

Institutional Capacities for  
Small Business Policy Development  
in Latin America and the Caribbean

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# Foreword

Government and private sector interest in micro, small and medium-sized enterprises (MSMEs) has increased significantly in Latin America and the Caribbean in recent years. MSMEs play a key role in job creation, adding value, and enhancing productivity in the region's economies. However, they face competitive challenges resulting from globalization, regional integration, and the revolution in information and communications technologies, as well as from national reform and modernization.

The IDB Group has long recognized the importance of MSMEs in the region, as well as the challenges they face. For this reason, the IDB Group has worked together with member states and the private sector to provide the financial and technical resources needed for MSME development. As part of its strategies to promote private sector development and competitiveness, the IDB Group provides support MSMEs through diverse activities, projects, and financial instruments, which can be grouped into four categories: (i) improvement of the business environment, (ii) financial services, (iii) business development services, and (iv) development and dissemination of strategies.

This study provides a quantitative description of MSMEs in Latin America and the Caribbean. It highlights the quality of the information available in the region and, in doing so, also identifies gaps in the data. The study also presents a comparative analysis of the capacity of national MSME institutions to support small business development. Based on this assessment, the authors also draw attention to the disparate levels of institutional capacity in the region. The study recommends the development of an *MSME Institutional Learning System* to organize and promote the sharing of information among MSME support institutions of all types in the region, and between them and their international counterparts and international development organizations.

We hope this report contributes to the dialogue on MSME support policies in Latin America and the Caribbean, and stimulates an exchange of ideas, information, and best practices.

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# Executive Summary

Micro, small, and medium enterprises (MSMEs) in Latin America and the Caribbean (LAC) are the most significant sources of employment across the region. In most countries the private economy is almost entirely comprised of MSMEs. Despite their import, research regarding trends in the MSME sector and surveys of principal MSME development institutions reveals a lack of quality information about MSMEs and disparate capacity levels of national institutions to coordinate the sector. As a result, public policies to support the sector are not driven by accurate data and input from key coordinating institutions. Based on a review of available information and analysis of institutional capacities, this study sets forth recommendations to enhance the capacity of institutions whose mandate is to support the MSME sector.

This study relies on published research on the MSME sector and surveys of the principal MSME development institutions in up to 17 Latin American countries and one Caribbean country to analyze information regarding MSMEs in the region and the policies that support them. The primary objective of the study is to identify weaknesses in the process of developing optimum support policies for MSMEs, and to propose opportunities for improvement. Institutions that support the MSME sector are considered to be at the center of this process in their role overseeing and taking part, either directly or indirectly, in increasing MSME competitiveness through the flow of information into policy.

Understanding the MSME sector is a critical first step in designing and implementing optimum support policies. However, through the course of this study it becomes clear that available information in LAC countries is scarce, out of date, and often inconsistent. Many countries do not regularly measure and track MSMEs. Enterprise sizes are not uniformly defined across regions, making evaluations and comparisons difficult. And countries rely on distinct data

sources (such as economic censuses or surveys) to measure the sector, a minority of which is recognized as extremely comprehensive, reliable, and consistent. As a result, there is little current, accurate, or longitudinal data to inform countries about the condition and needs of the MSME sector.

Despite data limitations, this study draws on the most current and comparative information available to measure the size and impact of the MSME sector. MSME firms constitute nearly all private sector firms in the region, and employ the majority of private sector workers—well over 70 percent of total private sector employment in most countries in the region. However, the small contribution of MSMEs to gross domestic product does not match the representation of these enterprises in terms of numbers and employment, signaling a considerable gap in productivity and competitiveness between MSMEs and large firms. Low productivity is not solely due to the small scale of MSME operations. Other more critical causes include difficulty in accessing financing, concentration in the lower-wage retail sector, the high costs of innovation, difficulty exporting, and their position in a relatively corrupt and inefficient business environment. These challenges cause many of the numerous smaller enterprises that enter the market to fail, and also force them into the informal economy where they may compete with small firms in the formal economy. Finally, a small percentage of micro enterprises are able to expand into larger, more productive firms, justifying the need to monitor and support their progress.

