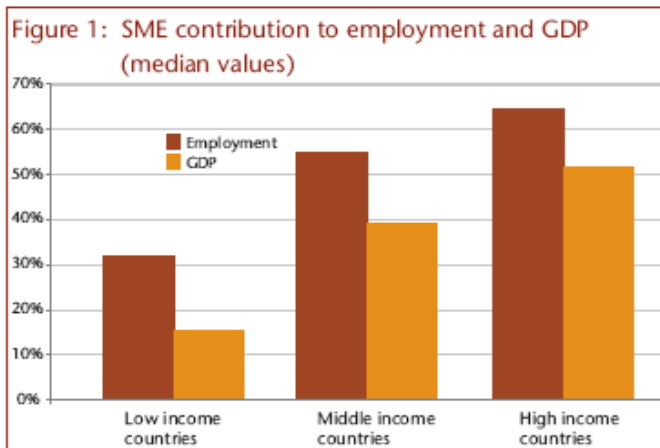




## ENTERPRISE DEVELOPMENT

### Overview

- In **OECD economies small and medium enterprises (SMEs)<sup>1</sup> and microenterprises<sup>2</sup> account for over 95% of firms, 60-70% of employment,<sup>3</sup> and 55% of GDP.<sup>4</sup>**
- In developing countries, more than 90% of all firms outside the agricultural sector are SMEs and microenterprises, generating a significant portion of GDP.<sup>5,6</sup>
- Not all SMEs and microenterprises are in the formal sector: some occupy the unofficial labor market, which varies in size from an estimated 4%-6% in developed countries to over 50% in developing nations.<sup>7</sup>



- From 2003 to 2006, high-income countries reduced the time required to register a business from 31 days to 21 days, and developing countries cut the time from 60 days to 54 days.<sup>8</sup>

### Contribution

- Although the informal economy is often perceived as a marginal issue, it can account for **a significant, but hidden, portion of GDP in many developing countries— anywhere between 30% and 70%.<sup>9</sup>**

- The International Labor Organization reported that the majority of **new jobs in developing countries were in the informal economy.<sup>10</sup>**
- According to the World Bank's *Doing Business* report for 2007, only 400,000 workers have formal jobs in the private sector in Bolivia -- out of a population of 8.8 million.<sup>11</sup>

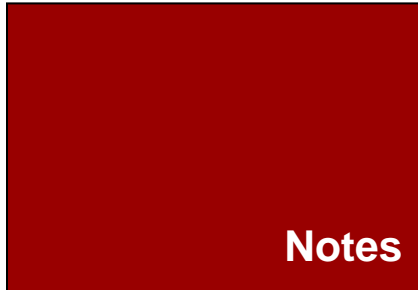
### Challenges

- Some 90% of entrepreneurs in Latin America are obliged to source much of their financing from personal savings according to Inter-American Development Bank (IDB) estimates, a picture true throughout much of the developing world.
- Information and communication technologies can foster innovation, improve productivity, reduce transaction costs and offer access to global knowledge. Although SMEs in developing countries are increasingly connected to the Internet, their involvement in e-business remains limited.<sup>12</sup>
- The World Resources Institute points out that environmental regulations designed for large businesses make compliance difficult for small and medium enterprises.<sup>13</sup>
- For the financial sector, emerging economies represent a huge potential market for credit, particularly in sub-Saharan Africa where, according to the United Nations Capital Development Fund (UNCDF), **only 4% of Africans have a bank account.<sup>14</sup>**

### SME Development and Growth

In many developing countries, SMEs comprise the majority of economic activity — but more often than not they have to operate in the informal economy. For large corporations, SMEs can offer a wealth of local knowledge, as well as innovative thinking.





<sup>1</sup> There is no universally agreed definition of SMEs. Some analyses define them in terms of their total revenue, while others use the number of employees as an indicator. The European Union defines a medium-sized enterprise as one with a headcount of 250, a small firm as one with a headcount of less than 50 and a microenterprise as one with a maximum of 10 employees. To qualify as an SME in the European Union, a firm must have an annual turnover of Euro 40 million or less and/or a balance sheet valuation not exceeding Euro 27 million, while the annual turnover of a microenterprise must not exceed Euro 2 million. In the United States and Canada, SMEs include firms with less than 500 employees.

<sup>2</sup> In the EU economy, roughly 93% of SMEs are microenterprises (see <http://www.unece.org/indust/sme/sme-role.htm>)

<sup>3</sup> OECD. November 2006. *Policy Brief*.  
<http://www.oecd.org/dataoecd/53/27/37704120.pdf>  
(accessed 23 July 2007)

<sup>4</sup> OECD. 2004. "Promoting SMEs for Development." Paper for the 2nd OECD Conference of Ministers Responsible for Small and Medium-Sized Enterprises (SMEs). "Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Towards a More Responsible and Inclusive Globalization." Istanbul, Turkey. 3-5 June, 2004.  
<http://www.oecd.org/dataoecd/6/7/31919278.pdf>  
(accessed 23 July 2007)

<sup>5</sup> According to the United Nations Economic Commission for Europe (UNECE), the majority of SMEs in countries in transition are microenterprises employing family members or close relatives.

<sup>6</sup> OECD. 2004. "Promoting SMEs for Development." Paper for the 2nd OECD Conference of Ministers Responsible for Small and Medium-Sized Enterprises (SMEs). "Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Towards a More Responsible and Inclusive Globalization." Istanbul, Turkey. 3-5 June, 2004.  
<http://www.oecd.org/dataoecd/6/7/31919278.pdf>

<sup>7</sup> World Bank. Concept of Informal Sector.  
<http://lnweb18.worldbank.org/eca/eca.nsf/Sectors/ECSPE/2E4EDE543787A0C085256A940073F4E4?OpenDocument>

<sup>8</sup> World Bank. 2007. *Atlas of Global Development*.

<sup>9</sup> World Bank. Development Outreach. "Potential Winners and Losers from Business Formalization"  
<http://www1.worldbank.org/devoutreach/article.asp?id=287>

(accessed 23 July 2007)

<sup>10</sup> ILO. *World Employment Report 1998-1999*.

<sup>11</sup> World Bank. 2006. *Doing Business 2007: How to reform*.

<sup>12</sup> UNCTAD. 2004. "E-commerce and Development Report."  
<http://www.unctad.org/Templates/WebFlyer.asp?intItemID=3356&lang=1>

<sup>13</sup> World Resources Institute. "The Role of Small- and Medium-Sized Enterprises in the Futures of Emerging Economies." December 2006.  
[http://earthtrends.wri.org/features/view\\_feature.php?fid=69&theme=5](http://earthtrends.wri.org/features/view_feature.php?fid=69&theme=5) (accessed 28 June 2007)

<sup>14</sup> UN Capital Development Fund