

# BALI DECLARATION POLICY BRIEF NO. 7 | 2018 UPDATE

## PROMOTING SUSTAINABLE ENTERPRISES

### BALI DECLARATION PRIORITY:

Programmatic assistance to promote an enabling environment for the development and creation of sustainable enterprises

**Small and medium-sized enterprises are the most dynamic source of jobs. In Asia and the Pacific, more than 70 per cent of job creation occurs in enterprises with five to 99 employees.**

As a principal source of economic growth, wealth creation and jobs, enterprises play an integral role in the course of sustainable and inclusive development. The importance of enterprise sustainability is highlighted in the Sustainable Development Goals (SDG) Target 8.3, which calls on governments to: “Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services”. When operating in an environmentally sustainable manner, enterprises are also integral to greening the workplace and can thus contribute also to the broader sustainable targets embedded in other Goals, for example, Goals 9 (industrialization and innovation) and 13 (combatting climate change).

The 2030 Agenda calls on national level policy development. The role of the private sector, through its representative organizations, will be critical to the delivery of economic growth, employment and decent work and sustainable development as a whole. The ILO, as the only UN agency with a global network of the private sector among its constituency, is especially well placed to play a comprehensive role in working with member States towards achievement of the 2030 Agenda.

The Bali Declaration was adopted at the 16th Asia and Pacific Regional Meeting of the ILO on 9 December 2016. The Declaration serves as a call to action for governments, workers’ and employers’ organizations in the region to do more to promote inclusive growth, social justice and decent work. This series of Policy Briefs aim to focus attention on the priorities for policies and actions at national level and by the ILO as defined in the Declaration.



In most countries, private enterprises create the most jobs. This is especially true in developing countries, where over 90 percent of jobs are in the private sector. People who have overcome poverty identify ‘finding a paid job’ or ‘starting a business’ as the two most important reasons.

– Guy Ryder, ILO Director-General

## DEFINING THE CHALLENGE

Private enterprises, and small and medium-sized enterprises (SMEs) in particular, are the engines of job creation and economic growth in Asia and the Pacific. The region accounts for an estimated 245–295 million SMEs, or around three-fifths of the world’s total (ILO, 2015). More than 70 per cent of job growth in Asia and the Pacific occurs in enterprises with five to 99 employees.

An important determinant of firm size is the sector to which the firm belongs. In part reflecting its reputation as a manufacturing hub, in Asia, the median size of firms in the manufacturing sector is well above the global average. The range for the manufacturing sector is from 38 to 85 full-time employees across Southern Asia, South-Eastern Asia and the Pacific and East Asia, compared with 19 to 30 full-time employees for the services sector (ILO, 2017a). The same report show that SMEs in the formal sector grew faster than large enterprises. More precisely, small firms grew 2.0 percentage points faster than large firms between 2003 and 2014, while medium-sized enterprises grew 1.1 percentage points faster than large firms. Such evidence could be used to push for further revitalization of SMEs in the region, especially in the formal sector.

Regardless of enterprise size, a continuing challenge is that many firms are unregistered, which creates an uneven playing field in comparison to the registered, formal businesses. For instance, at least two in three enterprises surveyed in Cambodia, Indonesia, Lao People’s Democratic Republic, Papua New Guinea, and Tonga reported competition with unregistered firms as one of their biggest challenges in doing business. From the perspective of workers, the quality of employment tends to be poorer in firms that operate informally, reflecting lower productivity, wages and workplace safety. Informal enterprises fall outside the scope of legislation which limits contributions to public tax systems while also denying employees of protection under labour standards, including the right to organize.

SMEs and other enterprises requires improvements in the business environment to make it easier for firms, especially those headed by women, to operate, grow and be sustainable. In particular, enterprise growth requires greater access to credit. In Afghanistan, Mongolia, Nepal and Sri Lanka, more than 30 per cent of surveyed firms cited access to finance as a major constraint in the business climate.

Other key challenges to ensuring the growth and sustainability of enterprises in Asia and the Pacific include access to energy,

sound infrastructure and logistics, as well as support for property rights and the rule of law. Promoting responsible and sustainable enterprises also necessitates helping women, young people and traditional disadvantaged segments of the labour market to set up their own businesses. In a number of countries in South Asia, for instance, gender gaps in self-employment are considerable. In Afghanistan, Bangladesh, India and Pakistan fewer than 1 in 7 firms reported women being involved in ownership.

