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Small matters. How much employment is there in self-employment and in micro and small enterprises?

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How relevant are micro-, small and medium-sized enterprises for the future of work? What about the self-employed?

Until recently, relatively limited worldwide empirical evidence was available to answer the above questions. Many earlier studies relied on data from formally registered firms, leaving the informal economy, which in many countries is the largest contributor to employment, out of the picture. There has been growing recognition of the role, in particular, of self-employment and micro-enterprises in driving employment, yet the evidence base is still not well developed.

Drawing on a new ILO database, ILO's 2019 « Small Matters » report provides an up-to-date and realistic assessment of the contribution of self-employment and micro- and small enterprises (hereafter referred to as “small economic units”) to employment – both in the formal and the informal economy – across the globe.

A key finding is that, globally, the self-employed and micro- and small enterprises (hereafter referred to as “small economic units”) account for 70 per cent of total employment.

The estimates presented in the report are based on a new ILO database that draws on national household and labour force surveys (as opposed to firm-based surveys) from 99 countries in all the world regions except for North America. Because these surveys target people rather than firms, they are able to cover self-employment and employment in all types of enterprises:

- Enterprises from all size classes: micro-enterprises (with 2 to 9 employees), small enterprises (with 10 to 49 employees) and medium-sized/large enterprises (with 50 or more employees)[1];
- Enterprises from the informal as well as the formal sector;
- Enterprises from agriculture, industry and services (including public services).

To the best of our knowledge, this is the first time that the employment contribution of the self-employed and of micro, small and medium-sized/large enterprises has been estimated for such a large group of countries – in particular, for low- and medium-income countries. Previous studies (e.g. ILO and GIZ, 2013) were hampered by a lack of data on the self-employed and micro-enterprises, which made it very difficult to obtain reliable estimates and to properly compare the employment shares of the various types of economic unit.

Employment share of the self-employed and different firm size classes, by country income group (%) [2]

Source: ILO calculations, August 2019.

The combined employment share of small economic units decreases as a country's income level rises.

Employment share of the self-employed and different firm size classes, by region (%)

* EAP = East Asia and the Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SA = South Asia; SSA = sub-Saharan Africa.

Source: ILO calculations, August 2019.

The combined employment share of small economic units is highest in countries in South Asia, Africa and the Middle East.

The above-mentioned new ILO database covers both the formal and informal sector, which makes it possible to estimate the employment contribution of informal enterprises as well.

Across the 99 countries in our sample, 62 per cent of total employment is to be found in the informal sector.

Like the employment share of small economic units, the employment share of the informal sector is negatively correlated with per capita income, ranging from less than 5 per cent in several high-income countries to more than 90 per cent in several low-income countries.

The employment contribution of the informal sector is especially high in agriculture, which is dominated by the self-employed, almost all of whom work under informal arrangements.

The present report suffers from certain limitations relating to methodology, classification of firms, the set of countries for which data are available, and the lack of sex-disaggregated data, as explained in more detail later on. Nevertheless, it offers valuable large-scale empirical evidence on the contribution that enterprises of different size classes and the self-employed make to total employment.

In summary, the new ILO database provides empirical evidence that the smallest enterprises and the self-employed, largely in the informal sector, are by far the most important drivers of employment. This finding is highly relevant to the design of programmes aimed at promoting job creation, start-ups, and the formalization of enterprises and of the workers they employ. Key aspects of the world of work, such as job creation, job quality and enterprise productivity, need to be considered from the perspective of the smallest economic units, for these represent the largest share of employment. Supporting small economic units should be a central part of economic and social development strategies worldwide, but especially in low- and middle-income countries.

Among the implications of the fact that the smallest economic units account for the largest share of employment, we may note the following:

- **ILO instruments should continue to guide programmes aimed at MSME promotion:** The Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189); the “Resolution concerning small and medium-sized enterprises and decent and productive employment creation” adopted by the International Labour Conference at its 104th Session (2015); the Social Protection Floors Recommendation, 2012 (No. 202); the “Conclusions concerning the promotion of sustainable enterprises” adopted by the International Labour Conference at its 96th Session (2007); the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up (1998); the ILO Declaration on Social Justice for a Fair Globalization (2008); the “ILO strategy on promoting women’s entrepreneurship development” (2008); and the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) are all relevant guidance documents for the promotion of MSMEs.
- **Sense of urgency:** The ILO Centenary Declaration for the Future of Work, adopted by the International Labour Conference at its 108th Session in 2019, states: “It is imperative to act with urgency to seize the opportunities and address the challenges to shape a fair, inclusive and secure future of work with full, productive and freely chosen employment and decent work for all”. Understanding the reality faced by the self-employed and by micro- and small enterprises is key to addressing the fundamental challenges of employment creation and job quality improvement. Supporting small economic units should be a central part of economic and social development strategies worldwide, but especially in low- and middle-income countries.

