

Executive Summary

SME development is a marked priority for policy makers across Latin America and the Caribbean, including the seven economies assessed within this study (Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay). This is not surprising, as the vast majority (99.5%) of firms in the region are SMEs, with almost 9 out of 10 classified as micro-enterprises, and SMEs are important generators of regional employment (60% of formal productive employment). However, while it is a normal global phenomenon for SMEs to display lower productivity levels than large firms, Latin American SMEs have a particularly significant productivity gap, being responsible for only a quarter of the region's total production value. This difference is particularly large for companies at the end of the size spectrum: Latin American microenterprises account for about 3.2% of production, while in Europe they contribute 6 times more (20% of GDP) even though they have a similar participation in the labour force. Furthermore, all countries covered in the report have to cope with the presence of a large informal sector as an integral part of the economic structure, and SME sector, with wide implications for the social and economic development of the region.

Accordingly, all of the seven countries have identified economic growth, formalisation, and diversification as primary SME policy objectives in recent years, in alignment with overall national development plans. This is becoming more pertinent as incomes rise and trade barriers are lowered, opening up new opportunities to produce goods and services. However, other objectives, such as generating jobs and reducing poverty and inequality, are also relevant, necessitating an SME policy framework that targets different segments of the SME population through various initiatives.

Against this backdrop, this report reviews the policy landscape for SME development, identifying potential gaps and offering recommendations. Despite notable heterogeneity, detailed in each of the country profiles, each of the seven countries have accumulated significant SME policy experience and established highly articulated institutional frameworks. Further, they have developed strategic SME policy orientations with regard to medium-term productive development and competitiveness plans, as well as operational SME policy institutions with both horizontal and targeted directives. On the horizontal side, they have prioritised measures to cut red tape and simplify administrative procedures, including through the widespread use of e-government services. On the targeted side, they have focused on measures to enhance productivity and innovation, with the overall objectives of reducing dependence on the commodity/oil sector, developing advanced manufacturing and service activities, and promoting technological upgrades, and further integrating into regional and global value chains.

Although the strategic approach is sufficiently articulated, when it comes to implementation the sophistication of delivery mechanisms varies and overall policy targets are often quite ambitious in relation to the tools at the disposal of responsible institutions. Furthermore, measuring effectiveness through monitoring and evaluation is a particularly weak area. While overall objectives have often been clearly stated, the implications for policy in terms of specific objectives and measurable targets have not always been fully developed. This is particularly important because, while the SME Policy Index scores demonstrate a solid level of policy implementation, the actual impact of these programmatic efforts remains to be seen in many cases.

Based on these findings, the report makes the following key overall recommendations to strengthen SME policy-making as a tool for sustainable economic growth and productive development:

- **Ensure an integrated approach to SME policy - whereby interventions are strategic, sequenced and coherent - to increase the impact of interventions and programmes.** Most countries pursue a mix of competitiveness and social policy objectives in their SME policy. Striking an effective balance will require the design and implementation of programmes targeting different segments of the SME population – as well as managing a wider range of initiatives, investing more resources, and engaging in a broader dialogue with various categories of SMEs. If oriented towards productive transformation, targeted typologies of enterprises, sectors and productive areas should also be identified. Feedback and co-ordination mechanisms between local and central government could also be enhanced in many countries, as this may clarify objectives and facilitate implementation.
- **Pay attention to good policy-making practices throughout the policy cycle - from design, adoption and implementation through to monitoring and evaluation - to help ensure that support remains responsive to firms' needs.** This will require the development of more robust inter-ministerial action plans linked to strategic documents and the introduction of performance-oriented indicators. This recommendation is particularly important as many countries are entering a phase of strategic planning or review; priority should be given to defining the policy co-ordination mechanisms; assuring coherence between objectives, policy tools and budget allocations; and integrating impact assessment schemes from the outset. Systematic impact evaluations can help ensure that public resources are used efficiently and can inform the design of future policies. Public-private consultations should also be institutionalised throughout the policy cycle, and private sector representation could be significantly enlarged in most cases, so that organisations representing the whole spectrum of the SME population are included.
- **Strengthen delivery mechanisms for more direct engagement with targeted segments of the SME population.** This should include a review of the widely used system of calls for proposals (*convocatorias*), including its procedures and implementation mechanisms, and experimentation with more direct systems of managing public support programmes, including the development of public-private partnerships. Institutional arrangements should also be reviewed to more clearly define and separate policy design and implementation responsibilities; this could lead to the creation of specialised SME development agencies that may be more effective in communicating with the enterprise sector and have more operational flexibility than ministerial departments.
- **Pair targeted SME support with continued improvements to the general business environment.** The assessment results for this policy dimension are relatively weak in comparison with those of other dimensions. Overall, this means that the targeted support that is provided to SMEs in other areas (such as innovation, associativity, internationalisation) functions within a sub-optimal general business environment, with significant barriers to enterprise entry and competition. Notably, regulatory reform and the establishment of one-stop shops are still in an early phase, and procedures for starting a business and filing taxes remain problematic. It is important that countries consider this overall picture and find the optimal policy mix between improving the general business environment and providing continuous, targeted support to enterprises with high growth potential.

- **Increase the availability of consolidated, easily accessible information to enhance stakeholder awareness and understanding of the existing support offer.** In general, a rich variety of programmes are available for different types of entrepreneurs and SMEs, but the availability of useful information on these programmes (including description of activities/objectives, how to apply, and results) varies greatly and information is often scarce or incomplete. When high-quality information does exist, it is often scattered among various websites, which is an understandable challenge due to the large number of public actors in areas relevant to SME policy. The creation of online platforms dedicated to communicating the comprehensive public support offer for SMEs, as well as the expansion of regional offices with print materials and staff dedicated to this same objective, could be useful mechanisms to increase the uptake and impact of the existing wide range of public SME support available.



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