Public institutions in Latin America maintain disparate levels of capacity to address the challenges MSMEs confront. A review of 17 institutions reveals general institutional characteristics. These include the fact that the annual budget of many institutions is quite small, there is great variance among the size of the institutions in terms of budget and the number of personnel and programs, the majority were founded re-

cently (after 1990), most fall within the structure of the central government (as ministries or departments), most institutions operate in a country with MSME law, and only one institution actively engages in MSME policy creation in the country.

An institutional capacity index with 11 variables and four factors was created and implemented to measure the capacity of institutions to support the MSME sector in their country (see Box 1).

Each variable was assigned a number of points, and institutions were rated and classified into four categories: A, B, C, and D. Institutions in the A rating include those with the highest level of institutional capacity; D institutions are those with the weakest institutional capacity. The results by rating category, institution, and corresponding country are listed in Box 2.

Many of the institutions maintain increasing resources in terms of budget and number of employees, but frequent changes in key personnel (including maximum authority and immediate

directors) greatly diminish the stability of B, C, and D-rated institutions. Many lower-rated institutions do not have a strategic plan, meaning they do not implement a process to align their structure and resources with mid-term priorities, missions, and objectives. Many institutions also do not have annual working plans to identify specific responsibilities and timelines for the year.

MSME institutions employ a wide range of programs. However, many institutions do not offer programs throughout the country, so that many small firms primarily in rural areas are not served. Some institutions only provide services in the central office. Institutions differ in their levels of sophistication in use of technology for offering services via the Internet. While a few offer comprehensive, interactive services and tools, other institutions have virtually no substantive information available on MSMEs online.

Inter-institutional coordination seeks to understand the level of interaction among MSME in-

### Box 1. Factors and Variables

<p>Factor 1. Institutional stability</p> <ul style="list-style-type: none"> <li>- Evolution of the annual budget</li> <li>- Evolution of number of personnel</li> <li>- Stability of key personnel</li> <li>- Implementation of a strategic plan</li> <li>- Execution of an annual work plan</li> </ul>	<p>Factor 2. Attention to problems confronted by MSMEs</p> <ul style="list-style-type: none"> <li>- Themes covered through support programs</li> <li>- Territory covered</li> <li>- Services through the Internet</li> </ul>
Factor 3. Inter-Institutional Coordination	Factor 4. Institutional Learning

### Box 2. Rating Category by Institution and Country

Rating Category	Institution and Country
A	SEBRAE (Brazil), Sercotec (Chile), Conamype (El Salvador)
B	ViceMinisterio de la MiPyme (Guatemala), Sepyme (Argentina), Spyme (Mexico), Prompyme (Peru), Anpyme (Paraguay)
C	DiPyme (Colombia), Conamipyme (Honduras), Ssepyme (Ecuador), Digepyme (Costa Rica), Dinapyme (Uruguay), Inapymi (Venezuela)
D	Promipyme (Dominican Republic), Inpyme (Nicaragua), ProPyme (Paraguay)

stitutions and other public and private organizations that also support the sector. Coordination is especially significant in LAC countries, where a myriad of entities exist that offer distinct services to MSMEs. Few institutions surveyed maintain a high level of inter-institutional coordination. High turnover in key personnel in the institutions may certainly reflect on the level of continuous and effective coordination and the overall stability of institutions in the region.

Despite the many programs offered by institutions, there is little activity to track and evaluate impacts. Only two institutions surveyed employ independent evaluations that are shared and discussed with those responsible for MSME policies with the goal to continue to learn from their activities.

The findings from the institutional capacity index and institutional characteristics reveal six factors that determine the most capable institutions. First, not the size of the budget, but the efficient use of resources is critical. Second, the age, and therefore experience, of an institution likely contributes to its ability to design and implement effective programs. However, young institutions that put into practice comprehensive evaluation systems and gather expertise from more established initiatives can quickly gain a level of institutional knowledge. Third, the stability of key personnel is a component to a competent institution. Fourth, involvement in resource provision and oversight (working beyond direct services) allows institutions to coordinate more with other organizations, facilitate program development and implementation, and be more responsive to the sector overall. Fifth, integrating private interests into strategic decision processes steers institutions to best meet the needs of MSMEs. Analysis also indicates that a level of autonomy from the central government is a characteristic of many highly capable institutions. Sixth, the presence of MSME law may contribute to institutional stability, as such law may establish the framework and provision of resources to guide institutions.

