

Let's work on the demand side: SMEs can create jobs

Policies and challenges in times of crisis

Job Creation and Enterprise Development Department

1 INTRODUCTION

1. This document describes why small and medium-sized enterprises¹ (SMEs), including cooperatives² are particularly vulnerable in the current financial and economic crisis. It also examines those responses to the crisis which are most likely to have an impact on SMEs and their workers. Finally - and most importantly - it reviews key policy issues that should be considered when designing strategies to maximize the benefits to SMEs and their workers, and ILO support that can be provided to constituents.

2 WHY ARE SMEs VULNERABLE TO FINANCIAL AND ECONOMIC CRISES?

2. SMEs are at the heart of economic activity and development. There is evidence about their contribution to employment. In the OECD, for example, over 95 per cent of enterprises are classified as SME and account for 60-70 per cent of the working population. In many low-income countries the official statistics tend to show a slightly different picture. This may be attributed to the bulk of entrepreneurial activity that is made up of informal activities, which in turn are not adequately captured by official statistics. However, the informal economy is an equally important source of employment and has a significant effect on national economic output³.
3. While the small scale combined with close owner-management organizational structures allows SMEs to respond to external changes faster than large enterprises, they are also among the most vulnerable groups in face of the current financial and economic crisis. Their dynamism and greater flexibility often goes hand in hand with weaker financial and management structures which makes them particularly vulnerable in cases of market downturns. SMEs are often disadvantaged due to their shallow financial structure, and limited access to local, national and international financial services. Furthermore, SMEs often suffer

¹ Definitions of enterprise size vary quite significantly, so what could be classified as a medium sized enterprise in one country might be classified as a micro-enterprise in another. For the purpose of this note, we refer to the definition of OECD which refers to those small and medium-sized enterprises (SMEs) that are non-subsiary, independent firms which employ less than 250 employees.

² It is estimated that about 90% of cooperatives worldwide are SMEs.

³ Though, in general, productivity of SMEs in the informal economy tends to be lower than that of the formal economy

from the asymmetric distribution of businesses information such as available financial services, government procurement, training and market opportunities.

4. The absence of financial resources and their limited access to business services and technology in time of crisis frequently reduce the SMEs potential to innovate. Reductions in aggregate demand and risk aversion in time of crisis contribute to a fall in formal and informal capital making it impossible for firms to develop new products, services or to deploy new production or marketing strategies.
5. Another important feature of SMEs is their position in subcontracting and global and national value chains. Many SMEs tend to be deeply embedded in complex networks of firms and often rely on only one or a few key customers or suppliers. Their high level of dependency on other economic players and their limited capacity to access new markets also weaken their position in face of the crisis.
6. Greater flexibility can also be associated with a lower level of security for workers. There is evidence that jobs in small enterprises are less remunerated and less secure than jobs in larger enterprises. Thus the rate of job loss is likely to be higher among SMEs than among large enterprises when there is a credit squeeze and fall in demand for their products.

3 HOW DO WE EXPLAIN THE VARIATION OF IMPACT ACROSS COUNTRIES AND INDUSTRIES?

7. The effects of the crisis on SMEs and their workers are very uneven, and vary greatly between and within countries, and even different types of enterprises. The underlying transmission mechanism of the crisis to SMEs is twofold. Firstly, SMEs are affected if they have difficulties in accessing credit and other financial services. Credit plays an important role in financing investments and in some cases is indispensable in meeting operating costs. Secondly, SMEs will be affected if they experience a shortfall in demand for their goods and services. The latter includes both the fall in aggregate demand and the decrease in activity of global supply chains.
8. Thus the different degree to which the SMEs and their workers are affected by the crisis as it moves to the real economy largely on:
 - the SMEs' reliance on financial services from banks and other sources;
 - the extent to which SMEs are integrated with the global markets;
 - commodity prices and their impact on rural and agro-industrial supply chains; and
 - SMEs' ability to take advantage of new opportunities.

