations are applied, managed and monitored. There are many policies and laws at the national level that affect small enterprises and increasingly, local governments are required to administer these. In some cases, private sector



agencies, NGOs or business associations may be contracted by government to administer specified laws or regulations.

Look at the names and status that are given to policies, laws and regulations and provide a short summary of these. This will help the reader to understand more easily the terminology you use when describing the policy and legal framework.

The following chart may be a useful tool for presenting this information.

**Figure 4: Chart of the range of systems of governance and powers**

Level of government	Kinds of instruments	Instruments used (example)	Authority (example)
Central	National polity	Constitution	Parliament, Plebiscite, Referendum
	National policies	Presidential Decree	President
		Executive Order	President
		Parliamentary Decree	National Parliament
		White Paper	National Parliament
		National Policy	National Cabinet
	Legislation	National Law	National Parliament
		Code	National Parliament or Cabinet
	Regulation	Regulations and procedures	National Parliament
		Ordinance	Line-ministries
		Circular	Line-ministries
		Administrative Order	Line-ministries
	Provincial	Provincial Policies	Provincial Strategies
Provincial Strategies			Provincial Council
Legislation		Provincial Laws	Provincial Legislature
Regulation		Provincial Regulations and Ordinances	Provincial Bureaucracy
Local	Local Policies	Local Government Plans	Local Authority Council
		Local Development Strategy	Local Government Council
	Legislation	Bylaws	Local Government Council
	Regulations	Ordinance	Local Government Council
	Administration	Procedures and inspections	Local Government Bureaucracy

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## *Step 2: Select policy domains for assessment*

The second step is to choose the policy domains you wish to assess. The term ‘policy domain’ is used to refer to a field of interest or concern within the total range of policies, laws and regulations that affect small enterprises (e.g. taxation, environment). There are many different policy domains that can be selected for assessment and it is unlikely you will have the time or financial resources to assess them all. Thus, you will need to select those fields that are most relevant to the small enterprise sector or to the objectives that underlie the purpose of your assessment.

The policy domains that are most likely to influence small enterprises include the following:

- A. Specific small enterprise policies:** the official government policies formulated to promote the development of small enterprises.
- B. Business laws and regulations:** the laws and regulations governing business activities, including business registration and reporting requirements.
- C. Taxation policies, laws and regulations:** include different types of taxes, such as income taxes, profit taxes, value-added tax (VAT), goods and services tax (GST), capital taxes and tax incentive schemes.
- D. Labour policies, laws and regulations:** these deal specifically with the concerns of job quality, but include employment promotion policies as well as the governing policies, laws and regulations that govern small enterprise employment.
- E. Trade and export policies, laws and regulations:** quantitative (e.g. import quota, import licenses) and non-quantitative (e.g. import tariffs) barriers to imports, as well as taxes on and incentives for exports.
- F. Finance and credit policies, laws and regulations:** policy, legal and regulatory instruments that affect the access small enterprises have to capital, such as government incentives to finance providers to help them improve their coverage of small enterprises, depreciation facilities, and so on.
- G. Education policies:** education policies can affect small enterprise operations and development in a number of direct and indirect ways.
- H. Enabling and innovation policies:** policies and incentive schemes that promote business-to-business trade and foster technological innovation.
- I. Environmental policies, laws and regulations:** focuses mainly on the approval and reporting requirements of small enterprises.

Your choice of policy domain will depend on a few issues, including:

- The resources you have available for the assessment – includes time as well as financial resources.
- The specific interests you have for this assessment.
- The extent to which some of these domains have previously been assessed by others.

## *Step 3: Map the policy and legal instruments*

Now that you’ve selected the policy domains you wish to assess, the next step is to map the policies and laws that are found in these domains.

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The mapping of policy and legal instruments involves a detailed description of what policies and laws exist. Before any assessment or synthesis can occur, it is important that you scan the policy and legal framework and summarize its main features. This will provide the material on which your later assessments and conclusions can be based.

**A. Specific small enterprise policies:** These are the official government policies that have been formulated to promote the development of small enterprises. They express government's interest in the value and importance of small enterprises and the way these enterprises will be promoted. When mapping these policies, you should pay particular attention to:

- (a) Definitions applied and criteria used to identify micro, small and medium-sized businesses
- (b) Government institutions responsible for the design and implementation of the policy
- (c) Segmentation of micro and small businesses within the policy
- (d) Employment elements contained within the policy
- (e) Special provisions for small enterprises (e.g. incentives and exemptions)
- (f) Role of the State in enterprise development
- (g) Role of organizations that can represent small enterprises
- (h) Monitoring and review mechanisms.

Are there central, provincial or local policies or laws that have been formulated to promote small enterprises?

In addition to small enterprise promotion policies, it may also be useful to examine sectoral promotion policies. In most countries, there are specific policies and strategies designed to address the needs of particular sectors of the economy. This may include specially tailored policies and programmes of support, which involve the government in direct interventions. This policy area may include, for example:

- Industrial development policies
- Agricultural development policies
- Rural or regional development policies
- Human resource development policies
- Income distribution policies.

Sector policies need to be assessed in terms of their impact upon small enterprises. It is easy, for example, for an industrial development policy to focus on attracting foreign-owned companies and investments and to overlook the issues related to indigenous small enterprise development, and their role in industrial development (e.g. as suppliers, sub-contractors, etc.).

Finally, you may find it useful to examine policies targeted to specific groups. Most countries develop policies that are aimed to address a specific group of people who have

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been disadvantaged in their society. Policies and programmes, for example, which promote women and young people to establish a business; or to expand one. Or policies that promote a particular ethnic group: Black economic empowerment in South Africa, for example, is a national policy forged to overcome the legacies of Apartheid, which previously promoted the aspirations of a white minority; whilst in other countries there are active programmes that have been designed to redress the balance of indigenous groups and their access to resources.

**B. Business laws and regulations:** These are the laws and regulations governing business activities, including business registration and reporting requirements. Their main purpose is to regulate the formal establishment, legal status and closure of enterprises.

There are many different ways in which business activities are controlled and regulated. These include, for example:

- Registration requirements and procedures
- Permits and licensing laws
- Laws and regulation applying at the stage of:
  - Choosing business activity
  - Choosing the business structure (i.e. legal structure)
  - Setting up the business
  - Acquiring financing
  - Conducting the business and trading.
- Product standards and certifications
- Health and environmental standards
- Planning and zoning (including land use planning and zone, city planning policies)

When mapping this field of legal and regulatory concern you should:

- (a) Identify the various legal instruments that govern enterprise activities such as those of sole proprietor, partnerships and various forms of incorporation
- (b) Determine the registration and reporting requirements of small enterprises within these instruments
- (c) Determine the purposes (i.e. the use of) registration and reporting information provided
- (d) Assess administrative mechanisms and the average estimated cost of compliance
- (e) Consider the effectiveness of service delivery mechanisms (e.g. centralization versus decentralization), including the delineation of national and local regulations)

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- (f) Consider the relevance of bankruptcy law to small enterprises and the various procedures that are required – this should include an understanding of the period of obligations placed upon the bankrupt once she or he has been freed of debts.

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The laws and regulations concerning bankruptcy<sup>5</sup> should also be included here because often the decision to start an enterprise will be affected by the businessperson's perception as to how they can leave the enterprise should it suffer unmanageable financial problems, without losing all their personal financial assets as a consequence.

It will be important to distinguish between nationally designed laws and regulations that are enforced through provincial or local government authorities and those laws and regulations that are both created and enforced by provincial and local government authorities.

**C. Taxation policies, laws and regulations:** This is a broad field of government activity that can have a significant impact upon small enterprise activity. Taxation policies include, for example:

- Investment and tax incentives
- Differential taxation
- Taxes applying to starting and operating a business
- Capital-based and income-based taxes.

Taxation can be used to stimulate one area of economic activity (through tax incentives) or to limit another area (e.g. by putting a duty on imports to reduce foreign competition). In a number of countries, small enterprises are seen as revenue raisers for the government and taxed in this way. However, it is also important that the taxation policies on small enterprises reflect an understanding of their developmental needs.

One of the issues of significance for small enterprises in regards to taxation is not only the type of tax that is applied to business operations, but the manner in which it is administered. In many countries, small enterprises complain that the reporting requirements for taxation are too complex, too frequent and highly bureaucratic. These matters will be dealt with later in this guide, but they illustrate the connection between policy and its implementation.

An assessment of tax should include different types of taxes, such as income taxes, profit taxes, value-added tax (VAT), goods and services tax (GST), capital taxes and tax incentive schemes. The examination of taxation policies, laws and regulations will:

- (a) Determine the various policies, laws and regulations that exist in the field of taxation – including any national, district, local or sector forms of taxation.
- (b) Identify any specific references or provisions that are applied to small enterprises.
- (c) Identify taxation assessment periods, modalities and types.

<sup>5</sup> Bankruptcy is popularly defined as insolvency – the inability of a debtor to pay her or his debts as they become due. However, its technical definition is found in the legal process, which is administered by legislation whereby the assets of the debtor are liquidated as quickly as possible to pay off creditors and to discharge the person who becomes bankrupt. Its main purpose is to free the debtor of her or his debts so that she or he may start anew.

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- (d) Broadly assess administrative mechanisms and the average estimated cost of compliance.

**D. Labour policies, laws and regulations:** The development of the human resources of a country has a significant impact upon the type and quality of small enterprises. In South East Asia, for example, there has been a great deal of emphasis given to improving the quality of skills and level of productivity. There is often a need for labour market policies to complement and support small enterprise development. In addition, labour policies can include incentives to encourage unemployed to move into self-employment

Assessing labour policies, laws and regulations includes an investigation into the laws, regulations and legally binding collective agreements on:

- (a) Minimum wages and employment and working conditions.
  - (b) Social security contributions and labour-based taxes.
  - (c) Collective bargaining and representation (e.g. watch out for situations where many small enterprise workers and owner/managers are not represented in union structures due to the small size of their workforce) legal restrictions below a certain minimum size of the enterprise.
  - (d) Skill and human resource development.
  - (e) Compliance with the ILO Core Labour Standards and the extent to which these are incorporated into labour policies, laws and regulations.
  - (f) Labour inspections.
  - (g) Affirmative action and employment equity.
  - (h) HIV/AIDS.
  - (i) Administrative mechanisms.
- E. Trade and export policies, laws and regulations:** The small enterprise sector has a great potential to contribute to the national account through foreign trade, yet their capacity to work in this area can be affected by a number of policy fields, including:

- Exchange rate policy.
- Foreign exchange control.
- Export taxes and subsidies.
- Price control.
- Product standards and certification.
- Import controls (e.g. import quotas, tariffs, import licensing).

Trade policies include quantitative (e.g. import quota, import licenses) and non-quantitative (e.g. import tariffs) barriers to imports, as well as taxes on and incentives for exports. Trade is a field of policy that is traditionally biased against small enterprises

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where, for example, import tariffs and the procedures for granting import licenses place foreign trade out of reach for most small enterprises. Special attention should be given to:

- (a) Import quotas and licenses, as these are generally difficult or impossible to access for small enterprises.
- (b) Export incentive schemes and the extent to which these are biased against smaller enterprises due to minimum thresholds and administrative requirements.
- (c) Systematic biases in import tariff rates and effective protection between sectors with large enterprise dominance and those in which small enterprise activities concentrate.

**F. Finance and credit policies, laws and regulations:** This refers to the policy, legal and regulatory instruments that affect the access small enterprises have to capital (such as government incentives to finance providers to help them improve their coverage of small enterprises, depreciation facilities, and so on). It does not include specific programmes run by private institutions. Typically small enterprises have trouble obtaining access to finance. While much of these problems are a result of the practices of private banks and credit providers, governments may decide to promote a policy framework to facilitate or even directly provide access to credit for the small enterprise sector. Thus, you will need to determine the policy, legal and regulatory instruments that affect small enterprises and their access to finance. You should also identify any measures that have been specifically designed to address the needs of small enterprises. Finally, you should review the laws and regulations concerning bankruptcy of small enterprises.