The findings generated from this study and input from participants at the “Public Policies for the Development of Small Enterprises: Challenges

and Opportunities” workshop<sup>1</sup> (where this study was presented) make it clear that more resources are required to improve MSME public policy. A recommendation is set forth for the creation of an MSME Institutional Learning System. Specific recommendations for developing such a system include the following.

### **Analyze current data collection techniques and develop a structure for enterprise-by-size data collection**

This study reviewed the difficulties of collecting and gathering comparable data across the LAC region. Indeed, many countries do not have systems in place to regularly collect even the most basic economic data. To understand the MSME sector and create policies accordingly, countries must implement regular data collection schedules. Initiatives through the MSME Institutional Development System include an inventory of data currently collected in countries, creation of standardized or comparable MSME definitions, data collection and analysis support, and more.

### **Identify best practices**

To understand the current capacity of national institutions supporting the sector, a more microscopic analysis is required. An MSME Institutional Learning System could work with countries to apply studies at the program level, and thus develop a set of best practices to overcome identified institutional and programmatic challenges. Best practices will be created for a wide range of techniques, processes, activities, programs, or initiatives that most effectively support the MSME sector.

### **Disseminate evaluation and monitoring techniques and methodologies**

The lack of evaluation and monitoring is one of the principal weaknesses of MSME institutions.

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<sup>1</sup> The workshop was sponsored by the Inter-American Development Bank and Fundes and took place in Quito, Ecuador on September 12 and 13, 2006. This study was presented as a discussion paper under the title “Analysis of National Capacities to Support Small Enterprises in Latin America.” Additional information is available at [www.iadb.org/sds/mic/politicaspUBLICAS/homepage.htm](http://www.iadb.org/sds/mic/politicaspUBLICAS/homepage.htm).

The majority of institutions do not possess the knowledge, experience, and resources to monitor and evaluate their programs and initiatives, understand impacts, and incorporate learning into the institution. An MSME Institutional Learning System would help to (i) overcome hesitations in developing evaluation and monitoring systems through promoting such systems as valuable tools for learning and improvement, as well as to demonstrate successes; and (ii) identify best practices in evaluation and advise institutions on implementing models. This includes providing technical assistance to institutions for adapting and modifying models to meet their needs and objectives, as well as for fitting within their resource constraints.

### **Carry out dissemination and training**

The models and best practices to support institutions should be disseminated through publications, forums, and education training courses. A publication would consistently gather best practices and distribute the information to those who

can use it. Forums bring together colleagues from across the globe, including leaders and those working on-the-ground. Education training courses teach institution managers and personnel about tactics to confront MSME challenges, including optimum programs, policies, implementation plans, and tracking. Forums and courses serve as an opportunity for networking, stimulating partnerships, and sharing information and ideas. Creation of a system that trains business development professionals will professionalize the career and lead to a larger and more accepted body of knowledge.

Through providing MSME institutions with the resources they need to evaluate and understand the sector, identify critical needs, create appropriate responses, share and gain information, and increase education, the MSME Institutional Learning System will truly contribute to the long-term development of economies in Latin America.