## TOO MANY UNREGISTERED ENTERPRISES ARE HURTING COMPETITION



Source: World Bank: Enterprise Surveys [accessed 4 December 2018].

## AREAS OF ACTION AND LESSONS LEARNED

Promoting sustainable enterprises and decent work in SMEs in the region is critical for a prosperous and inclusive future. SMEs require enhanced business skills, systems and processes in order to be competitive, adopt good labour practices and reduce environmental impact. To this end, a number of priorities would be effective:

- First, improvements in the business environment must include **enhanced access to finance**. The ASEAN Business Advisory Council, in November 2015, launched a financing programme for SMEs called the Growth Accelerator Exchange. Such regional initiatives could create awareness and a willingness to support SMEs and facilitate market connections so as to link them better to global supply chains.

- Second, support to SMEs should include **developing business skills and boosting productivity and working conditions**. Through ILO technical cooperation projects such as Sustaining Competitive and Responsible Enterprises (SCORE), countries like China, India, Indonesia and Viet Nam have adopted practical training, including a focus on soft skills and in-factory counselling, to improve productivity and working conditions in SMEs. Applying best international practice in the manufacturing and service sectors, these efforts also help SMEs to participate in global supply chains.
- Third, **facilitating the transition to the formal economy for informal firms** is key to decent work. As an example, the ILO has supported the construction industry in Bangladesh and Nepal and the automotive value chain sector in India by formalizing employment relationships through official contracts, licensing and registration. Other interventions have included workers' registration to various public schemes that provide formal recognition and access to certain protections and benefits and strengthening the knowledge base on the informal economy. The ILO is current collecting regional good practices in promoting formalization, including use of technology to ease registration of firms, logging receipts and paying taxes (ILO, forthcoming).
- Fourth, investment in **developing entrepreneurship skills** is essential. The ILO and employers' organizations in Asia and the Pacific have supported responsible and sustainable enterprises, with a focus on helping women, young people and vulnerable communities to pursue entrepreneurship. These initiatives have promoted well-established ILO tools such as Know about Business (KAB) and Start and Improve Your Business (SIYB). A recent assessment of the SIYB programme found that more than 15 million potential entrepreneurs were trained through the programme and close to 9 million jobs created worldwide. China was found to be the biggest market for SIYB globally, followed by South Asia, East Asia and the Pacific and Sub-Saharan Africa.
- Fifth, **environmental sustainability** should be systematically addressed in all areas of ILO's work, including rural development strategies. Green works (i.e. infrastructure and related work that have direct environmental benefits or respond to specific environmental contexts such as changes in climate and extreme weather events) in rural areas can be an effective strategy for job creation, protection of vulnerable livelihoods and restoration of natural capital. The recent ILO policy guidance note on *Greening the Rural Economy and Green Jobs* (ILO, 2017c) highlights four "green" employment models that have been implemented in Bangladesh, Indonesia, Philippines and Sri Lanka.
- Finally, **social and solidarity economy enterprises organizations (SSEOs)** offer an alternative approach to create and preserve employment in traditional sectors while advancing the ILO's decent work agenda. SSEs, including workers cooperatives, can provide quality and stable jobs, facilitate women's entry into the labour force, integrate disadvantaged workers and help the transition from informal to formal employment.



**To reverse the recent trend of employment stagnation in SMEs, we need policies to better promote SMEs and a better business environment for all firms, including access to finance for the younger ones.**

– Deborah Greenfield,  
ILO Deputy Director-General for Policy

### WHILE EAST ASIA & PACIFIC IS THE LEADING REGION IN TERMS OF WOMEN ENTREPRENEURSHIP, ALL REGIONS REMAIN FAR FROM PARITY.