*(Note: do not get distracted by those laws and regulations that regulate the establishment of a commercial bank or some other financial institution. This is usually beyond the scope of an assessment of this kind.)*

**G. Education policies:** Entrepreneurial skills are vital for the growth of small enterprises. In the same way, the development of a skilled and educated workforce is fundamental to the growth of small enterprises generally. The high-performing Asian countries are a good example of this through “their investment in various forms of education and the creation of capabilities to underpin their drive towards developing and upgrading their local industries”.<sup>6</sup> Education policies can affect small enterprise operations and development in a number of direct and indirect ways, for example:

- Training incentives
- Policies on informal apprenticeship schemes
- Public investment on training.

**H. Enabling and innovation policies:** This refers to policies and incentive schemes that promote business-to-business trade and foster technological innovation.

<sup>6</sup> United Nations Conference on Trade and Development, *Role of the State in creating an enabling environment for the promotion of entrepreneurship and the viable development of enterprises*. 23 January 1995, p. 23.



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Information and communications technology (ICT) can be used to help entrepreneurs to obtain information on markets as well as on how to improve production and service techniques. The adequate provision of incentives to innovation is part of an enabling environment for enterprises. As a result, there is a need to include in our study an assessment on these matters from the point of view of the inclusion of small enterprises' needs.

- I. Environmental policies, laws and regulations:** There has been an increasing range of policies and laws developed in recent years to protect the environment and limit the damage that certain kinds of commercial activity have on it. Thus, small enterprises are increasingly required to comply with laws and regulations governing these issues.

When mapping these policies, laws and regulations, you should pay particular attention to:

- (a) Definitions applied and criteria used to identify micro, small and medium-sized businesses.
- (b) Differences in the requirements placed on small enterprises, based on their size, sector, etc.
- (c) Reporting requirements.

Depending on the government and legal system, the responsibilities for design and implementation in these policy areas are shared in different ways between the national, provincial/district and local levels of government. Therefore, you should distinguish between the roles and responsibilities of these levels of government wherever possible.

For each of the seven policy areas, you are asked to map the existing policies and laws and to assess the policy and legal framework. The mapping of policy and legal instruments involves the identification of the most important policies, laws and regulations and briefly summarizing their contents. This mapping is mainly descriptive in nature. The main sources for mapping are policy and legal documents, as well as existing studies.

While it is important to be as comprehensive as possible when mapping the policies, laws and regulations that affect the seven fields of small enterprise activity described above, you will find that some prioritization will be necessary. Some laws and regulations, for example, deal with very minor, sometimes sub-sector concerns in the overall policy and legal framework. It will be best that you start in each of the seven fields described above with the major policies, laws and regulations that affect the overall landscape in which small enterprises operate. Then, you can move into the more narrowly focused policies, laws and regulations. At some point in this second layer of narrower concerns, you will reach a point where it is best to stop. This will be when it is clear that the policies, laws or regulations in this layer are relevant to a very small proportion of small enterprises. You might find that asking some professional advisers in business policy and law (e.g. taxation agents, accountants, lawyers, business advisers and bankers) will help you to determine those policies, laws and regulations that affect most small enterprises and those that affect a very small proportion of small enterprises only.

The following table identifies the issues you should address when mapping and reviewing the policy and legal framework.

**Figure 5: Issues for the mapping of the policy and legal framework**

You may use the headlines of this table to structure your analysis of each policy and law you are reviewing.

<p><b>Main policies, laws and regulations [Title and year adopted]</b></p> <p>What are the most relevant policies, laws and regulations?</p>
<p><b>Objectives or purpose</b></p> <p>State the objectives of the policy or law. In some cases, these will be better phrased as the main purpose of the law or regulation.</p>
<p><b>Coverage</b></p> <ul style="list-style-type: none"> <li>• What coverage does this policy, law or regulation have in the small enterprise sector (e.g. applies to only medium-sized enterprises, or to all enterprises)?</li> <li>• What coverage does this policy, law or regulation have across the small enterprise sector (e.g. applies only to manufacturing enterprises)?</li> <li>• What coverage does this policy, law or regulation have across the country (e.g. applies only to urban areas, or to specified provinces, or to Export Processing Zones)?</li> </ul>
<p><b>Main provisions</b></p> <p>Briefly summarize the content of each policy, law or regulation paying particular attention to:</p> <ul style="list-style-type: none"> <li>• The definitions applied and criteria used to identify micro, small and medium-sized businesses</li> <li>• References made to employment issues</li> </ul>
<p><b>Implementing agencies</b></p> <ul style="list-style-type: none"> <li>• Which government institutions are responsible for the implementation of policies, laws and regulations?</li> <li>• Are there mechanisms for the co-ordination of policies and laws affecting the small enterprise sector?</li> <li>• What are the processes for review and monitoring?</li> </ul>
<p><b>Role for stakeholders</b></p> <p>What role in enterprise development does the policy assign to:</p> <ol style="list-style-type: none"> <li>(i) Government agencies (national, provincial, district/local)?</li> <li>(ii) Organizations that represent small enterprises?</li> <li>(iii) Workers' organizations?</li> <li>(iv) Community and non-government organizations?</li> </ol>

**Figure 6: Possible format for mapping policies, laws and regulations**

Policy domain:					
Policy, act or regulation (Name) (Year)	Objectives or purpose	Coverage	Main provisions	Implementing agencies	Role for stakeholders

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#### Step 4: Assess the policy, legal and regulatory framework

The objective of assessment is to identify the strengths and weaknesses of the policy framework, comparing it against existing benchmarks of good practice or, ideally, using evidence on the employment impact of existing policies. The criteria provided in this guide should be used with flexibility to accommodate specific national concerns and circumstances. In some cases, previous studies may have provided detailed assessments on certain policy areas, and it is important to include this existing information in the assessment.

The main sources for assessment are:

- Your analysis of policy, legal and regulatory documents (as described below).
- Existing reviews of policy, legal and regulatory documents.
- Consultations and interviews with key informants (e.g. government authorities, business associations, etc.) – see the annexes for an extensive list of questions that can be used to guide you in these interviews.
- Any other studies that highlight the effect of policies, laws and regulations on small enterprises.

There are four areas of concern that you should focus on when assessing the policy and legal framework in which small enterprises start-up and operate:

- A. Assessing the *design* of policies, laws and regulations
- B. Assessing the *implementation* of policies, laws and regulations
- C. Assessing the *influence* of policies, laws and regulations; and
- D. Recognizing the influence of gender.

These areas of concern are described below.

##### **A. Assessing the design of policies, laws and regulations**

When assessing the ways in which government has designed the policies, laws and regulations that you have mapped previously, you should consider the following:

- **Clarity:** This refers to clarity of purpose, implementation and responsibility. It is important that all relevant parties understand policies, laws and regulations and that these parties know their rights and responsibilities within these policies, laws and regulations.

When assessing a policy or law in terms of clarity for the small enterprise sector you may consider the following questions:

- Can small enterprise owners, managers and workers easily understand policies, laws and regulations? Or are they contradictory and complex?
- Are there duplications between different regulations?
- Do administrative procedures serve an identifiable purpose?

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- Do the policies, laws and regulations apply a consistent definition with regard to ‘micro’, ‘small’, ‘medium’ and ‘large’ enterprises? Or is there a multiplicity of definitions, resulting in confusion or fragmentation?
  - Understanding of small enterprise role and differential treatment by size class: This refers to the importance of government recognizing the value of the small enterprise sector and the specific needs, capabilities, opportunities and constraints that small enterprises experience. It is especially important that the government recognizes that small enterprises face very different influences on their well-being than medium and large enterprises. The policies, laws and regulations of government should reflect this recognition and demonstrate that government understands the role that small enterprises can play in the national economy and in the achievement of national development goals.

When assessing a policy or law in terms of the recognition it gives to the special roles and circumstances of the small enterprises sector you may consider the following questions:

- Do policies, laws and regulations provide for a differential treatment of enterprises by size class? (This can, for example, be recognizing the specific needs of small enterprises, granting specific incentives or exemptions to small enterprises, or excluding small enterprises from certain benefits and incentives.)
- Are small enterprise policies based on a clear understanding of the (current and potential) role of small enterprises in the economy?
- Do current policies, laws and regulations appear to reflect current conditions? Or are they out-dated remnants from the past?
- Are there signs that small enterprises were consulted in the design of this policy or law? How did this consultation occur? Did the consultation focus on small enterprises and not just on medium and large enterprises that are usually better organized and connected to government?
- Compliance steps: While this issue is connected with the implementation of policies, laws and regulations (indeed there should always be a close connection between design and implementation), it is important to assess the requirements that are placed upon small enterprises in the design of policies, laws and regulations. Most policies, laws and regulations contain an element of right (the protection or support that a subject enjoys) with an element of responsibility (the requirements that are placed on the subject), so it is useful to assess the extent to which the policies, laws and regulations balance these.

When assessing a policy or law in terms of the steps that small enterprises must follow to comply with the policy or laws, you may consider asking, What are the main steps and requirements that small enterprises have to follow, either to comply with the regulations or to obtain access to certain resources or benefits?

- Gender dimension: This issue is dealt with in more detail below.

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## **B. Assessing the implementation of policies, laws and regulations**

Well-designed policies, laws and regulations can fail or prove to be less effective if they are not properly implemented. While good policies, laws and regulations will be designed with effective implementation in mind, this does not always occur. Thus, it is important to assess policies, laws and regulations in terms of the extent to which they have been implemented.

You should assess the implementation of policies, laws and regulations by focusing on the following elements:

- **Transparency:** This refers to the public processes of implementation and the decision-making functions of government institutions that implement policies, laws and regulations. It is important that these public institutions undertake their activities in a publicly accountable and open manner, and that policies, laws and regulations are also implemented in such a way.

When assessing a policy or law in terms of transparency, you may consider the following questions:

- Are administrative decisions made on the basis of objective criteria?
- Or are they arbitrary? Or do they lack transparency? Is corruption widespread?
- **Information on policies, laws and regulations:** This refers to the ways in which small enterprises obtain information on the policies, laws and regulations that affect them, especially newly introduced or recently amended policies, laws and regulations. If small enterprises and other relevant parties are not aware of their rights and responsibilities with respect to these policies, laws and regulations, then it is likely that these government instruments will not be properly implemented.

When assessing a policy or law in terms of the information that is provided to small enterprises and other key parties, you may consider the following questions:

- Is information on policies, laws and regulations readily available to small enterprise owners, managers and workers, or is it difficult to access even for specialists and lawyers?
- Have the stakeholders been informed on the existence and content of policies, laws and regulations?
- Have special efforts been made in this regard (e.g. information campaigns, centralized information in one single government office)?
- **Costs and benefits of compliance:** This refers to the balance of advantages and disadvantages that an enterprise might face as a result of the policy or law. A small enterprise might decide to avoid complying to a law because it does not offer enough advantages, or because there is no penalty (e.g. fine, imprisonment, business closure) that will result. In some cases, the financial cost of complying with a law (e.g. business registration fee) may be too high for the enterprise owner/manager to afford. Costs may be direct, such as the cost of fees to be paid, or indirect, such as the time taken to comply with a

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specific regulation. In assessing costs, you are not required to undertake an in-depth analysis of the cost of compliance. Rather you may want to refer to some key features, such as whether or not there are variations in fees based on enterprise size, or whether there are significant hidden costs of compliance. Remember, the view of government officials may be very different to those of small enterprise owners/managers.

- Gender aspects: While this issue is dealt with in more detail below is important to think about the ways that gender can affect the implementation of a policy or law, such as:
  - Are there any indications that the implementation of policies, laws and regulations varies for women or men, or between male-owned enterprises and female-owned enterprises?
  - Are gender-specific needs adequately taken into account? For example, do men have better access to information than women?
- Coverage of policies, laws and regulations: This refers to the affect that the policy and law has on the total population of small enterprises. For example, rural small enterprises may be less subjected to the requirement of the law simply because they are in rural areas and are less visible. In other cases, some policies, laws and regulations may not cover informal sector or unregistered business because they are not officially recognized by government.

When assessing a policy or law in terms of the coverage of specific policies, laws and regulations, you may consider the following questions:

- To what extent have specific small enterprise policies been implemented?
- Is there any evidence on compliance with laws and regulations (e.g. share of registered vs. unregistered small enterprises)? Does this appear to vary according to industrial sub-sectors, the actors involved or specific target groups?

### **C. Assessing the influence of policies, laws and regulations**

Your assessment should also combine the two elements described above – design and implementation – to assess the overall influence that a specific policy or law has on employment in the small enterprise sector.

