

Chapter 2. Assessment methodology and policy framework

Assessment methodology

This section provides an overview of the general SME Policy Index (SME PI) assessment methodology.

For the purpose of this publication and due to varied definitions of micro, small and medium-sized enterprises across the region, the authors of this report typically use the term “SME” to refer collectively to micro, small and medium-sized enterprises, unless specified otherwise.

SME Policy Index: development and application

The SME PI is an analytical tool developed by the OECD, in co-operation with international partners, to map SME policies and programmes and to assess alignment with good practice over time. The Index was developed for application in emerging economies within the context of the Organisation’s Global Relations programmes. Since its first application in 2007, it has been used in 32 economies and four regions worldwide.¹

The main objective of the Index is to gather a comprehensive body of information on the policy inputs in each country, to harmonise this information, and to transform what are largely qualitative inputs into numeric information that can be compared across time and across different economies and regions. By regularly repeating the assessment, typically every three to four years, participating economies can assess their progress in aligning themselves with internationally-recognised good practice, responding to the needs of their SME population, and converging towards a common set of objectives outlined at the regional level.

All SME PI assessments share a common methodology. For each regional application, however, the methodology is adapted to reflect the regional priorities of the economies in question in order to anchor the assessment to the regional policy debate. In the case of this assessment, and in contrast to other regions of the world in which this Index has been applied, there is *no formal strategic document guiding action on SME development at regional level*. As a result, as described in the subsequent section, the specific assessment framework for the seven Latin America countries covered in this report (Argentina, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay, or “LA7”) was prepared in consultation with LA7 national co-ordinators, the Development Bank of Latin America (CAF) and the Latin American and Caribbean Economic System (SELA), drawing reference from the SME PI methodology and OECD experts in various relevant policy areas.

The assessment is primarily conducted through a questionnaire (the “assessment grid”), which is developed by the OECD and partner organisations and informed by expert and stakeholder feedback. As will be discussed later in this chapter, the framework comprises “dimensions” (policy areas) that are further broken down into component “sub-dimensions”, and a set of indicators is identified for each sub-dimension. Most of these are

qualitative, but a number of indicators are quantitative, aimed at measuring the “intensity” of policy interventions. The results of the assessment are expressed as numerical indices (scores) on a scale of 1 to 5 and calculated at both sub-dimension and dimension level. To calculate these results, indicator scores are weighted based on perceived importance and relevance (see the later “Scoring” and “Weighting” subsections).

The SME PI is based on the results of two parallel assessments. First, a **self-assessment** is conducted by governments, led by a pre-designated “national co-ordinator” (a government official assigned to lead the policy assessment). This self-assessment is informed by inputs collected from the various agencies and ministries involved in SME policy development and implementation. In addition, an **independent assessment** is conducted based on inputs from a team of local experts who collect data and information and conduct interviews with key stakeholders and private sector representatives.

SME Policy Index methodology: advantages and limitations

The SME Policy Index (SME PI) framework aims to provide an independent and rigorous assessment of the policy environment for SMEs, to benchmark this assessment against international good practice, and to provide guidance for policy reform and development on the basis of these findings.

While other indices and benchmarking exercises assess the business environment in Latin America and the Caribbean (LAC), the SME PI adds value by going beyond the statistics to examine the policy environment for SMEs across a broad range of areas. In addition, the Index:

- Takes a participatory approach to evaluation and measurement through its involvement of policy makers, the private sector and partner organisations;
- Provides guidance on how to improve the SME policy framework in each country through policy recommendations and examples of good practice;
- Incorporates relevant data by other organisations, such as the World Bank’s *Doing Business* report and Enterprise Surveys, as well as additional OECD data, such as the OECD’s trade facilitation index scores;
- Uses the country context and broader factors affecting SME development to complement the analysis that emerges from the scores; and
- Focuses on the LAC region as it embarks upon further economic integration, enabling policy makers to identify challenges that may lie ahead.

As with all methodologies aiming to transform a complex reality into an intelligible picture, the SME PI framework has its limitations. The Index is designed to assess levels of policy development across the policy cycle, with its three stages of planning and design, implementation, and monitoring and evaluation (M&E). As such, it is designed to measure and compare levels of policy *development* rather than *performance* – the latter of which is much more complex to capture (much less harmonise and compare) given the significant differences in M&E practices across countries.

In addition:

- The full picture of inputs and outputs of government policy can be hard to capture, particularly in countries where SME policies are implemented mainly by local governments. The current SME PI methodology focuses on policy at the national or central level.

- Diverse SME definitions limit the comparability of data across economies.
- The indicator weights are defined based on expert opinion, and therefore can be open to challenge. Certain indicators may have been given special prominence due to their importance to LA7 countries, rather than necessarily on the basis of expert opinion.

