

**JOB CREATION IN SMALL AND
MEDIUM-SIZED ENTERPRISES**

**Guide to ILO
Recommendation No. 189**

**Adopted by the ILC
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**InFocus Programme on Boosting
Employment through Small
Enterprise Development**

**Job Creation and Enterprise Department
International Labour Office**

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Guide to ILO Recommendation No. 189¹

On 17 June 1998 in Geneva, the International Labour Conference adopted Recommendation No. 189 concerning General Conditions to Stimulate Job Creation in Small and Medium-sized Enterprises. The Recommendation is directed towards all 175 member States and constituents of the ILO. Unlike ILO Conventions, ILO Recommendations do not give rise to binding obligations, but provide guidelines for national policies and action.

This overview specifies the issues and strategies contained in Recommendation No. 189 for the benefit of government ministers, senior ministerial and departmental officials, policy-makers, programme administrators, other enterprise development specialists, as well as employers' and workers' organizations. The aim is to present the widest range of possible actions, from which the most feasible in each national context can be selected. Ideally, it can be used as a model checklist of ways to promote employment growth in smaller enterprises. This overview does not attempt to replace or revise the Recommendation. Instead it serves as a lay interpretation, summary and explanation of the central themes and approaches set down by the International Labour Conference (ILC).

¹ This document is a practical reference to help ILO constituents understand Recommendation No. 189 (1998) concerning general conditions to stimulate job creation in small and medium-sized enterprises. It should be referred to in conjunction with Recommendation No. 189 and in no manner is it intended to be a substitute for the full text of Recommendation No. 189. Further, this document does not provide a legal interpretation and any such requests from constituents for the Office's opinion on a Convention or Recommendation should be immediately communicated to the Application of Standards Branch of the International Labour Standards Department, with copies to the Office of the Legal Adviser and the InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) – see **page 23** for contact details.

STRUCTURE

Recommendation No. 189 defines a series of fundamental elements in the promotion of small and medium-sized enterprises (SMEs). In so doing, it presents a valuable guide to the components of SME promotion. As with all ILO Recommendations, Recommendation No. 189 opens with a statement on the context, in both policy and technical terms, in which the Recommendation has been designed. The specific policies, Recommendations and Conventions it mentions provide a comprehensive point of reference for all those involved in SME policies and programmes (see 'Relevant Conventions and Recommendations', page 22).

**“... small and medium-sized enterprises ...
are increasingly responsible for
the creation of the majority of jobs
throughout the world ...”**

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The structure of Recommendation No. 189 is as follows:

1. Definition, purpose and scope

The potential roles of SMEs are described and member States, in consultation with the most representative organizations of employers and workers, encouraged to define small and medium-sized enterprises and to formulate policies and strategies to express this potential, according to their specific national, social and economic conditions.

2. Policy and legal framework

The aim of the Recommendation is to create a supportive environment conducive to the growth and development of SMEs.

3. The development of an enterprise culture

A shortlist of ways to create and strengthen an enterprise culture which favours initiative, productivity, environmental consciousness, quality jobs, good labour and industrial relations, and adequate and equitable social practices.

4. The development of an effective service infrastructure

A series of measures designed to promote the development of SMEs.

5. The roles of employers' and workers' organizations

The International Labour Organization recommends that member States work in close dialogue and cooperation with the most representative employers' and workers' organizations associated with SMEs.

6. International cooperation

Member States are encouraged to recognize, use and participate in national and international networks that facilitate the exchange of information and experience, the best-practice approaches to SME development, and relevant research and organizational linkages.

How SMEs can contribute more to national development goals ...

The ILC recommends that member States, in consultation with representative organizations of employers and workers, define SMEs according to national, social and economic conditions. This should apply to all types of economic activity and all types of SMEs, irrespective of the form of ownership (i.e. including private and public companies, cooperatives, partnerships, family enterprises and sole proprietorships). Common definitions will assist in the consistent collection and analysis of data on SMEs.

Measures should be adopted that are appropriate to national conditions and consistent with national practice to recognize and promote the role that SMEs can play. SMEs can contribute to a range of national development goals, which may include:

- ◆ promoting full, productive and freely chosen employment;
- ◆ improving access to income-earning opportunities and wealth creation leading to productive and sustainable employment;
- ◆ enabling sustainable economic growth and the ability to react to change with flexibility;
- ◆ increasing economic participation of disadvantaged and marginalized groups;
- ◆ increasing domestic savings and investment;
- ◆ training and developing human resources;



“Members should ... define small and medium-sized enterprises ... arriving at commonly agreed definitions for data collection and analytical purposes.”