The term *influence* is deliberately used here instead of the term *impact*. This is because it is very difficult to measure the impact of any single policy or law on employment in small enterprises. Instead, it will be possible to determine whether or not a policy or law has had some kind of influence, whether positive, negative or otherwise, on the small enterprise sector or a sub-sector of small enterprises.

You should consider whether there is evidence of the influence of policies, laws and regulations on employment creation and employment quality in small enterprises. In most cases your key informants (see below) will help you in this regard.

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## D. Recognizing the influence of gender

You should pay special attention to the impact that gender may have on the way that the policy and legal framework affects small enterprises and their workers. There are four areas of examination that may help you to assess this.

These are as follows:

- **Structural features:** These are the explicit characteristics of policies, laws and regulations, which can treat female-owned enterprises and male-owned enterprises differently. Examples of such structural biases include policies, laws and regulations that prohibit women from owning property in their own right. Another, more positive example, might be a small enterprise advisory board or oversight committee that contains a specified equal number of women and men.
- **Behavioural or attitudinal features:** Bias in the treatment of women and men, and female-owned enterprises and male-owned enterprises, may be removed from policies, laws and regulations, but may be found to persist in the implementation of these policies, laws and regulations, because of behavioural or attitudinal reasons. Sexist practices, for example, may occur in the administration of policies, laws and regulations.
- **Impact variations:** While it may not be possible to immediately identify structural or behavioural elements of gender bias, you can determine the affect of these by the impact they have on small enterprise development and employment. You may find, for example, a high proportion of female-owned enterprises in the micro-enterprise sector and far less in small and medium-sized enterprises. Alternatively, you might find that women participate less in small enterprise associations than do men; or that the growth of female-owned enterprises is constrained by greater restrictions on the access women have to finance, compared to men. Such findings will help you to trace these experiences back to determine whether their source is structural or behavioural.
- **Promotional policies, laws and regulations:** They may be formulated by governments to redress the impact of other policies, laws and regulations, or to achieve a specified social and economic outcome. This may include, for example, policies that promote female-owned enterprises, as well as other policies that encourage young men and women into business, or people with disabilities.

Please see the following list (Figure 7) for the issues to be addressed to assess the policy and legal framework.



**Figure 7: Issues for the assessment of the policy and legal framework**

You may use the headlines of this table to structure your analysis of each policy and law that you are reviewing. Please carry out the assessment for each of the seven policy fields you have mapped in Step Two (and not for each of the laws you have mapped).

<p><b>A. DESIGN</b></p> <p>You should assess the design of policies, laws and regulations according to the following criteria.</p>
<p><b>Clarity</b></p> <ul style="list-style-type: none"> <li>• Can small enterprise owners, managers and workers easily understand policies, laws and regulations? Or are they contradictory and complex?</li> <li>• Are there duplications between different regulations?</li> <li>• Do administrative procedures serve an identifiable purpose?</li> <li>• Do the policies, laws and regulations apply a consistent definition with regard to 'micro', 'small', 'medium' and 'large' enterprises? Or are there a multiplicity of definitions, resulting in confusion or fragmentation?</li> </ul>
<p><b>Understanding of small enterprise role and differential treatment by size class</b></p> <ul style="list-style-type: none"> <li>• Do policies, laws and regulations provide for a differential treatment of enterprises by size class? (This can for example be recognizing the specific needs of small enterprises, granting specific incentives or exemptions to small enterprises, or excluding small enterprises from certain benefits and incentives.)</li> <li>• Are small enterprise policies based on a clear understanding of the (current and potential) role of small enterprises in the economy?</li> <li>• Do current policies, laws and regulations appear to reflect current conditions? Or are they out-dated remnants from the past?</li> </ul>
<p><b>Steps of compliance</b></p> <ul style="list-style-type: none"> <li>• What are the main steps and requirements that small enterprises have to follow, either to comply with the regulations or to obtain access to certain resources or benefits?</li> </ul>
<p><b>Gender dimensions</b></p> <ul style="list-style-type: none"> <li>• Are there any signs that these policies, laws and regulations address men and women differently?</li> <li>• Is there any difference in the way female-owned enterprises and male-owned enterprises are treated?</li> <li>• Are there any special policies that support the development of female-owned enterprises?</li> </ul>
<p><b>B. IMPLEMENTATION</b></p> <p>You should assess the implementation of policies, laws and regulations by focusing on the following elements.</p>
<p><b>Transparency</b></p> <ul style="list-style-type: none"> <li>• Are administrative decisions made on the basis of objective criteria?</li> <li>• Or are they arbitrary?</li> <li>• Or lacking transparency?</li> <li>• Is corruption widespread?</li> </ul>
<p><b>Information</b></p> <ul style="list-style-type: none"> <li>• Is information on policies, laws and regulations readily available to small enterprise owners, managers and workers, or is it difficult to access even for specialists and lawyers?</li> <li>• Have the stakeholders been informed on the existence and content of policies, laws and regulations?</li> <li>• Have special efforts been made in this regard (e.g. information campaigns, centralized information in one single government office)?</li> </ul>
<p><b>Costs and benefits of compliance</b></p> <p>These may be direct, such as the cost of fees to be paid, or indirect, such as the time taken to comply with a specific regulation. You are not required to undertake an in-depth analysis of the cost of compliance. Rather you may want to refer to some key features, such as whether or not there are variations in fees based on enterprise size, or whether there are significant hidden costs of compliance. Remember, the view of government officials may be diametrically opposite to those of small enterprise owners/managers.</p>

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**Gender aspects**

- Are there any indications that the implementation of policies, laws and regulations varies for women or men, or between female-owned enterprises and male-owned enterprises?
- Are gender-specific needs adequately taken into account? (e.g. Do men have better access to information than women?)

**Coverage**

- To what extent have specific small enterprise policies been implemented?
- Is there any evidence on compliance with laws and regulations (e.g. share of registered vs. unregistered small enterprises)?
- **Does this appear to vary according to industrial sub-sectors, the actors involved or specific target groups?**

**C. IMPACT**

- Is there any evidence on the impact of policies, laws and regulations on employment creation and employment quality in small enterprises?
- Is this impact different for men and women? (Please specify if you refer to information gathered through interviews with key informants data analysis or previous studies)

*Scoring each policy, law or regulation*

Using the criteria outlined above (and any additional criteria you may come up with to suit your assessment needs), you can now score each of the policies, laws and regulations you identified in the previous step. The following table (Figure 8) has been designed to assist you in this scoring, by providing a measure for assessment.

**Figure 8: Table for scoring each policy, law or regulation**

	1	2	3	4	5	6	7	8	9	10
<p><b>Clarity</b>            1 = Policies, laws and regulations are contradictory and/or not understandable even for legal specialists            10 = They are easily understood by most small enterprise owners, managers and workers</p>										
<p><b>Transparency</b>            1 = Administrative decisions are arbitrary and lack transparency, corruption is widespread            10 = Decisions are made on the basis of objective criteria, corruption is absent</p>										
<p><b>Information</b>            1 = Information on small enterprise policies, laws and regulations is difficult to access even for specialists and lawyers            10 = Information is readily available to small enterprise owners, managers and workers</p>										
<p><b>Coverage of implementation</b>            1 = Policies, laws and regulations are generally not implemented for small enterprises            10 = Policies, laws and regulations are implemented for most</p>										
<p><b>Administration coherence</b>            1 = There is no or little consistency between national and local governments in the effective administration of policies, laws and regulations affecting small enterprises            10 = Policies, laws and regulations affecting small enterprises are consistently applied from national to central levels of government</p>										
<p><b>Non-discrimination</b>            1 = Small enterprises are strongly discriminated against compared to larger ones            10 = No discrimination against smaller enterprises exists</p>										
<p><b>Small enterprise representation</b>            1 = No or little representation of small enterprises (their owner/managers or workers) in policy formulation and reform processes            10 = Small enterprises are well represented through associations or chambers of commerce and have a direct input into policy formulation and reform</p>										
<p><b>Gender variations</b>            1 = Clear examples of a gender bias, either in terms of structural, attitudinal or administrative bias            10 = WOE and MOEs have the same opportunities</p>										

The chart on the following page (Figure 9) provides a format (based on the chart used when mapping policies, laws and regulations outlined in the previous step) that may assist you in scoring the policies, laws and regulations.

Figure 9: Possible format for scoring policies, laws and regulations

Policy domain:		SCORING CRITERIA						
Policy, act or regulation (Name) (Year)	Clarity (1-10)	Transparency (1-10)	Information (1-10)	Coverage (1-10)	Administration (1-10)	Non-discrimination (1-10)	Gender (1-10)	Other (1-10)
<b>TOTAL SCORES</b>								
<b>AVERAGE SCORE</b> (i.e. Total score in each column divided by the number of policies, laws or regulations listed)								

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**Step 5: *Map the organizational arrangements for small enterprise regulation, representation and promotion***

The following page contains a matrix that can be used to map the organizational arrangements for small enterprise promotion, regulation and facilitation.

Six functional areas are described in the rows of the matrix:

- **Policies, laws and regulations:** This refers to those organizations engaged in formulating policies, laws and regulations, as well as those that regulate the small enterprise sector (e.g. economic courts, registration authorities, labour commissions).
- **Research and advice:** This refers to those organizations engaged in activities to better understand the small enterprise sector (e.g. research institutions, policy advice units).
- **Advocacy and representation:** This refers to those organizations that represent the small enterprise sector and advocate for new programmes, services, policies or other forms of support. It is important to ensure that you consider the representation of small enterprises here, and not only those organizations that represent mainly large enterprises. Remember to consider organizations that may represent informal enterprises.
- **Business development services:** This refers to those organizations that provide non-financial services to small enterprises (e.g. training, information, advice, mentoring, networks, business linkages).
- **Financial services:** This refers to those organizations that provide financial services to small enterprises (e.g. credit services, micro finance).
- **Provision of infrastructure:** This refers to those organizations that plan for, or provide infrastructure that is used by small enterprises.

When mapping these organizations, the matrix requires the assessor to distinguish between the following kinds of organizations (listed in the columns):

- **Government:** This includes government ministries and departments, as well as public authorities.
- **Semi-government:** This refers to parastatal agencies that operate separately from government, but are responsible to a minister or the parliament.
- **Private:** This refers to private sector agencies, as well as organizations that represent the private sector (e.g. chambers of commerce).
- **NGO, CBO, other:** This refers to non-government and community-based organizations that have neither public nor private ownership.

When completed, this matrix will provide a useful overview of what kinds of organizations perform what kinds of functions. It will show whether certain functions (e.g. financial services) are crowded with organizations, while advocacy and representation are but a few.

**Figure 10: Matrix for mapping organizational arrangements**

	Government	Semi-government	Private	NGO, CBO, other
Policies, laws and regulations				
Research and advice				
Advocacy and representation				
Business development services				
Financial services				
Provision of infrastructure				

Source: ITC: Creating an enabling environment for business-modules for training.

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## Step 6: *Synthesizing your findings*

When carrying out this step in the policy and legal review, you are asked to consider any important features that have shaped the policy and legal framework and then to comprehensively synthesize your findings.

In addition to a general synthesis of what you have found, you might also find it useful to consider the *process* of designing, implementing and reforming the policy and legal framework in which small enterprises operate. Processes are important because the processes that were used in the past may affect those that are used in the future. In some cases, an improvement in the process of policy design, implementation and reform will itself improve the policy and legal framework in which small enterprises operate.

The process of designing, implementing and reforming the policy and legal framework can often best be captured by anecdotal evidence. You should try to collect interesting stories or case studies that describe these issues. Where possible, you should summarize the policy processes leading to important modifications of small enterprise policies over the last five years. This may include the processes whereby modifications were made to existing policies or where new policies were created. You may wish to ask: Who were the main institutional actors involved in these processes? What were the social, economic or political forces involved? Did any international agencies have a role in the process?

Based on the analysis of the seven policy fields specified in the previous steps, you should summarize the assessment. You should synthesize this information by completing the following simple scoring table. Completing this table will help you to focus when writing explanatory text that summarizes your findings.

