



Poverty reduction through small enterprises

Emerging consensus, unresolved issues and ILO activities

by

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Foreword

Two years ago, the ILO's Small Enterprise Development Programme (SEED) initiated a process of internal discussion and review, assisted by outside experts, on the important issue of poverty reduction. This paper is a product of that process. Both the paper and the process complement the larger initiative taken by the ILO to make the fight against poverty a central element of its agenda. Through the Director-General's Report, *Working Out of Poverty*, and the many initiatives guided by that report, the ILO has joined with its partners in taking up the challenge posed by the most important of the Millennium Development Goals, reducing by half the incidence of world poverty by 2015.

The paper explores the interesting connections between our work on developing the small enterprise economy and the task of poverty reduction. Those of us working on small enterprise development have long recognized the existence of these connections. This paper – and the consultations necessary for its preparation – have helped us to probe the connections more deeply. The paper also outlines the international initiatives of the past half-decade which have raised the profile of poverty as the prime issue of economic development and social justice. The increasing importance given to how private sector development can support poverty reduction is also discussed.

In addition, the paper highlights the difficulties of assessing the impact of enterprise development not just on the enterprises themselves, but on poor workers, entrepreneurs and their families. It is an issue into which the ILO and the international community need to channel more energy. In the fifth chapter, the paper outlines a strategy that SEED might adopt – after further consultation and revision – to focus its programme on poverty.

The paper has been prepared by Paul Vandenberg after consulting with our specialists within SEED, with other professionals within the ILO and with Enterprise Specialists in the field. The paper provides part of the foundation on which we will double our efforts to support poverty reduction worldwide.

Martin Clemensson
Director a.i.
The ILO's Small Enterprise Development Programme

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Executive summary

There is increasing recognition that private sector development has an important role to play in poverty reduction. The private sector, including small enterprises, creates and sustains the jobs necessary for poor people to work and earn the income needed to purchase goods and services.

A consensus is emerging in the area of small enterprise development (SED) about what is needed to support the creation and expansion of enterprises. Key areas include: a policy, regulatory and legal environment that is simple, fast, inexpensive and free from corruption; finance that is accessible at low cost and does not require the poor to provide physical collateral; access to affordable business development services; workers who are trained in appropriate skills; basic health and education that strengthens human capital; a culture that supports and rewards entrepreneurship; access to domestic and global markets on a fair and equal basis with large enterprises; and reliable infrastructure (transport, energy, telecommunications, etc.).

At the same time, a number of critical concerns remain. First, it is unclear how to move the small enterprise economy from one dominated by micro and small enterprises (MSEs) to one dominated by small and medium enterprises (SMEs). It is important to fill in the missing middle so that more of the jobs created are based on adequate incomes and good working conditions. Second, there is still insufficient effort being made to accurately measure the impact of SED activities on poverty reduction. This is critical for knowing what works and what does not and thus for developing good practice. Thirdly, there remains the critical question of the extent to which SED activities should involve funded intervention and to what extent they should be commercially self-sustaining.

Due to the Millennium Development Goals and the initiation of the PRSP process, there is considerable political support for poverty reduction at the international level. Since the publication of *Working Out of Poverty* in mid-2003, poverty reduction has become a major objective of the ILO. This issue is setting the programming direction at the highest levels of the organization and is one of ten elements in the Global Employment Agenda. Poverty is also a key issue for technical units, such as the Job Creation and Enterprise Development Department, which has responsibility for small enterprises. *Working Out of Poverty* has set out seven technical areas where the ILO's work can contribute to poverty reduction: vocational training, entrepreneurship, micro-finance, cooperatives, reducing discrimination, working to end child labour, ensuring income and basic social security and work safety. All of these areas are relevant for SED.

The international community has established a broad definition of poverty which includes material and service deprivation (food, shelter, basic services, etc.) as well as issues related to voice, representation and power. At the same time, it uses more narrow income measures, as set out in the MDGs, which defines poverty as the condition of struggling to live on \$1 per day or less. The ILO does not have a specific definition of poverty. However, there are close similarities between the broad definition and the elements of decent work (rights, productive employment, social protection and social dialogue). Because the broad definition is, in fact, rather broad, any activities which support improved conditions, rights and representation of workers can be classified as poverty reducing.

Small enterprise development contributes to poverty reduction when it creates employment either through the start up of new enterprises or the expansion of existing ones. Job creation provides income to the poor. Poverty, following the broad definition, is also reduced when the conditions of work and representation are improved. There are five types of poor people who can benefit from SED: i) the poor owners of micro and small

enterprises; ii) the working poor who are employed in small enterprises; iii) the dependents of such poor workers and owners; iv) the unemployed who may obtain employment from small enterprises, and v) poor people who purchase goods and services from small enterprises.

The ILO's Small Enterprise Development Programme needs to develop much stronger impact assessment capacity if it wishes to determine whether its activities actually contribute to a reduction of poverty. Its recent efforts in this direction are laudable. The ILO's impact assessment at the overall level is also weak and needs to be improved if the organization is to know whether its new poverty initiatives will be effective or not.

There are a range of approaches to SED that can be poverty reducing and in which ILO/SEED is currently engaged. These include: reform of the policy, legal and regulatory environment to make it easier for enterprises to set-up, grow and create employment; the building of representative small-business associations (SBAs) which can advocate for members and provide growth-enhancing services; the creation of private-public partnerships (PPP) which simultaneously create employment and improve pro-poor services (such as waste and sanitation); improvements in job quality that increase productivity, thereby increasing income and wages; better market access; the development of rights and services for the informal economy; facilitating business development services such as management training; and the promotion of women's entrepreneurship and gender equality. The lack of effective impact assessment for many of these activities makes it difficult to determine the extent to which poverty has been reduced among target groups. It is clear, however, that in most cases the target groups are comprised of poor people (narrow definition) and that the activities are likely to benefit them. In other cases, target groups are disadvantaged within their societies but are not struggling to survive on \$1 per day.

SEED's programme should work more closely with ILO units responsible for micro-finance, vocational training and cooperatives. Some efforts have begun in these areas, including looking at effective means to combine micro-finance and management training. More work is also needed on supporting the increased use of machinery to improve the productivity of small enterprises.

The ILO is supporting the participation of workers' and employers' organizations in the development of poverty reduction strategy papers (PRSPs) in about 16 countries. SEED has begun to develop a work programme to ensure that micro and small enterprise and the informal economy are key aspects of PRSPs and the resulting implementation activities.

A major unresolved issue is whether SEED's programme should focus more specifically on supporting job quality/decent work as a means to raising productivity and contributing to reducing the broad condition of poverty, or whether it should continue to focus on general private sector development, among small enterprises, with a view to employment creation. While SEED may be engaged in many innovative activities, it is unclear whether these, taken together, constitute a unified ILO-based strategy to SED. It is also unclear whether such a strategy is preferable to a programme of diverse activities, many of which contribute to poverty reduction in their own way.

1. The nature of poverty and the Millennium Agenda

Central to the problem of poverty is the availability of work. Work allows people to produce for themselves (i.e. food) and earn the money needed to buy goods and services. It is also from work that wealth is created which, through taxation, allows governments to fund pro-poor services such as health care, clean water and education. Work, more specifically decent work, is not easily created, however. It develops out of a complex and balanced system of economic, social and political activity. Work is central to poverty reduction but ‘working out of poverty’ provides only general guidance on how to achieve that ultimate goal.

For many poor people, work means being the owner of, or an employee in, a micro or small enterprise. The poor often work alone, as the owner, manager and sole employee of their enterprise, or they involve their family members, casual labourers and permanent workers. In many cases, poor people opt for such work because they have little choice – either adequate paid employment is not available or the work they do on the family farm is not adequate to satisfy household needs. They attempt to work out of poverty by working for themselves. Small enterprise development (SED) is about creating an environment so that owners and workers can work smarter, work safer and work more productively. In doing so, they can reduce their poverty. This is the challenge of poverty reduction through small enterprise development.

1.1 An emerging consensus

There is an emerging consensus on poverty reduction and small enterprises that is comprised of two central elements. The first is that much of the population in poor countries operates or works for micro and small enterprises (MSE) and that even in richer countries, a substantial portion of the population is employed in small and medium enterprises (SMEs). In poor countries, MSEs are where the poor are working – either out of choice or out of necessity.

The second element of the consensus is that the general functional areas of how to support private sector development in general, and SED in particular, are being established. These have been set out in a recent report of the UNDP’s Commission on the Private Sector and Development, *Unleashing Entrepreneurship*, and in a number of similar documents.¹ The general areas include: a policy, regulatory and legal environment that is simple, fast, inexpensive and free from corruption; finance that is accessible at low cost and does not require the poor to provide physical collateral; access to affordable business development services; workers who are trained in appropriate skills; basic health and education that strengthens human capital; a culture that supports and rewards entrepreneurship; access to domestic and global markets on a fair and equal basis with large enterprises; and solid infrastructure (transport, energy, telecommunications, etc.).

The emerging consensus is reassuring and generally helpful in developing pro-poor SED strategies. There is, however, much that remains untested, unexplored and

¹ See, for example, ‘Promoting SMEs for development (OECD, 2004), ‘Making markets work for the poor’ (SIDA, 2003), ‘Accelerating pro-poor growth through private sector development: An analytical framework’ (OECD, 2004 draft), ‘Making globalisation work for the poor’ (DFID 2000), ‘Making business service markets work for the poor in rural areas’ (DFID/R. Hitchins et al., 2004).

unquestioned in this consensus. There are three major concerns. First, while MSEs are important for employment in poor countries, we have not yet fully grasped the long-term process by which a MSE sector that provides low incomes and poor working conditions is transformed into a vibrant SME sector that provides stable employment, a good income and decent, productive working conditions. This is the process in which the first ‘M’ of MSEs (micro-enterprises) is dropped for the second ‘M’ of SMEs (medium-sized enterprises). The missing middle in the production structure of many developing countries has been identified but much needs to be done to understand it can be developed. Second, the impact of SED activities on poverty reduction is not proven. Most often, it is assumed. Our understanding is growing but it is still not clear how to assess impact and even those techniques that are known are often not used. This is a critical problem for donors, NGOs, governments and international agencies – including the ILO – in terms of knowing how best to invest their time and money in the area of SED. And third, the appropriate balance between freeing up markets and commercially driven processes, on the one hand, and support and intervention from non-private actors is still not known. For example, have the high levels of growth and poverty reduction in East Asia resulted from free markets or the judicious intervention and governing of markets by policymakers. The implementation of strategies for pro-poor SED policies and programmes is still in its infancy. A great has been learnt but the learning process has only begun.

1.2 Purpose and organization of the paper

The purpose of this paper is to review and contribute to our understanding of SED. It does so, first, by setting out the growing political will at the international level – and within the ILO – to focus on the poor and to see SED and private sector development as key methods for alleviating poverty. This is followed, in Chapter 2, by an effort to define poverty, both in a narrow (income) and a broader (services, representation) manner and to show how the broader definition is fully congruent with the four pillars of decent work. At the same time, the small enterprise sector is ‘decomposed’ into its components groups of poor owners, workers, dependents, potential workers and consumers to highlight how they are affected by SED. Chapter 3 then reviews the issue of impact assessment and sets out some of the current approaches and problems. Chapter 4 reviews the various approaches to SED (policy and regulation, association building, private-public partnerships, etc.). This review is not comprehensive but it does highlight the variety of approaches available. It is specifically informed by the project activities of SEED’s programme.² Chapter 5 considers poverty reduction strategy papers (PRSPs) in the content of ILO involvement and SED issues. Chapter 6 provides a concluding look at the elements necessary for the ILO to develop a more focused, pro-poor SED strategy.

1.3 International setting and the MDGs

The focus of the international community on poverty reduction has been gaining momentum since the early 1990s. The World Summit for Social Development in Copenhagen (1995) and the subsequent Millennium Summit in New York (2000) provided considerable political will for the reduction of global poverty. Unlike many summits – that produce lofty but vague statements – these summits established eight Millennium Development Goals, or MDGs (Chart 1), with specific, quantifiable targets and a timetable for overall achievement. The first goal is the eradication of extreme poverty and

² SEED’s full programme name is the ‘Small Enterprise Development Programme’ and is part of the Job Creation and Enterprise Development Department, which, in turn, is part of the Employment Sector.

hunger. The goal has two associated targets: reducing by half the proportion of people living in extreme poverty, defined as \$1 per day,³ and reducing by half the proportion of people who suffer from hunger. The target period is 1990 to 2015.

The halfway point between the Copenhagen Summit and the deadline for achieving the goals is 2005. This is an important year in which the UN and the wider international community are reviewing progress and charting the course for the final decade. The UNDP Millennium Project, headed by Jeffrey Sachs, has already been active with the establishment of eight task forces on individual MDGs. These task forces have prepared reports and the overall summary report, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* was released in early 2004. The ILO has participated in three of the task forces, those dealing with poverty, gender and slum dwellers.

Regarding poverty, the most recent assessment is that the world as a whole will meet the target but certain regions, and many countries, will not. As shown in Table 1.1, large reductions in poverty have occurred and are likely to continue in East Asia. This region and South Asia are likely to meet the target, although some countries within these regions may not. Because many of the world's poor were living in Asia in 1990, steady progress there will contribute to the achievement of the global target. Conversely, Latin America has made little progress to date. The major region of concern, however, is sub-Saharan Africa, where the number of poor has risen from 227 million in 1990 to 314 million in 2001, and is expected to rise further in the next decade (Table 1.1). UNCTAD (2003, p. 15) has recently underlined the 'growing consensus' that Africa will not meet its poverty reduction target. Because the goals are set in terms of proportions of the population, the absolute number of poor people may rise while percentages remain stable.⁴ The proportion of the population in Africa living on \$1 per day is likely to decline slightly over the 25-year period, even as the absolute number of poor people increases.

The MDG targets have focused the work of governments, NGOs, international agencies and researchers on the question of poverty. As a result, a greater effort is being made to understand the nature of poverty and to develop and test approaches for its reduction.

³ When available, national poverty indicators may also be used.

⁴ This can occur when the overall population is rising.

Table 1.1: People living on \$1 per day or less (1990, 2001, 2015)

	Percentage of people living on \$1/day or less (per cent)				
	1990	2001	Projected 2015	Required in 2015 to meet MDG	Will it meet MDG?
East Asia and Pacific	29.6	15.6	2.3	14.8	Y
Europe and Central Asia	0.5	3.7	1.3	.07	N
Latin America and Caribbean	11.3	9.5	7.6	5.7	N
Middle East and North Africa	2.3	2.4	1.2	1.2	Y
South Asia	41.3	31.1	16.4	20.7	Y
Sub-Saharan Africa	44.6	46.5	42.3	22.3	N

	Number of people living on \$1/day or less (millions)		
East Asia and Pacific (exc. China)	95	72	7*
China	377	212	73
Europe and Central Asia	2	18	7
Latin America and Caribbean	49	50	47
Middle East and North Africa	6	7	8
South Asia	462	428	264
Sub-Saharan Africa	227	314	404
Total	1,219	1,101	809

* Figures in this column were provided on the website in 2003, but not in 2004.

Source: World Bank (2004), www.developmentgoals.org

1.4 ILO's perspective on poverty

As an organization dedicated to the condition of labour, the ILO takes a particularly employment-oriented approach to poverty. The Director-General's report to the 2003 International Labour Conference, *Working Out of Poverty*, focused the attention of tripartite constituents on the issue of poverty. The title of the report summarises the organization's perspective; it is through work – more and better jobs, including the income derived from work – that people can escape from poverty. The report also highlighted three additional themes: that the poor do not cause poverty; that poverty is expensive because it hinders growth and fuels instability; and that the poor are often the ultimate entrepreneurs because they need to innovate to survive. The report outlined eight ILO activities that contribute to poverty reduction: vocational training, entrepreneurship development, micro-finance, cooperatives, reducing discrimination, working to end child labour, ensuring income and basic social security, and work safety.