Overall, however, the assumption underlying the SME PI framework is that there is a positive correlation between good policy practices and performance. In other words, a well-designed and fully deployed policy across all three cycle stages will be (a) more effective and (b) more easily assessed in terms of its performance, allowing policy-makers to make performance-oriented decisions in future.

LA7 assessment process

Timing of the 2019 assessment

This particular assessment was carried out between March 2017 and March 2019. However, it is important to note that, regarding the data evaluated, a cut-off date of July 2018 was established; accordingly, for scoring purposes this assessment only considers relevant institutions, policies and reforms up until this date. The three phases of this assessment process include:

- **Design phase** (March-June 2017). National co-ordinators for each country were identified. The assessment framework was prepared in consultation with national co-ordinators, CAF and SELA, drawing reference from the OECD SME PI methodology and OECD experts in various relevant policy areas.
- **Information collection and evaluation phase** (July 2017 – July 2018). LA7 countries carried out a self-evaluation of their policy frameworks (through an assessment questionnaire). This was complemented by an independent assessment; in the context of this particular exercise, the independent assessment was carried out in co-operation with the Foundation for the Strategic Analysis and Development of the SME (*Fundación para el Análisis Estratégico y Desarrollo de la Pyme*, or FAEDPYME), utilising its network of academic experts present in each of the LA7 countries. Stocktaking missions and workshops were held in all seven countries to support the data collection exercise. These meetings were typically attended by 30-50 SME policy stakeholders, including representatives of ministries and government agencies, civil society, the academic community, NGOs and the private sector. Desk research and follow-up with relevant stakeholders were used to fill information gaps and resolve inconsistencies. Finally, preliminary scores were developed and a workshop was conducted with all national co-ordinators in Bogota, Colombia in July 2018 to present and discuss the initial results.
- **Consolidation and publication phase** (August 2018-March 2019). Additional data were gathered via follow-up with relevant stakeholders in response to the aforementioned LA7 workshop, the draft report was prepared and the report was reviewed by participating countries, SELA and FAEDPYME stakeholders, as well as a range of OECD experts. Following this process, final comments were integrated into the report. The completed publication was formally launched at a regional meeting in April 2019. A series of national dissemination events were due to be conducted after the launch.

Policy framework

The 2019 assessment framework for the LA7 region maps and benchmarks SME policies across seven policy areas (“dimensions”), which are broken down into 26 components (“sub-dimensions”) (Table 2.1). These components were developed in reference to the generic SME PI framework developed by the OECD, as well as collective meetings with responsible authorities from LA7 countries. Established OECD indicators, as well as data from other international organisations, were also incorporated as thematic blocks in several cases (see later “Integration of pre-existing data from other sources” sub-section). A repeated application of the framework should provide a dynamic picture of SME policy reforms and priorities over time.

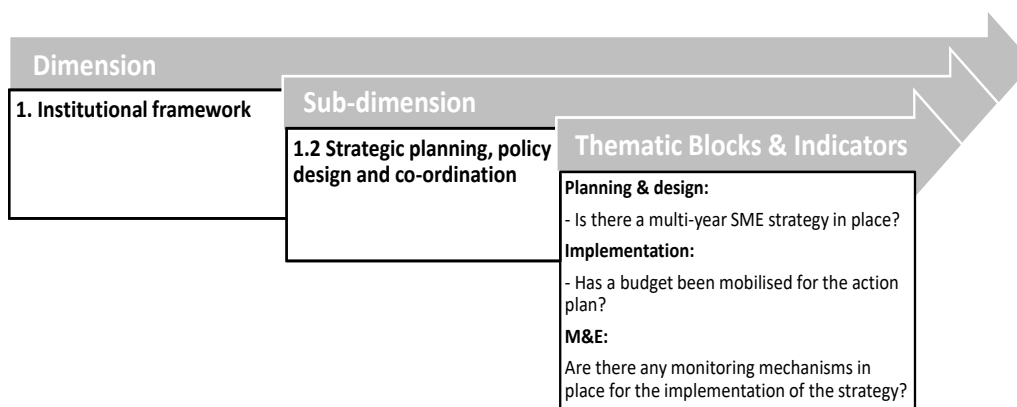
Table 2.1. The 2019 SME PI assessment framework for the PA and Participating South American countries

