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Micro, small and medium enterprises as drivers for job creation and decent work

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Abstract

This paper argues that in order to reduce poverty, what matters most is not only the creation of jobs, but the creation of *productive* jobs within micro, small and medium enterprises. The creation of productive jobs that lead to better wages and decent working conditions requires an understanding of the growth constraints among MSMEs and more importantly, an understanding of what drives productive growth in this size segment. To this end, we recommend a two-pronged approach, one that contains universal policy measures and another that comprises targeted policy measures. We conclude that for any job-creation and decent-work strategy to be successful, raising the productivity micro, small and medium enterprises must be at the centre of all policy efforts.

Introduction

The World Bank estimates that around 600 million additional jobs need to be created by 2020 in order to maintain employment levels at par with the growing population of lower and middle income countries (LMICs) (2013). This measure is simply to keep current employment and underemployment levels constant and is not sufficient to lift people out of poverty. According to the International Labour Organization (ILO), despite employment, almost 50% of all workers globally live below the 2 US\$ a day poverty line (International Labour Organisation [ILO] & International Monetary Fund [IMF], 2010).

Micro, small and medium enterprises (MSMEs) could provide the solution to the employment-poverty dilemma (De Kok, Deijl & Veldhuis-Van Essen, 2013; ILO, 2015). MSMEs in low and medium income economies make up the largest portion of private sector enterprises and provide the bulk of employment for the population (Ayyagari, Demirgüç-Kunt & Maksimovic, 2011, 2014; ILO, 2015; Maloney, 2004). Although majority of the micro and small enterprises are informal (note that medium-sized enterprises are also known to operate partly informally), they are responsible for most job creation in both low- and middle-income countries (Ayyagari et al., 2014; Jütting & De Laiglesia, 2009). Micro and small enterprises however are notorious for having low productivity. The employment they provide are low in productivity and they remunerate these jobs with low incomes and poor employment conditions. Thus, while MSEs are undoubtedly drivers of job creation in LMICs, they are not necessarily providers of decent work in these economies. Against this background, this paper will explicitly focus on micro and small enterprises in LMICs and will address the following two questions for policy makers and governments alike: *How do we create new jobs? And, how do we increase the quality of jobs that provide decent work?*

We begin with a few definitions. We define micro and small enterprises (MSEs) as formal and informal enterprises with up to 19 regular employees (De Kok et al., 2013; Kushnir, Mirmulstein, & Ramalho, 2010). This employment threshold is based on empirical evidence in LMICs that suggest that few MSEs manage to grow beyond 19 employees and operate into a more complex and systematically organised firm (Altenburg & Eckhardt, 2006; Liedholm, 2002; Mead & Liedholm, 1998). We use the World Bank's definition of jobs as "*activities that generate actual income, monetary or in kind, and do not violate fundamental rights and principles at work*" (WDR, 2013). There is no standard and universally recognised definition for decent work. Therefore we use the ILO's (2009) concept of decent work that refers to working conditions that are free from coercion, provides equity at work, provides security at work, contains dignity of work and permits decent working hours.

The paper is structured as follows: we begin by describing the most salient characteristics of micro and small enterprises, focusing on productivity and informality. This is followed by a discussion on the mechanism upon which MSEs create jobs. Thereafter we present findings on factors impacting the type of enterprise growth that leads to job creation and decent work. We end with policy recommendations.

Characteristics of micro and small enterprises

Productivity, including market

While micro and small enterprises are dispersed across a range of sectors and industries, the largest group of MSEs are engaged in petty trade and street hawking (about 27%). A significant number of MSEs operate in light-manufacturing sectors (16%) with the most common being textiles and apparel, food and beverages, and wood and forest products (World Bank 2013). In Sub Saharan Africa, these three groups comprise roughly 75% and 90% of manufacturing MSEs in urban and rural areas respectively (Mead and Liedholm,1998). Most small enterprises, mainly the informal ones, conduct activities in highly saturated markets that have low entry barriers, inefficient scales of operation and low labour productivity (Altenburg & Eckhardt, 2006; La Porta & Shleifer, 2008; Little, 1987). Instead of finding niche markets or complementing large firms, many MSEs tend to compete with various large-scale productions in mass markets (such as textiles and food) (Altenburg & Eckhardt, 2006).