The Director General's report focused considerable attention on small enterprise development. His report noted that poor people need to be entrepreneurial to raise the income needed to survive. Furthermore, all eight of the ILO's poverty reducing activities are related to micro and small enterprises, either principally or more peripherally.

Since the presentation of the report, the ILO has increased its focus on the issue of poverty. For example, the report was the basis for ILO support to the Extraordinary Session of the Assembly of the African Union on Employment and Poverty Reduction, in

Ouagadougou (September 2004). The ILO assisted by organizing 13 national consultations in the region on poverty and employment, using *Working Out of Poverty* as a frame of reference. The reports from the national consultations were synthesized and presented at the ILO's regional meeting in Addis Ababa (late 2003) and at a subsequent meeting of the AU. The Extraordinary Session in Burkina Faso was attended by heads of state and government who approved a Plan of Action. The Plan included, among other elements, a call to 'enhancing employment, especially of vulnerable groups, through legislation and the promotion of labour intensive projects, SMEs and micro-enterprises' (AU, 2004, p. 6).

Many of these themes were similarly voiced in *A Fair Globalisation*, the report of the World Commission on the Social Dimension of Globalisation (ILO, 2004a). The commission, which was established by the ILO, suggested how national governments, the private sector and local communities could respond to the challenges of globalisation. The report noted the need to upgrade the skills and technological capabilities of domestic firms and to provide technical support to improve the competitiveness of 'micro-enterprises and poor women entrepreneurs' (ILO, 2004a, p. 60).

'Poverty' and 'entrepreneurship' are also two of the ten elements that make up the Global Employment Agenda. The GEA was approved by the ILO's Governing Body in March 2003 as a means of supporting the ILO's overriding objective of decent work. These two elements were the subjects of detailed papers and discussions at the Governing Body in March 2004.⁵ The two themes are closely linked, for entrepreneurship is seen as an important means to reduce poverty. As noted in the paper on entrepreneurship:

Entrepreneurs make investments and employ workers who contribute to the success of the business. Thriving enterprises also contribute to job creation, providing employment, skills and valuable experience for a large number of young people entering the labour market for the first time. Through appropriate wage and tax policies, they can also contribute to a more equitable distribution of wealth among the working population (see footnote).

In addition, that paper made an effort to define, for the first time, a positive entrepreneurship which is an approach to private innovation and risk-taking that adheres to the principles of decent work and thus produces outcomes that are not only profitable for the entrepreneur but also beneficial for workers and society.

The overriding theme of poverty reduction is an integral part of ILO workplans for the coming years. The Strategic Policy Framework (2006-09) sets out three interlinked priorities for the ILO over the medium term. Along with promoting the decent work agenda and a fair globalisation, the framework also includes 'productive employment for women and men as the main route out of poverty'.⁶ The Job Creation and Enterprise Development Department, which includes SEED, is also focusing its activities on poverty reduction. Its '2004-05 Strategic and Operational Framework'⁷ lists five elements, one of which is 'poverty reduction programmes and informal economy upgrading'. Chapter 4 of this paper outlines many of the specific approaches that SEED has taken in its efforts to contribute to poverty reduction. SEED is also an active member of the Poverty, Employment and Empowerment Task Team, which groups together units in the ILO's

⁵ 'Productive employment for poverty reduction and development' (GB.289/ESP/2) and 'Promoting decent employment through entrepreneurship'(GB.289/ESP/1), Committee on Employment and Social Policy.

⁶ 'Strategic Policy Framework 2006-09: Making decent work a global goal', Programme, Financial and Administrative Committee, Governing Body, Geneva, Nov. 2004 (GB.291/PFA/9).

⁷ Internal document.

Employment Sector that: work at the local level, aim at reducing poverty through job creation, and involve social organizations, not just individuals, in their activities.

The ILO has made poverty reduction an important part of its agenda for the next few years. In this way, it is playing its unique part in the international effort to help countries achieve the first and one of the most important of the Millennium Development Goals.

1.5 Poverty reduction strategy papers (PRSPs)

As a tripartite organization, the ILO's approach to poverty reduction strategy paper is to work with employers' and workers' representative organizations. The general approach is to support or empower the social partners, incorporate employment and other aspects of decent work in the PRSP and influence other development partners to embrace these concerns. The approach is based on these six main objectives:

- Country driven: initiative should rest with ILO field offices;
- Results oriented: through the application of *Working Out of Poverty*;
- Comprehensive: involve all dimensions of decent work;
- Partnership oriented: coordinated participation of constituents;
- Based on a long-term perspective: no short-term solutions; and
- Prioritized: feasible for ILO capacities and those of constituents.

In consultation with the World Bank and the IMF, the ILO initially concentrated on five countries for an "especially focused effort to demonstrate the effective role of the Decent Work Agenda" in poverty reduction (ILO, 2002a).⁸ Five more countries were subsequently added⁹ and by the end of 2004 the ILO was involved, to a greater or lesser extent, in the PRSP process in about 16 countries. SEED and Enterprise Specialists have been active in many of these countries at the project, programme and policy levels. Activities are normally designed with a view to supporting the implementation of the PRSP and providing ideas to constituents on how to assist poor people engaged in the small enterprise economy.

While the PRSPs mention small enterprises, they usually contain very little in terms of a developed strategy. Instead, there is commonly a much stronger section on private sector development. This stems, in part, from the fact that the World Bank Source Book on PRSPs, which guides governments and other participants, is fairly thin on small enterprises. However, many PRSPs often contain a more developed section on the informal economy. SEED is currently undertaking an audit of PRSPs for the 16 countries in which the ILO has some involvement, focusing on the manner and the extent to which issues related to small enterprise and the informal economy have – or have not – been included.¹⁰

⁸ Cambodia, Honduras, Nepal, Tanzania and Mali.

⁹ Indonesia, Viet Nam, Pakistan, Ethiopia and Ghana.

¹⁰ The suggestion was originally made by the Policy Integration Department, which coordinates the ILO's PRSP programme in Geneva. Other organizations have done PRSP audits on other issues. For example, a gender audit of the 13 PRSPs completed in 2002 was conducted by Gender Action (an NGO) and the International Office of Migration (Zuckerman and Garrett, 2003.)

Recently, the ILO and the International Organization of Employers¹¹ (IOE) have sought ways in which national employers' organizations could be more involved in the poverty reduction process, both in developing the strategy paper and in implementation. As a result, a collaborative effort is currently underway in which national consultants, working on behalf of national employers' organizations, are being trained in assessing the policy environment¹² for enterprises in six countries (Albania, Tanzania, Cameroon, Bolivia, Honduras and Indonesia). Employers' organizations will use these assessments as the basis for discussions with governments and other stakeholders in setting the agenda for, and in implementing aspects of, the PRSP. SEED is involved in this activity, notably in lending its expertise and tools for conducting the assessments.

¹¹ The IOE is the international apex organization for national employers' organizations.

¹² Using the assessment tools discussed in the previous chapter under 'Policies, laws and regulations'.

2. What is poverty and who are the poor?

2.1 The concept of poverty

The concept of poverty includes material deprivation (i.e. food, shelter) and access to basic services (i.e. health, education). It now also tends to encompass a range of non-material conditions, such as a lack of rights, insecurity, powerlessness and indignity. The combination of these two types of conditions provides a more complete understanding of poverty. It also makes it more difficult to measure poverty and to evaluate the effectiveness of poverty reduction activities. Even finding an adequate definition is difficult and many policy statements prefer to describe the nature of poverty instead of providing a specific definition.

In *Working out of Poverty*, the ILO notes that poverty is a “vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy” (ILO, 2003, p. 1). The OECD’s Development Assistance Committee has defined poverty as comprising multiple “dimensions of deprivation that relate to human capabilities, including consumption and food security, health, education, rights, voice, security, dignity and decent work” (OECD, 2001). It notes that poverty reduction should, in addition, be conducted in the context of environmental sustainability and gender equity. In *Attacking Poverty*, the World Bank accepted the view that poverty encompassed “not only material deprivation (measured by an appropriate concept of income or deprivation) but also low achievements in education and health” (World Bank, 2001). It broadened further the notion of poverty, however, to include “vulnerability and exposure to risk, and voicelessness and powerlessness”. The notion of power and voice has also been accepted by a number of bilateral development agencies. For example, SIDA (2002), in its poverty reduction policy paper, notes that poverty “robs [people] of the opportunity to choose on matters of fundamental importance to themselves [and] the essence of poverty is not only a lack of material resources but also lack of power and choice”. It is not always clear whether the lack of voice and power should be considered part of the definition or *condition* of poverty or, more specifically, as one of its *causes*. It is probably both.

2.2 A definition of poverty reduction through SED

A general definition of poverty and one specifically related to small enterprises (formal and informal) can help to focus the ILO’s work in this area. An appropriate dual definition might be the following:

Poverty is a condition in which people lack satisfactory material resources (food, shelter, clothing, housing), are unable to access basic services (health, education, water, sanitation), and are constrained in their ability to exercise rights, share power and lend their voices to the institutions and processes which affect the social, economic and political environments in which they live and work.

The ILO’s approach to poverty reduction through small enterprise development focuses on the needs of poor people who are part of the micro and small enterprise economy, as owner/operators and workers, as their dependants, as the unemployed who may benefit from job creation, and as customers. The strategy is based on the promotion of the four elements of decent work, namely, productive, remunerative employment; rights at work; social dialogue; and social security.

2.3 Poverty reduction in the context of decent work

There are strong similarities between decent work and poverty reduction. Both emphasize that people's well-being is based both on the income derived from productive employment and social security, and on the rights and influence they exercise through representation and dialogue. Using the four pillars of decent work, the connections can be made in the following manner:

1. Rights at work

Along with physical aspects, poverty also stems from powerlessness and vulnerability. These aspects can be overcome, in part, through respect for rights at work. These include a range of labour standards that are now accepted internationally. They include the right to associate and bargain, the right to be free from gender, racial and other forms of discrimination, the right to a safe and healthy work environment, etc. For micro and small enterprises, additional rights are needed to safeguard legitimate business activity. These include basic property rights, the right to conduct business in an environment that is free from harassment, administrative barriers, corrupt practices and the illegal seizure of property by public officials. To secure rights, entrepreneurs and workers need access to a sound judicial system.

2. Productive, remunerative employment

Poverty can be reduced through the development of productive enterprises that provide an adequate income for entrepreneurs and workers. Low productivity, a characteristic of many micro and small enterprises, limits wages and income and reduces the overall viability of an enterprise.¹³ Success in raising productivity and competitiveness can sustain livelihoods, help to raise wages and lead to job creation for the unemployed. In this way, entrepreneurship is regarded as a key aspect of the ILO's Global Employment Agenda.

3. Social protection

Systems of social protection address the vulnerability aspects of poverty and tend to do so by supporting incomes. A key aspect in this regard is the provision of social security, which can take public, private or semi-private forms. These include registering with, and contributing to, state pensions and insurance programmes for the protection both of workers and owner/operators. It can also involve supporting the establishment and expansion of private and association-based schemes for insurance against health, injury, unemployment, death and old age. The associations involved can represent either workers or enterprise owners in organizing social security.

4. Social dialogue

As poverty is partly based on the lack of an effective voice, social dialogue can help to improve the situation of the poor. The micro and small enterprise economy often lacks representation in two ways: enterprises have a weak or no voice in business associations dominated by larger enterprises; and, labour (including dependent workers) are usually un-represented. Social dialogue, based on effective and democratic member-based associations, can allow micro and small enterprises to dialogue with the government on policy and programmes that are needed to support their development. Proper

¹³ A detailed discussion of small enterprises and productivity is contained in SEED's forthcoming working paper, P. Vandenberg, 'Productivity, decent employment and poverty reduction: Conceptual and practical issues related to small enterprises'.

representation can also allow small enterprises and their workers to participate more in the design of a country's Poverty Reduction Strategy Paper (PRSP).

As the foregoing suggests, there is considerable similarity between the broad definition of poverty and the concept of decent work. However, the ILO may want to consider whether its SED activities should always address the needs of the very poor. There are workers who are not materially poor but who could still benefit from the ILO's efforts to support decent work. For example, social dialogue may need to be strengthened in countries where income levels are relatively high. Or, the creation of productive employment may be needed in countries where, due to social security, no-one is forced to survive on \$1 a day. Given the combined material and power/voice approach to poverty, it can be argued that all of the ILO's activities contribute, at least in part, to poverty reduction basis – even where the target group is not materially poor. If this is accepted, then poverty can be considered roughly synonymous with the condition known as a decent work deficit.

2.4 Who are the poor in the small enterprise economy?

The poor are individuals – men and women, children, youth, old people, those with disabilities – who may live alone but who, more commonly, live together in households. We can speak of poor households when the income generated by the economically active members is insufficient to satisfy the needs of all members. Often the various household members combine their efforts in a multiple livelihood strategy that can include food and cash crop production, wage labour on farms or in enterprises, and entrepreneurial activities in micro and small enterprises. As part of a longer-term strategy, the household may also invest in the education of younger members with the aim of generating higher income in the future.

Not all households operate in a supportive, collective manner, however. In particular, gender imbalances in the household division of income may result in skewed access to total income, with men receiving a larger share. This may reinforce the poverty trap, as women tend to spend more of their income on the welfare of children. Men tend to spend more on tobacco and alcohol (Case and Deaton, 2002).

To understand the relationship between small enterprises and poor households, we need to consider how the poor are active in, or otherwise related to, the economy of small enterprises. We can suggest five categories of the poor:¹⁴

- Poor entrepreneurs: These include people who operate some type of small enterprise, including ones in which the entrepreneur is the sole worker or works only with family labour. An entrepreneur is deemed to be poor if the income generated and the rights and activities associated with the enterprise do not reach above a minimum level of well-being.
- Poor workers: These include those whose income, benefits, rights and protection are not sufficient to meet basic levels of well-being. Workers may have regular employment, dependent employment (such as homeworkers) or casual employment (irregular, i.e. day labourers, farm and non-farm). Together, these people comprise the working poor.
- Household members dependent on poor workers and entrepreneurs: These include children, older people and other dependents (sick, disabled) who are indirectly part

¹⁴ This is the author's own classification.

of the small enterprise economy because they depend on the income derived from economically active members engaged in that economy. Household poverty may force some members to become economically active. For example, children may be driven into the labour force, preventing them from obtaining an education and thus perpetuating an inter-generational cycle of poverty.

- Unemployed: This group includes poor people without work who may be able to reduce their poverty by starting their own enterprises or by gaining employment in a small enterprise. Poverty is reduced through the job creation aspect of small enterprises.
- Poor consumers who purchase from small enterprises: This group includes poor people who receive services or buy products from small enterprises, which reduce their poverty. Services can include water, sanitation, waste disposal, health and education, which are provided by MSEs when public provision is weak. Small producers can also contribute to poverty reduction by making household goods available at low cost, such as clothing and kitchen utensils.

Globally, poor people can live in both countries that are, overall, classified as poor and as well as those that are richer. All societies have their poor, although not all of the poor are living at the same standard of well-being.

2.5 Special groups: Perceptions and misperceptions

In addition to regional differences, there are other dimensions of poverty that might be kept in mind. We focus here on the rural-urban, gender, ethnic and health dimensions. The purpose is not to provide a definitive account of each dimension but, instead, to briefly highlight the issues and, more importantly, to question some common perceptions regarding the spatial and demographic distribution of poverty.