- **Job quantity and job quality must be considered jointly:** Any MSME policy needs to strike the right balance between job quantity and job quality. Whilst there is solid empirical evidence that micro- and small enterprises are major drivers of job creation, it is still not well understood how differences in the size of enterprises affect the quality of the jobs they offer. Moreover, decent work deficits are more pronounced in the informal economy where the smallest firms tend to operate. Further empirical research is required on job quality in small enterprises and on how the dynamics of firm growth relate to job quality. Is it, for example, realistic to expect a large number of microenterprises to grow and achieve formality, or is there a way of identifying the few enterprises that are likely to grow and channelling support to these?
- **Promoting an enabling environment for MSMEs:** The major role played by an enabling environment in supporting the private sector as a principal source of economic growth and job creation has been repeatedly underlined by the ILO; most recently, it was spelled out in the ILO Centenary Declaration for the Future of Work (2019). In order to promote such an enabling environment, it is essential to understand better the specific challenges faced by MSMEs 24 SMALL MATTERS and also the institutional mechanisms, laws and regulations that need to be in place.
- **Effective business representation:** Employer and business membership organizations (EBMOs) serve as a critical link between enterprises and governments. Such organizations design and provide services, advice and advocacy support with a view to fostering an enabling environment for the development of sustainable enterprises, which is a cornerstone of decent job creation. EBMOs in developing countries should continue their efforts to increase the representation of micro- and small enterprises, establish a conducive business environment, facilitate access to finance and, where necessary, encourage enterprises' transition to the formal economy. The ILO, for its part, should continue working on:
 - (a) strengthening EBMOs' capacity; and
 - (b) supporting EBMOs in the design of comprehensive strategies and policies to enhance productivity growth as a key enabler of employment and decent job creation.
- **Effective worker representation:** As decent work deficits are generally more pronounced in smaller enterprises, trade unions should continue to advocate an inclusive policy framework for micro- and small enterprises and support the formalization of enterprises. The focus, in particular, should be on increasing trade union membership by conducting public awareness campaigns, using new technologies and strengthening the capacity of local trade unions. Extending collective agreements to all workers in the relevant sector irrespective of their employment status (formal or informal) is essential to reduce decent work deficits. A more thorough examination of the best ways of organizing and representing workers in micro- and small enterprises is required.
- **Effectiveness of social dialogue:** It is necessary to explore how social dialogue at the meso and macro level can help improve working conditions and productivity in micro- and small enterprises.
- **Factors affecting productivity:** Understanding how enterprise productivity is shaped by a wider "ecosystem" is essential if the

full potential of MSMEs to support business growth and the creation of decent jobs is to be unlocked. It is important to address both internal productivity factors at the enterprise level (e.g. labour, management practices and processes) and external factors at the meso and macro level (e.g. regulations, access to finance, access to digital infrastructure, availability of skilled labour).

- **Transition to formality:** Given the prevalence of informality among the self-employed and micro- and small enterprises, it is important to identify ways of fostering their development and growth, and of enabling them to create decent job opportunities. Experience has shown that the transition to formality is best achieved through an integrated and long-term approach rather than through short, piecemeal interventions (see the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)).
- **More and better data:** Continued efforts to collect more and higher-quality data (disaggregated according to several attributes) are required to enable a more accurate determination of the extent of employment in enterprises of different size classes, which is important for governments, employers' and workers' organizations, donors and implementing agencies in the field of development cooperation. Sex-disaggregated data are key to understanding gender dynamics and designing policies to support female entrepreneurs and the empowerment of women.
- **Access to markets:** Providing the smallest economic units with access to markets and including them in value chains are vital not just for private sector development and formalization, but also for poverty alleviation.
- **Development of women's entrepreneurship:** Policies that advance the economic empowerment of women and provide female entrepreneurs with access to markets and support services will continue to be key to achieving improved performance and productivity, and to reducing the gender gap in the labour market.
- **Environmental sustainability:** Climate and environmental change bring new opportunities and challenges for enterprises. It is essential to enhance the resilience of businesses, in particular MSMEs, so as to prevent disruption of economic activity and loss of assets, jobs and incomes. In order to seize the new business and market opportunities, governments and social partners can work together to provide targeted business information and advice on green business practices, eco-innovation and regulatory systems and on how to achieve compliance and in easily accessible formats such as user-friendly toolkits.

[1] *Because of the considerable divergence in the way that different countries report employment distribution, we have been obliged, for comparability purposes, to group medium-sized and large enterprises into a single category of enterprises with 50 or more employees.*

[2] *As a basis for selection of the dataset for each country in the sample, data from the latest available year between 2009 and 2018 was used. This applies for all calculations and figures presented in this report.*

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This ICSB Gazette issue is featuring an article written by Dragan Raddic, Head of SME Unit Enterprises Department at International Labour Organization (ILO)

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