**Figure 11: Possible format for synthesizing the scoring of policy domains**

<b>POLICY DOMAIN</b> (Use this column to list the collection of policies, laws and regulations you assessed in Step 3, e.g. business laws and regulations, taxation)	<b>AVERAGE SCORE PER CRITERION</b>							
	<b>Clarity</b> (1-10)	<b>Transparency</b> (1-10)	<b>Information</b> (1-10)	<b>Coverage</b> (1-10)	<b>Administration</b> (1-10)	<b>Non-discrimination</b> (1-10)	<b>Gender</b> (1-10)	<b>Other</b> (1-10)
TOTAL SCORES								
AVERAGE SCORE (i.e. Total score in each column divided by the number of policies, laws or regulations listed)								



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Thus, the previous chart provides a guide for the synthesis of the scores you assigned each policy domain (based on the average scores). It will help you to identify the kinds of concerns that affect a specific policy domain, while also providing the opportunity to identify which policy domains require greatest attention.

When synthesizing your assessment of the organizational arrangements that govern and promote the small enterprise sector, you may find it useful to comment on the following:

- What kinds of organizations are engaged in activities that design, implement or review policies, laws and regulations?
- What kinds of organizations are engaged in small enterprise research and the provision of advice to government and other agencies on small enterprise issues?
- What kinds of organizations advocate on behalf of the small enterprise sector or provide a mechanism for effective and representation of small enterprises?
- What kinds of organizations provide business development services to small enterprises?
- What kinds of organizations provide financial services to small enterprises?
- What kinds of organizations are engaged in the provision of infrastructure that is used by small enterprises?

### **4.3 Possible outline for a report on the policy and legal framework of small enterprises**

You may find the following structure useful when preparing your final report on the policy and legal framework for small enterprises:

- **Title page**
- **Table of contents**
- **Executive summary**

This should be a two- to three-page summary of the main findings of the study.

- **List of abbreviations used**

Make sure you list only the abbreviation you have used (It is common to find reports where this list has been copied from elsewhere and contains a number of abbreviations that are not actually used in the report!)

#### **1. Introduction**

The introduction should describe:

- Purpose of the assessment (this should include a description of how the profile complements any other reports, such as the other fields of assessment contained in this guide)
- Agency (or agencies) that initiated the assessment and the reasons for the profile

- 
- Proposed use of the information contained in the report (i.e. why is this report relevant and how it will be used)
  - Any other relevant background information
  - The definition you have applied in the report when referring to ‘micro enterprises’, ‘small enterprises’, ‘medium-sized enterprises’, ‘large enterprises’, etc. (Note: This is likely to be drawn from some form of official definition, but there are likely to be cases when some of the data you present applies definitions that are somehow different to these definitions, in which case you will need to clearly indicate such variations.)
  - Structure of the report.

## 2. Overview of the policy framework for small enterprises

This chapter should present the following information:

- Structure of governance (including levels of government, main policy, legal and regulatory instruments)
- Brief historical review of the development of small enterprise policy
- Overview of the policy framework
- Identification of main policy domains affecting the small enterprise sector.

It is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

## 3. Review of selected policy domains and their affect on small enterprise employment

This chapter should present the following information:

- General description of the main policy domains assessed
- Description and assessment of the policies, laws and regulations found in each selected domain
- Summary of key issues, strengths and weaknesses found in the policy domains assessed.

Again, it is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

## 4. The organizational arrangements for small enterprise governance and promotion

This chapter should present the findings of the assessment of the organizational arrangements affecting small enterprise governance and promotion. It should include the organizational arrangements for the following:

- 
- The design, implementation or review of policies, laws and regulations
  - Small enterprise research and the provision of advice to government and other agencies on small enterprise issues
  - Advocacy on behalf of the small enterprise sector or provide a mechanism for effective and representation of small enterprises
  - Business development services to small enterprises
  - Financial services to small enterprises
  - The provision of infrastructure that is used by small enterprises.

Here too, it is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

## 5. Summary and conclusions

This chapter should present a summary of the findings contained in the previous chapters, highlighting the major findings. It should then come to some conclusions. These conclusions should address the main purpose of the study and its contribution to the broader assessment project. For example, the conclusions may address the:

- Key issues affecting small enterprises in the policy and legal framework, especially those dealing with employment
- Main strengths and weaknesses of the policy and legal framework
- Organizational issues
- Priorities for reform that would make the policy and legal framework more conducive to small enterprise development.

It would be unusual for a report of this kind to present recommendations because this report mainly describes the current situation with regard to small enterprise employment. Recommendations are more likely to stem from the findings of the overall collection of studies undertaken in an assessment project.

- **List of references**

Make sure you are consistent in your use of references. The agency that has commissioned this research may have specific requirements regarding the referencing system you use, so it will be important to ask about this. Annex 3 contains information on the ILO's preferred referencing system.

- **Appendices**

The appendices should contain any information that you think the reader may wish to refer to. This information may include tables that are too detailed or long for inclusion in the core of the report, lists of people or organizations consulted, useful excerpts from other reports, etc.

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## 5. Assessing markets and the business environment for small enterprises

This chapter provides guidance for capturing the dynamics of the business environment in which policies, laws and regulations operate. It examines the broader environment in which small enterprise employment occurs, particularly the role of markets.

### 5.1 Brief introduction to markets and the business environment

Private sector development has become recognized as a means through which broader development can be achieved. It can span social and economic spheres. Indeed, private sector development has become a major means through which current levels of poverty can be reduced. The OECD (1995) has described private sector development as ‘a basic organizing principle for economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion.’

DFID (2000) also claim economic growth is a powerful driver of sustained poverty reduction. Vigorous growth and private sector development is strongly associated with poverty reduction, while rising levels of productivity are likely to enhance living standards’.

One of the premises on which private sector promotion has become used as a tool for development and the reduction of poverty has been the understanding that failures in the market place contribute to poverty. These failures have contributed to inequity and the creation and maintenance of poverty. Thus, by improving the markets in which the private sector operates – and small enterprises in particular – the economy will operate in a more effective and efficient manner, which includes the reduction of poverty.

In its recent World Development Report, the World Bank considered the role of institutions in building markets (World Bank, 2002). Institutions, says the World Bank, create the rules, enforcement mechanisms and organizations within which markets operate. Within this context, the relationship between policies and actors in the market place are considered. Policies can affect markets by determining the legal and regulatory parameters under which enterprises operate, but also by influencing which institutions evolve. In turn, institutions themselves affect which policies are adopted. Thus, institutional structure affects the behaviour of actors in the market, but this behaviour may also change within existing institutional structures.

Markets are economic institutions defined as ‘socially devised constraints on individual action’ (Clague, 1997). Institutions are ‘sets of rules that are recognized and frequently followed by members of the community and that impose constraints on the actions of individual members’ (North, 1989). The effectiveness of market institutions depends on their capacity to reduce transactional costs of various types. The definition and enforcement of property rights are central in enabling markets to function (Department for International Development, 2000).

North (1989) states that market transactions (outside cases where there is personal knowledge and ongoing reciprocal relationships between the participants) depend on ‘the development of a third party to exchanges, namely government, which specifies property rights and enforces contracts, and second on the existence of norms of behaviour to

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constrain parties in interaction'. The move from administrative to market-based allocation mechanisms requires the creation or existence of a structure of institutions to support market exchange.

The failure of markets to fulfil their potential with regard to small enterprise development is the result of a number of interrelated factors. The most significant of these are (Department for International Development, 2000):

1. The distribution of power and economies of scale, where barriers to entry create market power, enabling monopoly rents to be earned and depressing production.
2. Imbalances in the distribution of information to all actors in the market, making those that are information-poor less able to participate.
3. Externalities, which exist when the production or consumption of a good or service has spill over effects that are not reflected in the market price.
4. The cost of establishing and enforcing agreements may be so high as to increase risks to the point at which markets do not exist.

## **5.2 Steps to be taken**

When assessing the business environment in which small enterprises deal with opportunities and risks, you should follow these steps:

- Step 1: Describe the markets in which local small enterprises operate
- Step 2: Describe the institutional dynamics of the markets in which local small enterprises operate
- Step 3: Identify new or emerging market opportunities
- Step 4: Identify areas for market development

The steps and methodology you could follow are described in full below.

### ***Step 1: Describe the markets in which local small enterprises operate***

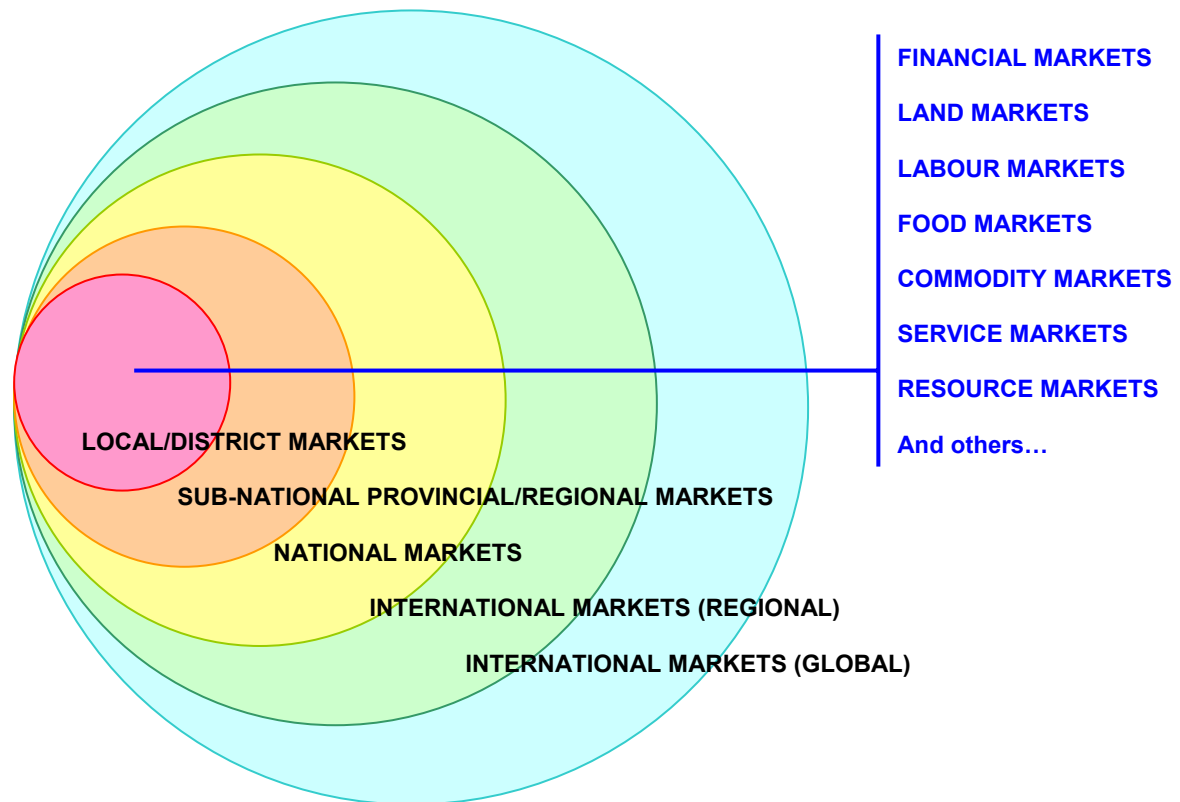
This step requires you to provide a general description of the kinds of markets that small enterprises operate in. This can be a difficult task because it requires you to present the full scope of markets.

The illustration below shows two dimensions of the market that you should concentrate on in this step:

1. Markets as defined by location: local/district, provincial/regional, national, and international.
2. Markets as defined by sectors: financial, land, labour, etc.

This description should provide a broad sweep of the markets in which small enterprises operate. While the next step will focus on the operation of the market and the institutional aspects, this step is simply to describe the markets.

**Figure 12: The kinds of markets in which local small enterprises operate**



**Step 2: Describe the institutional dynamics of the markets in which local small enterprises operate**

When assessing the operation of markets and their impact on the opportunities of small enterprises, there are four areas of analysis that should be undertaken:<sup>7</sup>

- A. The enabling framework (Note: Many, but not all, of the issues dealt with here have been addressed in the previous chapter)
- B. Market failures
- C. Adverse power relations and market exclusions
- D. Inter-market linkages.

Further details on these areas are provided below.

<sup>7</sup> Adapted from DFID (2000) *Making markets work better for the poor; a framework paper*, Private Sector Policy Department and Oxford Policy Management, November, London.