Rural areas

Table 2.1 indicates that the challenge of poverty reduction for Africa lies with rural inhabitants. Large segments of the rural population are also poor in other regions of the world. Disparities between rural and urban dwellers are becoming more well-known as a result of PRSPs, which often present statistics on the distribution and nature of poverty. As a result, much of the effort to reduce poverty to meet the MDGs is focusing on rural areas. This is important for enterprise development activities, as many farm households rely on non-farm entrepreneurial activities to make ends meet.

The rural-urban distinction is not always clear and simple, however. There is considerable migration between the two areas, and the flow of remittances can have an equilibrating effect (reducing expenditures in urban households and increasing incomes in associated rural ones, or vice-versa). In addition, income-based poverty lines that are not differentiated on a rural-urban basis may not account for the higher cost of living in cities and the lack of access to land for self-production. In other words, urban dwellers may have more income but also higher expenses and less (or no) access to land to grow food. \$1 per day goes much further in satisfying basic needs in the countryside as it does in the city.

Open unemployment in cities is often higher than in rural areas. On the other hand, underemployment may be higher in rural areas as family members work small and unviable plots. In Latin America, for example, the unemployment rate in cities is, on average, four times that of the countryside (IDB, 2003). Urban migration has resulted in the development of large slums, where poverty is concentrated. It is not always evident that these households have been properly sampled in poverty surveys. For a variety of

reasons, therefore, the incidence of urban poverty is likely to be higher than indicated by most statistics.¹⁵

Table 2.1: \$1 per day poverty and likelihood of reaching MDG

		% of population living on \$1 per day or less			On target for MDG*		
		Urban	Rural	National	U	R	N
		%	%	%			
Burkina Faso	1999	5	74	62	n	n	n
Ghana	1998	7	55	38	y	y	y
Kenya	1998	1	32	25	y	n	n
Madagascar	1997	29	74	63	n	y	y
Mali	1995	28	90	72	y	n	n
Niger	1997	11	70	60	y	n	n
Nigeria	1999	37	82	68	n	n	n
Senegal	1997	1	43	26	y	n	n
Tanzania	1999	11	62	49	y	n	y
Zambia	1996	11	88	60	n	n	n
Zimbabwe	1994	2	58	41	n	n	n

Notes: adapted from the original source.

* Refers to results from linear (non log-linear) estimation method.

MDG = Millennium Development Goal of reducing the number of people living on \$1/day or less by 50% between 1990 and 2015.

Source: Sahn and Stiffel, 2003.

Gender

Women constitute another group that can be particularly affected by poverty. They probably constitute the majority of the 1.3 billion people living on \$1 per day.¹⁶ Poverty especially affects female-headed households where women find it difficult both to raise children and generate an income. In Nepal, for example, 54 per cent of female-headed households are poor as against 38 per cent of male-headed ones (Nepal 2003). More generally, lower school attainment and cultural barriers limit women's ability to obtain well-paid employment or to generate income from enterprises in the formal or informal economy. Accessing credit and securing premises for rental or freehold business space may pose particular problems for female entrepreneurs. Women often earn less in the informal economy than men and they may be forced to balance income-generating activities with child-care and housework.

Ethnic and racial minorities (and majorities)

Ethnic and racial minorities often face much greater barriers to education and employment, have access to poorer quality land, receive less support from government services and have fewer accumulated assets. These characteristics often result in much higher rates of poverty compared with the majority group(s). For example, in Viet Nam, ethnic minorities comprise 13 per cent of the population and are 50-250 per cent more likely to be poor than the majority, the Kinh. Average household consumption is 60 per cent of that experienced by the majority and many minority households live on a monthly income of \$3-\$6 (Christensen and Lamotte, 2001). In other countries, barriers to economic

¹⁵ For an overview of the problems of urban poverty and slum dwellers, see Kuiper and van der Ree, SEED Working Paper No. 74.

¹⁶ The ILO's Gender Bureau (website) notes that 70 per cent of those living on \$1/day are women.

advancement may be based on caste or other types of social hierarchy that restrict access to certain occupations (i.e. India).

Not all minorities are poor, however. In many countries, small ethnic or racial groups have been able to control political power against a poor majority and/or achieve a higher standard of living. The commercial success of foreign ethnic business communities in many parts of South-East Asia (overseas Chinese) and in Africa (Indians and Lebanese) is well documented (Moore, 1997; Vandenberg, 2003a). Even when racist political structures have been replaced with truly democratic ones, the legacy of suppression may be found in continued poverty for the masses (i.e. South Africa). These tensions can erupt into violent and disruptive social conflicts (i.e. Rwanda in the 1990s, Bolivia recently), which further hamper a country's economic progress.

Disability and HIV/AIDS

Poverty is related to the availability of work but also to the capacity of individuals to engage in work. That capacity can be restricted by disability, illness and disease. Thus poverty is often concentrated among people living with these constraints and they may require special support if they are to start or continue to work. A growing problem affecting large portions of the working-age population and their dependents is HIV/AIDS. In parts of southern Africa, the HIV infection rate among adults is 20-25 per cent (Cohen, 2003). The notion that the epidemic is causing hardships for households and enterprises "is now widely accepted" (Barnett and Whiteside, 2002, p. 5).

The foregoing section has highlighted some of the spatial and demographic issues related to poverty. Efforts to reduce poverty need to take them into account and, when possible, ensure that disadvantaged groups are included. Mainstreaming may not always work, however, and there may be a need for more targeted programmes.

2.6 Cycle of poverty

Poverty can create a reinforcing, inter-generational cycle in which the condition of being poor is, itself, a barrier that prevents an escape from poverty. Such a process is multi-dimensional. The lack of income prevents parents from giving their children a proper education to earn higher income in the future. It forces some parents to send their children into the labour market, depriving the latter of even a basic education. The lack of adequate health care increases susceptibility to disease and injury that, in turn, reduces work time and work power. The lack of adequate nutrition does likewise, sapping the energy needed to plant and cultivate crops, and to produce and market goods and services in the small enterprise economy. Furthermore, the lack of income results in an inability to invest in productivity enhancing farm or non-farm (small enterprise) techniques and technologies. These are the characteristics of chronic poverty, a situation in which people remain poor year after year, generation after generation with little opportunity to exit poverty. This vicious cycle of poverty is described in *Working Out of Poverty*:

"For individuals, poverty is a nightmare. It is a vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy. For families, poverty is a trap. It leads to inadequate schooling, low skills, insecure income, early parenthood, ill health and early death. For societies, poverty is a curse. It hinders growth, fuels instability, and keeps poor countries from advancing on the path to sustainable development" (ILO, 2003, p. 1).

Poverty reduction efforts – including those related to SED – need to consider these multiple, self-reinforcing aspects of poverty if they are to have any chance of achieving real, long-term change.

3. Choosing indicators and assessing impact

Fundamental to ensuring that poverty is reduced is the ability to set targets and assess progress over time. There are a variety of definitions and indicators of poverty with which researchers, aid agencies and government have been grappling. The need to define indicators has been increased by the setting of the MDGs. While it is not the purpose of the present paper to design a targeting and impact assessment framework for the ILO's enterprise development programme, a review of some of the key methods, indicators and experiences might be useful.

3.1 Level of analysis: Enterprise versus household

SED programming focuses on the enterprise and while enterprises may be more or less profitable or viable, they are not more or less poor. People in households are poor and therefore the impact of SED needs to be evaluated at the household level. This complicates impact assessment which has tended to take place at the enterprise level. Increased enterprise income (profits) can help to reduce poverty but the connection is not always assured. The only thing that can be said for certain is that increased enterprise profit increases the income available to the owner/entrepreneur. Profits can be spent in a number of ways:

- re-invested in the enterprise;
- paid out as higher wages to employees;
- used to hire additional employees;
- consumed by entrepreneur and dependents;
- (including essential and wasteful consumption;)
- used to remove children from the labour market; and
- paid out to service household debts.

Even the fairly straightforward idea that hiring employees is poverty reducing is problematic. It does not account for the displacement effect: the fact that the growth of one business may occur at the expense of another (i.e. a hiring is offset by a layoff). The only true test of impact involves comparing the overall level of poverty in areas where SED interventions were introduced relative to areas where they were not. Statistically, however, differences will only be revealed if the intervention has been rather substantial. This issue is discussed in further detail below.

3.2 Tensions between MDGs and the broad concept of poverty

While most bilateral and many multilateral agencies have adopted the MDGs, including the extreme poverty target, the use of these goals is not without problems. The goals are both laudable and involve specific indicators, but they can be somewhat confusing. There are two main problems: i) it is not clear what concept of poverty is used, and ii) the main MDG poverty target actually encourages efforts to aid the less poor rather than the very poor.

The first problem is that there is, in fact, no clear definition of poverty. There is a definition of extreme poverty and it is defined in narrow income terms (\$1/day). It is not clear what non-extreme poverty is (i.e. is it also based on income but only with a higher threshold?). As such, it is not clear whether the other MDGs should be considered poverty reducing. Indeed, the same governments and agencies which endorse the MDG extreme poverty target also have policy statements that expressly argue that poverty is more than income. It appears that the framers of the MDGs realized that the broad definition of poverty would not be able to focus efforts because it would be very difficult to measure. Indeed, except in one case, none of the eight MDGs and the 18 targets addresses the issues of powerlessness, dignity, influence or any sort of democratic control on institutions. The exception is Goal 3, which focuses on the effort to “empower women”. Even here, however, the indicators narrowly focus on school enrolment, literacy, proportion of wage labour and seats in parliament and only on half of the population.

The MDGs are divided into Goal 1, which focuses on extreme poverty and hunger, and the other goals, which could easily be taken as part of a broad definition of poverty. In addition, because the MDGs tend to avoid the issue of power and voice, these aspects of poverty reduction may need to be addressed in addition to the MDGs. To summarize this first difficulty, should poverty reduction activities be evaluated on the basis of: i) Target 1, ii) several MDGs, or iii) several MDGs plus power/voice?

The second difficulty is the specific nature of Target 1. Extreme poverty is reduced if people living on slightly less than \$1/day begin to earn slightly more (they move from, say, \$0.95 to \$1.05). The implication is that the most effective poverty reduction strategy would focus on those living just below the poverty line, rather than those struggling far below the poverty line, i.e. the very poor. This is because if a person’s income rises from \$0.25 to \$0.95, poverty has not been reduced by the criteria set by Target 1. This is the difference between the extensive nature of poverty (measured as the headcount rate) and the intensive nature (the depth of poverty or how far people are living below the poverty line). To deal with this problem, the poverty gap ratio has been included as Indicator 2 of Target 1. It is a measure which combines the headcount rate and the depth of poverty.¹⁷

3.3 Development of a framework for SED impact assessment

SEED recently commissioned a study on the relationship between Start and Improve Your Business (SIYB) and poverty reduction, including a methodology for impact assessment. The methodology was pilot-tested on trainees in Zambia, Zimbabwe and Uganda. Many aspects of the study were well designed, considering both monetary changes, access to social services, job quality and rights. It included interviews with both entrepreneurs and employees (in some cases). However, the small sample (5 trainees per country, plus control groups of the same size) limits the usefulness of the results. The methodology needs to be applied to a much larger, random sample (i.e. about 500 trainees).

The impact of the solid waste PPP project in Dar es Salaam has been assessed, in part, by comparing the income of waste collectors with the national poverty line and the \$2/day criteria. This has provided some notion of whether the income earned is helping to raise

¹⁷ See the website of the UN Statistics Division at <http://millenniumindicators.un.org>.

people out of poverty.¹⁸ These two initiatives are the only ones taken by SEED, to date, that have specifically assessed the impact of project activities on poverty.

SEED is supporting the decent work country programme in Ghana with activities in two regions. There is currently an effort to design an impact assessment methodology to capture the poverty reducing effects of SED interventions measured against non-programmed regions. This will allow for both the use of a control group and the evaluation of effects on household poverty, rather than firm-level performance. The main concern is whether the impact of SED can be measured statistically in this way (see below).

More generally, SEED has been active in developing a method for assessing the impact of SED interventions. The work focuses on job creation and job quality (not poverty) and assessment is targeted at the enterprise level (SEED, 2002). The work envisages using control and treatment groups and attempting to account for displacement effects. The goal is to come up with a common list of questions (possibly 10) that might be used across ILO small enterprise assessments. SEED has taken the initiative here due to the lack of an agency-wide evaluation and impact assessment unit. Techniques were pilot-tested on two ILO enterprise programmes (business centres in Bulgaria and radio programmes in Uganda). The pilot work and the paper have thrown up the many difficulties of trying to conduct valid and reliable impact assessments.

The work was instigated before the ILO adopted poverty reduction as a key theme and therefore poverty issues are not directly treated in this work. While it may be possible to include poverty issues in the assessment framework, this will be hampered by the fact that the current focus is on enterprises, not households. It should be noted that the donor community looks to the ILO for leadership on the issue of employment, not necessarily other aspects of poverty. However, as the donor community increasingly shifts to a poverty focus, there may be a role for the ILO to provide leadership on how job creation and improvements in job quality can lead to poverty reduction.

3.4 Decent Work indicators

The ILO has produced a set of indicators to measure the achievement of decent work (Annex B. Anker et al., 2002). Because of the association made between decent work and poverty reduction in *Working out of Poverty*, it might be valuable to use these indicators and relate them to poverty. Decent work has 30 indicators, structured under 11 headings (see Annex B). There is mention of \$1/day and \$2/day poverty. The number of indicators is probably far too large for a project evaluation but key ones might be useful. In many cases (notably percentage population indicators), the indicators are useful only for assessments at the regional or country level, and are not suitable for surveys based on affected entrepreneurs.

3.5 Other agencies' experiences with the evaluation of poverty in SED

The MDGs were only agreed in 2001 and therefore development agencies have been busy in recent years adapting projects and assessment methodologies to the goals. Many of the most recent evaluations are based on projects that were designed and mostly implemented prior to the setting of the goals. At the same time, however, the reduction of

¹⁸ A description of the project and the results of the assessment are provided in the following chapter (in the text and a box).

poverty has long been an overall goal of development agencies and is thus included in impact assessments in a general manner.

Because the intended beneficiaries were not surveyed for their poverty level prior to the project, there is no measure against which to gauge the success of the project on a poverty basis. A DFID synthesis of enterprise development projects in 1998, after the British Government had adopted Target 1, revealed this particular problem:

The lack of base line information against which to monitor continues to be a universal weakness for ED [enterprise development] projects. DFID needs to further address this issue, whilst recognizing that it is not a problem unique to DFID projects (DFID, 1998, p. 4).

The lack of baseline data has not, however, prevented evaluators from making more qualitative judgements about the impact of enterprise development programmes on the poor. The same DFID study noted:

It has proven very difficult to measure the impact of ED projects on the position of poor people, whether as direct beneficiaries of assistance or as poor people employed or otherwise assisted by such direct beneficiaries. Nevertheless it is commonly recognised that ED activities tend not to benefit the poorest-of-the-poor. DFID needs to have a better understanding of the relationship between the various forms of and approaches to ED and poverty reduction, to improve impact in this respect, wherever possible (DFID, 1998, p. 5, 7).¹⁹

An earlier synthesis study by the World Bank assessed the impact of its small and medium industry (SMI)²⁰ loan programme between 1978 and 1987. The study covered 16 projects, with \$1.1 billion in financing, implemented in Ecuador, Indonesia, Mexico, Pakistan and Sri Lanka. Regarding poverty, evaluators noted that the Bank did not make an effort to monitor the impact on poverty. It maintained that ‘too little is known about the family income of paid workers in SMIs to gauge how many poor families earn wage incomes as a result of the Bank’s SMI lending’ (World Bank, 1991). It argued, however, that one should be optimistic about the general effects on labour markets and wages: ‘when the job market expands, all low-income workers should eventually benefit’ (ibid.). However, we need to be careful about making such assumptions without real evidence. Jobs may go to the non-poor rather than the poor, or to the poor experiencing low-depth rather than a high-depth poverty.

