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### EIGHTH ITEM ON THE AGENDA

## Follow-up to the resolution concerning small and medium-sized enterprises and decent and productive employment creation adopted by the Conference at its 104th Session (2015)

### Progress report on the implementation of the action plan

#### Purpose of the document

This document is a progress report on the implementation of the action plan concerning the 2015 conclusions on small and medium-sized enterprises and decent and productive employment creation. The Governing Body endorsed the action plan during its November 2015 session and asked that the Small and Medium Enterprises Unit of the Enterprises Department report back on progress made during the November 2016 and 2017 sessions of the Governing Body. The Office has made good progress in its first year of implementation of the small and medium-sized enterprises (SME) action plan. The Governing Body is invited to provide guidance on progress made (see the draft decision in paragraph 12).

**Relevant strategic objective:** The action plan contributes to five of the ten Office-wide outcomes as defined in the Strategic Plan for 2016–17. These are outcomes 1 (more and better jobs); 4 (promoting sustainable enterprises); 5 (decent work in the rural economy); 6 (formalization of the informal economy); and 10 (strong and representative employers' and workers' organizations).

**Policy implications:** The action plan will shape the Office's work on SME policies over the next two years by providing information where there are currently gaps in knowledge (especially concerning the impact of interventions on enterprise sustainability and working conditions) and by describing the ways in which the Office will scale up its country-level work, as requested in the conclusions.

**Legal implications:** None.

**Financial implications:** Most of the outputs for the current biennium are covered by the programme and budget for 2016–17. Some of the country-level work on the enabling environment is underfunded. For the 2018–19 biennium, a reprioritization of work and resource allocation will be considered and additional resource mobilization efforts will be undertaken in order to attain the objectives spelt out in the proposed action plan.

**Follow-up action required:** The Office will take into consideration the guidance provided by the Governing Body on how to follow the action plan in the future, and provide the Governing Body with a report on progress in November 2017.

**Author unit:** The Small and Medium Enterprises Unit of the Enterprises Department (ENTERPRISES/SME), in close cooperation with relevant departments and units.

**Related documents:** Resolution and conclusions concerning small and medium-sized enterprises and decent and productive employment creation, adopted at the 104th Session of the International Labour Conference in 2015. Follow-up to the resolution concerning small and medium-sized enterprises and decent and productive employment creation, endorsed by the Governing Body at its 325th Session (November 2015).

## I. Introduction

1. At its 325th Session in November 2015, the Governing Body endorsed a four-year action plan prepared by the Office on how to follow up on the 2015 conclusions concerning small and medium-sized enterprises (SMEs) and decent and productive employment creation. The Governing Body asked the Office to report back on the progress made during its November 2016 and 2017 sessions.
2. The purpose of this report is to document the progress made since the endorsement of the action plan. The report highlights the main achievements, lessons learned, and challenges encountered in implementing the action plan. A detailed overview is provided. It compares planned and achieved deliverables, including progress, according to indicators of achievement.

## II. Main achievements, lessons learned and challenges

3. The endorsed action plan takes a focused approach. It gives priority to concrete requests arising from the 2015 Conference discussion on SMEs rather than presenting the Office's full work plan on the promotion of SMEs that worldwide account for two-thirds of all jobs, and also create the majority of new jobs. Key deliverables established in the action plan include:
  - outputs involving the generation of knowledge which is of vital importance for evidence-based policy making; and
  - additional country-level work aimed at satisfying the high demand from member States for advice on SME policies.

### Knowledge generation

4. A key deliverable is the review of the Enabling Environment for Sustainable Enterprises (ESEE) programme, with the aim of expanding it. The deliverable is important because the ESEE is the ILO's main intervention aimed at creating a conducive business environment for all enterprises and at contributing to a level playing field for SMEs, which are usually more severely affected by a non-conducive business environment than are larger enterprises. A concept note for the review has been developed as a joint effort with the ILO Bureau for Workers' Activities (ACTRAV) and the ILO Bureau for Employers' Activities (ACT/EMP), and it has been jointly agreed upon. The concept note states that there will be a desk review of the main ESEE work done so far, a survey on the perceptions of stakeholders that have participated in ESEE assessments, a workshop for the presentation and discussion of the main findings and a final report. A review team has been established, comprising the Office's technical lead unit, ACTRAV and ACT/EMP. The review team initiated the desk review, undertook a joint mission to a country currently applying the ESEE methodology (United Republic of Tanzania) and agreed on the survey questions. The joint mission proved very valuable as it provided the opportunity for in-depth feedback from constituents. Due to the comprehensiveness of the review, the final report is slightly behind schedule and should be available before the end of 2016.
5. While preparing for the 2016 Conference discussion on global supply chains, the Office was asked to document what is known about procurement from SMEs that are part of global supply chains and about what strategies actors can adopt to improve procurement practices.