Owner-operated micro enterprises tend to generate the lowest net returns and studies show that a small increase in size (by adding employment) is associated with significant increases in economic efficiency (Mead & Liedholm, 1998). According to Liedholm (2002) MSEs that employ a few more family members tend to show significant increases in economic returns. In fact, Page and Söderbom (2012) discover that labour productivity (measured as value added divided by employment) in medium-sized firms are double the levels of micro enterprises. MSEs often operate as family-run enterprises, meaning, they follow a socially-harmonising rather than a profit- and efficiency maximising logic. That being said, many MSEs tend to absorb family members as additional employees by providing them with employment even if there is no real work for them. MSEs would simply distribute the existing work (and income) over the total number of employees, resulting in decreased output and earnings per worker and thereby reducing the productivity of the firm (Hampel-Milagrosa et al., 2015; Mead & Liedholm, 1998). Majority of MSEs sell their products or services directly to the final consumer. Empirical evidence shows that over 96% and 87% of MSEs surveyed in Africa and Latin America respectively sold primarily to individuals and had very limited linkages to other firms (Liedholm and Mead, 1998). In case of petty trading and street hawking of course, little interaction with other businesses is required. Usually, it is the lack of quality standards

among MSEs that manufacture or provide services that prevent them from forging institutional arrangements with larger enterprises or traders. Even among MSEs in the manufacturing sector that are clustered geographically, few of the clusters were found to forge extensive inter-linkages between firms, with many researchers alluding this to low levels of trust (Knorringa, 1999; Loewe et al., 2013; Schmitz, 1995).

Informality, including employment and gender

MSEs can be formal (registered) or informal (unregistered), although evidence suggests that informal MSEs constitute the vast majority of enterprises in most low and middle income economies. Unfortunately, most of the large internationally comparative and even national-level surveys tend to exclude unregistered enterprises. This is the case for the World Bank's World Business Environment Survey (WBES) that focuses only on formal firms with more than 5 employees. We have very few reliable estimates on the employment share of the informal economy, in particular, informal micro and small enterprises although it is widely recognised that informal MSEs often outnumber formal MSMEs many times over. For example, in India, although 1.6 million MSMEs are registered, there are an estimated 26 million unregistered MSMEs, majority of which is in the micro or small-size category (Kushnir et al., 2010). Household data from 13 countries in Sub Saharan Africa suggests that only 9% of employment is generated by formal enterprises (Fox and Sohnesen (2012). In addition, the authors point to subsistence family farming (70%) and informal MSEs (15%) as the major drivers of employment creation (ibid.). Yet, although informal enterprises are responsible for the creation of a large number of jobs, informal sector workers tend to have little or no formal social protection. Hence, job quality within informal enterprises tends to be lower than in formal enterprises (Jütting & De Laiglesia, 2009).

MSEs, especially micro enterprises with less than 9 employees, comprise the majority of all enterprises and create the bulk of employment in LMICs (see also De Kok et al., 2013; World Bank, 2013). Using sampling from five African countries, Mead and Liedholm (1998) show that the number of people engaged in micro and small enterprises was twice the level of those employed in the formal large-scale and public sectors. They also show that most of these firms are one-person businesses, implying high rates of self-employment. Thus, as the vast majority of micro and small enterprises operate as one-person businesses, it follows that proprietors themselves make up the largest segment of 'workers'. Nevertheless, countless owner-operated MSEs also hire unpaid family members. The seminal study of Mead and Liedholm (1998) in Sub Saharan Africa (SSA) found that, including the proprietors, unpaid family members constitute up to 75% of the total labour force in MSEs. Hired workers constituted only around 20% of the MSE labour force (Mead & Liedholm, 1998) and only 10% of workers are apprentices (10%) (ibid.). Thus, as in the case of many SSA countries, most MSEs are in fact family enterprises. Similar evidence has come up in other LMICs (De Mel et al., 2008; Hampel-Milagrosa et al., 2015; Gindling & Newhouse, 2014; Reeg, 2013b).