UNCTAD, which has a substantial SED programme but focuses on high growth small enterprises, has no mandate to address poverty.²¹

3.6 More recent efforts by other agencies

Agencies have recently been doing more in this regard. DFID sponsors a website with methodologies, analysis and case studies regarding the monitoring and effectiveness of small enterprise projects. Some of the examples include poverty elements. CIDA has adopted the MDGs as Canada’s overriding development goals and its Key Agency Results, which it reports to Parliament, are linked directly to the goals. However, the agency does not feel it is able to use the MDGs, notably Target 1, at the project level. According to a senior CIDA official, the MDGs are usually ‘articulated in CIDA’s country programme

¹⁹ Emphasis added.

²⁰ SMI is defined as having 5-99 employees.

²¹ Based on contact with UNCTAD official.

framework for [a] country – though they may disappear when we move one level closer to the project level’.²²

There are indications, however, that some agencies are moving in this direction. The World Bank’s 2002 Annual Review of Development Effectiveness is dedicated to the MDGs. The report notes the Bank’s increasing effort to conduct ‘selective ex-post analysis of the poverty impact of specific interventions and policies’. In addition, it is “defining a new pilot methodology...to help determine ways in which interventions affect poverty” (World Bank, 2003a, p. 66). This is part of a more results-based focus that the Bank began to implement in 2002. There are few indications yet of the exact nature of the methodologies being developed.

The 2001 World Development Report on poverty outlines methods for assessing the vulnerability and governance/voice aspects of poverty (World Bank, 2001, pp. 20-21). The first can be measured in terms of changes in physical assets, human capital, income diversification, links to networks, participation in formal safety nets and access to credit markets. Measurement is designed to detect the extent to which people are falling into poverty (or more deeply into poverty) between two points in time. The Bank does conduct vulnerability and risk assessments for some of its programme countries. Governance/voice is measured by political variables, such as civil liberties, political rights, transparency of the legal system and the existence of independent media. Variables are obtained from polls of experts or cross-country surveys of residents by international organizations and NGOs. It is not clear that these methods can be used for project assessments.

The U.S. Government is closely tying micro-enterprise support (mostly micro-finance) to poverty targeting. In June 2002, it passed an amendment to the Microenterprise for Self-Reliance Act (2000).²³ The original act required that 50 per cent of funding for micro-enterprises be channelled to the ‘poorest of the poor’. The amendment replaces ‘poorest of the poor’ with the ‘very poor’, who are defined as those living on \$1 a day or those ‘in the bottom 50 per cent below the poverty line established by the national government’. The amendment also requires USAID to develop, with its partner institutions, at least two low-cost methods for assessing the poverty of the clients and prospective clients of micro-enterprise institutions. USAID will certify these methods and they must be used by microenterprise institutions when applying for funds.

3.7 Oldsman’s five methods

Eric Oldsman, an expert on evaluation, has recently presented a paper on the poverty impact of SED to the Committee of Donor Agencies for Small Enterprise Development (Oldsman, 2003). It might be useful to briefly review those methodologies here, as they probably represent some of the current linking on the issue (see Box 3.1).

Five methodologies are proposed, of which the first four require the use of advanced statistical techniques (i.e. regression analysis). The fifth is more qualitative, involving expert opinion and the judgements made by participants.

The four quantitative methodologies are based on a comparison between those (sub-national) regions that are exposed to a SED programme and those regions that are not. It is

²² E-mail correspondence.

²³ It is formally called, “An Act to Amend the Microenterprise for Self-Reliance Act of 2000 and the Foreign Assistance Act of 1961 to increase assistance for the poorest people in developing countries under microenterprise assistance programmes under those Acts and for other purposes” (H.R. 192).

assumed that data for the analysis is available from public authorities or completed poverty surveys (i.e. World Bank Living Standard Measurement Studies, LSMS). Poverty data before and after intervention are required. Note that in none of these four methods is a comparison made between households or enterprises that participated directly in a SED programme (i.e. management training) and those that did not.

Box 3.1: Five methods for measuring the impact of small enterprise programmes

- Method 1: The change in the regional poverty rate for 20 regions in which SED has been implemented is compared against the change in the regional poverty rate for 20 other regions where no interventions were carried out. Additional data is used to account for different characteristics of the two groups of regions, such as population, production structure, etc. (known as: quasi-experimental, differences-in-differences method).
- Method 2: Where SED does not cover a larger number of regions, the poverty levels of a number of households in each region where SED was undertaken is compared against households in regions where there were no interventions. The approach sets a poverty line and estimates whether households in SED regions were more likely to rise above poverty than those in the non-SED regions. Note that the households are selected randomly from other data sources, they are not households that have necessarily directly received SED support (known as: quasi-experimental, differences-in-differences with dichotomous dependent variable).
- Method 3: Similar to Method 1 but SED is implemented in 20 poorest regions and comparison is made against regions which are less poor. It estimates whether there is a discontinuity in poverty rates as one moves between the SED and non-SED regions that are close to each other in terms of poverty levels (quasi-experimental, regression-discontinuity).
- Method 4: Same as Method 1 except that, at the outset, all regions where SED might be launched are randomly divided into two groups, one where SED is then provided and another where it is not. The two groups of regions are then compared. (Method 1 is different in that it involves a prior selection of regions for interventions and then finds data to create a control, or non-SED, group for regions.) (known as: experimental, differences-in-differences based on random assignment)
- Method 5: The approach is based on interviews with programme participants or the analysis of independent experts. The focus is on enterprises rather than households because the latter are less likely to be aware of whether the programme had some impact on their well-being. Enterprises might be asked about the increase in the hiring of unskilled workers. Care must be taken, however, to ensure that entrepreneurs can distinguish between hiring that has resulted from the SED intervention and hiring that would have taken place anyway. There are three important caveats: enterprises would not have received BDS in the absence of the SED programme; enterprises must be able to determine net effects of SED; and it does not account for displacement (an increase in employment or income in one enterprise results in a loss of employment or income in another).

Source: Oldsman (2003).

Oldsman (2003, pp. 22-23) notes that evaluations of poverty impact are only relevant if the programme is of sufficient scale to believe that it will have a statistically significant impact. This impact may be hard to detect, especially when other important factors such as economic growth and income distribution are at play. He suggests that evaluation of firm-level performance is needed to back up claims that SED is an effective poverty reducing strategy. For this the development of good longitudinal data is required but he does not develop this issue further.

If the method is useful, it might be applied if SEED were to engage in LED, with one local area (municipality) compared against a non-LED area. It could be used to assess policy changes if policies are set at the regional level. Method 2 would seem to be the most

appropriate in these cases (i.e. for the recently approved ‘Ghana – *Working out of Poverty*’ programme).²⁴ In other areas of SEED’s work, comparisons of regions might not be workable because technical cooperation activities are not organized on a regional basis.

However, there is concern that the methods might not be valuable. SED may help some people but it may be difficult to pick up that result from region-level analysis. The differences-in-differences methods, noted above, have only been tried in one known case (a small enterprise project in Mexico funded by the Inter-American Development Bank) and did not pick up any impact from a substantial programme. Moreover, it highlighted the problems of using public data sources to assess a project. The project was implemented between 1998 and 2001 but the before and after data were taken from the 1989 and 1999 censuses.

Furthermore, it is unlikely that an ILO/decent work poverty measure (or measures) would be available from public sources across a number of sub-national regions. In other words, the ILO may need to generate that data itself.

3.8 A way forward

There is currently no accepted method for assessing the impact of SED on poverty reduction. This is due, in part, to the fact that traditional approaches to SED assessment are based at the enterprise level, while poverty is an individual and household phenomenon. There are, however, two broad approaches. The suitability of each will depend on the scale of the intervention and the availability of data from public sources.

The first is a geographic areas approach that compares changes in poverty where SED programmes were implemented against similar control areas.²⁵ This is workable if available data on poverty and other indicators coincide with project dates. It also requires that the SED intervention be substantial enough to affect poverty statistics. The second approach focuses directly on the entrepreneur and her/his household and is suitable for smaller interventions in which impact is unlikely to be picked up at the area or regional level. It involves assessing the change in the poverty of households headed by entrepreneurs who have received direct SED support (i.e. management training, credit provision).²⁶ The change in poverty level can be compared against that of households not directly affected by SED. In focusing on direct effects, this approach may not capture secondary effects, however. These can include negative displacement effects (one enterprise expands causing another to contract) or positive income effects (a member of a poor household is hired by an expanding enterprise).

Impact assessment is always a complex matter and generating truly accurate results is never easy. Nonetheless, the ILO should continue to test and refine its methods and should keep abreast of emerging approaches developed by others. Reliable assessment methods are vital for determining which SED activities are most effective for reducing poverty.

²⁴ Approved for TC-RAM funding by the Netherlands, March 2004.

²⁵ This is Oldsman’s approach.

²⁶ This approach was used in SIYB’s pilot poverty assessment, discussed earlier.

4. SEED's approaches to small enterprise development

Small enterprise development is a sub-component for the larger process of private sector development. There are a number of approaches and strategies to support small enterprises which have been developed over time by governments, donors, NGOs, the private sector itself and the ILO. The first section of the chapter provides an overview of some of the main approaches used by the ILO's SEED programme and how they relate to poverty reduction. The second section suggests areas in which SEED might collaborate more with other ILO units or undertake new work altogether. The examples in the latter section are drawn from both ILO and non-ILO projects.

Overall, it is clear that SEED's activities do address key aspects of the narrow and the broad concepts of poverty and that the poor are the intended beneficiaries of many programme activities. It is difficult, however, to determine whether activities have actually resulted in the reduction of poverty due to the lack of adequate impact assessment, as noted in the previous chapter.

4.1 Policies, laws and regulations

Enterprises operate under a variety of policies, laws and regulations (hereafter regulations) which should be supportive but can often be a burden. MSEs are particularly affected because they can least afford the time and money needed to comply. Indeed, small enterprises often operate in the informal economy to avoid costly regulation and tax payments. In doing so, they forego the benefits of the formal economy, including access to credit, to suppliers and to consumers. In attempting to hide from government officials, they keep their businesses small or sometimes way from customer traffic. A more reasonable regulatory burden and favourable fiscal regime can entice them into the formal economy so that they can gain access to these benefits.

Easing their burden can contribute to poverty reduction in three main ways. One, reducing the level and the number of payments lowers the cost of running a business and increases the income of poor entrepreneurs. Two, more efficient procedures generate a time savings so that micro-entrepreneurs can concentrate on doing business instead of waiting in government offices. Third, a reduced burden of regulation allows markets, both national and international, to work faster. Together, these factors make it easier for enterprises to start and grow, thereby creating employment and raising the income of workers and entrepreneurs. A more detailed exploration of the link between regulatory reform and poverty reduction is made in the recent paper by White (2004), commissioned by the ILO. It is important to remember, however, that small enterprises need to pay their fair share of taxes to ensure adequate funding of public services.

While many donors support the reduction of regulation, the ILO is unique in stressing that such an approach may be driven too far and not be good for workers. The ILO approach is to seek a balance between a lighter burden on entrepreneurs and adequate support for workers, including wage levels, safety and health and social security. These latter aspects contribute to the reduction of poverty defined broadly. SEED is currently undertaking a more detailed examination of this issue with other ILO units, notably the Bureau for Workers' Activities, the Bureau for Employers' Activities, IFP/DIALOGUE, EGALITE and the ILO's offices in New Delhi, India, and Santiago, Chile.

Current policy work is based on seven country studies on the regulatory environment (Chile, Guinea, Pakistan, Peru, South Africa, Tanzania, and Viet Nam). These studies,

conducted by national researchers with detailed local knowledge, were used to develop recommendations for good practise (Reinecke and White, 2004).

In addition, several manuals have been developed to map the regulatory environment²⁷ and to train officials on how to improve that environment in their own country. The latter manual provides the curriculum for a new (annual) course at the ILO Training Centre in Turin, Italy.²⁸

Much of the ILO's work to-date has involved assessing the environment and conducting national workshops. While these activities, notably the latter, should lead to a better environment for the start-up, operation and expansion of micro and small enterprises, including the formalization of micro-enterprises, there is little concrete evidence yet on what changes have been made as a result of the ILO's work and whether these have had an impact on the poor. However, in India, the ILO is currently undertaking a review of policies in the State of Utta Pradesh with a view to improving policies. After changes have been made, the ILO plans to conduct a follow-up survey. This may provide evidence on the poverty-reducing impact of the changes. In addition, the ILO's specialist in Lima has had some success in helping to run contests for the best innovations by policymakers. In one case, this has led to a drastic reduction in the number of days required for a small enterprise to complete registration.

The ILO's efforts at training and policy dialogue will not be fully effective, however, if they do not also deal with corruption (notably the charging of bribes for permits and approvals) are not tackled. This probably involves some combination of training, adequate salaries for lower officials, higher penalties, political will at the higher levels and the development of a stronger anti-corruption culture. It also requires that business people know their obligations and rights and can appeal to other government bodies or the business associations for redress against corruption. It is, no doubt, a difficult problem for outside agencies to tackle.

It should be noted that policy change is potentially the most effective SED strategy for reducing poverty. This is because it can affect a much greater number of entrepreneurs than more localized projects. However, the policy area represents a greater challenge in terms of impact assessment. It is difficult to determine the extent to which a policy change (and not other factors) has resulted in better firm performance and in the reduction of poverty at the household level. Thus, the ILO needs to continue to work on these issues in the context of improving its impact assessment to ensure that change is benefiting the poor.

Furthermore, policy change for small enterprises must complement larger policy processes that support a sound macro-economic environment, the adequate provision of public services and the creation of a reliable social safety net. Broad policies for small enterprises can be most effective when they are consistent with a country's poverty reduction strategy and the guiding themes of the ILO's Global Employment Agenda.

²⁷ *Manual for the Mapping and Assessment of the Policy and Regulatory Environment for MSEs, and, Survey Kit – how to measure the influence of national polices, laws and regulations on employment in micro and small enterprises.*

²⁸ The course is called: 'Policy and regulatory reform to improve the business environment for micro-, small- and medium-sized business'. It was first held in November 2004.

Job quality

In developing countries, it is common for people to work and remain poor. At one level, the wages of workers and the returns to MSE owners are inadequate to meet basic needs. At the same time, the nature of the work itself is such that it lacks the security, protection, dialogue and cooperation that is necessary to alleviate those broader aspects of poverty. While the monetary and non-monetary elements linking poverty and job quality can be treated separately, they are better understood as self-reinforcing. In ILO terms, their combination is captured in the expression 'decent work as a productive factor'. Within the organization's small enterprise activities, that is often translated more directly into 'job quality is good business'. The idea is the same – it is the notion that the quality of employment is not a drain on the productiveness and profitability of enterprises but, conversely, can make a positive contribution. This is not always a message that MSE employers find easy to accept but through training and the development of good practise, attitudes can be changed.

The job quality work in SEED comprises a number of activities. Of key importance is the mainstreaming of job quality aspects into some of the ILO's traditional tools and approaches to entrepreneurship development. The 'people' aspects of the ILO's well-known Start and Improve Your Business curriculum has been strengthened and new curriculum has been designed for different levels of entrepreneurs. Two training programmes have been designed for the poorer entrepreneurs; *Improving Business through Better Working Conditions* and *Improve Your Working Environment and Business*. This type of training has been introduced in a number of countries and efforts have been made to assess the impact in terms of employment creation, wage levels, working conditions and productivity. The impact assessments have produced interesting case studies, a number of which are included in a recent SEED working paper (Vandenberg, 2004). That paper was a key background document to the SME chapter in the World Employment Report, *Productivity, Employment and Poverty Reduction* (ILO, 2004a).