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- ◆ balancing regional and local development;
- ◆ providing goods and services that are better adapted to local markets;
- ◆ improving job quality, working conditions and access to social protection, leading to a better quality of life;
- ◆ stimulating innovation, entrepreneurship, technology development and research;
- ◆ improving access to domestic and international markets; and
- ◆ promoting good relations between employers and workers.

The promotion of the various roles of SMEs should include mechanisms to safeguard the interests of workers in SMEs by providing basic protection available under other relevant instruments (ILO Conventions and Recommendations).



Photo: ILO/J. Maillard

Creating an environment conducive to business growth ...

The Recommendation recognizes the importance of a policy and legal framework in establishing a supportive environment for the growth and development of SMEs. To create this environment, member States should:

- ◆ adopt and pursue policies that promote an optimal economic environment, especially in areas affecting inflation, interest and exchange rates, taxation, employment and social stability;
- ◆ establish and apply appropriate laws for property rights, including intellectual property, location of establishments, enforcement of contracts, fair competition, adequate social and labour legislation; and
- ◆ improve the attractiveness of entrepreneurship.

In addition to these measures, the ILC recommends that policies should be designed to promote efficient and competitive SMEs capable of providing productive and sustainable employment under adequate and equitable social conditions. It addresses five areas of priority: (1) creating conditions of SME promotion; (2) removing constraints; (3) policy analysis; (4) addressing risk and disadvantage; and (5) upgrading the informal sector.

Creating conditions for SME promotion

It is necessary to create conditions that provide access to credit, foreign exchange and imported inputs and fair taxation. It is also necessary to provide effective labour laws and regulations to raise the quality of employment in SMEs and compliance with international labour standards related to child labour.

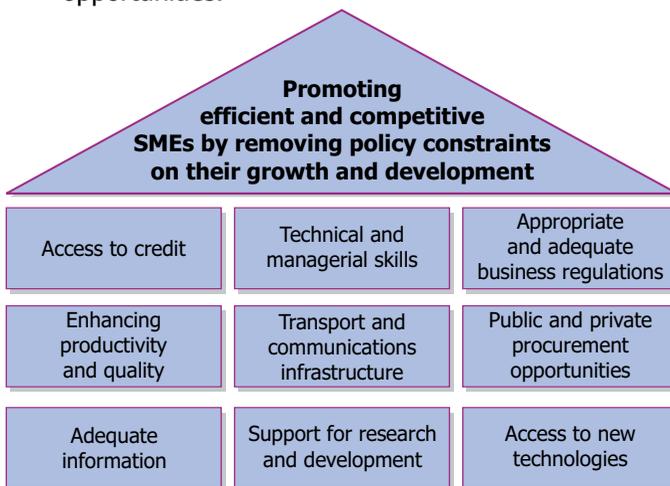
“Members should consider appropriate policies to improve all aspects of employment in small and medium-sized enterprises.”

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Removing policy constraints

Constraints to the development and growth of efficient and competitive SMEs should be removed, particularly those arising from:

- ◆ difficulties of access to credit and capital markets;
- ◆ low levels of technical and managerial skills;
- ◆ inadequate information;
- ◆ low levels of productivity and quality;
- ◆ insufficient access to markets;
- ◆ difficulties of access to new technologies;
- ◆ lack of transport and communications infrastructure;
- ◆ inappropriate, inadequate or overly burdensome registration, licensing, reporting and other administrative requirements, including those which are disincentives to the hiring of personnel;
- ◆ insufficient support for research and development; and
- ◆ difficulties in access to public and private procurement opportunities.



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POLICY AND LEGAL FRAMEWORK

Policy analysis

The development of a policy and legal framework for SME development should require:

- ◆ the collection of national data on the SME sector, covering quantitative and qualitative aspects of employment, without creating undue administrative burdens for SMEs;
- ◆ the assessment of the impact of existing policies and regulations on SMEs, giving particular attention to the impact of structural adjustment programmes on job creation; and
- ◆ the review of labour and social laws and policies and the ways they affect SMEs, while ensuring adequate protection and working conditions for their workers.

Policies that are not directly related to SME development, such as fiscal and monetary policies, trade and industry, employment, education and training, labour, social protection, gender equality, and occupational safety and health should be assessed as to their impact on SMEs.



Mechanisms to review and update these policies should be established.

Policies to address risk and disadvantage

Specific policies are required to provide social protection to SMEs and their workers, by means of voluntary schemes and cooperative initiatives.

Such social protection requires provisions to ensure compliance with social security regulations in areas such as medical care, sickness, unemployment, old age, employment injury, family, maternity, invalidity and survivors' benefits. In times of economic difficulties, governments should seek to provide strong and effective assistance to SMEs and their workers.