3.1 SMEs reliance on financial services

9. The current financial crisis has led to a dramatic contraction in credit. This has resulted in increased delays of payments that have been spread throughout supply chains. SMEs are particularly vulnerable to shortfalls in payments since they frequently do not have large cash reserves. If the delay in payments is accompanied by a squeeze in short term credit they become increasingly vulnerable to payment defaults.
10. Generally, larger enterprises and corporation have easier access to credit through equity or other debt-related mechanisms. However, financing SMEs is more difficult due to higher transaction costs and risks. The negative impact of the financial crisis tends to be higher if the SME sector is dependent on external financing. In contrast, sectors which obtain relatively less external financing experience lower risk. In addition, SMEs may also experience a high degree of late payments or defaults that can push otherwise sound SMEs into bankruptcy.
11. One of the major sources of innovation and productivity is a dynamic SME segment. Longer-term policies that promote venture capital endeavours and angel investor networks are an essential component of innovative financial instruments to strengthen and develop small enterprises and quality employment in them. However, the gravity of the financial crisis has severely reduced the reach of venture capital.
12. In many developing countries, remittances provide an alternative means to finance investment and therefore play an important role in the funding of SMEs. Migrant workers are highly vulnerable to economic downturns and this tends to be reflected in foreign transfers to emigrating countries. There is, thus, a significant decline in the inflow of foreign remittances which is likely to have a negative impact on SMEs in such countries.

3.2 SMEs and their integration with the global markets

13. The impact on SMEs will also depend on the extent to which the local economy, in which they operate, has been affected by the crisis. This in turn will depend on the level of the country's geographic isolation and connectivity with the global markets. Those enterprises in economies that are more integrated with the global economy are likely to be more adversely affected. Furthermore, those firms providing low-end products and services which are more demand-inelastic may fare better than those that cater to high-end consumer products and services⁴.
14. SMEs that are embedded in the global supply chains reliant on one or few key customers in most affected sectors are likely to be severely impacted when the larger companies, for which the SMEs are suppliers, undertake production reductions. This can for example be well

illustrated in the automotive sector in India and in the wood furniture sector in Indonesia. In both these sectors there is a noticeable downturn in SME production and employment with a corresponding decline in economic and social welfare.

3.3 Commodity prices and their impact on rural and agro-industrial supply chains

15. Large segments of the population and numerous SMEs in developing economies deal in agricultural or primary products and, as such, tend to be closely involved in international supply chains. Enterprises in these sectors are particularly vulnerable to rapid changes, and this limits their planning horizons thus increasing financial risks – which are already large because of their inherent activity.
16. The variability of prices is cause for particular difficulties for SMEs both in the rural sector and in agricultural related supply chains. Return migration might worsen the conditions of work for populations in these areas by increasing labour supply in times of great employment precariousness.

3.4 SMEs ability to take advantage of new opportunities

17. The economic crisis may also open the way for new business opportunities that SMEs can take advantage of as for instance, when larger enterprises restructure their operations through outsourcing, and as broader economic stimulus packages provide new or expanded opportunities (e.g. infrastructure stimulus packages).
18. However, the negative impact can also be considered as a driver for positive change and can help the SMEs become more mature, efficient, and dynamic. Decreasing margins may push many SMEs to better utilize existing resources. For instance, there will be a need to implement new technologies in a more efficient manner to differentiate them and to improve production and service delivery processes. This in turn will improve their competitiveness. However, in the short-term they may need assistance to survive the crisis. The challenge is to ensure that support is directed to those sectors and enterprises that are likely to be sustainable in the long-term.

⁴ Follow-up to the World Summit for Social Development and the twenty-fourth special session of the General Assembly: emerging issues : “The current global crisis and their impact on social development”

4 POLICY RESPONSES TO CUSHION THE NEGATIVE IMPACT ON SMEs AND THEIR WORKERS

19. Broadly, there are six types of national policy responses to the crisis, which are most likely to have an impact on SMEs and their workers, namely:

1. Policies to improve market liquidity and improve the access of SMEs to finance
2. Policies to ensure that SMEs fully participate in public expenditure programmes;
3. Policies to promote the adoption of sustainable and responsible enterprise-level practices;
4. Policies to strengthen an environment conducive to the growth and strengthening of SMEs;
5. Policies to support local economic revitalization in communities severely affected by the crisis; and
6. Policies to protect and support displaced workers through self-employment promotion programmes

20. Times of crisis pose challenges to policy makers and the social partners. They also offer opportunities. In this document there is an attempt to provide some ideas about way of facing the economic downturn and way of developing positive practices to improve the situation of SMEs and the quality of employment they offer. The following sections provide a discussion on each of these policy responses and identify their relevance to SMEs. It also proposes some key questions that policy makers should ask when designing policy responses to ensure that the benefits to SMEs and their workers are maximized. Finally, the support that the ILO can provide to its constituents is highlighted.