Business training has been provided to people living and working with HIV/AIDS. Awareness-raising materials have also been developed and used with MSE employers who must address HIV/AIDS issues in the workplace. SEED has also been working with the ILO's child labour reduction programme (IPEC) to evaluate the experience with SIYB on supporting adult income-generating activities in regions with high levels of child labour. A small enterprise guide for project managers working on child labour eradication projects has been produced and disseminated (SEED and IPEC, 2004). In addition, innovative social marketing campaigns (Ghana) have been used to promote the job quality approach among MSE workers and entrepreneurs, especially those with little or no formal education.

The ILO has been working with brassware cluster in Moradabad, India, to enhance productivity and thereby assist a sector that provides employment for many poor people – workers and entrepreneurs (SEED, 2003, pp. 12-19). The assistance provides an interesting example of how to coordinate workers and technology. In the case of brassware, adequate ventilation and protective tools to handle hot products are key to creating decent work. More recent efforts have focused on the provision of health insurance to poor casual workers (earning less than \$1/day) who are otherwise unprotected. This effort to assist the sector through enhanced productivity (preserving jobs), improved work conditions and better social protection captures the real essence of 'working out poverty'.²⁹

²⁹ For a non-ILO example of efforts to improve working conditions in SMEs, see Box 4.3.

4.2 Association building

While training of officials is important for improving regulation, a sustained process of reform requires a dialogue between government, business and workers. At national level, employers' and workers' organizations engage with government about policies that affect small enterprises. In addition to these partners, small business associations, or SBAs, have an important role to play in this regard because they can represent MSEs and provide much stronger voice on problems of over-regulation, taxation, corruption and related issues than would be possible by individual entrepreneurs.

Nationally, small enterprises have a varying degree of representation – some countries have strong, independent organizations and others do not. In general, only a tiny portion of small enterprises are affiliated to an organization. The problem of weak representation is often compounded by the fact that national employers' organizations consist mainly of large enterprises. The concerns that they bring to the table are often different from the problems faced by smaller enterprises. The latter need their own forms of representation or play an active role in national organizations. The ILO is currently working with the International Organization of Employers to develop an on-line toolkit to assist national organizations in reaching out to SMEs.³⁰ The Philippines provides an interesting example of a national employers' organization reaching out to the small-scale sector (see Box. 4.1).

Box 4.1: Higher visibility for the informal economy in the Philippines

In many developing countries, there is little support for entrepreneurs and workers in the informal economy simply because they are not recognized. The key focus of a recent ILO-UNDP project in the Philippines was to increase the visibility of the sector, notably among policy makers. The advisory committee for the Promotion and Protection of the Informal Sector project included representatives from 13 government departments or sub-units, along with the Trade Union Congress and the Employers' Confederation of the Philippines.

The first step was to assist the National Statistical Coordinating Board in arriving at a definition of the informal economy. This has been used by the National Statistics Office and 17 local government units in Metro Manila to begin surveying activities in this area. It is also being used for planning and budgeting purposes in other government departments.

In addition, project staff worked with government departments to develop a Philippine Country Programme on the Informal Sector. The programme was approved by the Cabinet-level Social Development Committee in early 2003. At about the same time, the Department of Labour and Employment officially took responsibility for the informal economy. As well, a comprehensive assessment of the legal environment facing informal entrepreneurs was completed by legal experts and proposals for legal reforms have been developed.

Because informal workers often lack social protection, project staff worked with government officials and both the Philippine Savings Bank and the Development Bank of the Philippines to open an Automatic Debit Account system so that these entrepreneurs could make their social security contributions. A number of other social protection, credit and administrative activities were implemented through the project.

Source: SEED (2003).

At the same time, workers' organizations have themselves often focused on large employers, with less attention given to small enterprises. There is a need in many countries for these organizations to find constructive ways to reach out to the small enterprise economy. In the informal economy, trade unions have sometimes been effective organizers among poor people whose activities straddle the thin divide between independent workers and micro entrepreneurs. Providing representation, but also organizing credit and savings

³⁰ The tentative title is 'The role of national employers' organizations in supporting SMEs'.

associations and micro-insurance schemes, can be of great help to the vulnerable and unprotected.

Along with policy dialogue, small business associations also provide other forms of support to their members, including information about markets, business development services and government policies and regulations. These associations can also be an important form of networking for members, providing new business opportunities. The ILO has favoured the support of association building for small enterprises with the aim of strengthening tripartism and social dialogue for policy reform and implementation.

Regarding poverty, the association building is important for two reasons. One, SBAs provide an answer to the lack of representation and voice that is one of the dimensions of poverty discussed earlier in this report. And two, the activities that the associations can organize for their members in terms of business development services and policy dialogue can contribute to the development of small enterprises and, through them, the creation of quality employment. This connection between poverty and SBAs in both these regards is very real but it is difficult to provide hard evidence that association building reduces material poverty.

Donor efforts to develop SBAs must confront the realities of business representation in poor countries. On the surface, most poor countries can produce a long list of business associations. The difficulty is in determining which ones are truly representative – that is, which are grounded in a strong and active membership and are managed by a capable and effective leadership. Often organizations exist in name only. They may often have been set up by one businessperson to serve his or her needs. SBAs may also sometimes be set up in response to donor activities. This is highly problematic because such organizations often cannot survive when project funding ends.

To offer supports to SBAs, the existing partners provide the first entry point. They are usually best positioned to identify and prioritize those associations with a good potential for real sustainability. In situations where SBAs are not well known, the ILO usually seeks to get to know the existing organizations first. Instead of promoting new organizations, preference is given to strengthening the existing forms of collective action and representation, especially those supported by workers' and employers' organizations. This is done by commissioning a mapping and assessment of existing associations. The task is conducted by a person with local knowledge of the system of business representation and may be including someone who has worked for a business association. When appropriate partners are identified, the ILO proposes support to a process of institutional strengthening and goal setting. These activities focus on four main areas: i) management structure and representation; ii) advocacy and policy change; iii) service provision, notably BDS; and iv) social support and security schemes. The ILO works closely with SBA leaders and managers, including providing structured training materials, through its Small Business Associations training. The goal is to make the associations more representative, more able to generate revenues to support their activities and more focused on providing advocacy, BDS and advice on social protection for their members.

In the area of social protection, SEED has worked closely with the ILO's programme on Strategies and Tools against social Exclusion and Poverty (STEP). Together, they have produced a guide on how micro-enterprise associations can establish mutual health schemes. *'Mutual Health Organizations and Micro-Entrepreneurs: A Guide'* addresses the problem that workers and owners in the informal economy usually have no access to public health care and need to find collective ways to insure against illness and disease.

The ILO is currently developing coordinated approaches to supporting workers in the informal economy; approaches in which voice and representation are key elements. A good recent example of this is a multi-country project involving Cambodia, Thailand and

Mongolia. The project has strong poverty reduction and SED/income-generation elements. A summary is provided in Box 4.2.

Box 4.2: Coordinated approaches to the informal economy, East Asia

The ILO is increasingly developing integrated approaches to supporting the working lives of poor people. This may involve what is called 'local economic development' (LED), which is coordinated through municipalities. But other, similar, approaches are also coming to the fore.

A recently designed informal economy project, including Mongolia, Cambodia and Thailand, takes such an integrated approach. Developed and funded through the SRO Bangkok, the project draws on the experience of past ILO efforts in these and neighbouring countries and on the variety of tools and approaches developed by the ILO.

The key entry point for the project is the enhancement of representation and voice to empower and enable informal economy workers and employers. This aspect of the project will be supported by the ILO's employer and worker units, ACTEMP and ACTAV. Through empowerment and voice, the project will seek to increase personal and household earnings through greater access to productive resources and markets and will attempt to reduce vulnerabilities rooted in income insecurity.

Generating income will involve inputs from SFP, COOP including LED and SEED. Reducing vulnerabilities will involve the tools and approaches of SafeWork, STEP and other units. There will be efforts to reduce child labour and improve the lives of female workers, including homeworkers and micro entrepreneurs in the informal economy. While youth and people with disabilities are not the primary beneficiaries, project activities will raise awareness about the special obstacles they face as evidenced by their disproportionately higher rates of unemployment and poverty.

In Cambodia, the efforts will focus on informal economy workers in rural areas, while in Mongolia the efforts will concentrate on both rural areas and the urban migrants who have come to Ulaanbaatar, including those now working as street traders, taxi drivers and market vendors. Nomadic herders may be targeted for the planned activity to enhance market access, while informal miners may be selected for the planned activities of improved safety. In Thailand, the project will target informal wage-workers in agriculture, manufacturing or services comprised predominately of women workers in north east Thailand. The project began in mid-2003, has a life of two years and is budgeted at \$1.9 million.

Source: TC-RAM Sprout, SRO East Asia (Bangkok).

The ILO has also supported interesting research on informal workers in Latin America and in Africa, notably South Africa. The research has fed into efforts by trade unions to organize and improve the rights and livelihoods of such workers (Goldman, 2003). In South Africa, the work has focused on taxi drivers, street vendors and informal workers in the garment sector. Regarding street vendors, efforts are on-going to promote dialogue with municipal and national authorities to reduce harassment and increase the security for trading activities on the street. The work strongly supports the rights, dignity and empowerment of poor street workers. The ILO's Manila office has also been very active in promoting the rights and recognition workers in the urban informal economy. Those activities are outlined in Box. 4.3.

SEED has been working across regions for a number of years on association building. It is increasingly working to integrate association building into larger SED projects. It is currently very active in Viet Nam, Cambodia, Laos, Ghana and Tanzania.

In Viet Nam, association building is a key part of the Integrated Mekong Project on small enterprises that has been operating for several years at both the national and local level. The project is based on a close relationship with the Viet Nam Chamber of Commerce and Industry and also includes management training, policy advice and public-private partnerships. A manual to strengthen associations, in the Vietnamese language, has recently been published and is being used widely to support the development of associations.

In Ghana, support for business associations is part of a local economic development (LED) strategy being used in two poor regions. This work is part of the ILO's decent work pilot programme (DWPP) and constitutes an effort to implement *Working Out of Poverty*.

The project focuses on women and men in the informal economy who operate or work in micro and small enterprises. A key component involves training the leaders and managers of small business associations, as well as policymakers. The curriculum for the training was developed by a team of key institutions including the Ghana Employers' Association, the Trade Union Congress, a grassroots NGO and a small business consultancy firm. The larger project includes a poverty baseline survey, noted earlier in this report. It will be interesting to review the effects of the SBA training and other components on poverty indicators when the project is completed by early 2006.

As part of its work on gender, the ILO has also worked to strengthen women SBAs. In Tanzania and Ethiopia, national and more intensive regional workshops were held with women SBA members. Considerable effort was made to strengthen management structures. The improvisation by trainers and organizers allowed for the use of less Westernized and more locally oriented technique to address the practical issues faced by the SBA leaders. This flexibility is a credit to the trainers and advisors involved and should provide important insights into planning future activities. Efforts have also been made to strengthen and raise awareness about gender issues with national employers' organizations in Africa, Asia and Eastern Europe.

4.3 Private-public partnerships

The broad definition of poverty includes the lack of access to basic health care, clean water, sanitation and education. In other words, the poor are by definition under-served. In many developing countries, governments are unable to adequately deliver basic services. This occurs in unplanned settlements on the fringes of urban centres (i.e. slums) but also in most rural areas. The lack of services is a direct outcome of underfinanced and weak local and national authorities but is often also a function of a lack of representation – the voices of poor slum dwellers and the rural poor are not heard when public budgets are allocated.

When governments do not provide services, the private sector often steps in to meet local needs. This is a common phenomenon in the developing world where the private sector is a key provider of a range of services from telephony and water to education and waste collection. Between 15 and 90 per cent of primary education is provided by private schools and 60 per cent of expenditures on health care are made privately to clinics, dispensaries and hospitals in poor countries (CPSD, 2004, p. 8). The difficulty with private provision is that it is often not properly regulated to ensure an adequate quality (and decent working conditions). In addition, the service may be sporadic, depending on the decision of private providers and their ability to make money.

While private provision may not always be adequate, it does provide many poor people with basic services and, as importantly, it generates employment for poor people who are service providers. It's a positive sum game for service users and providers, supporting both the income and basic services aspects of poverty. Private provision may arise naturally, but in many ways it needs to be supported, notably to ensure equal provision, appropriate standards and working conditions, and also to prevent unfair competition.

The ILO has been working for a number of years in developing effective private-public partnerships between entrepreneurs and governments. The two areas in which it has been most effective is in labour-intensive infrastructure – notably roads but also schools

and health facilities³¹ – and in the original work on solid waste collection in urban areas, notably in the Tanzanian capital (see Box 4.3). The work on waste collection not only addresses MDG 1 on income poverty (through job creation) but it also aims at Target 11, of MDG 7, of achieving a significant improvement in the lives of 100 million slum dwellers by 2020. Indeed, the ILO is preparing a detailed analysis of how employment creation can be a central part of slum upgrading programmes (Kuiper and van der Ree, forthcoming). This work constitutes the ILO contribution to Task Force 8 of the UN Millennium Project on improving the lives of slum dwellers.

Box 4.3: Employment creation in municipal service delivery, East Africa

"I was retrenched from my formal job as a clerk. I had nothing and no husband to care for me as we were separated and I had four children. Together with other women we mobilized each other and formed a group with 20 members. We tried to do tailoring but it was not viable. We made buns and sold them, did some other catering services, but all were not viable. We noted boys collecting waste but insufficiently and getting money. So we asked ourselves, 'if these boys are earning a living from waste, why can't we?'" Ms Mwanaidi Msosa, Kisutu Women Development Trust.

Ms Msosa is one of over 2,000 people, mostly women and young people, who have been part of an innovative public-private partnership, centred in Dar es Salaam. It was designed to tackle the problems of inadequate solid waste collection by government and the health concerns that this causes and at the same time to tackle urban unemployment, which is driven by migration, public sector downsizing and slow formal sector growth and is a social concern if not a personal tragedy.

The ILO, working with the UNDP, mobilized unemployed people to collect and, where possible, recycle the waste. A public-private partnership (PPP) was developed in which waste collection is franchised to local collectors. They bid for the franchise from the municipal council. The group that wins a franchise has the right to collect waste in a particular part of the city and is paid directly by households. This reduces the waste management costs for cash-strapped municipal councils and ensures good service as collectors have a direct payment relationship with residents. Waste collection groups have been formed as community-based organizations, NGOs or small enterprises. In Dar es Salaam, there are now 52 franchisees in all.

The programme generates employment in the capital and four up-country municipalities for women, who make up 60 per cent of the workers, and for men. Daily waste deposits at two central dump sites in the capital have increased substantially from about 360 tonnes to more than 650 tonnes over a four-year period. The jobs created have been taken up by poor and vulnerable people. Half of the women involved are divorced, widowed or separated. Some 70 per cent of them have dependents and a similar proportion do not have a secondary education. For two-thirds of the women, waste collection is the first job they have ever had and 92 per cent of respondents said that it was 'the only job I could find'. In total, 98 per cent of respondents considered themselves poor. The story of one poor woman provides a glimpse of the struggle to find work and the benefits that have arisen from the franchising approach. The results have affected the behaviour of residents as well. There is less dumping of waste by households along streets and a greater use of bags and bins to store waste before collection. The ILO has been concerned that the work is decent from a safety and health perspective. Assistance has been received to provide protective clothing to groups, along with instruction in the handling and proper deposit of more hazardous waste.

Source: ILO staff.

An assessment of the Tanzania waste collection work involved a survey of 83 people working for community-based enterprises and other types of franchisees. These small local providers were found to be important "entry points into the labour market for unskilled women and youth" (Toole and van der Ree, 2004). For 27 per cent of those surveyed, it was the first job they had ever had. While 62 per cent of the workers were earning less than the Tanzania minimum wage, additional income was earned from recycling and might help to bring total earnings to near the minimum. The work is often difficult with about 67 per cent of workers not having protective gear (even though the work was often hazardous). Some 84 per cent reported a lack of welfare assistance even after an on-the-job injury. The

³¹ This work is not part of the ILO's Small Enterprise Development Programme.

assessment was undertaken to evaluate work conditions and find solutions for a next phase of project support that would include a fuller application of decent work.

