

The role of small and medium enterprises and industrialization

Creating off-farm employment opportunities in the rural areas while increasing agricultural productivity is indispensable, but it cannot substitute for a long-term strategy to create jobs, especially in urban areas, by means of sustainable industrial and modern service sector development, including ICT and tourism. It is therefore important to ensure a balance between the needs of rural and other disadvantaged areas, where the majority of the poor live, and the need to ensure a sustainable urban industrial base. SMEs are central in this regard as they are a main source of economic growth and employment, while increasing competition and contributing to a more equitable distribution of income.

SMEs in a developing country context. In developing countries most SMEs operate on a very small scale, mostly in the informal economy, under poor working conditions and high job insecurity due to the absence of social protection. Decent work deficits in these mostly informally operating enterprises are particularly pervasive in terms of remuneration, security against income loss, social protection, rights at work and social dialogue. Value addition by small enterprises remains low, largely due to their inability to upgrade themselves in terms of business practices, technology and skills and thus benefit from market opportunities. Moreover, in most developing countries, the SME sector is affected by poor market access, scarcity of intermediate suppliers and fierce domestic competition. Also, there is a need for credit markets that function for entrepreneurs, even for the most disenfranchised.

- 1. How to create an environment conducive to SME development? How to simultaneously facilitate productivity growth and the creation of decent work?**
- 2. How best to overcome supply side constraints for SMEs? What types of new financial intermediaries could work for small firms?**

Overcoming constraining factors. Competitive challenges pose a particular difficulty for small enterprises if they are acting alone to access the market served by larger enterprises as well. Hence, when they benefit from linkages to larger enterprises in terms of accessing the market, resources, or technology, globalisation can present tremendous opportunities for small enterprises. Supply chain linkages can provide opportunities for accessing markets and benefiting from economies of scale. How best to assist SMEs to overcome their traditional weaknesses of isolation, and lack of economies of scale and scope? What kind of interventions and strategies (e.g. business clusters, cooperatives) could facilitate complementarities and promote synergies between small and large firms as well as among small firms?

- 3. How to ensure that SMEs benefit from supply chain and production linkages with larger enterprises? How to encourage the private sector, particularly the lead firms of global and national supply chains, to help their SME suppliers to upgrade in order to raise their value added content and to improve their level of quality and reliability?**

The urban informal economy. The urban informal economy often employs a greater share of the urban labour force in most developing countries, and in many countries, the majority of new employment – both self employment and wage employment – is generated in the informal economy. Levels of productivity and value added vary substantially through the spectrum of informal activities. Women are generally over-represented in the informal economy and disproportionately active in the lower end of micro enterprises with consequent low income due to pervasive discrimination in labour markets. While incomes remain low in the informal economy and there are glaring decent work deficits, the potential for entrepreneurship and innovation is only partially tapped.

- 4. How to raise productivity and improve the wages and working conditions of those informally employed.**
- 5. How to encourage the organisation and representation of informal workers, particularly women, so that their concerns can be effectively incorporated into municipal regulation towards micro-enterprises and street vending?**

Regulating the informal economy. The considerable growth of the informal economy in developing countries is closely associated with heavy or inefficient regulations that make it difficult for businesses to operate efficiently in the formal economy. However, in light of the large informal economy in many developing countries, particularly in Africa, serious considerations need to be given to developing necessary institutional capacities for regulating informal economies in order to extend the outreach of social protection and other benefits of decent work to all.

- 6. How to appropriately regulate the informal economy in the long-term in order to release the economic potential of the sector and strengthen its contribution to urban development while extending the outreach of social protection?**