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## **A. Enabling framework**

This refers to the broad policy, legal and regulatory framework in which markets operate. Critical areas of analysis include:

- A.1 Macroeconomic framework
- A.2 Legal and administrative systems
- A.3 Political and social culture, and the system of governance
- A.4 Regulation of local and national markets
- A.5 Regulation of international markets

## **B. Market failure**

This refers to the operations of markets and the potential for failures and distortions in the market. There are four broad areas where market failure can occur:

- B.1 Public goods: These are the goods the private sector cannot supply (or cannot supply enough of) because there are insufficient benefits. Thus, the State must provide these goods in order for the market to operate effectively. Without these, markets can fail or not work efficiently.
- B.2 Externalities: These are the spill over effects in the production or consumption of a good or service that are not reflected in market prices (e.g. the cost of pollution). Someone is paying for these goods or services, but the cost is not reflected in the price.
- B.3 Market power and economies of scale: These are failures that occur due to barriers to entry that create power in the market. They enable monopoly rents to be earned and depress production.
- B.4 Asymmetric information: This is a failure caused by imbalances in the kinds and quality of information held by different parties to a transaction about the nature of the exchange. Not all participants in the marketplace have the same information. Thus, those with more or better information have an advantage over others.
- B.5 Transaction costs: Market failures can be created where the costs of doing business become too high. Where, for example, the cost of establishing and enforcing agreements may be so high as to increase risks to the point at which markets do not exist.

## **C. Adverse power relations and market exclusions**

This refers to the impact that imbalances in power relationships can have on the operation of the market, especially where certain groups (e.g. the poor, small enterprises, women) are excluded from full and equal participation in the market. This can result from:

- C.1 Laws and regulations that are biased against small enterprises, women, particular ethnic groups, etc.

- 
- C.2 Organizations that are biased against small enterprises, women, particular ethnic groups, etc.
  - C.3 Social relations, such as traditional relations that prevent women from owning or inheriting property, or bonded labour.
  - C.4 Market segmentation that excludes certain groups as a result of ethnicity, formal/informal rigidities, and rural/urban or other geographical divides.

#### **D. Inter-market linkages**

This refers to the linkages that exist between markets and the social and political structures and processes in which they operate. Such linkages can exclude or disadvantage certain groups:

- D.1 By limiting their potential to manage risk and uncertainty – small enterprise owners-managers need to be able to reduce their vulnerability – both in their households and in their enterprises.
- D.2 Through linkages with other markets and systems where vulnerability or disadvantage in one market system (e.g. financial markets) create or contribute to vulnerability or disadvantage in another market system (e.g. labour markets).

The following figure (Chart for assessing markets for small enterprises) provides a series of issues and questions that you can use to assess these four areas.<sup>8</sup>

<sup>8</sup> Adapted from DFID (2000) *Making markets work better for the poor; a framework paper*, Private Sector Policy Department and Oxford Policy Management, November, London.



**Figure 13: Chart for assessing markets for small enterprises**

A. ENABLING FRAMEWORK	CRITICAL ISSUES TO BE ASSESSED
A.1 Macroeconomic policy	Does the macroeconomic policy framework: <ul style="list-style-type: none"> <li>• Promote broad-based growth in the private sector?</li> <li>• Contain biases against small enterprises (by favouring large and state-owned enterprises)?</li> <li>• Promote stability and predictability?</li> <li>• Promote open markets?</li> </ul>
A.2 Law and Administration	Does the legal and administrative system: <ul style="list-style-type: none"> <li>• Ensure accessibility by all groups?</li> <li>• Enshrine property rights?</li> <li>• Ensure accountability and transparency?</li> <li>• Favour the powerless (i.e. the poor, women) who are often too weak to operate effectively in more 'negotiable' systems?</li> </ul>
A.3 Political and social culture; governance	Does the political and social culture: <ul style="list-style-type: none"> <li>• Rely on democratic and accountable institutions?</li> <li>• Rely on the rule of law?</li> <li>• Exclude or disadvantage certain groups?</li> <li>• Contain male-dominated institutions?</li> </ul>
A.4 Local and national markets	Are local and national markets accessible to all small enterprises?
A.5 International markets	Do international markets: <ul style="list-style-type: none"> <li>• Allow foreigner buyers to purchase from enterprises?</li> <li>• Allow enterprises to purchase from other countries?</li> </ul>
B. MARKET FAILURE	
B.1 Public goods	Are markets restricted by: <ul style="list-style-type: none"> <li>• Inadequate infrastructure (power and water supplies, telecommunications, postal services, sanitation, physical facilities, etc.)?</li> <li>• Poor security or high incidences of crime and lawlessness?</li> </ul>
B.2 Externalities	Are markets restricted by: <ul style="list-style-type: none"> <li>• Costs that must be borne as a result of other economic activities?</li> </ul>
B.3 Market power and economies of scale	Are markets restricted by: <ul style="list-style-type: none"> <li>• Local or national monopolies?</li> <li>• Constraints on local competition?</li> <li>• Highly concentrated patterns of land ownership?</li> <li>• Subsidization of State-owned-enterprises?</li> </ul>
B.4 Information asymmetry	Are markets restricted by: <ul style="list-style-type: none"> <li>• Low levels of education and literacy?</li> <li>• Poor consumer rights legislation and enforcement mechanisms?</li> <li>• Discriminatory 'black-listing' of credit applicants?</li> <li>• Is there any evidence of education on citizens' rights?</li> <li>• Is there legislation on product description: Quality of agro-chemicals; access to credit</li> </ul>

B.5 Transactions cost	<p>Are markets restricted by:</p> <ul style="list-style-type: none"> <li>• Costly contract enforcement mechanisms?</li> <li>• Barriers to formal finance?</li> <li>• Costly business regulation and reporting (often proportionally higher for small enterprises than for larger ones)</li> </ul>
<b>C. ADVERSE POWER RELATIONS, EXCLUSION</b>	
C.1 Regulations anti-poor, anti-women, ethnic bias	<p>Are there any national, provincial or local laws and regulations that are biased against:</p> <ul style="list-style-type: none"> <li>• small enterprises?</li> <li>• women?</li> <li>• particular ethnic groups?</li> <li>• informal enterprises?</li> <li>• other groups?</li> </ul>
C.2 Organisational bias	<p>Are there any national, provincial or local organizations that exhibit a (structural, procedural or attitudinal) bias against:</p> <ul style="list-style-type: none"> <li>• small enterprises?</li> <li>• women?</li> <li>• particular ethnic groups?</li> <li>• informal enterprises?</li> <li>• other groups?</li> </ul> <p>Also:</p> <ul style="list-style-type: none"> <li>• are local service providers gender-sensitive?</li> <li>• are there programmes in place to overcome structural, procedural or attitudinal biases in these organizations?</li> </ul>
C.3 Social relations link to markets	<p>Is there any evidence of national, provincial or local social relations that exclude or disadvantage certain groups from the market place, such as:</p> <ul style="list-style-type: none"> <li>• traditional relations or customary practices?</li> <li>• intra-household control of cash sales</li> </ul>
C.4 Market segmentation	<p>Is there any evidence of market segmentation that excludes certain groups as a result of ethnicity, formal/informal rigidities, and rural/urban or other geographical divides, such as:</p> <ul style="list-style-type: none"> <li>• barriers to accessing formal credit?</li> <li>• barriers to accessing formal labour markets?</li> <li>• barriers to property ownership?</li> </ul>
<b>D. INTER-MARKET LINKAGES</b>	
D.1 Risk management	<p>Is there any evidence of small enterprise owner-managers being unable to effectively manage risk and uncertainty, such as being unable to:</p> <ul style="list-style-type: none"> <li>• access facilities for savings?</li> <li>• participate in social security schemes?</li> <li>• insure the enterprise and its workers?</li> </ul>
D.2 Linked markets	<p>Is there any evidence of how linkages with other markets and systems create vulnerability or disadvantage for small enterprise owner-managers, such as:</p> <ul style="list-style-type: none"> <li>• restrictions on transmitting migrant remittances</li> <li>• the extent to which credit market failures limit labour markets</li> </ul>

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### **Step 3: Identify new or emerging market opportunities**

Having examined the institutional and regulatory framework in which small enterprises operate, you should turn your attention to the possible new market opportunities that may be emerging for local small enterprises.

Through various consultations (see Annex 1 for a range of possible consultation processes) and the review of relevant literature, you should consider the following:

- A. What markets are small enterprises currently operating in (as described in Step 1) that can be expanded?
- B. What can small enterprises do to improve the market-share of the markets they are currently operating in (as described in Step 1)?
- C. What can small enterprises do to increase their returns within the markets they are currently operating in (as described in Step 1)?
- D. Are there any new or emerging market opportunities that are particularly relevant?
- E. How can entrepreneurship be promoted? Specifically, this may involve the promotion of new market opportunities for new market entrants.
- F. What specific role(s) should the State (at national, provincial and local levels) play in the facilitation and promotion of new and emerging opportunities for local small enterprises?
- G. What specific role(s) should private sector organizations play in the facilitation and promotion of new and emerging opportunities for local small enterprises?
- H. What specific role(s) should local development and community-based organizations play in the facilitation and promotion of new and emerging opportunities for local small enterprises?
- I. What specific role(s) should worker organizations play in the facilitation and promotion of new and emerging opportunities for local small enterprises?

### **Step 4: Identify areas for market development**

Having undertaken the above three steps, you are now required to synthesize your findings. In this step, you should identify areas for market development. To do this, you should follow the themes presented in the previous steps.

The following five themes should provide a guide for you.

#### **A. Enabling framework**

What can be done to improve the policy, legal and regulatory framework in which markets operate and how can small enterprises operate more fully?

In answering this question, you should consider the need to address:

- The macroeconomic framework at national, provincial and local levels
- The legal and administrative systems at national, provincial and local levels

- 
- The political and social culture, and the system of governance, at national, provincial and local levels
  - The regulation of local and national markets
  - The regulation of international markets.

## **B. Market failure**

What market failures or distortions have you found and how can these be corrected?

This may involve measures that:

- Enhance the provision of public goods or improve the inadequacies you have found in infrastructure at national, provincial and local levels
- Overcome any problems associated with externalities
- Redress the imbalances in power relations and economies of scale, so that barriers to entry and full participation are removed at national, provincial and local levels
- Improve information flows so that small enterprises gain better access to the information they require to participate in the market
- Reduce transaction costs – particularly those that are biased against small enterprises.

## **C. Adverse power relations and market exclusions**

What can be done to redress the imbalances in power relationships you may have found that exclude certain groups full and equal participation in the market?

This may involve:

- Reforming those laws and regulations that are biased against small enterprises, women, particular ethnic groups, etc., at national, provincial and local levels
- Promoting organizational change to remove biases against small enterprises, women, particular ethnic groups, etc.
- Reforming social relations, such as traditional relations that prevent women from owning or inheriting property, or bonded labour
- Promoting market integration to overcome segmentation that excludes certain groups.

## **D. Inter-market linkages**

What can be done to ensure that linkages between markets and the social and political structures and processes in which they operate don't exclude or disadvantage certain groups?

This may involve:

- 
- Designing and implementing schemes that help small enterprise owners-managers manage risk and reduce their vulnerability (e.g. local-based social security schemes)
  - Mobilizing market linkages that create new income opportunities
  - Removing or reducing market linkages that spread vulnerability or disadvantage.

### **E. Promoting new market opportunities**

What can be done to promote new market opportunities for small enterprises?

This may involve facilitating local processes that:

- Help small enterprises identify new markets or expand existing markets
- Add value to existing products and services
- Increase earnings within current markets.

### **5.3 Possible outline for a report on markets and the business environment for small enterprises**

You may find the following structure useful when preparing your final report:

- **Title page**
- **Table of contents**
- **Executive summary**

This should be a two- to three-page summary of the main findings of the study.

- **List of abbreviations used**

Make sure you list only the abbreviations you have used (It is common to find reports where this list has been copied from elsewhere and contains a number of abbreviations that are not actually used in the report!)

#### **1. Introduction**

The introduction should describe:

- Purpose of the assessment (this should include a description of how the profile complements any other reports, such as the other fields of assessment contained in this guide)
- Agency (or agencies) that initiated the assessment and the reasons for the profile
- Proposed use of the information contained in the report (i.e. why is this report relevant and how it will be used)
- Any other relevant background information

- 
- The definition you have applied in the report when referring to ‘micro enterprises’, ‘small enterprises’, ‘medium-sized enterprises’, ‘large enterprises’, etc. (Note: This is likely to be drawn from some form of official definition, but there are likely to be cases when some of the data you present applies definitions that are somehow different to these definitions, in which case you will need to clearly indicate such variations.)
  - Structure of the report.