# Introduction

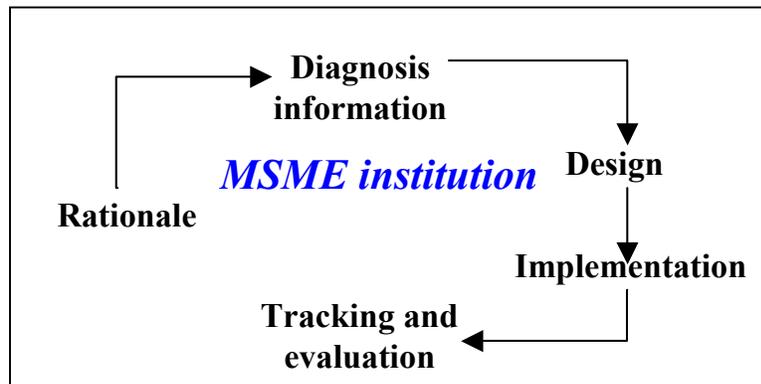
There is an established yet growing recognition of the importance of micro, small, and medium enterprises (MSMEs) in sustained national economic growth. In Latin America, MSMEs are considered one of the most significant sources of employment and income across the region, and in most countries the private sector is almost entirely comprised of micro, small, and medium enterprises. Given their importance, however, there exists little systematic research in the area of MSMEs and the programs and policies to support them. As a result, scale-based enterprise promotion is often driven by social and political considerations rather than by economic analysis. This study relies on published research on the MSME sector and surveys of the principal MSME development institutions in 18 Latin American and Caribbean countries (LAC) to analyze information regarding MSMEs in the region and the policies that support them.

The primary objective of the study is to identify weaknesses in the process of developing optimum support policies for MSMEs, and to propose opportunities for improvement. Figure 1 illustrates the basic process for the development of MSME policy, and how the principal elements interact.

The process begins with a need or rationale to develop a policy to increase MSME competitiveness. Diverse market failures, such as imperfect information and competition, are often rationales. The next step includes the collection of information to arrive at a diagnosis of the particular challenge confronting the MSME sector. After diagnosis of the problem comes design of the solution. Solution design often takes the form of a particular program aimed at MSMEs. Implementation follows. In this phase services are delivered to firms. The final and very critical phase is tracking and evaluation of the policy. Only in this manner is it possible to gauge and understand the impacts of the policy and, with this information, to improve the entire process. MSME institutions should be at the center of the process of developing policies for their support. They are the key entity for both directly and indirectly coordinating the elements, ensuring that the optimum flow of information into policy takes place, and advancing the process.

Information is a critical input into the system to generate effective MSME support policies. This study relies on research and surveys to explore the availability and quality of information regarding MSMEs in Latin America as an indication of the condition of the system that generates

**Figure 1. The Process of Developing MSME Policies**



policies. The structures must be in place to gather and analyze information, as well as to translate findings into strategies.

This study highlights the quality of information that exists in the region, and thus identifies gaps in the information. It also presents an overview of available information on the MSME sector in 18 LAC countries. The analysis is based on topics and issues for which comparable data are available in the region. Together this information and data reveal the size of the MSME sector in terms of number of firms, employment, and production levels. It also informs on MSME themes and issues facing the sector, including informality, clustering, sources of financing, innovation levels, and export promotion. In addition, this report discusses characteristics of businesses and the business environment.

The study also presents a comparative analysis of the capacity of national MSME institutions to support small business development in the LAC region. The analysis is based on surveys directed at the identified principal MSME support institution included in the study. This report provides an overview of the characteristics of the institu-

tions surveyed, a rating of their capacity to coordinate the MSME sector based on specific criteria, and cross-comparisons of institutional ratings and characteristics.

The findings generated from this study and input from participants at the “Public Policies for the Development of Small Enterprises: Challenges and Opportunities” workshop, where this study was presented, make it clear that more resources are required to improve MSME public policy. The workshop brought together small business development leaders from across Latin America (many from the institutions surveyed in this study) to learn about and discuss optimum strategies to enhance the formation and implementation of effective MSME support policies. This study served as a discussion paper at the workshop, and a foundation from which strategies were proposed. The feedback from workshop participants and findings from this study are combined in the conclusion to put forth specific recommendations to enhance the process of identifying and creating optimum MSME policies and programs in LAC countries.

# A Snapshot of the MSME Sector in LAC Economies

MSMEs are drivers of growth for all Latin American and Caribbean economies. These enterprises generate employment and local-level progress in terms of creation of wealth and an entrepreneurial culture, as well as implementation of new technologies, innovations, and more. National public and private sector institutions must understand the impacts of the sector, as well as factors that limit MSME performance, so as to design and implement policies that capture the potential of small enterprises.