4.1 Policies to improve market liquidity and improve the access of SMEs to finance

21. The financial crisis and subsequent credit squeeze resulted in unprecedented measures aimed at restoring liquidity and repairing the financial system. This will, eventually, help SMEs. However, specific measures must be adopted to help small firms.⁵ While it is true that many SMEs in developing economies do not obtain their working capital from traditional financial

⁵ No measure to help SMEs can be implemented without dealing first with the larger financial system. It is essential to ensure the greatest transparency possible in financial institutions to bolster trust across the system. There is thus a great urgency to revise national regulatory systems and, probably, strengthen and adequate existing capital reserve and risk provisions. Furthermore, consideration should be given to longer term measures that restore the stability of the financial system and make it more inclusive. For instance, dealing with bad loan provisions, accounting rules on assets, leveraging and determining the real value of "toxic" assets is essential in regaining financial stability.

sources, there are very clear connections between all sources of funds: a fall of credit availability in the “modern” banking system does have effects on other funding sources.

22. “A well-functioning financial system provides the lubricant for a growing and dynamic private sector. Making it easier for SMEs, including cooperatives and start-ups, to access financing, for example, credit, leasing, venture capital funds or similar or new types of instruments, creates appropriate conditions for a more inclusive process of enterprise development. Financial institutions, particularly multilateral and international ones, should be encouraged to include decent work in their lending practices.”⁶
23. In this context, special provisions are required to restore the financial health of SMEs. This could be achieved by ensuring that credit flows are restored and that SMEs have adequate access to such resources. While some efforts must be deployed to target those SMEs with severe cash flow constraints, it is also critical to increase the financial flow across supply chains. Without access to credit, SMEs may be unable to fill existing orders or pay suppliers. Periods of crisis could provide an opportunity to explore the viability of creating credit institutions to channel resources to SMEs or providing incentives so that the banking system extend special credit lines to SMEs.
24. It is also important to reduce barriers to SME financing. Among the financial instruments that have been adopted to confront the crisis, credit guarantee mechanisms appear to be one of the main responses used so far. The main reason for government-backed credit guarantees is that while cash injections to banks may help alleviate the overall credit crunch, lending to SMEs may not improve unless policies are directed specifically towards their needs. Furthermore, policy measures such as lower interest rates, credit lines and direct access to government loans can be considered to restore liquidity. The possibility of establishing inter-bank guarantee systems (in many countries part of the cooperative banking systems) should also be considered.
25. Some key SME related questions that policy makers should ask, include:
 - Are there sufficient policy and regulatory incentives to encourage financial institutions to lend to SMEs?
 - Are there financial instruments (venture capital) to develop innovative enterprises?
 - Are the financial products adapted to the needs of SMEs?
 - Is there support targeted to SMEs such as advisory services and programmes to assist them in preparing bankable loan proposals?

⁶ Conclusions concerning the promotion of sustainable enterprises, International Labour Conference, June 2007

- Is the information about financial services well disseminated to SMEs?
- Is there support for adequate financing of cooperatives?
- To what extent are SMEs affected by the instability of the financial system and how could this be taken into consideration when repairing the (financial) system?

Box 1: SME financing: How the ILO can support its constituents

The ILO has range of resources and provides policy advise to (a) up-grade and modernize the institutional infrastructure for SME finance and (b) in the design of financial products, like micro-leasing, micro-equity, mutual guarantee systems etc.

In this context risk-sharing mechanisms play a key role: they are essential to bringing banks closer to small and medium enterprises. In the absence of risk-sharing mechanisms a lender will not get any reliable information about the creditworthiness of a client, unless there is a minimum institutional infrastructure like property rights, accessible contract law, collateral and bankruptcy laws, credit bureaux and registries to document ownership status.

