

SUSTAINABLE ENTERPRISES

All arms of policy need to be directed to the goal of achieving a healthy private sector to rebuild economic losses and restore employment. Now more than ever, steps need to be taken to create the right regulatory environment for sustainable enterprises, including measures to reduce excessive administrative costs and red tape, stimulate entrepreneurship, and provide access to lending facilities.

1. CREDIT FOR ENTERPRISES

The key challenge for policy makers is to avoid situations whereby viable enterprises have to cut back their current operations for lack of financing.

POLICY RECOMMENDATIONS & CONSIDERATIONS

- ▶ Lower interest rates, credit lines and direct access to government loans should be considered to restore liquidity. The possibility of establishing inter-bank guarantee systems (in many countries part of the cooperative banking systems) could also be explored.
- ▶ Examine cutting fees for lenders and borrowers so that credit is more affordable (in particular for entrepreneurs in need of start-up capital).
- ▶ Consider government guarantees on new credit to save enterprises from having to trim back current operations due to lack of financing.
- ▶ Avoid financial nationalism in attempts to protect domestic credit lines by discouraging cross-border lending.

This policy brief is part of a series which the IOE has developed to assist Employers' Organisations (EOs) in their policy discussions with governments and other stakeholders on crisis recovery measures and strategies and additionally to help EOs in the provision of guidance to their own members. The policy briefs are based on the employer input into the Global Jobs Pact (GJP) which was developed during the 2009 International Labour Conference as a global and collective crisis response by ILO constituents. The Pact is fully supported by employers. The IOE has prepared a specific Guide to the GJP for its members. This Guide, along with the Pact itself and other information relevant to crisis recovery plans is available on the "Global Jobs Crisis" response section of the IOE website.

- ▶ Give particular attention to finance for SMEs. Some key questions that policy makers should ask to increase liquidity particularly for small enterprises 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 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?*
 - *Is the information about financial services well disseminated to SMEs?*
- ▶ Increase where necessary in some low income countries, measures aimed at increasing the productivity of small-scale informal and self-employment activities such as targeted micro-credit schemes. Micro-finance institutions (MFIs) have proven resilient in previous economic downturns.

2. LOWER TAX AND OTHER COSTS ON BUSINESS

POLICY RECOMMENDATIONS & CONSIDERATIONS

- ▶ Temporarily postpone or reform certain taxes, in particular payroll taxes which are more of a burden to labour-intensive industries than to capital intensive industries. These taxes bear no relationship to profitability or capacity to pay (social contributions and payroll taxes add an average of around 18% to the cost of employing minimum-wage workers).
- ▶ Temporarily reduce employer unemployment insurance contributions and other non-wage labour costs. Provide 'top-ups' or relief to employers on additional labour costs to employers.
- ▶ Explore changes to disposable earnings via changes in the tax and benefit system. Reduce the tax wedge (of lower wage earners in particular).
- ▶ Put in place tax deductions for SMEs to invest in equipment and facilities as this can have immediate multiplier effects and also help prepare for the upturn.
- ▶ Exempt SMEs from inheritance and gift taxes in cases where a business is passed on to a succeeding owner.

3. HELP EMPLOYERS KEEP PEOPLE IN WORK

POLICY RECOMMENDATIONS & CONSIDERATIONS

- ▶ Provide targeted incentives and wage top-ups to employers to help them retain skilled employees or those in skills training.
- ▶ Provide funding to assist enterprises increase worker training.
- ▶ Offer incentives to employers who hire workers that have been unemployed for more than six months.
- ▶ Reduce where necessary the number of working hours (with lost wages being partially compensated by unemployment insurance benefits).
- ▶ Promote greater flexibility in the regulation of hours to allow employers and employees to pursue creative mechanisms to retain staff.

4. EASE THE REGULATORY BURDEN ON ENTERPRISES

The downturn provides a unique opportunity for governments to assess whether their regulatory environments are facilitating enterprise creation and development, employment generation and economic growth.