Other issues raised in the evaluation are also being addressed: need for a national policy framework; organization of transport from transfer points to properly maintained disposal sites; access to credit and equipment for franchisees; pro-poor contracting; and the development of protective gear appropriate to a tropical climate. A new East African project phase, expected to create 4,000 jobs, is addressing these concerns. The new phase will include expansion within Tanzania (to 12 cities and towns) and to Kenya and Uganda. (the ILO also has PPP activities in Viet Nam and Cambodia.) The East African up-scaling of activities is occurring, in part, because people in other municipalities have seen or heard about the improvements in the cleanliness of the urban environment and have asked that the system be replicated in their areas.

While the activities have focused on waste, the ILO is looking at other services, notably, water supply (Targets 10 and 11), other aspects of sanitation, open spaces improvement and improvements in other types of infrastructure. In these cases, the same goals apply: creating employment for the poor while improving the living conditions and health of poor urban residents. PPP work could also be expanded to other areas set as target by the MDGs, which are part of the broader definition of poverty. A prime area is health care (Goal 4: reduce child mortality; Goal 5: improve maternal health; Goal 6: combat HIV/AIDS, malaria and other diseases). This could involve small private health clinics and professionals franchised by the government to supply midwifery services and to immunize children and adults against measles, tuberculosis and other preventable diseases. Small enterprises might also be franchised for the production and (subsidized) sale of treated nets to prevent malaria. The promotion of private pharmacies and the sale of drugs and condoms to reduce the affects and spread of HIV/AIDS might also be supported through the small enterprise economy. A unique project to improve the health of prostitutes in Nicaragua has involved the use of vouchers that are redeemable at both public and private health clinics³² (Box 4.4).

Box 4.4: Health vouchers in the sex trade, Nicaragua

Prostitution as a form of self-employment has a long history. Poor women are often forced into the sex-trade due to the lack of other income-earning alternatives. Banning the practise may result in greater income poverty, whereas supporting the needs of these women may help to reduce their poverty in other ways.

The Central America Institution of Health was concerned about the health of women in this trade. With support from the British Government, a voucher scheme was established in Managua to provide women with free access to a list of approved health clinics. The clinics included ones that were part of the public health systems but also NGO-operated clinics and ones which were run as small enterprises.

The scheme was relatively inexpensive and lead to large increase in the number of women using the clinics. There has also been a decline in the gonorrhoea infection among women who made second and subsequent visits. Unintended affects included an increase in the dignity felt by the women (who are now recognized as workers) and in the attitudes among health professional towards the needs to support the health of these women.

Also, some new clinics have started to serve the previously unrecognized segment of the market, while established clinics have improved services to meet the women's needs or dropped out.

Source: M. Harper (undated).

³² ILO has no involvement with this project.

4.4 Market access

The productive activities of MSEs will have little impact on poverty if their goods and services do not find adequate markets. Indeed, enterprise surveys commonly indicate that the lack of market demand, as perceived by them, is a key constraint to enterprise performance. Low demand is normally caused by three factors: a poorly performing economy generally; too many suppliers competing for too few customers; and, the difficulty of MSEs to adequately innovate and market their products and services. SEED's market access efforts are designed to overcome the latter problem

A key area of market access that is pro-poor is the ILO's work on eco- and cultural tourism in Latin America. The communities involved are non-urban, often remote and mostly comprised of indigenous people. In most areas of the developing world, indigenous communities are among the poorest. SEED works in partnership with governments, associations and universities to support the development of these communities as sustainable tourist sites and to encourage tourists to visit, thereby increasing incomes in the communities. In many cases, a portion of revenues from community tourism is channeled into social funds for the welfare of community members (health, education). The ILO has supported the development of the REDTURS website which promotes these community-based tourism operations to prospective visitors. An effort is also being made to interest European tour operators in the locations. Because the ILO's involvement is at the level of organizing and market access, it is difficult to determine the direct poverty-reducing impacts of its support.

Work on the cultural-tourism sector in Zambia also addresses the income-generating activities of the poor. These activities include the production and sale of crafts, the provision of dance and music and the development of small-sized tour operators. There is considerable potential given Zambia's fortune in sharing Victoria Falls – although Zimbabwe has been more active in developing tourism on its side of the falls. The promotion of tourism is an important part of the government's poverty reduction strategy, as outlined in its PRSP. ILO activities are also focusing on the gender aspects of tourism.

The ILO's wood furniture project in Jepara, Indonesia, has analyzed the cluster in the context of the changing nature of markets. Because international buyers are shifting their purchases to low-cost producers, notably in China, and because the availability of teak from forests is declining rapidly, the jobs of many workers are in jeopardy. Efforts are being made to upgrade skills, techniques and designs to better serve higher value-added, niche markets. A portion of the workers in this sector earn \$1/day or less. Many of them are faced with losing their employment, which would plunge them deeper into poverty. The problems faced by the Jepara cluster are not unique; we see similar problems in Moradabad's brassware sector in India and other clusters around the world. There is intense and expanding global competition for markets that is impacting on employment patterns.

The ILO is also working to improve market access for women in the informal economy. A number of innovative approaches have been piloted, including: the use of trade fairs in Ethiopia and Tanzania; support for a web-based information hub for women entrepreneurs in the Caribbean; and the upgrading food-processing and handicraft products in Tanzania. The extent to which these efforts might reduce poverty is not yet known and may be hard to determine.

4.5 Business development services

Enterprises rely on a range of business development services (BDS) to understand markets, develop products, refine production and improve management. Governments and donors are moving away from providing such services on a free or subsidized basis and instead are encouraging private providers to deliver BDS on a commercial basis. This new

paradigm approach has been promoted by the ILO through its annual BDS Seminar, now in its fifth year, which draws practitioners and policymakers from over 90 countries to discuss new ideas and share experiences.³³

The new paradigm, developed by the Donor Committee on Small Enterprise Development, applies not only to successful businesses but also to the activities of the poorest micro-entrepreneurs. One of the ILO's prime examples of this BDS approach has been its work with private radio programmes in Uganda and Ghana. Private radio stations were encouraged and helped, with minimal training, to set up programme segments on the MSE sector that discussed issues, government activities, regulation, services and markets. Policy and regulatory issues arising from the programmes have resulted in important changes for small enterprises (see Box 4.5). The programmes are popular because of the large number of people engaged in MSEs. As a result, other businesses are eager to pay for airtime to advertise their products and services and the programmes are commercially sustainable. In Uganda, as many as half a million people – many of them poor and living in rural areas – listen to these programmes regularly. It is, however, difficult to measure the direct impact of these programmes on poverty for several reasons; notably because of complex causality chains.

Box 4.5: Small enterprises development through private radio stations, Uganda

Uganda has experienced an unprecedented information revolution that is not computer or internet based, but is being driven by the commercial FM radio industry which was liberalized in 1993. The country Uganda now has 64 radio stations broadcasting in over 25 local languages. With 63 per cent of households owning a radio, a majority of people are now linked into the mainstream information channel for the first time in the country's history.

The ILO recognized the opportunities offered by this revolution and sought to use it to support the policy environment, provide advice and offer information for micro and small enterprises. In 1999, it began to encourage private radio stations to report on small business issues, thus providing a platform for debate and establishing a channel through which the informal business sector could lobby and advocate for change.

From the launch of the first pilot radio programme, the ILO has stimulated the start-up of 21 such programmes broadcast by 18 stations in 12 African languages. These radio programmes have an estimated listenership of seven million people. *The unique nature of this work is that the ILO has provided no money to these radio stations.* The work done by producers and journalists and the other costs of the programmes are financed from the sale of airtime to commercial advertisers. Because the programmes are popular and focus on a specific segment of the listener market, advertisers recognize the value of buying time during the programme. Instead, ILO's role has been to get the radio stations to recognize the informal business economy as an important audience segment. It offers technical advice and some training to get the programmes up and running. The ILO encourages various radio stations to do the same and because the stations cater to different language groups, there is normally no direct competition.

The small business programmes are a mix of investigative reporting, interviews, live debate and phone-ins that create, among other things, a strong platform for debate and analysis about policy issues affecting the micro and small business economy. For example, in early 2000 the Ugandan Government announced that it was banning the small-scale vending of milk. Nekolera Gyange, a small business radio programme in central Uganda, investigated the issue on behalf of the thousands of milk traders, transporters and dairy farmers who would lose their livelihoods as a result of the ban. Due to the media coverage and a consequent public outcry, the Government embarked on a plan to regulate and improve safety standards thus ensuring public health, allowing the vendors to stay in business and saving thousands of jobs.

While the radio programmes have questioned government policy on behalf of small businesses, they have also helped government to implement policy. For example, a ban on fish being imported into the European Union from Lake Victoria, which resulted from poor fish livestock and environmental management and poor fishing and processing practices, caused considerable hardship for hundreds of fishing communities along the shores. The Ugandan Government embarked on a policy of tightening up and enforcing fishing regulations as a step towards lifting the ban, but this move was construed by the fishermen as an additional hardship for the suffering communities. The issue was taken up by the small business radio programmes that gave both the fishermen and the government a platform to present and discuss the problems and propose solutions. The programme had a significant effect on breaking down divisions between the two sides.

One of the radio programmes has helped to reduce corruption and illegal activity in the collection of taxes. A segment was dedicated to taxation issues for small businesses and included a phone-in segment in which listeners could address an official from the Uganda Revenue Authority. He received an unexpectedly high number of complaints from business owners.

Source: *Success Africa* (ILO, 2004).

³³ For an overview of the topics discussed, see the seminar reader by Miehlsbradt and McVay (2004).

Many donor activities are designed to provide the initial spark to make markets work better. Either with donor initiative or through purely private instigation, BDS is often provided to the poor through embedded services of suppliers. The one area where commercially viable provision for the poor has been difficult to achieve is management training. The ILO has recently developed several initiatives in this area.

In Sri Lanka, a pilot project was designed to test the delivery of management training (SIYB) through two different mechanisms (Olming, forthcoming). In one case, a close relationship was developed with a savings society to which activities were decentralized. The society used its own facilities and allowed the training to be conducted at monthly savers meetings. These measures reduced costs such that the provision was fully sustainable financially. The more active participants – i.e. those who were already operating MSEs – were keen to pay for additional training. The other delivery approach was unsuccessful. It was based on a mobile business centre that, in cooperation with the district chamber of commerce, went to rural villages to market and conduct training the same day. The costs in this case were higher and there was a lack of sufficient trust in the chamber to assure people that the training would be worthwhile.

The linking of BDS and finance is the theme of another initiative of the ILO (Sievers and Vandenberg, 2004). The research initiative reviewed over 25 projects worldwide which attempted to link micro-finance with BDS (notably management training). The review found that services could be linked successfully but the administrative set-up had to be carefully designed so that micro-finance activities did not bear the burden of BDS provision. The insights are being used for the development of a new BDS-finance linked project in Bolivia.³⁴

The ILO has recently commissioned a study on *The Direct and Indirect Contribution of SIYB to Poverty Reduction*. The report reviews concepts related to poverty reduction (broad and narrow definitions) and it presents the results of an empirical study based on a small number of entrepreneurs in Zimbabwe, Zambia and Uganda. SIYB is designed to increase start-ups and improve the viability and growth of new or existing businesses. It supports poverty reduction, therefore, through its job creation aspects; either new entrepreneurs creating work for themselves or through the hiring of additional employees by expanding businesses. The curriculum has been updated to include job quality issues through its People and Productivity component. Thus SIYB is beginning to address the broader concept of poverty.

The empirical study was, in many ways, well conceived, examining such issues as income and employment generation effects, but also changes in health service use (switching from public to better, private health care), education, productive asset accumulation, dignity, status, involvement in networks, membership in business associations and even philanthropic contributions to the community. The study was also designed with a control group of equal size and sought to interview both entrepreneurs and workers. The results indicated a strong positive poverty-reducing impact on SIYB participants versus the control group. However, the small sample size (15 entrepreneurs in total) and questions about the selection and similarity of control and treatment groups, make it extremely difficult to generalise the results to the SIYB programme in those and other countries. The study signals the need for SEED to develop stronger expertise in impact assessment. Many of the efforts made in designing and conducting this survey could positively inform that exercise. In addition to the SIYB study, the ILO is also

³⁴ The proposed pilot is called, *Enlaces entre servicios financieros y de desarrollo empresarial para el MyPE*. It is being developed by the first author of the above study (Merten Sievers).

reviewing the experience of its Grassroots Management Training (or ‘Level 1’) curriculum which was designed for poor, often illiterate, people.

The ILO has experimented with business centres to provide BDS for the start-up and expansion of SMEs. The project areas have included Bulgaria, Serbia-Montenegro, Bosnia and Kosovo, places that have experienced some of the world’s most severe declines in social protection and social development in the 1990s. Poverty and unemployment increased dramatically. The business centres were intentionally located in the poorer parts of these countries, including areas devastated by war. Cooperation between the centres and the employment service has allowed the latter to refer unemployed people to the centres for training on how to establish new businesses. This activity supports the reduction of relative poverty rather than the absolute poverty prevalent in the poorest regions of the world.

4.6 Women’s entrepreneurship and gender equality

Women face particular barriers in their struggle against poverty and often require targeted support in starting or expanding enterprises. Within the ILO, women’s entrepreneurship is promoted through specific projects and through the mainstreaming of gender equality in other small enterprise activities. A high proportion of the people involved in SIYB training, in PPP (waste collection) and in informal street activities are women. Efforts to work with the garment cluster in Sri Lanka involve engaging with a female-dominated sub-sector. Earlier work with women food vendors in Benin is another example of programming addressing the needs of women (see Box 4.6). At the same time, the work on clusters has focused on sectors that are male-dominated (brassware and wood furniture).

Box 4.6: Promoting employment for women micro-entrepreneurs, Benin

Despite their important contribution to economic activity in developing countries, women micro-entrepreneurs are often not taken into account by policymakers. These women must count on their own efforts and ingenuity and the support from their families and relatives in developing income-generating activities. Particularly dynamic in activities such as the production of goods and the provision of services which tap rare resources, such women contribute to the provision of goods and services to poor people, particularly in urban areas.

Strengthening the capacity of women micro-entrepreneurs to better develop their activities has been a strategic activity for the ILO in Benin over the past few years. This has included a recently completed project (1999-2004) to promote employment for women in the food processing sector. An integrated approach based on three main activities has involved:

- access to technical and business development training activities,
- access to finance through the establishment of mutual savings and credit schemes,
- access, on a collective basis, to specific equipment that micro-entrepreneurs cannot afford individually.

Operating in four cities, the project has contributed to the achievement of the following results:

- more than 2,000 women micro-entrepreneurs have participated in the mutual savings and credit schemes and have been trained in MSE development;
- solutions have been found to the longstanding problem of accessing finance for poor women entrepreneurs, through a guarantee fund that links women with the Benin financial system for the first time;
- small associations representing women have allowed them to make their voices heard;
- positive relationships have been created between policymakers and women by facilitating cooperation and an exchange of views, thus contributing to changes in mindsets in the attitudes of each group toward each other.

The project has been replicated by the public authorities in two other cities in Benin, with support from UNDP.

Source: ILO staff.