Some key ILO resources include:

- Making microfinance work - Managing for improved performance
- Leasing for Small and Micro Enterprises, A guide for designing and managing leasing schemes in developing countries
- Making Insurance Work for Microfinance Institutions, A technical guide to developing and delivering micro-insurance
- Microfinance in conflict-affected communities, A training manual
- Guarantee Funds for Small Enterprises: A manual for guarantee fund managers,

4.2 Policies to ensure that SMEs fully participate in public expenditure programmes

26. While the financial market policies are providing important support, many governments are finding it necessary to stimulate aggregate demand. This can, basically, take two forms. Mechanisms should be adopted to ensure that SMEs fully participate in public expenditure programmes. In addition, public authorities and social partners can develop strategies to improve both the performance of firms and their access markets:

- ❑ *Access of SMEs to resources provided by stimuli packages:* As the financial crisis spreads into the “real” economy, countries are experiencing a decline in both domestic and foreign demand for goods and products provided by SMEs, particularly those embedded in global value chains. National measures should comprise policies to stimulate demand, particularly for those products and services provided by SMEs. This can be achieved by decentralising stimulus expenditures and packaging public procurement in small bids so that SMEs can participate in the tendering process. The decentralisation of infrastructure expenditures can also promote the growth of SMEs.
- ❑ *Creation of services for SMEs:* Paradoxically, the crisis provides opportunities for local SMEs. Indeed, the dramatic fall in trade ⁷ provides openings for SMEs by allowing them to recapture local markets. This requires access to information, credit, business development services and explicit local level strategies to promote entrepreneurial activity to enter such markets competitively. Such services can also help promote new firms in

⁷ as evidenced by the Baltic Dry Index, which measures the cost of shipping raw materials

the business and personal service sectors. Public action can also promote collaborative practices amongst either self-employed individuals or SMEs. It is thus possible to develop aggregator firms, business development services or cooperatives that can provide marketing, managerial counselling, access to information technology and other similar business related services.

27. Some key SME related questions that policy makers should ask include:

- Will the stimulus package increase demand for goods and services provided by SMEs?
- Are there any mechanisms to let budding entrepreneurs identify potential business prospects?
- Are SMEs eligible to tender to public contracts and are the bureaucratic obstacles they face minimised?
- Are there training programmes and support for local SMEs to ensure that they are able to tender and deliver to public contracts?
- Are there incentives to support SMEs to participate in public procurement?
- SMEs have limited capacity to look actively for information, which in turn inhibit their participation in these markets. Does the information regarding public contracts reach the SMEs?

Box 2: Supporting SMEs to access new market opportunities: How the ILO can support its constituents

The ILO has a global network of SME support institutions, licensed master trainers and trainers in 90 countries that can provide support to aspiring, existing and growth-oriented entrepreneurs. The existing management training programmes "Improve Your Business" and "Expand Your Business" will be modified to enable entrepreneurs to consider strategies for adjusting to the changing demand and to seek to benefit from opportunities that the stimulus packages will provide, for example as sub-contractors in the infrastructure sector, which is often targeted by stimulation policies. This delivery network can also be mobilized to meet the demand for increased productivity and restructuring measures among SMEs.

Public-private partnerships between MSEs and local authorities, eg in the areas of waste collection or water distribution, is a strategy for creating access to market hitherto beyond the reach of small entrepreneurs. The ILO's training programme "Local employment and the informal economy" can be used to stimulate targeted public procurement that will benefit small-scale enterprises.