The informal sector

The informal sector is growing in industrialized, transition and developing countries alike. To create a supportive environment for the growth of decent work in self-employment and microenterprises, specific policies and incentives for assisting and upgrading the informal sector should be designed.

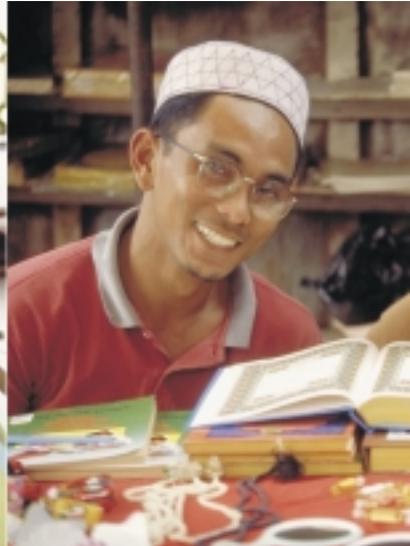
Photo: ITCILO/F. Decorato

3

THE DEVELOPMENT OF AN ENTERPRISE CULTURE

Where entrepreneurial attitudes are formed and rewarded ...

The ILC recognizes the importance of social and cultural influences on entrepreneurship and the formation of new enterprises. In light of this, it has recommended that member States endeavour to create and strengthen an enterprise culture, meaning an environment that favours initiative, enterprise creation, productivity, environmental consciousness, quality employment, good labour and industrial relations, and adequate and equitable social practices. This should include the development of entrepreneurial attitudes, through education, training and entrepreneurship development. Particular emphasis should be given to the importance of good labour relations and the many vocational and managerial skills needed by SMEs.



“Members should ... encourage a more positive attitude towards risk-taking ... [and promote] entrepreneurial role models and award schemes.”

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An appropriate means of encouraging a more positive attitude towards risk-taking should be established: one that recognizes business failure as a learning experience while acknowledging its impact both on entrepreneurs and workers. A process of lifelong learning should be encouraged for all workers and entrepreneurs within SMEs.

Awareness campaigns to promote the rule of law, workers' rights, better working conditions, higher productivity and improved quality of goods and services should be developed. This should complement the promotion of entrepreneurial role models and award schemes, especially those that take account of the particular needs of women, and of disadvantaged and marginalized groups.



Photo: A. Ramella

Nurturing competitive enterprises to create more and better jobs ...

In order to enhance the growth and competitiveness of SMEs, and their potential to generate new quality jobs, consideration should be given to the availability and accessibility of a range of direct and indirect support services.

A range of potential support

Access to the following business development services can materially improve SME competitiveness and viability:

- ◆ business pre-start-up, start-up and development assistance;
- ◆ business plan development and follow-up;
- ◆ business incubators;
- ◆ information services, including advice on government policies;
- ◆ consultancy and research services;
- ◆ managerial and vocational skills enhancement;
- ◆ promotion and development of enterprise-based training;
- ◆ support for training in occupational safety and health;
- ◆ assistance in upgrading the literacy, numeracy, computer competencies and basic education levels of managers and employees;
- ◆ access to energy, telecommunications and physical infrastructure such as water, electricity, premises, transportation and roads (which may be provided directly or through private sector intermediaries);
- ◆ assistance in understanding and applying labour legislation, including provisions on workers' rights, as well as in human resources development and the promotion of gender equality;
- ◆ legal, accounting and financial services;

“Members should ... facilitate, where appropriate, the development of organizations and institutions which can effectively support the growth and competitiveness of small and medium-sized enterprises.”

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- ◆ support for innovation and modernization;
- ◆ advice regarding technology;
- ◆ advice on the effective application of information and communications technology to the business process;
- ◆ access to capital markets, credit and loan guarantees;
- ◆ advice on finance, credit and debt management;
- ◆ export promotion and trade opportunities in national and international markets;
- ◆ market research and marketing assistance;
- ◆ assistance in product design, development and presentation;
- ◆ quality management, including quality testing and measurement;
- ◆ packaging services; and
- ◆ environmental management services.