In low and middle income economies, around 50% of the micro enterprises are owned and operated by women (Gomez, 2008; Mead & Liedholm, 1998). Micro-entrepreneurship among women is often part of a multi-livelihood strategy that involves several other activities such as additional (often informal) employment, for example as a household worker, or agricultural work, such as subsistence farming. Female-headed micro firms are often found in activities that can be operated from home, such as retail activities, sewing, food processing as well as repair services (Maloney, 2004). Because of the high degree of informality and often home-based operations, female entrepreneurship is often hidden and underreported in official statistics (International Labour Organization [ILO] & Women in Informal Employment:

Globalising and Organising [WIEGO], 2013). Most female self-employed are poor and highly risk-averse and are most likely to be necessity entrepreneurs. Compared to male-headed businesses, female-led businesses tend to have fewer workers and pay them less. Women prefer a business with stable returns and income to take care of their families, instead of investing in a high-risk enterprise that may potentially offer higher returns and better growth prospects. According to “Women in Informal Employment: Globalising and Organising” (WIEGO) an international network, the female self-employed are concentrated in high-poverty-risk, low-average earnings categories (ibid.).

Micro and small enterprises, job creation and decent work

Using the World Bank (2013) definition of job as "*activities that generate actual income, monetary or in kind, and do not violate fundamental rights and principles at work*" permits an over-encompassing inclusion of formal and informal activities of the self-employed and MSEs in an analysis of how MSEs drive job creation. However, note that the same definition comes short of perceptions of job quality. Against this background, there are two general ways upon which micro and small enterprises drive job creation:

- (1) Enterprise growth - job creation via the emergence of new jobs in existing MSEs
- (2) Enterprise creation - job creation via the creation of new MSEs

How MSEs grow and create jobs are impacted by the stage of economic development as well as the current state of the economy (Bartelsmann et al., 2004). In vibrant economies MSEs tend to grow and add additional workers to their businesses. In this case, in the MSE segment more jobs might be created from net firm expansion (enterprise growth) than from net firm creation (enterprise creation). When the economy is weak and could provide few opportunities for wage employment, an increase in the total number of MSEs entering the market could be observed. In this case there is massive strain on individuals to start their own businesses as ‘necessity’ enterprises, even if these yield only marginal returns.

In this context it follows that, not all jobs created by MSEs are productive, nor are they decent and contributing to poverty reduction. Increased work opportunities in less productive job sectors, such as necessity self-employment, may not be enough to alleviate poverty. Since employment in this segment is distinguished by low income and poor working conditions, a replication of similar job opportunities will simply lead to an increase of underemployment and even worse, exploitation. In the same way, an unprofitable enterprise that hires additional workers lowers its productivity, returns and investments for growth. Thus, it is not only important whether micro and small enterprises create new jobs, but also whether these jobs are secure enough to overcome economic shocks and whether they offer decent working conditions. In order to make MSEs drivers of productive job creation and decent working conditions three conditions have to be met with regard to: a) productivity growth; b) employment growth; and c) job quality

a) Productivity growth

In theory, jobs that are low in productivity tend to disappear if high-productivity jobs are created by innovative micro and small enterprises or new firm entrants. However, for many LMICs – and sometimes, even in high-income economies – it has been found that productive jobs never completely substitute jobs in low-productivity segments (Altenburg & Eckhardt, 2006; Chen, 2005; Jütting & Laiglesia, 2009; La Porta & Shleifer, 2008; McMillan & Rodrik, 2011).