Dimensions and sub-dimensions	
1. Institutional framework	2. Operational environment/Simplification of procedures
1.1 SME definition	2.1 Legislative simplification and regulatory impact analysis
1.2 Strategic planning, policy design and co-ordination	2.2 Company registration
1.3 Public-private consultations	2.3 Ease of filing taxes
1.4 Measures to address the informal economy	2.4 E-government
3. Access to finance	4. SME development services and public procurement
3.1 Legal, regulatory and institutional framework on access to finance	4.1 Business development services
3.2 Diversified sources of enterprise finance	4.2 Entrepreneurial development services
3.3 Financial education	4.3 Public procurement
3.4 Efficient procedures for dealing with bankruptcy	
5. Innovation and technology	6. Productive transformation
5.1 Institutional framework	6.1 Productivity-enhancing measures
5.2 Support services	6.2 Productive association-enhancing measures
5.3 Financing for innovation	6.3 Integration into regional and global value chains
7. Access to market and internationalisation	
7.1 Support programmes for internationalisation	7.4 Quality standards
7.2 Trade facilitation	7.5 Taking advantage of the benefits of LAC regional integration
7.3 Use of e-commerce	

Scoring

As stated above, the assessment grid used for the LA7 comprises seven dimensions and 26 sub-dimensions. The sub-dimensions are further divided into thematic blocks, each with its own set of indicators. In turn, the thematic blocks are typically broken down into three components, each representing a different stage of the policy cycle: planning and design, implementation, and monitoring and evaluation (M&E) (Figure 2.1). In a few sub-dimensions where this approach is not applicable – for example, in relation to the SME definition or the availability of some financial instruments within the “access to finance” dimension – thematic blocks may differ; Dimension 3 on “access to finance” also uses a number of “sub-sub-dimensions”, each of which are also in turn broken down into thematic blocks (see Table 3.1 in Chapter 3).

Figure 2.1. Dimension, sub-dimension and indicator level examples



This approach – slicing scores to reflect different stages of the policy cycle – allows governments to identify and target stages where they face notable strengths or weaknesses.

The assessment framework comprises qualitative and quantitative indicators, which take the following forms:

- **Core indicators:** These are indicators that determine the assessment score and are either binary or multiple-choice indicators on qualitative policy measures.
- **Open questions:** Open questions are included after the core indicators for each sub-dimension in the assessment questionnaire. They can include qualitative (e.g. “Which agencies are responsible for implementation?”) or quantitative (e.g. “How much is the budget for the action plan?”) questions. Open questions are not scored, but help to assess the overall policy context, thus informing the final score.

Weighting

Weights were applied at sub-dimension and thematic-block levels in the same way for all LA7 countries. The weights were assigned during the aforementioned workshop with all national co-ordinators at the end of the data collection and evaluation phase. During this discussion, it was agreed how to assign the weights based on the importance of specific sub-dimensions for countries and the region. The most common thematic blocks – planning and design, implementation, and monitoring and evaluation (M&E) – were assigned respective weights of 35%, 45% and 20% in order to emphasise the importance of policy implementation. This is supported by SME PIs developed for other regions.

Integration of pre-existing data from other sources

Some thematic blocks take the form of existing OECD and World Bank data (Table 2.2). The data for some of these indicators were converted into 4-level (0, 0.33, 0.66, 1) or 5-level (1, 0.25, 0.5, 0.75, 1) scales. The intervals for each level were determined based on how the indicator had already been used in other OECD SME PI assessments.

Table 2.2. LA7 SME PI indicators from supplementary data

Sub-dimension or sub-sub dimension	Indicator(s)	Scale used	Data source
2.2 Company registration	All indicators under Thematic Block 2: Performance	5-level	World Bank <i>Doing Business</i> 2019. http://www.doingbusiness.org/data/exploretopics/starting-a-business
2.3 Ease of filing tax	All indicators in the sub-dimension	4-level	World Bank <i>Doing Business</i> 2019. http://www.doingbusiness.org/data/exploretopics/paying-taxes
3.1.2 Legal regulatory framework for commercial lending	All indicators in Thematic Block 1: Creditor Rights	Actual scores	World Bank <i>Doing Business</i> 2019. http://www.doingbusiness.org/data/exploretopics/getting-credit
3.1.3 Credit information bureau	All indicators in the sub-sub dimension	Actual scores	World Bank <i>Doing Business</i> 2019. http://www.doingbusiness.org/data/exploretopics/getting-credit
7.2 Trade facilitation	All indicators in Thematic Block 1: OECD Trade Facilitation Indicators	4-level	OECD Trade Facilitation Indicators. http://www.oecd.org/trade/facilitation/indicators.htm

Wherever possible, the assessment strove to supplement the framework's indicators with additional quantitative information such as the budget allocated, the number of participants in the activity and so on. Due to limited data or comparability, these indicators were often unscored, but were used to inform the scoring of other indicators as well as the assessment write-up.

Notes

¹ The SME PI methodology has already been, and continues to be periodically, applied in various emerging regions of the world, including the Middle East and North Africa (MENA) region, Southeast Europe and Turkey, the Association of Southeast Asian Nations (ASEAN), and Eastern Europe and Central Asia (Eurasia). See <http://www.oecd.org/global-relations/smallandmedium-sizedenterprisessmepolicyindex.htm>.



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