Design and delivery of services

As far as possible, enterprise support services should be designed and provided to ensure optimal relevance and efficiency by:

- ◆ adapting the services and their delivery to the specific needs of SMEs;
- ◆ ensuring the active involvement of SMEs and representative employers' and workers' organizations in determining the services to be offered;
- ◆ involving the public and private sectors in the delivery of such services;
- ◆ decentralizing the delivery of services, to bring them as physically close to SMEs as possible;
- ◆ promoting easy access to an integrated range of effective services through "single window" arrangements or referral services;

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THE DEVELOPMENT OF A SERVICE INFRASTRUCTURE

- ◆ aiming towards sustainability for service providers through a reasonable degree of cost recovery from SMEs and other sources, in order to enhance the employment creation potential of SMEs without distorting the markets for such services;
- ◆ ensuring professionalism and accountability in the management of service delivery; and
- ◆ establishing mechanisms for continuous monitoring, evaluation and updating of services.

Financial services

Services should be designed to enhance productivity, promote efficiency and help SMEs sustain competitiveness in domestic and international markets, while at the same time improving labour practices and working conditions. To ensure sustainability, access to finance and credit should be facilitated on commercial terms, except in the case of particularly vulnerable groups of entrepreneurs. Supplementary measures should be undertaken to simplify administrative procedures, reduce transaction costs and overcome problems related to inadequate collateral. SMEs may also be encouraged to organize and participate in mutual guarantee associations. The creation of venture capital and other organizations specializing in assistance to innovative SMEs should be encouraged.

Productivity and working conditions

Appropriate policies to improve the quality of employment in SMEs through protective labour and social laws should be considered. This should include, where appropriate, the development of organizations and institutions which can effectively support the growth and competitiveness of SMEs. Mutually beneficial linkages should also be established between SMEs and larger enterprises and between SMEs themselves, to encourage the exchange of experience as well as the sharing of resources and risks.



Photo: ILO/J. Maillard

Equal opportunity

Specific support measures and incentives for women entrepreneurs should be encouraged. This should also be done for other selected categories of the population, such as long-term unemployed, persons affected by structural adjustment or restrictive and discriminatory practices, disabled persons, demobilized military personnel, young persons (including graduates), older workers, ethnic minorities and indigenous and tribal peoples.

Governments should improve communication and relations between their agencies and SMEs as well as the representative organizations of such enterprises, to improve the effectiveness of government policies aimed at job creation.

Giving entrepreneurs and workers a voice for social dialogue ...

Employers' and workers' organizations should consider contributing to the development of SMEs in the following ways:

- ◆ articulating to governments the concerns of SMEs and their workers;
- ◆ facilitating direct support services in areas such as training, consultancy, easier access to credit, marketing, advice on industrial relations and promoting linkages with larger enterprises;
- ◆ cooperating with national, regional and local institutions as well as with intergovernmental regional organizations which provide support to SMEs in areas such as training, consultancy, business start-up and quality control;
- ◆ participating in councils, task forces and other bodies at national, regional and local levels to deal with important economic and social issues, policies and programmes affecting SMEs;
- ◆ promoting and taking part in the development of economically beneficial and socially progressive restructuring (e.g. retraining and the promotion of self-employment) with appropriate social safety nets;
- ◆ participating in the promotion of exchange of experience and establishment of linkages between SMEs;



“... organizations of employers and workers should consider widening their membership base to include small and medium-sized enterprises.”

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- ◆ participating in the monitoring and analysis of social and labour-market issues affecting SMEs (e.g. terms of employment, working conditions, social protection and vocational training), and promoting corrective action where appropriate;
- ◆ participating in activities to raise quality and productivity, while promoting ethical standards, gender equality and non-discrimination;
- ◆ preparing studies on SMEs, collecting statistical and other relevant data, including statistics disaggregated by gender and age, and sharing this information, as well as lessons of best practice, with other national and international organizations of employers and workers; and
- ◆ providing services and advice on workers' rights, labour laws and social protection for workers in SMEs.

Encouragement should be given to SMEs and their workers to be adequately represented, in full respect for freedom of association. In this connection, existing organizations of employers and workers should consider widening their membership base to include SMEs and their organizations.



Photo: ITCILO/V. Morra; G. Palazzo

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INTERNATIONAL COOPERATION

To foster small enterprises that are world-class ...

All ILO member States are encouraged to promote the contents of Recommendation No. 189 within other international bodies. They should also be open to cooperation with those bodies, where appropriate, when evaluating and implementing the provisions of this Recommendation, and take into consideration the prominent role played by the ILO in the promotion of job creation in SMEs.

Appropriate international cooperation should be encouraged by:

- ◆ establishing common approaches to the collection of comparable data, to support policy-making;
- ◆ exchanging information, disaggregated by gender, age and other relevant variables, on best practices in terms of policies and programmes to create jobs and to raise the quality of employment in SMEs;



“Members should promote the contents of this Recommendation with other international bodies.”