MSEs need to become more productive and profitable in order to contribute to the expansion of high-productivity jobs. Research shows that the implementation of innovative activities among MSEs is highly associated with increased returns, increased productivity and increased competitiveness across high-, middle- and low-income economies (Dutz et al., 2011; Schumpeter, 1943, 1949; Szirmai et al., 2011). Innovative activities in LMICs refer to practices of a firm doing business differently in a manner that allows ‘innovation rents’ (or higher than-average returns) as compared to its competitors (Porter, 1998; Schumpeter, 1943, 1949). These innovative practices could come in various forms such as the introduction of new products, new production or marketing methods or entering into new markets (Dutz et al. 2011). For most developing economies, evidence suggests productivity growth among small firms is largely attributed to improved efficiency (World Bank, 2013; Acs, Desai & Hessels, 2008). This suggests that among high-potential MSEs, the introduction of new products, production methods, technologies and organisational renewal will be most prevalent (Dutz et al., 2011).

b) Employment growth

Although the relationship between innovation and productivity is clear, the relationship between productivity growth and employment growth is rather nebulous. Empirical evidence suggests that relationship between growth and employment fluctuates substantially across sectors across countries and over time. A given rate of enterprise growth will not automatically lead to a given level of employment growth. In fact, researchers have observed the phenomenon of 'jobless growth' in Latin America, Africa and India (Aryeetey & Baah-Boateng, 2007; Jemio & Del Carmen Choqu, 2006; Mehta, Shepherd, Bide, Shah, & Kumar, 2011). In theory, enterprise growth could lead to three employment scenarios: (1) expanding, (2) stagnating, or (3) decreasing employment .

(1) Enterprise growth and employment expansion: The best case scenario is when micro and small enterprises experience increases in productivity growth and employment growth simultaneously (Baily, Bartelsman, & Haltiwanger, 1996). Over the period 2001-2006, the World Development Report on Jobs (2013) finds that 25% of manufacturing plants in Chile are successful ‘upsizers’ (ibid.). Within a time span of 5 years, similar percentage shares were found in Romania and Ethiopia. Further, using the World Bank Enterprise Survey (WBES), Dutz et al., (2011) provide evidence that businesses that implement innovation in products or processes, or that have attained higher total factor productivity, exhibit higher job creation than non-innovative firms. They also found this effect to be most significant for MSMEs. In addition, in contrast to prevailing beliefs that innovative firms create employment only for the highly educated, qualified and privileged, Dutz et al. (2011) find that in several cases innovation-driven employment growth is significantly positively associated with the share of the firms’ unskilled workforce. Thus, innovation at the firm-level can, in fact, lead to inclusive enterprise growth.

(2) Enterprise growth and stagnating or (3) decreasing employment: The most commonly held notion is that productivity increases of the firm goes concurrently with a reduction of employees or a unwillingness of firms to hire additional workers (Bartelsman et al., 2004; Tybout, 1996). Thus, the implementation of innovative activities may result increased earnings and sales but not employment. This is the case if a firm produces the same level of output with fewer inputs (firm contraction), or more output with the same inputs (firm stagnation). Labour-saving displacement effects such as these are most probably driven by process innovations and increased efficiency. Against this background, while the immediate

effect of enterprise growth is employment contraction, over time, cost reductions within the firm could lead to increased demand. This will encourage firms to generate more output for which they might need additional workers. Such dynamics could have a compensating effect, and eventually lead to firm expansion. Liedholm (2002) argued that while labour-saving effects might prevail in the short-term, with a lag after a sizeable growth in real sales, compensation effects will prevail in the medium- and long term.