Region	Per cent of firms with female participation in ownership	Per cent of firms with majority female ownership	Per cent of firms with a female top manager
All countries	35.1	14.5	18.6
East Asia & Pacific	47.4	28.6	32.7
Europe & Central Asia	32.5	12.6	18.9
Latin America & Caribbean	44.9	20.3	21.6
Middle East & North Africa	23.3	3.4	5.4
South Asia	18.4	9.6	11.0
Sub-Saharan Africa	30.8	12.9	15.6

Source: World Bank: Enterprise Surveys [accessed 4 December 2018].

### WHERE DO WE GO FROM HERE?

Under the backdrop of the Decent Work Agenda and Sustainable Development Goals (SDGs), the ILO will continue to work with governments and social partners to promote sustainable enterprises as the critical factor of job creation and inclusive growth. In the Asia and the Pacific region, the ILO works with countries to develop entrepreneurship and business skills (including for women, young entrepreneurs and those with disabilities), helping SMEs to improve productivity and working conditions through programmes such as SCORE and by leveraging synergies with other programmes, such as Better Work.

Three current ILO projects or programmes (not an inclusive list) that aim for direct impact to support sustainable enterprises at local levels include:

- The SME Access to Finance Project, is a World Bank funded initiative that includes a component on "ILO Technical Advice for Lao PDR Capacity building for Small and Medium Enterprises" (June 2018 – June 2019). The engagement of the ILO is intended to contribute to the

Lao PDR SME Strategy through the capacity building for SMEs and other stakeholders under the implementation of the Department of SME Promotion (DOSMEP).

- The International Labour and Environmental Standards Application in Pakistan's SMEs (ILES) project (September 2016 – September 2022) is a partnership between the ILO and the Delegation of the European Union to Pakistan that will help tripartite partners and other stakeholders to strengthen national labour and environmental standards compliance with international standards to increase competitiveness, sustainable and inclusive growth in Pakistan. The project will also implement pilot interventions in selected enterprises in textile and leather sectors to develop business cases for compliance with labour and environmental standards.
- Sustaining Competitive and Responsible Enterprises (SCORE) Project - Phase III (November 2017 – October 2021). This project aims to improve productivity and working conditions in SMEs. With funds from the Governments of Norway and Switzerland, the ILO assists government agencies, training providers, industry associations and trade unions in emerging economies to offer SCORE Training to enterprises. In Asia, the service is now offered by 16 organizations in China, India, Indonesia, Myanmar and Viet Nam and more than 20 brands and 800 factories, representing 180,000 workers, have participated in SCORE Training. As part of the SCORE programme, mini-business clinics are held, for example, in coaching SMEs on the importance of occupational health and safety to build productive and safer businesses (e.g. clinic held in Jakarta, 28 August 2018).

Other priorities include:

- strengthening the information base, for example on measurement of cooperatives. The ILO, in collaboration with its constituents and a number of national and international partners, is working towards developing guidelines on the measurement of cooperatives, both in terms of employment and economic value added. The initiative has already led to the publishing of a series of national studies on Statistics of Cooperatives, including briefs covering Australia, Indonesia, Japan and the Philippines in the Asia-Pacific region.
- promoting the community-based enterprise development (C-BED) approach to help institutions support entrepreneurs and micro-business owners start new businesses or improve existing businesses at low costs. C-BED is already on-going in more than a dozen countries, including Cambodia, Indonesia, Laos, the Philippines, Thailand and Viet Nam.
- supporting country's growing interest in the responsible business practices, in particular from larger firms in export-oriented sectors. Resulting in part from external buyer pressure, Thailand has taken up CSR (Corporate Social Responsibility) as a driving principle of business, at least for those with exposure to international markets.

### Recent events

From 5-7 July 2018, the ILO participated in the International Co-operative Alliance Asia Pacific Regional Office (ICA-AP) Forum on Development of Cooperatives in the Pacific Islands and an Observance of the 2018 International Day of Cooperatives in Port Vila, Republic of Vanuatu.

The ILO and Cambodian Ministry of Education Youth and Sports (MOEYS) successfully achieved the Guinness World Record for the Largest Practical Business Seminar. The MOEYS/ILO initiative almost doubled the previous record with its tally of 2,304 participants to the training event on 24 August 2017. The publicity surrounding the event and its achievements has raised awareness in Cambodia and elsewhere to the importance of innovation and entrepreneurship as key national government priorities.

### Useful references:

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