4.3 Policies to strengthen an environment conducive to SMEs growth

28. Policies to strengthen an environment conducive to SMEs are now more important than ever before. They are essential in helping the enterprises to sustain their competitiveness and in contributing to their growth and the protection and creation of Decent Work as defined in the ILC Resolution on the Promotion of Sustainable Enterprises. A better business environment for sustainable enterprises largely focuses on macro and meso-level interventions. Improvements at these levels enhance the performance of other kinds of interventions, including for example, programmes that improve opportunities within global value chains, efforts to make markets work more favourably for the poor, the promotion of socially responsible enterprise practices, local and regional economic development initiatives, and financial services

Box 3: Promoting an enabling environment for sustainable enterprises: How the ILO can support its constituents

The ILO's particular advantage stems from its understanding of the role of institutions in promoting economic growth and decent and productive employment. This includes an understanding of the

dynamics that exclude certain groups from full participation in reform processes – be it in society, in the labour market or the broader economy. Such resources include:

- Training resources – e.g. the training curriculum prepared with the International Training Centre (ITC) in Turin, Italy, entitled Creating an Enabling Environment for Small Enterprise Development, this is currently being updated and revised, and is used both for Turin-based course and for customised training and capacity building at the country level
- Assessment tools – e.g. the guide on Assessing the Influence of the Business Environment on Small Enterprise Employment and the diagnostic tool currently being prepared to assess the 17 conditions for an environment conducive to the promotion of sustainable enterprises; in addition, assessment tools for assessing the influence of the business environment on women's entrepreneurship have been produced.
- Guidelines – e.g. the Guidelines for Cooperative Legislation, Small Enterprise Development: An Introduction to the Policy Challenge, A Guide to Recommendation 189, Promoting Co-operatives A guide to ILO Recommendation 193, and Participatory Cooperative Policy Making: A Manual, the Donor Committee for Enterprise Development's Supporting Business Environment Reforms – practical guidance for development agencies

4.4 Policies to promote the adoption of sustainable and responsible enterprise-level practices

29. While - at an individual level - enterprises might need to respond to a crisis by shedding jobs and cutting investments to reduce costs and restructure their businesses, at an aggregate level such practices will have a negative impact on the outcome of the crisis. Costs cutting strategies that focus on downsizing may erode morale and trust among employees and damage a company's potential for growth and renewal. It is therefore useful to explore whether there are other alternative responses to difficulties in times of economic distress.

30. In most enterprises, there is potential for cost-savings beyond labour costs. Among the frequently mentioned sources are travel costs, publicity, and improvements in the purchasing processes. Zero-based budgeting can be applied as a financial planning technique to realize the potential for further savings. Active participation of workers can achieve both gains in productivity and significant savings. Social dialogue plays a crucial role here. A well-tuned HRD policy can be adopted if it is still necessary to reduce personnel costs. Elements of such a strategy include:

- Recruiting and training a diverse workforce;
- Providing continuous training and development, and promoting a culture of life-long learning;
- Setting up a forward-looking work organization that increases employability by adopting, for example, flexible work assignments, flat hierarchies, team work and job rotation;
- Promotion the application of alternatives to layoffs such as flexible working time arrangements such as part-time and annualised hours accounts that level employment during periods of high and low demand.

31. Some key SME related questions that policy makers should ask include:

- Is there information, training and other support available to SMEs owners and workers' representatives on how to adopt sustainable and responsible practices restructure in a most efficient way from both economic and social points of view?

- Do the workers in the SMEs have the same level of protection in case of restructuring as the workers in larger enterprises?
- Do the larger companies have enough policy and regulatory incentives to help their supply chains' SMEs avoid downsizing?

Box 4: Promoting the adoption of sustainable and responsible enterprise-level practices: How the ILO can support its constituents

The ILO SCORE programme (Sustaining Competitive and Responsible Enterprises) **builds on the enterprise level principles for sustainable enterprises and supports national organizations to build local capacity for responsible enterprise upgrading so the enterprises can survive and even grow during this crisis and produce more and better jobs**

The ILO also supports constituents to promote socially sensitive enterprise restructuring (SSER). The main programme products are:

- Handbooks and guides on SSER
- Tripartite training modules on SSER
- Toolkit for enterprise managers and owners on SSER
- Books and working papers, written mainly for the practitioners

These products allow the ILO to:

- Inform policy dialogue on enabling environment for SSER;
- Advise the ILO constituents on policy-level and enterprise-level tools that could be used to minimize social costs of restructuring;
- Maintain a database of good practices that could be used in the process of sectoral or enterprise restructuring