A world of caution with regard to MSEs as drivers of job creation: regardless of the nature of the shift in jobs, it is almost unavoidable that job creation in some firms results in job destruction in others. Even if an MSE's implementation of innovative activities does generate employment, this may crowd-out its competitors. Simply put, the innovative firm conquers market shares at the expense of other MSEs which may have to reduce their workers, pay lower wages or shut down completely. The net effect on national levels of employment may still be positive, but that should not be taken for granted. In addition, even if the quality of employment improves while the net effect on the quantity of employment is negative, it is difficult to pronounce whether the overall change is desirable for the economy or not. For example, where job creation and quality improvements in working conditions are to the benefit of the already privileged, educated and better qualified, MSE growth is therefore less inclusive, particularly for the poor. For policymakers it is important to keep in mind that, so far, there is no reliable means by which one could anticipate the indirect effects that the growth and expansion of a particular MSE might have on its environment.

c) Job quality

Another fundamental component is the quality of jobs generated by micro and small enterprises. Following the ILO (2009) definition of productive employment, a productive job has to offer sufficient earnings to allow the self-employed, workers and their dependents a level of consumption above the poverty line of 2 US\$ a day. Hence the first important component of a quality job is a sufficient and secure level of income. In 2013 the ILO estimated that about 27% of total employment or around 839 million workers worldwide lived on 2 US\$ a day or less (ILO, 2014a). Moreover, 48% of the global population work under vulnerable employment conditions, meaning, they are self-employed or work as contributing family workers with low and unreliable income (ibid.; ILO, 2009). Job quality is further defined by its working conditions. The ILO's 'decent work' concept refers to working conditions that are absent of coercion (no slavery, no child labour), with equity (equity of conditions and opportunities for all workers), with security (health, pensions, security against job loss), with dignity, and with decent working hours, measured at less than 48 hours per week (Szirmai, Gebreyesus, Guadagno, & Verspagen, 2013). It is widely acknowledged that these additional non-wage qualifiers for decent work are necessary, although in practice, most of these basic rights even remain unrecognised. The ILO for example, estimates that in 2013 only 27% of those formally employed have access to social security systems while the rest is only partially covered or not at all (ILO, 2014b).

With regard to the 'income' and 'working condition' aspects of job quality, MSE owners and workers tend to be underprivileged. Even job quality offered within the formal MSE segment is usually lower than those found in formal medium- and large-sized enterprises (Ayyagari et al., 2014). In contrast to large firms that show higher productivity growth and offer high-quality jobs, MSEs tend to be less productive and therefore tend to provide less quality jobs with lower incomes and less job security. Goedhuys (2002) point to an example where employees work very long hours (up to 55 hours per week) and yet receive payments at a piece rate rather than in weeks or months. Moreover, although formal and informal MSEs hire

more workers, these workers tend to have fewer skills and less experience. This in turn leads to low productivity and justifies the wage gap between smaller and larger enterprises (ILO, 2014c). MSE owner's and worker's rights including their social security are more restricted than in larger firms. This could be partially attributed to the informality among MSEs. For example, work unions are usually absent or exists only at a very low levels in MSEs (ILO, 2004). Also, informal MSE owners and workers have weak or no access to benefits such as unemployment insurance, sick leave, education, and health insurance (Goedhuys, 2002).

Determinants of enterprise growth, employment growth and job quality

There are two large categories of factors that impact the growth of micro and small enterprises in such a way that this growth is translated into additional productive employment, an increase in workers' wages or an improvement in their working conditions. These two categories could be loosely grouped into:

- (1) internal factors - namely those originating in entrepreneur and enterprise characteristics
- (2) external factors - namely those originating in networks and the business environment.

Among internal factors that impact enterprise growth are human capital (including high levels of education, training and exposure to lead firms), psychological traits (growth motivation, risk taking ability, need for achievement, self confidence and optimism), age of firm, location (urban - rural), enterprise sector and industry (trading, manufacturing and service sectors), the conduct of research and development including active market research, and provision of education and training for the work force. Informality was not found to be a hindrance to growth, but rather, firms decide to register when the benefits start to outweigh the consequences for firm growth. Among external factors that impact enterprise growth are personal networks (for example, those that could provide credit and some form of social protection), professional networks (such as membership in organisations, especially being in clusters or being linked to global value chains), macroeconomic policies (including inflation rate) and political stability, favourable business environment (including a fair competitive environment), rule of law, physical infrastructure, availability of financial services, business development services and availability of skilled labour.