This chapter presents an overview of MSMEs in a number of Latin American countries, with the goal of highlighting the availability or lack of information. The analysis is based on topics and issues for which comparable data are available in the region. When possible, comparable data are used to contrast the region with other world regions such as the European Union or the OECD (countries included in the Organization for Economic Cooperation and Development). This serves to identify information gaps in the understanding of the MSME sector, as well as gaps in services for MSMEs in Latin America. Most of the data presented are for a single point in time; comparable longitudinal data are presented when available. A large amount of information presented in this section came from MSME support institution surveys for 17 or 18 countries (information for Bolivia is included when available).<sup>2</sup> Table 1 and Appendix 1 provide information on sources and details.

The following sections review characteristics and trends of the MSME sector Latin America,

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<sup>2</sup> Completed surveys were received from institutions in Argentina, Brazil, Chile, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Peru, and Uruguay. Partially complete surveys were received from institutions in Colombia, Ecuador, and Mexico. Surveys were not received from institutions in the Dominican Republic and Venezuela. Partial or incomplete surveys were expanded through telephone interviews, secondary research, and similar surveys administered to the same institutions by the Inter-American Development Bank and the authors of this study in 2005.

highlighting information sources and lack thereof.

## DEFINING MSMEs IN LAC COUNTRIES

The analysis requires defining enterprises by size, but many difficulties exist in creating those definitions, and ultimately in comparing information across distinct economies. Assigning definitions to enterprises by size allows for gathering information, analysis, and further understanding of the sector. Establishing definitions enables a clear segmentation of each group, and awareness of the specific characteristics and problems each segment confronts. This information enables the design of appropriate policies and programs to address unique obstacles. Further, given the diversity of the private sector, a clear classification system by size creates groups of micro, small, and medium enterprises that can be developed into more competitive and collaborative units.

It is extremely difficult to arrive at a comprehensive definition of enterprise size, mainly due to differences in sectors and a wide diversity in markets and national economies. As such, the definitions used to classify MSMEs profoundly influence studies to measure the size and impacts of the sector. Broad definitions identify a large number of MSMEs with higher impacts, while more restrictive definitions identify significantly fewer.

The most straightforward manner of defining enterprises is through quantitative measures. However, many argue that the attributes of smaller firms are not captured through such narrow descriptions, and that other indicators should be used, such as level of technology, level of formalized operations and administration and accounting records, management capacity, and level of access to financial and nonfinancial services.

The inherent problem that exists in classifying firms via qualitative means is the application of a standardized process to systemically classify firms. This being quite difficult on any but the smallest scale, most studies of the MSME sector rely on quantitative definitions. However, this discussion indicates that other considerations beyond number of employees and sales are significant to the classification of firms, and ultimately to the design of programs to address the problems confronted by smaller enterprises.

This study gathered quantitative definitions of micro, small, and medium-size enterprises im-

plemented and recognized in 18 LAC countries (Bolivia included). Definitions are developed by individual countries and pertain to distinct economies and levels of development. As noted, definitions vary somewhat from country to country. In many cases the MSME sector regulation law or a congressional declaration or act sets national MSME definitions. Nearly all countries employ a definition, and some countries use more than one criterion. Various indexes used by LAC countries to define MSMEs include number of employees, sales, assets, and a combination of other criteria.