A literature review summarizing the available empirical evidence was published before the Conference. It showed that little attention has been paid to this topic so far, even though SMEs offer many of the jobs in global supply chains as third and fourth tier suppliers. The available evidence centres on procurement from first and second tier suppliers, which are usually large enterprises. Little is known about the conditions of procurement from SME subcontractors. A complementary publication with four case studies on good practices in the procurement of goods and services from SMEs by large enterprises will be published in September 2016.

6. The conclusions of the 2015 Conference discussion on SMEs call for an evidence-based approach to SME policies. They call for more research on the effectiveness and cost efficiency of SME interventions, and in particular on the economic, social, and environmental dimensions of enterprise sustainability and the improvement of working conditions. Consequently, new knowledge based on rigorous research on what works in SME development is another key deliverable in the action plan. The Office has developed an impressive series of new impact assessments that will result in at least six new briefs on the effectiveness of SME interventions by the end of the biennium (see Section III for details). The new impact assessments include six SME interventions, implemented by the ILO and other agencies. These range from the promotion of women's entrepreneurship in Kenya to agro-industry value chain projects in Cambodia, Timor Leste and Zambia. With respect to the impact assessment on women's entrepreneurship in Kenya, the Office succeeded in mobilizing additional resources by responding to a call for proposals put out by the ILO–World Bank joint research programme on job creation and shared prosperity. Convincing ILO project staff to contribute to the production of new knowledge about what works and what does not work in enterprise development and job creation is challenging because it involves additional work for project staff and requires additional financial resources. It also calls for a new culture of results measurement that will not equate a lack of findings with individual staff failure, but rather looks at it as a valuable contribution to organizational learning. These challenges can best be overcome by offering additional resources for monitoring and evaluation, such as specialist advice or matching funding, and by giving high-level exposure to programmes that produce new evidence.
7. The conclusions ask for research on the impact of social dialogue and collective bargaining on working conditions in SMEs. The approved action plan states that this research would require additional resources that have not yet been allocated. Because these resources are not yet available, this research has not begun.

### **Additional country-level work**

8. The action plan asks that the EESE programme be expanded through the design and implementation of seven additional country programme outcomes (CPOs) that will help member States improve the enabling environment. The Office has therefore put considerable emphasis on generating additional country work on EESE. A total of 11 new country assessments have been initiated or are under preparation. Requests for four additional assessments have been received but they are not yet funded, and would require resource reallocations during the current biennium.
9. As young, high-growth SMEs create the majority of new jobs, the action plan states that the Office will start promoting this SME subgroup. A concept note specifying the ILO's approach on promoting growth-oriented SMEs has been developed and will form the basis for the design of new proposals to be submitted to donors

### III. Planned results vs. achievements relating to follow-up to SME Conclusion

Follow-up item (paragraph of the conclusions)	Planned deliverables	Indicators of achievement, including timeline	Progress as of July 2016
<b>For the 2016–17 biennium</b>			
<b>Knowledge generation</b>			
Review of the EESE programme with a view to expanding it <b>(20(b))</b> .	A report that: (1) takes stock of what works and what needs to be improved; (2) provides suggestions on how to scale up the EESE; and (3) gives guidance on how to assess the possible effects of new rules and regulations on SMEs before introducing them.	Report is produced and made available <i>(03/2016)</i> .	A concept note for the review has been developed, a review team that includes ACTRAV and ACT/EMP has been established and the review has begun. The review builds on a desk review, a survey among EESE stakeholders that have participated in country assessments of the enabling environment, a joint mission of the review team to a country currently working with the EESE methodology and a workshop for presenting the findings of the review. The report is expected to be completed by the end of 2016.
Assessment of the effect of new rules and regulations on SMEs and their workers <b>(9(a))</b> .			
Research on good practices for the procurement of goods and services from SMEs by large enterprises within supply chains <b>(20(e))</b> .	A report summarizing empirical evidence on: (1) relevance of procurement of large enterprises from SMEs; (2) opportunities and threats relating to SMEs' participation in supply chains; (3) key internal and external factors enabling SMEs to capture value added; and (4) ILO experiences with strengthening the links between large buyers and SMEs, such as the Sustaining Competitive and Responsible Enterprises (SCORE) programme.	Report is published before the 105th Session of the Conference (2016) <i>(04/2016)</i> .	Report was published in May 2016.
Collection of more evidence on what works in SME development, in particular in relation to the improvement of working conditions and the three dimensions of enterprise sustainability <b>(21)</b> .	(a) Generation of primary evidence: completion of four experimental or quasi-experimental impact assessments.  (b) Two ILO projects pass external audits of their results measurement systems with the aim of further improving the ILO's capacities in this area.	(a) Four briefs are produced and made available <i>(12/2017)</i> .  (b) External audit reports confirm that projects passed the audit <i>(12/2017)</i> .	(a) The Office has developed a series of new impact assessments of interventions conducted by ILO and by other agencies. These will result in the production of at least six new briefs before the end of the biennium. <sup>1</sup>  (b) Two ILO projects have been selected and are expected to undergo an external audit in accordance with the results measurement standard of the Donor Committee for Enterprise Development (DCED) before the end of the biennium. <sup>2</sup>