## 2. Overview of the markets in which small enterprises operate

This chapter should present the following information:

- Main markets for small enterprises (i.e. those markets that are most crowded)
- Markets where there are fewer small enterprises
- Rural markets compared to urban markets.

It is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

## 3. Review of the institutional dynamics

This chapter should present the following information:

- General description of the enabling framework for business activity
- Main sources of market failure for small enterprises
- Issues arising from adverse power relations and market exclusions for small enterprises
- Inter-market linkages.

Again, it is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

## 4. Opportunities and strategies for improving the business environment and developing new markets

This chapter should present some of the main areas where the business environment can be improved for small enterprises, such as:

- How the PLRF can be made more enabling
- How the main sources of market failure for small enterprises can be addressed
- How the adverse power relations and market exclusions for small enterprises can be addressed

- 
- How inter-market linkages can be improved to assist small enterprises.

Here too, it is important that the information you present in this chapter is a balance between detailed description and analysis. It is easy to present too much information that baffles, tires or confuses the reader. Make use of the appendices when necessary and ensure that tables are clear and easy to follow.

## 5. Summary and conclusions

This chapter should present a summary of the findings contained in the previous chapters, highlighting the major findings. It should then come to some conclusions. These conclusions should address the main purpose of the study and its contribution to the broader assessment project.

- **List of references**

Make sure you are consistent in your use of references. The agency that has commissioned this research may have specific requirements regarding the referencing system you use, so it will be important to ask about this. Annex 3 contains information on the ILO's preferred referencing system.

- **Appendices**

The appendices should contain any information that you think the reader may wish to refer to. This information may include tables that are too detailed or long for inclusion in the core of the report, lists of people or organizations consulted, useful excerpts from other reports, etc.





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## **Annex 1: Terms of reference for consultants**

This annex contains a series of sample terms of reference that can be modified to suit the demands of your project. The terms of reference contained here respond to the three fields of assessment described in the guide. In addition, there are two support functions outlined: project coordination and technical supervision.

- 1.1 Terms of reference for a consultant to prepare a profile on small enterprise employment
- 1.2 Terms of reference for a consultant to assess the policy and legal framework
- 1.3 Terms of reference for a consultant to assess markets and the business environment for small enterprises
- 1.4 Terms of reference for a consultant to provide project coordination
- 1.5 Terms of reference for an international consultant (to provide technical supervision for the work performed by national consultants)

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## 1.1 Terms of reference for a consultant to prepare a profile on small enterprise employment

**Starting date:**

**Duration:** [Previous studies have taken from 30 to 50 days]

**Duty station:**

**Consultant:**

**Terms of reference:**

The consultant will prepare a profile on small enterprise employment. Specifically, this will involve the following:

1. Prepare a statistical profile (using national census, establishment surveys, household surveys, labour force surveys) to characterize the small enterprise sector. This should include an assessment of:
  - The size of the small enterprise sector, i.e. number of establishments based on size (covering the working definition for 'micro' and 'small' enterprises – while paying particular attention to the smaller end of the small enterprise spectrum)
  - The geographical distribution of small enterprises
  - Description of the variations found in large and small enterprises
  - The sector distribution of small enterprises according to service, trade and major manufacturing sectors
  - Profile of small enterprise-owners and managers in terms of gender, and levels of education and literacy
  - Contribution of small enterprises to total employment and output (i.e. GDP).
  - Indicators of job quality within small enterprises – which shall include:
    - A rapid assessment of qualitative aspects of employment in small enterprises (earnings, training, employment tenure, working conditions, occupational safety and health, worker representation and unionization, access to and coverage of social security provisions)
    - Employers' and employees' perceptions of problems and constraints related to job quality.
2. Review and synthesize existing literature (previous studies, research, publications, etc.) concerning small enterprises, with special attention being given to employment in small enterprises.
3. Organize, coordinate and, where necessary, facilitate focus group discussions with representatives of key organizations.
4. Liaise with other consultants to ensure that the research and its findings can be presented in a comparable and complementary manner.
5. Ensure that women's views and experiences in the small enterprise sector are sought and incorporated into the overall findings of the project and its reports, including consideration of gender as a review variable during data collection, analysis and reporting.

- 
6. Where possible, the issues facing young people in the small enterprise sector (particularly young people who are enterprise owners-managers) should also be captured in this review. Thus, the participation of young women and men in the small enterprise sector and their perspectives and experiences are of relevance.
  7. Submit a draft report for comment by (date).
  8. Present draft report and any other research findings in any meetings arranged with relevant stakeholders in (date).
  9. Submit final report by (date).

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## 1.2 Terms of reference for a consultant to assess the policy and legal framework

**Starting date:**

**Duration:** [Previous studies have taken 30-50 days]

**Duty station:**

**Consultant:**

**Terms of reference:**

The consultant will review the influence of the policy and legal framework on the small enterprise sector. Particular attention should be given to the smaller end of the small enterprise spectrum. Specifically, this will involve the following:

1. Undertake a review of the policy and legal framework in which small enterprises are required to operate, with particular attention given to:
  - Micro and small enterprise definitions and promotion policies
  - The laws and regulations surrounding the registration, reporting and protection of small enterprises
  - Taxation policies, laws and regulations
  - Application of labour laws to smaller businesses, including labour standards policies, laws and regulations, monitoring and enforcement
  - Trade policies
  - Policies and modalities surrounding small enterprises' access to finance and credit, including bankruptcy policies, laws and regulations.
2. Undertake a mapping and review of the institutions affecting small enterprise operations (i.e. promotion, regulation, monitoring and assessment).
3. Undertake a review of the broader business environment in which small enterprises are required to operate – including, for example, access to markets, access to capital, as well as the major constraints, limitations and opportunities facing the sector. This will involve desktop studies as well as direct consultations with relevant agencies. It will also include a consideration of the social, cultural and attitudinal aspects of the broader business environment in which small enterprises operate.
4. Ensure that women's views and experiences in the small enterprise sector are sought and incorporated into the overall findings of the project and its reports, including consideration of gender as a review variable during data collection, analysis and reporting.
5. Where possible, the issues facing young people in the small enterprise sector (particularly young people who are enterprise owners-managers) should also be captured in this review. Thus, the participation of young women and men in the small enterprise sector and their perspectives and experiences are of relevance.
6. Submit a draft report for comment by (date).
7. Present draft report and any other research findings in any meetings arranged with relevant stakeholders in (date).
8. Submit final report by (date).

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### 1.3 Terms of reference for a consultant to assess markets and the business environment for small enterprises

**Starting date:**

**Duration:** [Previous studies have taken 30-50 days]

**Duty station:**

**Consultant:**

**Terms of reference:**

The consultant will undertake an investigation into markets and the business environment for small enterprises. This investigation will address the opportunities for market development that will enhance the capacity for employment creation in the small enterprise sector, including micro-enterprises.

Specifically, this will involve the following:

1. Prepare a profile of the markets in which local small enterprises operate (including, for example, community, local, regional, and export markets) and categorize these by type of product (consumer, intermediary input, final production goods, etc.).
2. Identify, map and assess the main local market institutions and their influence on the access local small enterprises have to new and expanded market opportunities.
3. Assess linkages between surrounding rural areas and the city, in terms of marketing products of rural enterprises, selling production and consumption goods to rural communities, and production chains between rural and city-based industries (e.g. agro-processing).
4. Assess small businesses' access to larger markets (e.g. business-to-business networks, cooperatives, supply chains, business associations, transport infrastructure).
5. Assess the potential impact of WTO membership – analysis of small business sectors likely to see increased demand and those likely to see increased competition.
6. Assess indicators of productivity, product quality, and competitiveness in key affected industries.
7. Examine any untapped business opportunities that may be pursued by small enterprises and identify the reasons that may prevent local entrepreneurs from taking up these opportunities.
8. Ensure that women's views and experiences in the small enterprise sector are sought and incorporated into the overall findings of the project and its reports, including consideration of gender as a review variable during data collection, analysis and reporting.
9. Where possible, the issues facing young people in the small enterprise sector (particularly young people who are enterprise owners-managers) should also be captured in this review. Thus, the participation of young women and men in the small enterprise sector and their perspectives and experiences are of relevance.
10. Submit a draft report for comment by (date).
11. Present draft report and any other research findings in any meetings arranged with relevant stakeholders in (date).
12. Submit final report by (date).

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## **1.4 Terms of reference for a consultant to provide project coordination**

**Starting date:**

**Duration:**

**Duty station:**

**Consultant:**

**Terms of reference:**

Within the scope of the project, the consultant will coordinate the work of the investigation into small enterprise development. This will involve the following:

1. Take the necessary initiative to lead and to effectively manage each of the meetings and the outcomes expected from the research.
2. Liaise with the ILO and all other consultants regarding timeframe, reporting schedules and consultations.
3. Inform ILO and the International Consultant regularly on progress of National Consultants.
4. Assist the ILO with its reviews and comments to the reports by also involving appropriate stakeholders (including worker and employer organizations) in the process, within the timeframe specified in the project outline.
5. Oversee consultation meetings designed to review the findings of each component report and to come up with project recommendations.
6. Prepare a synthesis report drawing from the component reports prepared by the other consultants.

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## **1.5 Terms of reference for an international consultant**

**Starting date:**

**Duration:**

**Duty station:**

**Consultant:**

**Terms of reference:**

Within the scope of the project, the International Consultant will provide technical supervision for the work performed by national consultants. This will involve the following:

1. Provide technical direction and supervision in the project activities and in overseeing the project workshops and finalizing reports.
2. Develop and review strategy and work plans for policy discussions and workshops, and preparation of the reports.
3. Prepare guides and tools of assessment for the National Consultants.
4. Liaise with the partner organizations.
5. Provide technical support, guidance and any other form of assistance required by the National Consultants.
6. Assist in the preparation of a final synthesis report.

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## Annex 2: Stakeholder interviews

When assessing the seven fields of policies, laws and regulations described above, you will need to conduct interviews with key stakeholders. These will come from government, non-government, private sector and worker organizations. To guide you in these interviews, the following checklists have been prepared.

Remember, this is simply a checklist. It is provided to guide and assist you. Please, don't treat these points as prescriptive or exhaustive.

### A. Government organizations

When conducting your assessment of the policy and legal framework, you will need to meet with government officials. These may be policy-makers, programme administrators, business advisers, or regulators and administrators. It will be important to ensure you talk to policy-makers as well as those government officials who have direct contact with small enterprises such as administrators or inspectors. Here are some points you may wish to address when meeting these people.

- What is the perceived role of government in enterprise development?
- Do you think government recognizes the special development and operational needs of the small enterprise sector?
- How do you define 'micro, small and medium enterprise'?
- What are the main problems government faces when dealing with the small enterprise sector?
- Would you say there is a bias, in policy terms, toward or against the small enterprise sector (especially when compared with larger enterprises)?
- How is the small enterprise sector represented within policy-making circles?
- Do you believe there is adequate coordination across all relevant ministries in managing and promoting the small enterprise sector?
- Why are small enterprises important to government?
- What kinds of opportunities have existed for the small enterprise sector to participate in the development of policies, laws and regulations that affect them?
- What are the concerns government has when considering the workers of the small enterprise sector?
- What are the major factors affecting the compliance of small enterprises to government regulations?
- Has government ever examined the costs and benefits (including those that are real and hidden) of regulatory compliance for the small enterprise sector?
- Do you think the small enterprise sector is properly informed about their legal obligations as well as their legal entitlements and rights?
- What avenues of complaint are there for small enterprise owners/managers who believe government or government officials have mistreated them?



- 
- What avenues of reporting are there for small enterprise employees who wish to raise a concern about the terms or conditions of their employment?
  - What type of variation can be found between rural and urban small enterprises? (This may include common or predominant sectors, constraints and characteristics.)
  - What role does (or should) local government perform in the promotion and management of small enterprises?
  - What role does (or should) sub-national government (e.g. district, provincial, regional) perform in the promotion and management of small enterprises?
  - Are there different kinds of experiences faced by women and men in the small enterprise sector? If so, how can government address these?
  - Should special attention be given to young small enterprise owners/managers? If so, what kind of attention?
  - Who else in government should I talk to on this matter?