4.5 Policies to support local economic revitalization in communities severely affected by the crisis

32. As highlighted previously, the effects of the crisis on SMEs and their workers are very uneven, and vary greatly between and within countries. Within a country, the impact will depend on complex array of local factors. For example, communities with large export orientated industries will need to need to absorb growing number of unemployed, whereas rural areas affected by falling commodity prices or lower remittances will need to develop alternative livelihood strategies for farmers and their families, but also, in some countries, for the swelling ranks of returning migrants.
33. Typically, national economic crisis response programmes include a component targeting communities severely affected by the crisis. The effectiveness of these strategies inevitably depends of the capacity of sub-national levels of governments and other stakeholder to effectively implement of agreed measures.
34. Some key questions related to that policy makers concerned with local economic revitalization should ask include:
- Do sub-national levels of government have the necessary institutions and resources to design and implement local economic revitalization programmes?
 - Do national authorities have strategies to build such institutions and capacities?

- ❑ Do the national and sub-national governments provide incentives and support for enterprises to continue to operate in communities severely affected by the crisis – noting that it is always easier to retain a business than recruit a new one?
- ❑ Do the national and sub-national governments provide incentives and support for enterprises to continue to establish themselves in communities severely affected by the crisis?
- ❑ Do sub-national levels of government and other stakeholders have the tools to identify and take advantage of the local comparative advantages of their communities?
- ❑ Are there skills training and enterprise development programmes available to local people to take advantage these enterprise and employment opportunities?
- ❑ Is current infrastructure adequate to deliver goods and services produced by the locality?

Box 5: Promoting local economic revitalization: How the ILO can support its constituents

The ILO has a range of policy guidance materials and training programmes addressing the economic development potential of localities through enterprise development strategies. These are being adapted to meet the specific needs of localities and communities wanting to undertake revitalization initiatives. These resource include:

- Capacity building for better data collection and analysis of the local business environment and the employment impact through enterprise down sizing and closures
- Support to mitigation: cushioning the impact on the most vulnerable communities by local targeting of rescue packages and up-scaling or developing operational community empowerment programmes to reach the most affected enterprises
- Support adaptation: devise market diversification strategies for local enterprises, detect and exploit new comparative advantages, rebuild competitiveness and attract investment, identify new opportunities such as green jobs, encourage more local productive capacity, develop community service enterprises, support the development of labour cooperatives, etc.

4.6 Policies to protect and support displaced workers through self-employment promotion programmes

35. As noted above, the impact of the crisis can result in enterprise and industry restructuring. Social dialogue between management and trade unions can achieve an orderly restructuring that can minimise the disruptive effects of the crisis.
36. As the crisis deepens, job losses can grow with the concomitant raise of survival-based self-employment. This creates two sets of challenges and opportunities for policy makers. The first challenge is to develop strategies to raise the productivity of the self-employed to limit the losses of decent jobs and ensure that they remain in the formal economy. Indeed, massive rises in long-term unemployment and greater labour market “informalization” – exacerbated by return migrants and large-scale reverse migration from urban to rural areas – are very difficult to reverse. If these trends take root, the negative effects of the crisis will be long-lasting, thus yielding significant social hardship and depriving the economy of valuable resources.
37. Measures must be scaled to respond to the depth of the crisis. Unfortunately, SME owners and workers often do not have adequate channels of representation for voicing their concerns and aspirations, and for influencing policy decisions. Thus the issue for policy makers is to ensure

that appropriate institutional arrangements are in place and properly resourced to organise the self-employed and limit the degradation of their conditions of work..