SEED's activities provide a diverse approach to promoting women's entrepreneurship. One project involves the development of women street vendors in Tanzania into more substantial food processors, so that they can increase the quality of their output and capture higher value-added markets. In addition, a 'new paradigm' BDS programme for women entrepreneurs in India is supporting female-headed enterprises in providing accounting services to poor women operating other micro-enterprises. SEED is also working with the ILO's Skills and Employability Department in supporting market access to women with disabilities in Ethiopia. Another project involves working with rural, vocational training institutes in Cambodia to introduce entrepreneurship training into the curriculum. A joint effort with IPEC in Lao PDR aims to reduce the need for poor households to send their children into the labour market by supporting women's income earning activities. SEED is also working with UNHCR to pilot activities aimed at the economic empowerment of women refugees in Mozambique. As many of these efforts are at an initial stage, their impact on poverty is yet unknown.

A women's entrepreneurship training package (GET Ahead) has been finalized that will assist poor women at the start-up and post start-up phases. Like the SIYB package, it develops management skills but it also addresses personal, confidence building and other entrepreneurial characteristics.

In addition, detailed studies of women entrepreneurship have been conducted in Tanzania, Zambia, Ethiopia and Pakistan with a focus on the progression from informality to formalization.³⁵ The focus of the research has been on more successful entrepreneurs, rather than the poorer ones. The researchers have sought to dispel the stereotype of women entrepreneurs as all being poor street vendors. In Ethiopia, activities include working with national employers' and workers' organizations and government to provide assistance to laid-off women workers – a particularly vulnerable group – and introduce them to entrepreneurship and small business management.

4.7 Youth entrepreneurship

In many countries, the unemployment rate for people between the ages of 15 and 24 is twice as high as the rate for adults. Indeed, about half a billion young people will enter the labour market over the next decade. As a result, governments and international agencies are placing increasing attention on the problem of youth unemployment and seeking effective employment strategies. Promoting entrepreneurship is one such strategy.

To focus attention and action, the UN Secretary General initiated the Youth Employment Network, which is a partnership between the United Nations, the World Bank and the ILO. The latter is the lead agency. SEED has been contributing to YEN, notably in the entrepreneurship working group. Five countries initially came forward to act as pilot or 'champion' countries for YEN initiatives (Senegal, Indonesia, Hungary, Sri Lanka and Namibia) and a further six have recently been added.

In Indonesia, the ILO has been active since 2003 on a variety of youth employment initiatives in collaboration with the government and with workers' and employers' organizations. As a result, Start Your Business is now used for training young people in the education system and is likely to be replaced by, or complemented with, Know About Business (see below). Most students taking the training are not the poorest members of the

³⁵ See, for example, *Ethiopian Women Entrepreneurs: Going for Growth* (Geneva: ILO, 2003). The study has provided important background for donors developing strategies on the informal economy. See, for example, *The Informal Economy: Fact finding study* (Stockholm, SIDA, 2004), pp. 62-63, which resumes the Ethiopian study.

population but they do represent a vulnerable group. Following the tsunami in 2004, the youth programme, including its entrepreneurship component, is being expanded to include the poor in Aceh province.

Know About Business is a curriculum developed by the ILO to teach students in vocational training institutes and in general education about the business world and their future opportunities as entrepreneurs. It is being adapted for the university level. The package is currently in use in Asia, Africa and Latin America. It has been officially adopted as part of the national curriculum for vocational training in Kazakhstan and Kyrgyzstan. Senegal and Indonesia are moving towards similar adoption for the general education curriculum.

The ILO organized a tripartite meeting on youth employment in October 2004 with representatives from 15 countries. SEED was actively involved and contributed to the preparation of the background report.³⁶ It has also contributed to the report³⁷ which will provide the basis for a general discussion on youth employment at the 2005 International Labour Conference.³⁸

4.8 Migration and relative poverty

Without adequate employment, new generations of young people find it difficult to create stable lives for themselves. This can often prompt out-migration, especially in countries which border richer regions. The situation of several North African countries mirrors this problem. The ILO is therefore working with stakeholders in Morocco and Tunisia to develop the SME sector in an effort to provide adequate employment and thereby stem the flows of migration to Europe.

These countries have relatively low incidences of extreme poverty. Less than two per cent of the population lives on \$1/day³⁹ in either country. Poverty does exist, however, with 14 per cent in Morocco and 10 per cent in Tunisia living on less than \$2/day. Based on national poverty lines, 19 per cent of Moroccans are considered poor and 7.6 per cent of Tunisians. The SME support programme is designed most specifically for unemployed persons, notably those between 25 and 40 years of age, who, if they cannot find adequate income-earning opportunities, are likely to attempt to cross the Mediterranean to seek employment in Europe.

Through advice, technical assistance and management training, the programme helps the unemployed to create their own work and it helps informal operators to expand and enter the formal sector. The people benefiting are not as poor as people in parts of sub-Saharan Africa or South Asia; instead the programme aims to reduce relative poverty in these particular societies.

³⁶ 'Starting work: Decent work for young people', Background paper, Tripartite Meeting on 'Youth Employment: The Way Forward', Geneva, 13-15 October 2004.

³⁷ 'Youth: Pathways to decent work'.

³⁸ For information and background documents on the ILO's youth activities, visit: www.ilo.org/youth.

³⁹ Compared with, for example, 35 per cent in India and 23 per cent in Kenya (World Bank, website).

5. Future cooperation

The ILO's small enterprise activities are centred in the SEED programme and supported by Enterprise Specialists in the field offices. There are, however, a number of other technical units within the ILO that work with micro, small and medium enterprises. These include the Social Finance Unit (micro-finance), the Skills and Employability Department (vocational skills training) and Cooperative Branch (cooperative enterprises). Some discussions were held with other units in preparing this paper on poverty. There is currently within SEED and these other units a tendency to work more closely together and some progress has been made recently.

5.1 Micro-finance

One of the more high-profile approaches to poverty reduction is the provision of micro-finance. Finance is often used by poor households to engage in micro-enterprise activities, especially in the informal economy. Micro-finance is a useful way of channelling money to the poor and overcoming the obstacles they face in obtaining credit from formal financial institutions, such as banks. There is considerable anecdotal evidence that demonstrates the dramatic positive impact on poor people but there is considerable controversy that remains regarding overall impact on poverty reduction and the subsidies required for credit to reach the poor.⁴⁰

With a broad range of donors and NGOs supporting or offering micro-finance, the Social Finance Programme has developed an ILO-focused approach. It is centred on three themes: i) reducing vulnerability (post-conflict bonded labour, savings, emergency loans, micro-insurance); ii) creating jobs through enterprise development (micro-leasing, micro-equity, mutual guarantee systems); and iii) making financial policies more employment sensitive (research on micro-finance and financial liberalization, micro-finance observatories, associations of micro-finance institutions).⁴¹

SEED and SFP have worked together on some issues. The research on linking micro-finance and BDS was a joint undertaking (Sievers and Vandenberg, 2004). SFU is interested in developing with SEED a tool to distinguish more entrepreneurial micro-credit users from the less so. Many finance clients operate household-based income-generating activities but they do not think of these as enterprises. These micro-credit users are usually not interested in growing their activities but, instead, need a little extra income to stabilize consumption and provide insurance against extraordinary expenses. However, about 10 to 15 per cent of micro-finance borrowers are entrepreneurial and interested in growing their businesses. A screening tool for micro-finance institutions would be useful as it would help to distinguish the entrepreneurial group from the mass of micro-finance users. Micro-

⁴⁰ A review by Mosley and Hume (1998) of 13 micro-finance programmes in seven developing countries found that the programmes rather consistently assisted those above the poverty line, not those below. The analysis concluded that 'higher income households experience on average higher programme impact than households below the poverty line' and that those households far below the poverty line (the poorest of the poor) often experienced a negative loan impact (they were made worse off). Morduch (1998) found that micro-finance of the Grameen Bank in Bangladesh smoothed but did not increase consumption (thereby reducing vulnerability but not poverty). See also the more positive assessment from Pitt (1999). On the question of subsidies, see Morduch, 1999 and 2000.

⁴¹ For brief descriptions of some of SFU's research and policy work in Africa, see *Success Africa* (ILO 2004b, pp. 21-22, pp. 33-34).

finance institutions could then support these valuable clients with larger loans and the provision of non-financial BDS.

The ILO might want to provide leadership by developing a ‘new paradigm’ approach to financial services. The approach of current micro-finance programmes is based on reducing the deficit in financial capital experienced by poor households. It provides outside finance and initiates a structure and process of enforcement and support to ensure high rates of repayment and sustainability (repaid resources can be re-lent). However, as well-recognized in the research literature and well-known in many (if not most) countries of the developing world, there is often a very active informal financial sector which has developed indigenously and without the support of NGOs, donors, governments, etc. (Bouman, 1995; Vandenberg, 2003b) The most common examples are various types of rotating savings and credit associations (ROSCAs), but other arrangements include: informal credit between households, borrowing and lending between businesses, supplier credit and instalment arrangements). In many cases, local communities or business groupings have found ways to overcome the risks of lending by developing mechanisms to self-enforce credit contracts.

5.2 Local economic development (LED)

LED processes have their roots in integrated rural development and regional development strategies. The approach focuses on a territory or locality and involves assisting local actors, both private and public, to develop a multi-faceted development strategy based on the opportunities and constraints of that locality (see Rodriguez-Pose, 2002). Its participatory and comprehensive approach is somewhat akin to the PRSP process, albeit at a sub-national level. In many cases, the territory is a municipality, while the municipal government or a local economic development agency (LEDA) plays the role of lead actor. Many developed countries have LEDA at the municipal or regional level (i.e. Welsh Development Agency).

The LED approach does not preclude the inclusion of more specific development approaches and, indeed, seeks to include other interventions, as appropriate, as part of a larger process. Thus, the tools and approaches of SED can be an important part of the means by which LED is implemented. If the development of small enterprises forms part of that strategy, then small enterprise policy reform, BDS, management training, market access and other activities may be implemented. (In some cases, small enterprises projects have used LED approaches. See Box 5.1 for an example of such an approach in Egypt.)

The ILO’s LED Programme is located in Cooperative Branch and it has a variety of activities in Africa, Eastern Europe and Latin America. Documented cases include Croatia (Salzano, 2002) and Mozambique (van Boekel and van Logtestijn, 2002). In both of these cases, small enterprise development was considered an important part of the development strategy and SEED methods were used, along with credit access. In Croatia, the need for the management training to improve the small enterprise sector resulted in the recent establishment of a SIYB programme there. Efforts to coordinate the activities of SEED and the ILO’s LED activities might allow for a more coordinated approach to poverty reduction. Such efforts have been initiated in the case of Ghana.

Box 5.1: Grounding SME support in local communities, Egypt

FfIT, the Foundation for International Training, has been involved in SME programming for over 15 years. During that time, it has developed a number of strategies aimed at ensuring that the benefits of enterprise development reach entire communities. The approach emphasizes the role of mediating agencies and institutionalizing systems to ensure that SME development activities are integrated with the needs of the local community.

One example is the Small and Micro Development Project for Upper Egypt (SMEDUP). The focus is to develop the capacities of local organizations capable of delivering comprehensive business development services, including training, counselling and advisory services to first-time entrepreneurs, lending and on-going technical and training support to business owners. Three autonomous Community Development Agencies (CDAs) have been developed to deliver these services and extend opportunities to low-income families who would otherwise not have access to credit or support services. As Egyptian organizations directed and managed by local people, the CDAs have been able to quickly develop connections with their communities and emerge as valued local resources.

While SMEDUP's success in terms of business start-ups and job creation are impressive, even more important are the initiatives of the CDAs to harness SME development as a means to have a positive impact on people's quality of life. Each year the CDAs conduct Worker Surveys that look beyond the number of jobs created by client enterprises to explore the quality of these jobs and identify opportunities to facilitate improvements in working standards and conditions. As a result, CDA staff are integrating issues such as expanded employment opportunities for women, workplace health and safety and social insurance into their business advisory services. By not taking the advantages of job creation for granted, the CDAs have become proactive in making a direct connection between economic development and improving the human condition.

Source: FfIT website (www.ffit.org).

5.3 Vocational training

While many poor people generate income from trading (street vendors), many are also engaged in the fabrication of household and farm goods and the delivery of services. Vocational training can help to improve efficiency and the quality of goods and service provision as a means of raising enterprise and workers' income. Most of SEED's enterprise-level training is management training, with very little work focused on improving vocational skills. The exceptions are the efforts to adapt the SYB package to specific sectors. Start and Improve Your Waste Collection Business was produced in 2001 in Zambia and developed as part of the PPP activities described above. In addition, Start and Improve Your Construction Business was developed in South Africa to encourage the establishment and expansion of black-owned firms for building and infrastructure activity. Work is currently underway to adopt the SIYB package to enterprises for cultural-tourism activities (crafts, music, dance, arts, tours), as part of the market access programme in Zambia.

At the same time, the ILO's Skills and Employment Department has developed and implemented a package called Community Based Training (CBT) which promotes income-generating activities through vocational skills upgrading. The approach has had particular success in Belarus and Cambodia (see Box 5.2). A somewhat expanded approach is being developed as Training for Local Economic Empowerment, or TREE (Korovkin, 2004). The SKILLS and SEED units have recently discussed working more closely together, possibly to combine management and vocational training.

SEED has also been studying enterprise-based schemes for vocational education and training as a means to reducing youth unemployment (Axmann, 2004). It found that unemployment among young people is lower in countries with such schemes, notably in north-west Europe. Enterprise-based training includes but is not limited to apprenticeship systems; it involves various types of training that combine working/learning in the enterprise with instruction at training colleges.

Box 5.2: Vocational training for rural income generation, Cambodia

Working from eight provincial training centres, a joint ILO-UNDP project on vocational training and poverty alleviation (and a predecessor project) trained over 8,000 women and men in a diverse range of skills from 1993 to 1999. Surveys conducted 12 months after training showed that over 82 per cent of trainees had work using their new skills and were earning an average of US\$33 per month (i.e. just above \$1/day). Over half of the trainees were women and over a third were female heads of households. Many were unskilled farm workers, often having little or no cash income prior to participating in the process.

A key success of the project was that it did not offer predetermined courses. Rather, the project staff worked with the local community to determine what skills were in short supply locally. Then people with the scarce skills, recruited from among those trained in the border refugee camps, were asked to help train others, but only enough to satisfy the needs of the local community. An effort was made to ensure that trainees could make a living with their new skills and that an over-supply, which would lower earnings, was not created.

Many of the successful courses were not typical ILO training programmes. These included, for example, pig rearing and vaccination, duck rearing and vaccination, incense-stick making and vegetable growing. Duck vaccination proved particularly attractive, as graduates of the course were much in demand to quell an outbreak of disease that was decimating farmers' flocks. Hairdressing was another winner with over 90 per cent of graduates still using the skill after a year and earning US\$65 per month on average.

All together, 35 skills courses were offered and since a majority of the trainees ended up as self-employed, they all acquired basic business skills, too. Courses were run as close as possible to the trainees' homes in villages at times most suitable to them. Course length varied, but usually consisted of several hours' training per week, over two or three months. This was particularly important to ensuring a high participation rate among women.

A total of 76 government staff received various forms of training support while working on the project. Responsibility for the provincial training centres was handed over to the Cambodian Government at the end of the project, with the aim of integrating their operations into the permanent services, provided by the public authorities.

Source: IFP/SKILLS (ILO).

Other agencies are also attempting to initiate commercially sustainable vocational training schemes for micro and small enterprises. An interesting example is the voucher-training project introduced by the World Bank in Kenya (see Box 5.3). The scheme is interesting in that it focuses on MSEs both as the recipients of training and as the providers. The existence and size of the subsidy on the voucher determines the extent to which the scheme might be classified as new paradigm BDS. It is not clear yet whether the people affected would include the very poor. UNIDO has implemented a similar programme using 'master craftsmen' to train other entrepreneurs in Uganda (ILO, 2004d, pp. 35-36).