## **B. Private sector representatives**

When meeting with private sector organizations, such as chambers of commerce, small enterprise associations or informal sector organizations to conduct your assessment of the policy and legal framework, you may wish to address the following issues:

- What benefits do you think small enterprises offer the country and the locality?
- How do you define 'micro, small and medium enterprise'?
- Do you think government recognizes the special needs of the small enterprise sector?
- Would you say there is a bias, in policy terms, toward or against the small enterprise sector – especially when compared with larger enterprises?
- Does your organization have a bias in membership in favour or against the small enterprise sector?
- To what extent are self-employed workers represented in your organization?
- To what extent is your organization able to participate in policy-making with government (e.g. lobbying and advocacy) on behalf of the small enterprise sector?
- What role should government perform in the development, management and protection of small enterprises?
- What role should district and local government perform in the development, management and protection of small enterprises?
- Do you believe there is adequate coordination across all relevant ministries in managing and promoting the small enterprise sector?
- Do you think the small enterprise sector is properly informed about their legal obligations as well as their legal entitlements?
- What are the main concerns you see for the workers of the small enterprise sector?
- What are the major factors affecting the compliance of small enterprises to government regulations?

- 
- What avenues of reporting are there for small enterprise employees who wish to raise a concern about the terms or conditions of their employment?
  - What type of variation can be found between rural and urban small enterprises? (This may include common or predominant sectors, constraints and characteristics.)
  - Are there different kinds of experiences faced by women and men in the small enterprise sector? If so, how can government address these?
  - Should special attention be given to young small enterprise owners/managers? If so, what kind of attention?
  - To what extent do you think the needs, constraints and opportunities of small enterprises are understood – within your organization as well as within government?
  - Who else in the private sector should I talk to on this matter?

### **C. Non-government, community-based enterprise promotion agencies**

When conducting your assessment of the policy and legal framework, you may find it valuable to meet with representatives of non-government, community-based enterprise promotion agencies. These may be international donor agencies, development institutions or research and development agencies.

Here are some points you may wish to address when meeting these people.

- What benefits do you think small enterprises offer the country and locality?
- How do you define ‘micro, small and medium enterprise’?
- Do you think government recognizes the special needs of the small enterprise sector?
- Would you say there is a bias, in policy terms, toward or against the small enterprise sector – especially when compared with larger enterprises?
- To what extent is your organization able to participate in policy-making with government (e.g. lobbying and advocacy) on behalf of the small enterprise sector?
- What role should government perform in the development, management and protection of small enterprises?
- What role should district and local government perform in the development, management and protection of small enterprises?
- Do you believe there is adequate coordination across all relevant ministries in managing and promoting the small enterprise sector?
- Do you think the small enterprise sector is properly informed about their legal obligations as well as their legal entitlements?
- What are the main concerns you see for the workers of the small enterprise sector?
- What are the major factors affecting the compliance of small enterprises to government regulations?
- What avenues of reporting are there for small enterprise employees who wish to raise a concern about the terms or conditions of their employment?

- 
- What type of variation can be found between rural and urban small enterprises? (This may include common or predominant sectors, constraints and characteristics.)
  - Should special attention be given to young small enterprise owners/managers? If so, what kind of attention?
  - Are there different kinds of experiences faced by women and men in the small enterprise sector? If so, how can these be addressed?
  - To what extent do you think government and other development organizations understand the needs, constraints and opportunities of small enterprises?
  - Is there any research or programme monitoring your organization has undertaken that might provide some insight to our assessment of the policy and legal framework for small enterprises?
  - Who else in the NGO, CBO sector should I talk to on this matter?

#### **D. Worker organizations**

When meeting with worker organizations, such as unions or small enterprise worker associations to conduct your assessment of the policy and legal framework, you may wish to address the following issues:

- What benefits do you think small enterprises offer the country and locality?
- How do you define 'micro, small and medium enterprise'?
- Does your organization recognize the special needs of workers within the small enterprise sector?
- What problems (or successes) have you experienced in organizing and representing workers within the small enterprise sector? Has the current policy and legal framework helped or hindered these attempts?
- Do you think government recognizes the special needs of the small enterprise sector?
- Would you say there is a bias, in policy terms, toward or against the small enterprise sector – especially when compared with larger enterprises?
- Does your organization have a bias in membership in favour or against the small enterprise sector?
- To what extent are self-employed workers represented in your organization?
- To what extent is your organization able to participate in policy-making with government (e.g. lobbying and advocacy) on behalf of workers in the small enterprise sector?
- What role should government perform in the development, management and protection of small enterprises?
- What role should district and local government perform in the development, management and protection of small enterprises?
- Do you believe there is adequate coordination across all relevant ministries in managing and promoting the small enterprise sector?
- Do you think the small enterprise sector is properly informed about their legal obligations as well as their legal entitlements?

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- Do you think small enterprise workers are properly informed about their legal rights and obligations?
  - What are the main concerns you see for the workers of the small enterprise sector?
  - What avenues of reporting are there for small enterprise employees who wish to raise a concern about the terms or conditions of their employment?
  - What type of variation can be found between rural and urban small enterprises? (This may include common or predominant sectors, constraints and characteristics.)
  - Should special attention be given to young workers in this sector? If so, what?
  - Are there different kinds of experiences faced by women and men in the small enterprise sector? If so, how can government address these?
  - To what extent do you think the needs, constraints and opportunities of small enterprises are understood – within your organization as well as within government?
  - Who else in the union or labour movement should I talk to on this matter?

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## Annex 3: Possible methods of data collection

The use of the term 'small enterprise' can encourage people to view this group of enterprises as a homogenous sector. This could not be further from the truth. There is a great amount of variation amongst this sector, including, for example:

- ☞ urban and rural locations;
- ☞ high technology based and low technology based;
- ☞ formal and informal;
- ☞ various levels of education of proprietors;
- ☞ variations in size and management styles;
- ☞ different activities and sectors of operation; and
- ☞ marginal and highly profitable.

This diversity requires the use of a number of different techniques for data collection and consultation in the process of mapping and assessing the legal, regulatory and administrative framework for small enterprises. The following list provides an outline of a number of different techniques that may be used:

### 3.1 Surveys and questionnaires

Depending on the resources available (e.g. the costs of a broad small enterprise survey would include computer and printing costs, staff, etc.) and the availability of appropriate personnel (for questionnaire design, interviewing, data entry and evaluation) a survey of small enterprises can provide broad and quantifiable evidence of the experience of small enterprises.

The strengths of this approach are as follows:

- ☞ involves responses from large numbers of enterprises;
- ☞ applicable to a wide range of themes and topics; and
- ☞ enables specific and objective analysis of results.

The weaknesses of surveys and questionnaires include:

- ☞ the potential cost of distribution, collation and analysis can be high;
- ☞ requires a written response that may disadvantage people with low levels of literacy;
- ☞ the question format may limit the issues covered and the types of responses; and
- ☞ collation and interpretation can be time consuming.

### 3.2 Street or group interviews of entrepreneurs

This involves consultants or researchers going out to meet and talk with entrepreneurs in their own settings, or at a mutually convenient place (such as a community hall or a chamber office). The strengths of this approach are:

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- ☞ speaking with entrepreneurs in their own environment may provide more honest and confident responses about what they see as real issues; and
  - ☞ may be able to reach entrepreneurs who may not participate in other strategies (especially those in the informal sector).

The weaknesses of this approach include:

- ☞ quality of results depends on the skills of the interviewer; and
- ☞ collation and analysis of results can be messy.

### **3.3 Interviews with policy makers, programme officers, and administrators**

This involves consultants or researchers meeting directly with government officials and those involved in small enterprise administration and regulation to ascertain their views on the current system and the need for reform or improvement. The strengths of this approach are:

- ☞ provides a unique and valuable perspective; and
- ☞ can be used to engage administrators in the process of change.

The weaknesses of this approach include:

- ☞ quality of results depends on the skills of the interviewer;
- ☞ collation and analysis of results can be messy; and
- ☞ only one side of the total picture.

### **3.4 Observing behaviour**

This is where researchers visit and observe small enterprises or government agencies at work and make some assessment of procedural processes and their work patterns, and the impact the legal and regulatory framework has on them. The strengths of observation include:

- ☞ useful for collecting data on such issues as usage of facilities/services and patterns of behaviour;
- ☞ data collection relates to how things are and what people do, rather than how things are perceived or what people think they do; and
- ☞ useful for studying a particular sub-group or procedure.

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Weaknesses to this approach include:

- ☞ very time consuming;
- ☞ interpretation left to the skill and objectivity of the observer;
- ☞ observations may not be valid for all small enterprises (only those observed);
- ☞ may not provide much information on causes of particular behaviour;
- ☞ if entrepreneurs are aware they are being observed, behaviour patterns may be affected; and
- ☞ may yield a massive amount of data, which is difficult to organize and quantify.

### **3.5 Public meetings and special events**

The term 'event' is used here to indicate an open meeting for a large number of people. Resources required will include a suitable venue, a facilitator and usually extensive advertising. Sometimes such meetings or events could conclude with a social event, which will often enhance the quality of interaction.

The strengths to this approach are:

- ☞ entrepreneurs often feel comfortable with the informal setting;
- ☞ community awareness of particular issues may be enhanced through the public relations value attached to such meeting; and
- ☞ allows for voting on certain issues.

The weaknesses of this approach include:

- ☞ requires a skilled and unbiased facilitator; and
- ☞ generally the large numbers involved limit depth of debate possible.

### **3.6 Workshops, seminars and community forums**

Involves bringing together business owners for a period of time to reflect on issues. A popular range of idea and issue generation techniques can be used. Some of the strengths of the use of workshops, seminars and forums include:

- ☞ provides entrepreneurs from diverse backgrounds to come together to share ideas, opinions and experiences;
- ☞ can provide a quick intensive picture of small enterprise needs and concerns;
- ☞ may discover original ideas and fresh insights;
- ☞ the process and outcomes may be of personal value to participants;
- ☞ gives small enterprise issues broad visibility;
- ☞ inexpensive;
- ☞ design is flexible – a variety of techniques can be incorporated; and

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- ☞ addresses issues in depth.

The weaknesses of this approach include:

- ☞ needs skilled facilitators and thorough organization;
- ☞ opinions obtained are limited to those who attended;
- ☞ can generate unreal expectations; and
- ☞ poor promotion of event may limit participation.

### 3.7 Advisory groups and task forces

Members of such a group are specifically invited to participate because of their skills, background or experience. They are usually formed around a set purpose that may be to determine small enterprise needs or appropriate reform and development strategies. The use of advisory groups and task forces can have the following benefits:

- ☞ skills are developed through participation;
- ☞ commitment is developed through participation;
- ☞ highly visible form of participation; and
- ☞ often has credibility in terms of influencing decision-makers.

The weaknesses of this approach include:

- ☞ requires resources, training and support;
- ☞ representation may be too narrow, focusing only on those who are articulate and confident; and
- ☞ may result in frustration if advice is not acted upon.

These organizations may also be useful for implementing change that is required. Further details on this function are provided in the following chapter.

### 3.8 Novelty approaches

Includes initiatives such as phone-ins, graffiti board, radio talk-back sessions, and 'urgent telegram' type exercises – all aimed at eliciting 'off the cuff' responses and a cross section of opinions. The strengths of this approach include:

- ☞ can potentially involve a wide-cross section of entrepreneurs; and
- ☞ the public relations impact of novelty approaches may raise awareness and interest in small enterprises.

The weaknesses of this approach include:

- ☞ requires good advertising and organization to be effective;
- ☞ following up on suggestions is often difficult; and
- ☞ responses may not be representative.



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### 3.9 Petitions and submissions

Such initiatives that originate from entrepreneurs can be a valuable source of information. Petitions and submissions can have the following strengths:

- ☞ the fact that the process is initiated by small enterprises demonstrates that there is genuine commitment to the issues involved; and
- ☞ often generates positive publicity for small enterprises and the role they can play in the economy.

However, the weaknesses of this approach include:

- ☞ may originate from a very small section of the private sector; and
- ☞ may be dominated by large-scale enterprises – those with the organizational resources to dedicate to such activities.