Follow-up item (paragraph of the conclusions)	Planned deliverables	Indicators of achievement, including timeline	Progress as of July 2016
	(c) Sharing evidence with constituents: two knowledge-sharing events to present new findings.	(c) Written evaluations of the events show that 70 per cent of participants can apply the evidence presented when they design their SME programmes (12/2017).	(c) Working together, the ILO and the DCED organized the 2016 edition of the Global Seminar on Results Measurement covering key issues such as the measurement of job creation in projects on private sector development.  In February 2017, the ILO will organize a conference on the latest evidence on how to create more and better jobs through a market systems approach to the promotion of SMEs.
Research on the impact of social dialogue and collective bargaining systems on working conditions in SMEs (21).	One report, one workshop for discussion of findings with constituents, and one policy brief.	Brief is made available (03/2017).	As mentioned in the action plan this item will commence, pending the availability of resources.
<b>Country-level work</b>			
Expansion of the EESE programme, including stronger links to work on ILO policies on employment and quality of work and Decent Work Country Programmes (20(b)).	(a) Design and implementation of seven additional country programme outcomes, helping member States improve the enabling environment.	(a) Seven additional member States report improvements in the enabling environment (source: indicator 4.1 of the ILO results measurement framework; baseline: eight member States) (12/2017).	(a) Some 11 country assessments have been initiated or are under preparation. Requests for an additional four assessments have been received, are not yet funded, and would require consideration of a reprioritization of work and additional resource mobilization efforts during the current biennium.
Development of a new EESE component on the formalization of informal SMEs, consistent with the follow-up to the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), (20(c)).	(b) The production of new tools for the promotion of SME formalization, including an intervention model, implementation methodology and key tools for constituents.	(b) New tools for the promotion of SME formalization are available on the ILO EESE website; a toolkit on SME formalization is published and made available (03/2017).	(b) An additional specialist position was created and filled, on track
Intensification of efforts to support growth-oriented SMEs (20(a)).	A concept note specifying the ILO's approach to promoting growth-oriented SMEs for submission to donors.	One proposal passes internal quality control and is submitted to donors (12/2017).	(c) Not yet started.  A concept note on the ILO's approach has been produced.

Follow-up item (paragraph of the conclusions)	Planned deliverables	Indicators of achievement, including timeline	Progress as of July 2016
	Design and implementation of an additional three CPOs helping member States promote growth-oriented SMEs (provided that extra-budgetary resources can be mobilized).		
<b>For the 2018–19 biennium</b>			
Expansion of the ILO's core SME portfolio in alignment with Decent Work Country Programmes and Sustainable Development Goals <b>(20(a)–(f)).</b>	(a) Design and implementation of ten additional CPOs (in line with national sustainable development goals) to help member States scale up SME policies. Particular emphasis should be given: to consolidating the EESE (at the expanded level of the previous biennium); to the scaling up of interventions to formalize SMEs; to the promotion of growth-oriented SMEs; to the greening of enterprises and value chains; to opportunities for SMEs in green goods and services; and to improving SME productivity and working conditions through programmes such as SCORE, which is entirely dependent on extra-budgetary resources.  (b) Additional mobilization of extra-budgetary resources.	(a) Ten additional member States report implementation of SME-support programmes (source: indicators 4.1 to 4.3 of the ILO results measurement framework; baseline: 48 member States) (12/2017).  (b) Increase in SME XBTC portfolio to \$100 million (\$84 million as of 15 August 2015).	(a) and (b) not yet started.

<sup>1</sup> Interventions include training and mentoring of women entrepreneurs in Kenya (additional resources were obtained from the ILO–World Bank joint research programme on job creation and shared prosperity), promotion of the horticulture value chain in Timor Leste, support provided to the soya bean value chain in Zambia, assistance given to youth cooperatives in Rwanda, support provided to small rice farmers in Cambodia, and support provided for the improvement of SME productivity and working conditions in Peru. <sup>2</sup> The projects are entitled “Soya bean value chain Zambia” and “Nepal challenge fund for social partners and non-governmental organizations (NGOs) on improving working conditions”.

## IV. Conclusions

10. The Office has made good overall progress in the first year of implementation of the SME action plan. The Office has performed particularly well in the promotion of knowledge generation (in order to produce more evidence regarding the effectiveness of SME interventions) and in the expansion of the EESE county-level work aimed at helping member States improve the enabling environment.
11. There is a risk that some items of the action plan remain underfunded. Additional efforts to mobilize internal and external resources can help lessen this risk.

### ***Draft decision***

12. *The Governing Body takes note of the progress report on the implementation of the SME action plan and requests that the Director-General to:*
  - (a) *continue to implement the action plan on how to follow up the 2015 SME conclusions, taking into account the guidance provided by the Governing Body;*
  - (b) *allocate the required resources, within the limits of resources available, so as to ensure continued success with the implementation of the action plan; and*
  - (c) *submit a second progress report to the Governing Body at its 331st Session (November 2017).*