Box 5.3: Voucher system for vocational and management training, Kenya

The outcome of a World Bank project to increase skills among microenterprise owners and workers shows significant initial impact but raises questions about subsidies and sustainability.

In 1994, the Bank began a seven-year Micro and Small Enterprise Training and Technology Project in Kenya with a major training component. The project used a then unique system of vouchers that were provided to micro enterprises for training at 5 public and 700 nationally certified private training providers. In total, almost 35,000 micro enterprise owners and their workers were trained in management (30 per cent) and vocational skills (70 per cent). Voucher users paid 10 per cent of the cost of the training with the remainder being subsidized by the project.

An independent tracer study in 2001 demonstrated some positive results. A full 80 per cent of participants reported growth in their business (13 per cent for control group), while 59 per cent of those who had sought training to start new businesses had done so. Some 61 per cent had added business assets (21 per cent for the control group) and 45 per cent of participants had an income level of Ksh. 10,000 to 20,000 (38 per cent for control group). About 60 per cent of those trained were women (triple the original target). By using private providers, the project also gave a large boost to developing the BDS market for training.

The costly project (US\$ 7.5 million), however, runs against the grain of the new BDS paradigm of market-driven service provision. In principle the project foresaw a decrease in the level of subsidy but in practise this never materialized. However, towards the end of the project, 200 training providers formed an organization and agreed to reduce their fees by 40 per cent (from levels charged under the voucher programme). Furthermore, their informal surveys with beneficiaries indicated that trainees were willing to pay up to 25 per cent of the cost of the training. Thus, a similar voucher programme (in Kenya or elsewhere) could have been run with a subsidy level of 35 per cent instead of the 90 per cent used in the programme.

Source: World Bank (2003b).

5.4 Cooperatives and rural areas

Cooperatives are an important means by which poor people group together to improve their economic situation.⁴² They are common in rural areas, where the majority of the poor live. There are two important ways in which small enterprise development and cooperative development are linked. First, cooperative business associations (CBAs) provide services (BDS) to a membership of small enterprises. Secondly, CBAs and other types of cooperatives need to be well managed to be effective. The management techniques developed for small enterprises may be useful in strengthening the management of cooperatives.

SEED and the Cooperatives Branch have produced a joint paper, 'Cooperative business associations and their potential for developing countries' (Couture, 2003). The paper notes that while CBAs have been successful in developed countries, 'they are little known and not widespread in the developing countries' (ibid. xi). At the same time, however, they offer the possibility of providing the means whereby small enterprises can compete in local and globalized markets and against larger firms. Another joint activity has involved the use of SIYB training for ethnic minorities in Viet Nam (Christensen and Lamotte, 2001).

5.5 Technology for productivity improvement

In addition to labour, productivity can be improved through the use of machinery and other capital inputs. SEED has not developed an approach to machinery even though it is well-recognized that low remuneration in small enterprises and, particularly in the informal economy, derives from low productivity which, in turn, is often associated with the lack of

⁴² Cooperative Branch has been pro-active in making the links between poverty reduction and cooperative development. See, for example, Birchall (2003).

tools and machines. SEED might wish to develop a labour-sensitive approach to machinery use. This could involve working more closely with ILO units focused on productivity⁴³ and with the Social Finance Programme, which has expertise in micro-leasing. The promotion of machinery must be sensitive to the interests of labour and balanced against the possibility that in some cases labour-saving technology may reduce labour demand in the short term.

Technology is not only used by small enterprises but is produced by them as well. Enterprises that can produce low-cost, effective technologies for other businesses, for farmers and for households may be able to exert an influence on increasing the productivity of these other activities. An interesting example in this regard is the work of ApproTECH in Kenya (Box 5.4). The NGO has produced affordable irrigation pumps (and other products) that are manufactured by small enterprises, retailed by small enterprises and used by rural households and farmers to raise cash yields.

Box 5.4: Manual pumps for poor households, Kenya

The income of poor rural households can often be increased with access to affordable technology. Supporting the provision of such technology, through small enterprises, is one of the aims of ApproTEC, a Kenyan NGO, founded in 1991.

The NGO develops and tests simple but innovative machines, which it then commissions small enterprises to produce in large quantities. These are distributed by ApproTECH to small retailers. Its most successful product is a treadle operated micro-irrigation pump called the Super Money Maker, which was launched in 1998. (A newer version, the Money Maker PLUS, was developed in 2001.) The value of the pump is that it can move water from wells, streams and lakes up steeply sloping land. It can deliver three-quarters to one litre of water per second.

ApproTECH is mainly an engineering design team, based in Nairobi. It pays small manufacturers Ksh 3900 to make the pumps, then it sells the pumps through its network of 130 dealers for Ksh 5090. The dealers retail the pump for Ksh 5990. Most of the buyers cultivate between one half and five acres of land.

Assessments of the pump's impact suggest that from Sept. 1998 to May 2001, a total of 11,000 pumps were sold. New wages paid to new employees and additional profits earned by farm households and micro-enterprises using the pumps are estimated as US\$31 million. Total job creation is estimated at 18,754. An earlier random survey of 44 users indicated that: 73 per cent of pumps were managed by women; each pump is used by an average of 1.55 households; the average area under irrigation is 0.23 hectares and irrigation increased on average by 700 per cent following acquisition of the pump.

ApproTECH relies, in part, on donor funding for its activities. It has also produced machines for oil pressing and for the manufacture of concrete latrine covers and soil blocks and tiles for construction. It has developed a micro-drip irrigation kit and a manual hay baler

Source: EDAIS website.

⁴³ Notably, the Management and Corporate Citizenship (MCC) programme.

6. Conclusion: A possible strategy

The review of activities in the previous chapter suggests that SEED's work does address key aspects of the broader concept of poverty and that the poor are, in many cases, the intended beneficiaries. At the same time, a number of suggestions have been made regarding closer collaboration with other ILO units in a number of areas, notably micro-finance and vocational skills training. The need to strengthen impact assessment was suggested in an earlier chapter, which noted that SEED has and continues to be active on the stage of the project cycle.

By way of conclusion, the paper provides a possible strategy on poverty reduction through small enterprises development. It is a possible strategy that officials of the SEED programme may wish to use as the basis of the discussion and development of an official strategy.

A. Goal

The ILO seeks to reduce poverty, in part, through the development of vibrant and productive small enterprises that provide decent work for their owners and employees.

B. Principles

1. *Small enterprises make a positive contribution to poverty reduction when they provide:*

- a. *employment,*
- b. *adequate levels of job quality, and,*
- c. *low-cost goods and services used by the poor.*

The poor often lack adequate employment. Those who start small enterprises create employment and generate income for themselves and those they hire. The informal and formal small enterprise economy is the main non-agricultural employer in most countries.

The poor may work but the income, benefits, rights and social security related to their employment is often not adequate to lift them from poverty. They are the working poor and many of them work in the informal economy. Improvements in job quality are needed so that that their work can reach an acceptable level of decency.

The poor benefit when enterprises, operating in competitive markets, produce basic goods (food, clothing, etc.) at low cost, thereby keeping down the cost of living. The same principle applies to services. In many cases, small enterprises provide basic services such as water, sanitation and education that are not provided by the public sector. Given the public good nature of many of these services, the small enterprise sector can often work in collaboration with the public sector through franchising, sub-contracting, out-sourcing and other forms of private-public partnerships.

2. *Entrepreneurship, combined with productivity increase, is a key ingredient for poverty reduction through small enterprise development.*

Entrepreneurship is the creative act of spotting a market demand and marshalling the factors of production in an efficient manner to meet that demand. It leads to investment and job creation. For the poor, their entrepreneurial skill is often one of the few resources they have with which to earn a living.

Entrepreneurship can flourish when governments remove the barriers to business start-up, investment and exchange and when they provide an incentive-based structure of taxation and regulation that rewards initiative and calculated risk-taking.

To compete, enterprises must be efficient. Increases in productivity will not only allow a firm to thrive but can translate into higher wages and benefits for workers through a process of gain-sharing. Productivity is increased through better working conditions, constructive labour relations and increased market access, as well as through mechanisation and technological advance.

3. *Vibrant **enterprises**, competitive **markets** and a fair **globalization** can make a significant impact on poverty reduction.*

Markets are the means through which enterprises secure supplies, hire labour and reach customers. Constraints on these markets limit the wealth- and job- creation that benefits the poor.

These constraints include negative interference in markets, such as over-regulation and bureaucracy. Small enterprises are normally more severely affected by these problems than large enterprises. Governments may need to reduce their role – they may need to get out of the way. Negative interference can also come from enterprises themselves in the form of monopolies, collusion and unfair trade practises. In these cases, the government has a role to play to maintain fair competition. In the labour market, workers should be hired for their skills and not on the basis of ethnicity, gender, race or social class.

Markets work better when they are supported by public goods. Education and skills training is essential for increased productivity, while transport and communications infrastructure allows entrepreneurs to access suppliers and customers. Water and energy and health care are other important services. The government can participate in the market for ‘public’ services as the sole provider or as a partner and regulator with private enterprises.

The increased integration of regional and global markets has both positive and negative consequences for workers and enterprises. The poor are often directly affected by globalization as manufacturing workers, commodity producers and enterprise owners. Unfortunately, they often occupy the least remunerative links in global supply chains. Governments have an important role to play in creating the rules for a fair globalization. At the micro level, the poor can be assisted through efforts to bolster productivity, upgrade clusters and understand changing market demands. Small firm/large firm linkages and collaboration with regional and global buyers can be important sources of innovation. Certification and codes of conduct (against banned or forced labour, for example) can link the honest work of the poor with conscientious consumers in foreign markets.

C. Strategies

1. *The ILO will provide **integrated programmes** that are consistent with national poverty reduction strategies and processes of local economic development.*

The ILO has recently started to support national small enterprise programmes in several countries (Viet Nam, Sri Lanka, Ghana). These programmes allow for the development of foundations of knowledge on how markets are – or are not – working to reduce poverty. These integrated approaches generate synergies. For example, information from a policy environment survey can be channelled to business associations for their dialogue with governments. It allows the ILO pinpoint gaps in markets, for business development services for example, and designs approaches to stimulate those markets.

National small enterprise programmes are developed under the rubric of the poverty reduction strategy papers (PRSPs). The ILO can provide support for involvement in designing the PRSP and support for implementing the private sector development activities contained therein.

Private enterprise development is also an important aspect of local economic development (LED) processes which bring together a diverse range of public and private stakeholders. The ILO will further integrate tools and approaches of enterprise development with the broader LED process.

*2. The ILO will work with **governments** and with **representative organizations** of employers and workers to develop the enterprise economy.*

Governments and representatives of employers and workers need to participate in an active dialogue on how the private sector can support pro-poor growth. The ILO, as an honest broker in tripartite relations, can help to foster this dialogue through the PRSP process and on-going dialogue.

Employers can voice their views through democratic, member-based associations – national employers’ organizations, chambers of commerce and small business associations. Workers have their own organizations that can channel the interests of their members to highest national levels. Trade unions should also continue to expand their outreach by supporting economy workers and micro-entrepreneurs.

*3. The ILO will seek to foster clear, simple and well-enforced rules and regulations for the creation of a **conductive policy environment** for the enterprise economy.*

Getting the policy environment right can have a major impact because it affects all enterprises throughout the economy. The range of policies and rules is large. Ultimately, enterprises through their business associations will need to dialogue with governments on the reform of this environment. The process of fine-tuning the system, which has taken centuries in advanced countries, should be an ongoing one.

Simple rules of registration allow businesses to start up quickly and get on with the task of making goods and providing services. The level of regulation will affect whether entrepreneurs make the positive choice of entering the formal economy instead of the informal one.

Government also need to provide the ownership and contracting institutions essential to market transactions. Clearly defined property rights give confidence to entrepreneurs to make investments. Such rights also allow property to be used as collateral to secure finance. Contracting laws and efficient legal institutions, supported by a non-corrupted legal profession, allows for the enforcement of contracts and the quick settlement of claims following business failure.

*4. The ILO will promote a positive entrepreneurial **culture** among all members of society, including young people and public officials.*

The development of an entrepreneurial culture is only incidentally intended for existing business owners. They have taken the entrepreneurship route in establishing their occupation and, in most cases, may not need further encouragement. A stronger culture needs to be promoted, instead, among those who are not entrepreneurs, either to encourage them to enter the occupation or for them to understand and support it. Youth are an important target group in the former category. They can be encouraged to think about business ownership as a career option and to combine it with technical skills. Promoting such a culture among youth can be effected through the education and training system. In

addition, the unemployed poor need to see self-generated business activity as a means to escape from poverty.

In the second category, public officials need to understand how entrepreneurs operate and to appreciate the positive impacts on social welfare. Public officials need to understand that obstruction of the entrepreneurial drive will reduce investment and employment. In some countries, the market was suppressed for many years and the act of making money through private enterprise was discouraged or considered morally suspect. To overcome this legacy, the promotion of an appropriate culture is needed to give social acceptance to entrepreneurship.

5. *The ILO will stimulate the development of efficient markets for **financial and business development services.***

The approach to business services has evolved considerably over the past several years. The emphasis is now on market-based processes and private providers. In a developed market, enterprises can access services on a fee-paying basis from other private enterprises. These services can include: training, credit, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion.

Many markets are not fully developed, however, and there remains a role for business associations, NGOs and donors to initiate, stimulate and support the demand for and supply of business services. This may include the training of private trainers in delivering courses in entrepreneurship, marketing and strategic planning. It may involve financial services needed by poor entrepreneurs, such as micro-credit. It can involve business fairs and linkages programmes that get businesses together and reduce the search costs of finding suppliers. ILO's involvement in business services is primarily to stimulate the market and not distort it by creating unfair competition for private providers.

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ANNEX A

UN Millennium Development Goals (and Targets)

Goal 1: Eradicate extreme poverty and hunger

Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.

Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2: Achieve universal primary education

Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3: Promote gender equality and empower women

Target 4: Eliminate general disparity in primary and secondary education preferably by 2005 and to all levels of education later than 2015.

Goal 4: Reduce child mortality

Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5: Improve Maternal health

Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6: combat HIV/AIDS, malaria and other diseases

Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS.

Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

Goal 7: Ensure environmental sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water

Target 11: By 2020, to have achieved a significant improvement in the lives of 100 million slum dwellers.

Goal 8: Develop a global partnership for development

Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.

Target 13: Address the special needs of the least developed countries.

Target 14: Address the special needs of landlocked countries and small island developing States.

Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.

Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.

Target 17: In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries.

Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

ANNEX B

Decent Work indicators

Employment opportunities
Labour force participation rate
Employment-population ratio
Unemployment rate
Youth unemployment rate
Share of wage employment in non-agricultural employment

Unacceptable work
Children not in school by employment status
Children in wage employment or self-employment

Adequate earnings and productive work
Inadequate pay rate
Average earnings in selected occupations
Employees with recent job training

Decent hours
Excessive hours of work
Time-related underemployment rate

Stability and security of work
Tenure less than one year
Temporary work

Balancing work and family life
Employment rate for women with children under compulsory school age

Fair treatment in employment
Occupational segregation by sex
Female share of employment in managerial and administrative occupations

Safe work
Fatal injury rate
Labour inspectors
Occupational injury insurance coverage

Social protection
Public social security expenditure
Public expenditure on needs-based cash income support
Beneficiaries of cash income support
Share of population over 65 benefiting from a pension
Share of economically active population contributing to a pension fund
Average monthly pension

Social dialogue and workplace relations
Union density rate
Collective wage bargaining coverage rate
Strikes and lockouts

Socio-economic context
Informal economy employment (% of non-agricultural or urban employment)

Source: R. Anker, I. Chernyshev, P. Egger, F. Mehran and J. Ritter (2002). 'Measuring decent work with statistical indicators', Working Paper 2, Policy Integration Department (Geneva, ILO).

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