A more thorough discussion of these factors could be found in Reeg (2015) and Hampel-Milagrosa et. al, (2015).

Literature suggest that that there is no singular factor, but rather a combination of factors (internal *and* external) that drive enterprise growth and job creation (Hampel-Milagrosa et al, 2015). Depending on the national and local context, some factors may clearly be more relevant than others. Studies have shown common success factors that are characteristic of MSEs that manage to grow, increase employment and provide decent working conditions (see for example, Loewe et al 2013 for Egypt; Reeg, 2013b for India; Hampel-Milagrosa, 2014 for Philippines). Such enterprises that managed to upgrade, create jobs and/or improve job quality were found to share the following common attributes:

- 1) *Operated by privileged, risk-taking male entrepreneurs*: Micro small enterprises that successfully grew in size are frequently operated by male-proprietors who have higher human capital in terms of education, training and work experience. They are found to be highly motivated, more daring and more willing to take risks and are also more likely to have acquired (some) personal wealth before starting up and expanding their business. Though

gender is not a success factor in itself, studies show that female in specific cultures is interlinked with various of disadvantages that hinder firm growth.

2) *Operating in thriving industries*: The sector and industry in which a firm operates considerably influences its potential to expand and increase workers. Micro and small enterprises tend to add more employees if they operate in thriving industries in which demand for services and products is growing.

3) *Investing in research & development (R&D), market research and on their workers*: Enterprises that managed to grow and add more workers invested in R&D, market research including human resource development (HRD) on its workers.

4) *Formalising / registering at a later stage*: Entrepreneurs who started unregistered firms to pursue their feasible business ideas commonly choose not to formalise in the beginning. However, once perceived advantages of formalisation begin to outweigh the costs, (for example, increased access to finance or the necessity of formal contracts with buyers) unregistered micro and small enterprises tend to formalise.

5) *Embedded in affluent networks*: Both productive personal and professional networks that offer all around support to entrepreneurs are characteristic of growing micro and small enterprises. Financial resources from the family help out proprietors during economic shocks, while business linkages with lead firms (in clusters or global value chains) provide micro and small enterprises with access to finance, information and markets. Particularly, business linkages between MSEs and successful medium-sized firms have shown to offer several benefits (information, finance, market access).

To summarize, empirical evidence suggest that only a very few set of well-positioned, highly endowed, privileged entrepreneurs manage to grow their firms and provide decent work. This however, does not mean that poor entrepreneurs are not able to grow their firms; but rather, they have severely limited access to significant factors, resources and networks that would have allowed them to overcome constraints to growth.

Policy recommendations

This paper argues that while micro and small enterprises play an crucial role in job creation and the provision of decent work, across-the-board growth promotion policies might not be the best way to support them since only a select few could actually manage to grow. However, it also doesn't mean that policy measures should only focus on those entrepreneurs / enterprises who are well on the way towards enterprise growth. On the contrary, policies should not solely target high-growth micro and small enterprises because of running the risk of further fueling structural inequalities in society. Structural inequalities borne out of the uneven distribution of financial, human and social capital are fundamental barriers that inhibit productivity gains amongst the total pool of MSEs

In order to drive productivity growth, job creation and decent work amongst **all** micro and small enterprises, policy makers are well advised to address both structural and enterprise-specific growth constraints when developing inclusive, job-creating and job quality-improving MSE approaches. Of course, policies are dependent on sector-specific and country specific contexts, and should be formulated accordingly. The two-pronged approach that this paper recommends entails:

I. Universalist policy measures: In order to increase the total pool of productive start-ups and existing MSEs, governments are advised to adopt universalist policy measures that intend to overcome structural growth constraints and create an environment where equal opportunities among all MSEs prevail. This involves: providing quality education and training, easing access to credit, improving market information access, improving access to quality infrastructure and designing a level playing field in business and labour regulations.