POLICY RECOMMENDATIONS & CONSIDERATIONS

- ▶ Simplify and speed up administrative procedures for the creation of new enterprises and eliminate unnecessary red tape and bureaucracy.
- ▶ Actively examine reductions in administrative, taxation, labour and other compliance costs so as to encourage enterprise start-up.
- ▶ Limit the cost of enterprise failure so as to encourage entrepreneurship i.e. Bankruptcy laws can be made less punitive to entrepreneurs in certain countries.
- ▶ Reform anti-competitive regulations in product markets. Obstacles to businesses entering new markets should be reduced to stimulate the creation of new products and businesses and boost demand.

- ▶ Put in place, where they do not exist, active and regular regulatory reviews with the full participation of the business community.

5. PROMOTE ENTREPRENEURSHIP & SMEs

The needs of SMEs should be a policy priority. Their dynamism and greater flexibility often goes hand in hand with weaker financial and management structures which makes them particularly vulnerable in the current downturn. An additional feature of SMEs is that they can be deeply embedded in complex networks of enterprises 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.

POLICY RECOMMENDATIONS & CONSIDERATIONS

- ▶ Target government procurement to young and smaller firms.
- ▶ Ensure the rapid payment of invoices to SMEs by government clients.
- ▶ Package 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.
- ▶ Ensure SMEs are eligible to tender for public contracts and that bureaucratic obstacles are minimised. Provide training programmes and support for local SMEs to ensure that they are able to tender and deliver such public contracts.
- ▶ The dramatic fall in trade 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 enterprises in the business and personal service sectors.
- ▶ As labour markets deteriorate, many workers, including highly skilled workers, will become unemployed. Starting a new business can be an attractive solution. Well-designed government support can play a decisive role in alleviating capital shortages for new small firms.

6. PROMOTE INNOVATION AND “JOB RICH INVESTMENT”

Particularly valuable to employment creation are enterprises which provide innovative, high-quality services and products that have important knock-on effects on suppliers and buyers and thereby expand the job-creation process, generate higher value, adding dynamism to an economy and, through their own efficiency, help to reduce costs for other businesses. Investment in such enterprises is needed now to stimulate their expansion. Evidence suggests that the downturn has begun to undercut innovation in the private sector, threatening long-term economic and social goals. This is in part because investment in innovation is essentially pro-cyclical, financed mainly from cash flows.

- ▶ Preserve market competition and avoid protectionist measures that undermine efficiency and innovation.
- ▶ Promote policy measures that seek to mitigate the negative impact of the financial crisis on the level and orientation of innovation activities.
- ▶ Maintain research and development (R&D) employment to prevent brain drain and interim unemployment of skilled R&D personnel.
- ▶ Strengthen public investment in R&D (e.g. through tax credits, promoting investment in R&D in association with public procurement).
- ▶ Provide particular support to “Innovation-oriented” entrepreneurs as this type of activity is usually highly pro-cyclical. It is a key pillar in ensuring future growth.
- ▶ Enterprises need to focus not only on survival but also on the next upturn, adopting measures that will serve as the basis for success.

POLICY RECOMMENDATIONS & CONSIDERATIONS

- ▶ Respond to customers' shifting demands by introducing trials of new products, or poaching clients from struggling rivals. New opportunities arise because downturns often change consumer preferences; people experiment with lower-cost products or modes of consumption not pursued seriously during more prosperous times.
- ▶ Use the downturn to improve work practices and hone existing processes to reduce costs in the short term and increase efficiency going forward.
- ▶ Enterprises that invest in a downturn can build a valuable lead relative to rivals who do not. Such investments can cut costs and confer a lead relative to rivals. All of these can position an enterprise to create value once the economy rebounds.
- ▶ Facilitate and support business dynamics and the resulting process of structural change, such as creative destruction, which is a key element in long-term efficiency in market economies.

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