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- ◆ creating linkages between national and international bodies and institutions that are involved in the development of SMEs to facilitate the exchange of information, ideas, experience, staff, training materials and methods, and research findings;
- ◆ holding international meetings and discussion groups on approaches to job creation through the development of SMEs, including support for entrepreneurship development for women;
- ◆ systematic research in a variety of contexts and countries into key success factors for promoting SMEs which are both efficient and capable of creating jobs providing good working conditions and adequate social protection; and
- ◆ promoting access by SMEs and their workers to national and international databases on employment opportunities, market information, laws and regulations, technology and product standards.



Photo: ITCLIO/A. Ramella; G. Palazzo. ILO/J. Maillard



ASSISTANCE TO MEMBER STATES

InFocus Programme on Boosting Employment through Small Enterprise Development

The mission of the ILO's InFocus Programme on Boosting Employment through Small Enterprise Development (SEED) is to help governments, social partners and communities unlock the potential for creating more and better jobs in the small enterprise sector. This is the SEED contribution to ILO efforts to meet the employment challenge.

Fulfilling the mission

SEED's strategies to boost employment through small enterprise development target both individuals and the economic environment in which they live by:

- ◆ assisting governments to improve their policy and regulatory framework for small enterprise development;
- ◆ developing innovative methods to improve competitiveness and working conditions in small enterprises and help them to enter new markets;
- ◆ training women and men in how to start a business successfully and make it grow.

The SEED programme was launched in January 2000 to capitalize on the ILO's work in supporting small enterprise development over the past 30 years. This wealth of experience was recognized by the ILC in adopting Recommendation No. 189, which calls upon member States to create a policy framework and an enterprise culture conducive to the development of efficient, competitive small enterprises and that enhances their ability to provide productive and sustainable employment.

Providing support

SEED aims to support Members' efforts for SME development by:

1. promoting and facilitating SME policy dialogue at a national and local level, to bring together the social partners and other stakeholders.
2. identifying, analysing, documenting and disseminating good practices related to policy and regulatory change in the creation of a supportive environment for promoting small enterprises.

SEED's themes for research and tool development reflect fundamental ILO concerns and values, as embodied in Recommendation No. 189, in the area of SME development by:

- ◆ improving job quality;
- ◆ increasing economic opportunities for women;
- ◆ promoting representative associations of enterprises and workers in the sector;
- ◆ upgrading employment for workers in the informal sector.

Putting knowledge to work

Throughout its work, SEED seeks to derive good practices, build a strong knowledge base on the linkages between small enterprise development and employment, and put this knowledge to work through policy guidance, technical assistance and international advocacy.

Sustainability

SEED's touchstones in promoting proven tools and developing new approaches are:

- ◆ their potential scale of impact;
- ◆ ease of implementation;
- ◆ relevance to constituents' needs;
- ◆ their cost-effectiveness and sustainability beyond ILO interventions.

RELEVANT CONVENTIONS AND RECOMMENDATIONS

THE FOREWORD to Recommendation No. 189 refers to several ILC Conventions and Recommendations already in existence, emphasizing the significant policy platform on which the ILO works with its member States.

The ILC was convinced that promoting the following Conventions would enhance the creation of quality employment in SMEs and help Members in their efforts to eliminate child labour:

- ◆ **Forced Labour Convention, 1930 (No. 29);**
- ◆ **Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87);**
- ◆ **Right to Organise and Collective Bargaining Convention, 1949 (No. 98);**
- ◆ **Equal Remuneration Convention, 1951 (No. 100);**
- ◆ **Abolition of Forced Labour Convention, 1957 (No. 105);**
- ◆ **Discrimination (Employment and Occupation) Convention, 1958 (No. 111).**

The ILC was also convinced that the adoption of new provisions on job creation in SMEs should be taken into account, together with the relevant provisions of other international labour Conventions and Recommendations as appropriate, such as:

- ◆ **Employment Policy Convention, 1964 (No. 122), and Recommendation, 1964 (No. 122);**
- ◆ **Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169);**
- ◆ **Co-operatives (Developing Countries) Recommendation, 1966 (No. 127);**
- ◆ **Minimum Age Convention, 1973 (No. 138), and Recommendation, 1973 (No. 146);**
- ◆ **Human Resources Development Convention, 1975 (No. 142), and Recommendation, 1975 (No. 150); and**
- ◆ **Occupational Safety and Health Convention, 1981 (No. 155), and Recommendation, 1981 (No. 164).**

For those involved in SME policies and programmes and committed to expanding opportunities for decent work for women and men in SMEs, these Conventions and Recommendations are a comprehensive point of reference. Copies are available electronically from SEED's website: www.ilo.org/seed or contact:



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