II. Targeted policy measures: Tailored policies could provide a cost-effective way of reducing particular barriers to segments of micro and small enterprises. However, the following three observations must also be considered:

1) *Policy interventions are most successful if combined with others and integrated into a broader MSE promotion strategy:* Combined policy interventions that simultaneously address several growth constraints could have a potentially increased developmental impact on MSEs. Moreover, to minimize potential (negative) tradeoffs, specific MSE policies are proven to be most successful if embedded within a broader universalist MSE promotion strategy.

2) *The implementation of interventions targeted at high-growth MSEs, needs to be precise, performance-based, transparent and issue-focused to prevent potentially adverse secondary effects:* Targeting growth oriented MSEs means allocating public money on promoting the expansion of an already privileged group of proprietors that would have grown sooner or later anyways. It is thereby critical to create independent guidelines that permit governments to identify intervention beneficiaries based on objective firm performance criteria.

3) *Only few targeted MSE policy interventions are aimed at employment creation or the job quality of workers:* Policy support should primarily facilitate productivity gains in MSEs, in order to create decent working conditions. Incentives for the enhancement of decent working conditions in MSEs need to be introduced as accompanying measures, for example, through the gradual phasing-in of wage-incentives, labour laws, and raising awareness of the importance of HRD. Evidence suggests that the best long-term employment-promotion policy for MSEs is the promotion of productivity growth.

Following a review of characteristics of MSEs, this paper forwards some sector specific recommendations below. A more thorough discussion of these sector-specific recommendations could be found in please Reeg (2015) and Hampel-Milagrosa et. al. (2015).

(1) *Access to physical infrastructure:* Policymakers should focus on providing basic infrastructure to all, including those less affluent locations where the large groups of MSEs operate – mostly in traditional, commercial urban centres and rural areas as well as residential areas of the poor.

(2) *Business regulations, labour laws and law enforcement:* If the advantages of becoming and remaining formal are to considerably increase for all MSEs, step-wise fundamental reforms in the business regulatory environment such as those involving labour regulations and law enforcement are crucial.

(3) *Access to finance:* Evidence suggests that access to finance, including financial literacy, is only going to improve MSE business performance and job creation and decent work if governments simultaneously improve both demand-side *and* supply-side conditions (see Hampel-Milagrosa et al., 2015, World Bank, 2008).

(4) *Markets, information and technology*: Business Development Services is only effective if the services could provide industry-specific information on current market developments / technologies including possibilities for strategic / financial cooperation with lead firms, associations, research institutes, trade agents or successful medium-sized enterprises. BDS should incorporate a fee-based approach to capture MSEs recipients' ownership. BDS measures should be integrated into a medium-to-long-term industrial development strategy (see also Altenburg & Stamm, 2004).

(5) *Access to skilled and trained labour*: Policymakers can first adopt private-sector incentives for higher wages, for instance, wage subsidies, and job-training measures amongst MSEs; second, introduce human resource development (HRD) awareness-raising campaigns and training; and third, adopt a national and regional training and skill-development framework, including technical vocational education and training (TVET) measures, and sectorally targeted human capital initiatives.

(6) *Access of MSE owners to education and training*: Governments are advised to upgrade the general quality of basic national education systems and to integrate entrepreneurial competences into the curricula of schools and training institutions. Modern curricula should encourage creativity, reflective and analytical thinking as well as explorative curiosity among young learners. Business competitions / start-up centres or business incubators including internships should be offered by higher educational institutions to support entrepreneurial projects of under- and postgraduate students. Finally, if trainings are aimed to growing MSEs, it is advised to allow private industry organisations to conduct such trainings because they are more sensitive to the current needs of the private sector.

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