### 3.10 Information from small enterprise development agencies

Interviewing programme workers in development agencies can be a valuable experience. These agencies often have close and regular contact with a number of people planning to start or expand their business, as well as with people who are experiencing difficulties. Due to the number of enterprises they can deal with, such agencies can indicate the major areas of constraint and concern. Strengths of this information include:

- ☞ this source is usually easy to access;
- ☞ may provide more than one perspective on issues; and
- ☞ valuable check point when interpreting other information.

The main weaknesses of this approach is that information will inevitably be coloured by the worker's value base or professional orientation

### 3.11 Selecting appropriate techniques

When choosing a technique for consultation and data collection, the following principles are worth remembering:

- ☞ the most reliable and credible results will be obtained by using a combination of techniques;
- ☞ it is important that false expectations about outcomes are not raised during consultation;
- ☞ the involvement of entrepreneurs may be easier to facilitate if processes are interesting, challenging, social and enjoyable;
- ☞ discussion starters and idea generators are often useful (e.g. use of gaming exercises, guest speaker, cartoon, newspaper clipping, etc.);
- ☞ practice runs of surveys and other research techniques are often valuable to clarify objectives and explore the issues before the consultation is fully presented;
- ☞ the representation of the sample and any influences on responses needs careful assessment;

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- ☞ some people will need practical assistance to fully participate (e.g. assistance with transport, translation into local language, etc.);
  - ☞ some people will need time to develop their thoughts on certain issues – follow-up consultation may be required; and
  - ☞ the involvement of key decision-makers in the consultation process (especially in terms of face to face situations) can be very useful when eliciting interest and real responses by entrepreneurs.

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## Annex 4: Style guide for references

When referring to published works, you should use the parenthetical, or author-date system.<sup>9</sup> Simply put, this requires the placement of the author's last, or family name, and the year of publication of the work, after the running text or block quotation that is used. By way of example:

(Buttlar, 1981)

(Central Statistical Office, 1996)

(Smith and Rump, 1997).

If there are three or more authors, then use the name of the first, followed by et al.:

(Zipursky et al., 1995).

There will be a number of times when you need to cite the page number, figure or table of the information you have sourced. Inserting a comma after the year, followed by the reference, should do this. Thus:

(Buttlar, 1981, p. 208)

(Central Statistical Office, 1996, tab. 43)

(Smith and Rump, 1997, fig. 7)

(Zipursky et al., 1995, pp. 175-189).

When it comes to the reference list, you should follow this guide:

All references should be listed in alphabetical order. Reference list entries should begin with the author's last, or family name, followed by the title in italics, and in brackets the place of publication, name of the publisher, the number of the edition (if there has been more than one), and the year of publication. Put a colon between the author's name and the title of the work, and commas elsewhere (except before the brackets). If there is no date, then substitute *n.d.* (meaning 'no date'). Thus:

Buttlar, A.: *Employment in small enterprises* (New York, DoubleDay, 1981).

Central Statistical Office: *Household Survey 1995* (Lahore, Government Press, 1996).

For periodical publications, please begin with the author's surname, in quotation mark the title of the article, the word 'in', the title of the periodical in italics, in brackets the place of publication and name of publishing institution, and then the number or date of the issue and the specific page(s) to which reference is made. For example:

Dorner, P.: 'Fourteen million rural poor', in *Yale Review* (New Haven, Connecticut), Winter 1969, pp. 36-53.

This is a very brief simple (and incomplete) guide. There will be other references that require attention and this can be done at a later date. However, being as consistent as possible in early drafts will help to ensure consistency and quality across all country papers.

<sup>9</sup> As recommended by ILO, 1992.



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## Annex 5: Glossary of terms

<i>Bias</i>	A policy or legal bias is one that favours one category of enterprise over another. A foreign-owned enterprise might be given more incentives than a domestic enterprise, for example. Biases are commonly found according to enterprise size, sector and ownership. Policy and legal bias may be intentional, or an unintended consequence of poor design or implementation.
<i>Business environment</i>	The general conditions within which businesses operate. The business environment is shaped by many elements, which include the policy and legal environment (defined below); market opportunities, the availability of resources and the cultural and social context in which the business operates. Existing institutions such as associations, NGOs, trade unions, in particular those providing advice and information can also influence the business environment.
<i>Business license</i>	A permit or certification local and state governments require businesses to obtain and post. Obtaining a license may merely require the payment of a fee to do business; in other cases, the proprietor may have to pass a test that certifies he or she is competent to perform certain services. Some licenses limit the number of businesses that can provide certain goods or services.
<i>Bylaws</i>	Rules under which a corporation is governed. These rules can be amended as provided by state law and the bylaws. Rules and regulations under which a board of directors operate a corporation.
<i>Collateral</i>	The asset(s), such as real property or an automobile, which is offered as security for a loan.
<i>Community-based organization (CBO)</i>	Organizations or associations that are not-for-private-profit, voluntary bodies, owned and managed by a defined community, usually a locally defined community.
<i>Constitutional obligations</i>	Requirements imposed on ILO member States by the ILO Constitution relating to the system of international labour standards.
<i>Contract</i>	A promise or a set of promises for the breach of which the law gives a remedy or the performance of which the law in some way recognizes as a duty.
<i>Conventions</i>	International treaties, which are open to ratification by ILO member States. When a State ratifies a Convention, the country pledges to apply the Convention's terms and provisions in law and practice.
<i>Copyright</i>	An exclusive right granted by the federal government to the publisher to publish and sell literary, musical and other artistic materials. Honoured for 50 years after the death of the creator.
<i>Corporate tax</i>	A tax assessed by states on their resident corporations. Levy terms and percentages vary widely from state to state.

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*Corporation*

A legal entity created under state law. A form of organization where the stockholders hold ownership. Chief Justice John Marshall's classic definition (1819) reads 'A corporation is an official being, invisible, intangible, and existing in contemplation of law. Being the mere creature of law, it possesses only those properties, which the charter of its creation confers upon it, either expressly, or as incidental to its very existence. These are such as the same, and may act as a single individual. They enable a corporation to manage its own affairs, and to hold property without the perplexing intricacies, the hazardous and endless necessity, of perpetual conveyances for the purpose of transmitting it from hand to hand. It is chiefly for the purpose of clothing bodies of men, in succession, with these qualities and capacities, that corporations were invested, and are in use.'

*Dissolution*

Legal termination of a corporation, which entails liquidating all assets, paying off all liabilities and distributing the remaining balance to the company's stockholders.

*Entrepreneur*

Derived from the French word 'to undertake.' Someone who is willing and eager to create a new venture in order to present a concept to the marketplace.

*Financial institution*

Any firm that deals with money and/or securities. Banks, savings and loans, insurance companies, hard-asset lenders, credit unions, stockbrokers, consumer financial companies and investment bankers, as well as a host of other highly specialized organizations are examples of the institutions that operate in the huge and highly complex world of finance.

*Franchise*

A contract between two parties. In modern usage, it is a license from the franchiser that entitles its holder to operate a particular type of business according to certain stated conditions and arrangements.

*Household enterprises*

Units engaged in the production of goods or services which are not constituted as separate legal entities independently of the households or household members that own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) are available which would permit a clear distinction of the production activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between the enterprises and the owners.

*Incentive*

A reward, whether monetary or psychological, that motivates and/or compensates an employee for performance above standard.

*Incorporate*

To form a corporation according to the laws of the various states governing incorporation. Tax and other laws can vary depending on the type of corporation, of which there are several including the 'C' corporation, sub-chapter S corporation, and LLC, or limited liability corporation.

*Informal sector*

The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

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	<p>The informal sector comprises:</p> <ol style="list-style-type: none"> <li>a. informal own-account enterprises which are household enterprises owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ contributing family workers and employees on an occasional basis, but do not employ employees on a continuous basis.</li> <li>b. enterprises of informal employers, which, for operational purposes, may be defined, depending on national circumstances, in terms of one or more of the following criteria: (i) size of the unit below a specified level of employment; (ii) non-registration of the enterprise or its employees.</li> </ol>
<i>Intellectual property</i>	Intangible property usually developed from the knowledge, ideas, and talent of individuals. For example, patents, trademarks and trade names, copyrights, trade secrets, customers and customer lists, and valuable employees. Generally, rights to intellectual property can be legally protected. However, the cost of litigation and the impact of technology and global competition have complicated pursuing such rights.
<i>International Labour Conference</i>	The yearly meeting of tripartite delegations of member States of the International Labour Organization.
<i>International Labour Standards</i>	Conventions and Recommendations adopted by the International Labour Conference, covering a broad range of matters in the field of social and labour matters.
<i>Joint venture</i>	Usually refers to a short-lived partnership with each partner sharing in costs and rewards of the project.
<i>Legal structure</i>	The various forms of business organizational structure Sole Partnership, Partnership, Co-operative, Corporation, Limited Corporation, R & D Partnership.
<i>Liability</i>	A debt of the business; an amount owed or an obligation to perform a service to creditors, employees, government bodies, or others; a claim against assets.
<i>Licensing agreement</i>	A legal contract in which the licensor grants to the licensee rights to use specific property rights, in return for which royalties will be paid.
<i>Micro and small enterprises (MSEs)</i>	There are no universally accepted definitions of micro and small enterprises. Definition criteria vary across countries (e.g., number of workers, turnover, capital stock, or combinations of these criteria), and so do the cut-off points between size classes. However, to provide direction it may be useful to give a working definition of these terms. Thus, the term 'micro and small enterprise' shall refer to non-agricultural enterprises. In the absence of a national definition, enterprises with one to nine workers are considered micro enterprises, while those with ten to 49 workers are considered small enterprises. Self-employed workers fall under the micro enterprise definition, which has just been presented, and the factors behind their decisions to set-up a business will be analysed in this study. However, they may in many ways be quite different from other micro enterprises. This is especially the case for some categories of workers, such as street vendors, who are in a position, which generally does not permit them to apply entrepreneurial strategies. It may therefore be advisable to exclude them from the survey work proposed below.

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<i>Non-government organization (NGO)</i>	Not-for-private-profit bodies which, despite being supported by government on occasions, are not run by government and are concerned with the betterment of society and the public interest. NGOs are private, self-governing, voluntary organizations.
<i>Partnership</i>	A business association of two or more people. There are two types of partnerships, the general and the limited partnership.
<i>Patent</i>	Where governmental grants an inventor, giving her or him exclusive rights to an invention or process for a set number of years.
<i>People with disabilities</i>	The World Program of Action Concerning Disabled Persons uses the following definitions, borrowed from the World Health Organization Impairment meaning ‘Any loss or abnormality of psychological, physiological, or anatomical structure or function.’ Disability meaning ‘Any restriction or lack (resulting from an impairment) of ability to perform an activity in the manner or within the range consider normal for a human being.’ Handicap meaning ‘A disadvantage for a given individual resulting from an impairment or disability, that limits or prevents the fulfilment of a role that is normal, depending on age, sex, social and cultural factors, for that individual.
<i>Policy, legal and regulatory framework</i>	The policies, laws and regulations designed by government to influence the operations of enterprises. This framework provides the means by which government can manage the economy so as to achieve sustainable social and economic outcomes. It also protects and assists the enterprises, providing for example, a legal space to operate and physical facilities in which to conduct their business. A proper functioning economy that protects basic individual rights and supports economic and social functions requires a sound policy, legal and regulatory framework.
<i>Proprietary</i>	That which is owned, such as a patent, formula, brand name, or trademark associated with the product/service.
<i>Recommendation</i>	An instrument not open to ratification but which lays down general or technical guidelines to be applied at the national level. They often provide detailed guidelines to supplement principles set out in Conventions, or they may provide guidance on subjects that are not covered by Conventions.
<i>Resolution</i>	A formal expression of the will or opinion on a particular subject adopted by the International Labour Conference.
<i>Sole proprietorship</i>	A business firm owned by only one person and operated for personal profit.
<i>Social partners</i>	The term used to refer to employers' and workers' organizations engaged in dialogue – or partnership – with government in the determination of social and labour policies.
<i>Trainees</i>	Those apprentices and others on written learnership agreement.
<i>Unlimited liability</i>	A legal situation in which the owner of a business is fully liable for all of its debts and obligations to the extent of his or her total estate. People who enter business with unlimited liability can be pauperized through little fault of their own.

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