38. The second challenge is to provide these workers with social protection and access to associative forms of enterprises. The investment in social capital – including social enterprises, aggregator firms, cooperatives and other similar organisations - can address both issues. Indeed, collaborative firms can both provide personal and business services to its members and to other economic actors. This could lead to the construction of competitive modern and agile firms that can then compete and provide new income sources to the population.
39. A number of policies and legislations incite cooperatives to set aside parts of their positive result for social security coverage of their members and/or employees. It is also possible to develop collaborative endeavours where self employed persons organise in cooperative enterprises to obtain inputs or credits, market goods or services, develop innovative production, marketing or distribution schemes and, in general, achieve greater economic efficiency through collaboration.
40. Some key micro-enterprise related questions that policy makers should ask include:
- Do the new micro-entrepreneurs have access to business skill training?
 - Do the new micro-entrepreneurs have access to physical facilities to run their business facilities (markets, workplaces, etc?)
 - Are there institutions or agents equipped to develop social enterprises, aggregator firms, cooperatives and other similar organisations?
 - Is it relatively easy for the new micro-entrepreneurs to start as a formal enterprise?
 - One stop business registration centre
 - Low registration fees
 - Integrated clear benefits to registration processes i.e. Business information, Access to micro-finance
 - Do the new micro entrepreneurs have access to start-up micro-credit?
 - Do new micro entrepreneurs know about the different types of SME ownership modes and the costs and benefits of forming cooperatives?
 - Are there targeted business development and financial services available for working poor, and other vulnerable groups?

Box 6: Promoting cooperatives : How the ILO can support its constituents

Collaboration among individual and/or enterprises is essential in times of crisis in order to create synergies and be competitive and in order to have a voice. A tested and specific form of collaboration is cooperatives. Based on a longstanding experience, the Office can assist constituents in ensuring that cooperatives can address some of the issues identified in this paper, for example:

- Advise on the formation of worker cooperatives by unemployed;
- Provide information on the benefits of forming shared services cooperatives by individuals and/or SMEs and advise on how to form them, including policy and legislation advice on how to remove existing barriers;
- Diminish dependency of SMEs on other business actors: furnish information on the benefits of building own value chains by establishing horizontal and vertical cooperative structures (unions

and federations) and advise on how to form them, including policy and legislation advice on how to remove existing barriers;

- Provide for a more solid insurance and credit system (alongside the commercial and the public): Advise on how to lift barriers to the access to financial services (insurance and banking) provided by cooperatives, without disregarding the need for prudential mechanisms
- Create confidence in the cooperative banking and or savings and credit system: Advise on how to lift barriers to establishing inter-cooperative guarantee mechanisms;

Box 7: Supporting self-employment programmes: How the ILO can support its constituents

The ILO has extensive and widely recognized experiences and approaches in promoting entrepreneurship for self-employment. These approaches include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services.

The ILO supports the development of intermediary service deliverers, but also through interventions designed to improve the way markets work. Over the years, the ILO has developed considerable expertise, and tools such as and experience in two main areas of Business Development Services:

- Know About Business
- Generate Your Business Idea
- Start Your Business
- Women's Entrepreneurship Development and Gender Equality (WEDGE)
- Integrated youth entrepreneurship programmes
- Managing small business associations

5 CONCLUSION

41. In most countries, SMEs (including cooperatives) are responsible for most existing and new jobs as well as a substantial portion of GDP. Unfortunately many of their characteristics make them vulnerable to the negative impacts arising from the current financial and economic crisis.
42. The impact on SMEs and their workers arises from two major results of the crisis, namely:
 - Increased difficulties in SMEs accessing credit and financial services
 - Reduced demand for goods and services provided by SMEs linked both to falls in aggregate demand and to decreased activity of global supply chains
43. As a result of these factors, there is already been an observed increase in SME closures and bankruptcy, with a corresponding increase in employment insecurity, downward pressure on wages, and job losses. This trend is likely to increase as the crisis deepens.
44. The distribution of these negative impacts is very uneven, and varies greatly between and countries and within countries. Regions and territories that are reliant on a few key industry sectors that are deeply embedded in global supply chains (e.g. automotive, natural resources, etc.) are likely to be severely impacted.
45. The challenge for policy makers is to design and implement measure that protect entrepreneurs and workers in existing SMEs and support the new firms, by strengthening their capacity to compete and take advantage of the new economic opportunities, including those provided by expansionary public policies stimulus packages.

46. The policy responses that are highlighted in this document are well known to policy makers and enterprise development practitioners. The crisis can be seen as an opportunity to introduce new mechanisms to promote sustainable enterprises.
47. The ILO is ready to provide diagnostic services and best practice advice to support its constituents in the development of specific policies that help mitigate the social and economic consequences of the current crisis through the development of SMEs.

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