**Table 1. Available Sources of Information, by Country**

Country	MSME Definition	Information Type												
		Number of Enterprises					Employment by Firm Size	Annual Sales	Informality		Financing Firms that Request Credit	Innovation Innovation Rates	N° of MSMEs that Export	Firm Movement
		N° of Firms by Size	Source Type	Source Year	By Sector	Long-term Analysis			No. of Informal Firms by Size	Informal Firm Sales				
Argentina	x	x	Household Survey	1998	x		x				x	x	x	x
Brazil	x	x	Business Registry	2002	x	x	x		x			x	x	x
Bolivia	x	x	Study				-							
Chile	x	x	Business Registry	1995/2004	x	x	x	x	x	x			x	x
Colombia	x	x	Census/Survey	1990/2000			x						x	
Costa Rica	x	x	Study	2000			x							
Dominican Republic	x	x	Survey/Study	1999/2000			x							
Ecuador	x	x	Survey	2001			x							
El Salvador	x	x	Survey	2004			x	x						
Guatemala	x	x	Economic Census	1998			x							
Honduras	x	x	Study	2000	x		x							
Mexico	x	x	Economic Census	2003		x	x				x	x		
Nicaragua	x	x	Statistical Research	1996	x		x							
Panama	x	x	Statistical Research	1999			x							
Paraguay	x	x	Study	2002	x		x							
Peru	x	x	Business Registry	2004	x	x	x		x					
Uruguay	x	x	Statistical Research	2000	x		x					x		
Venezuela	x	x	Survey/Research	1998/2000			x							

\*Only data included in the study noted

The most commonly used index is the number of employees. The surveys indicate that 16 of the 18 countries utilize employment to measure a micro, small, medium, or large business. Twelve countries define enterprise size by monthly or yearly net sales, and five employ definitions based on assets. These measurements are not mutually exclusive. El Salvador, for example, employs a scale weighing both employment and sales. Costa Rica implements a unique system of points based on several enterprise factors including average enterprise employment, annual sales, and value of fixed and total assets. A detailed description of qualitative definitions by nation is included in Appendix 1, Table A1-1.

With no consensus on firm size definitions across the region, only general country-by-country comparisons of the sector are possible. And many countries do not possess and/or publish up-to-date information, and only in certain cases and in certain countries is longitudinal information available.

#### **MSMEs' CONTRIBUTION TO THE TOTAL NUMBER OF FIRMS**

Given the lack of consistent and up-to-date information, it is difficult to precisely express the importance of the MSME sector in Latin America and the Caribbean. The source of information for each country is diverse. In some cases, the principal and most current source is the economic census or data extracted from social security and tax information. In other cases, information comes from household, industry or innovation surveys or other types of published studies or research. And different sources and enterprise size definitions may take into consideration diverse sectors or industries within those sectors. This study, however, does *not* include the agriculture sector. Finally, in the majority of the countries, the statistics tend to be quite dated. Many figures are over six years old (before 2000), and a few data points are available at different years, which is noted. Complete data sources, including supplemental tables and charts, are found in Appendix 1.

Based on data for 18 countries (Bolivia included), we find that microenterprises make up

the bulk of businesses by far. Summing the numbers across the countries indicates they together account for more than 17 million microenterprises, making up about 94 percent of total enterprises in the region studied.<sup>3</sup> Small businesses constitute the next largest number of firms, with more than 3 percent of total firms in the 18 LAC countries. The number of large firms compared with the total in Latin America is small; they account for less than 0.5 percent of all firms in the region. OECD countries present a similar breakdown by firm size. In the enlarged European Union, SMEs (less than 250 employees) accounted for 99.8 percent of enterprises in 2003, or about 23 million SMEs. Table A1-2 in Appendix 1 presents the proportion of each size group to the total, along with complete sources.

Some of the information about the MSME sector in national economies comes from economic censuses, the most reliable measure. Information is obtained about every member of the business population. Data from Guatemala and Mexico rely on the Economic Census, and data about medium and large firms in Colombia are from an economic census. Business registries gather detailed information on firms from taxes and other data, and offer a reliable look at formal firms. Brazil, Chile, and Peru rely on this source to measure the formal MSME sector. This is often a benefit because accurate data are steadily collected from business registries and analyzed on a more regular basis than other sources. Surveys generally only collect information on a sample from the population, and, depending on the scope and sample, can be more or less reliable. Argentina, Colombia, Ecuador, and El Salvador rely on surveys. Data regarding microenterprises in Venezuela are from a survey. Statistical research is usually conducted by national departments and is considered official information, although it is not as thorough as a census, survey, or business registry. Nicaragua, Panama, and Uruguay rely on this information. Studies about the MSME sector gather and analyze in-

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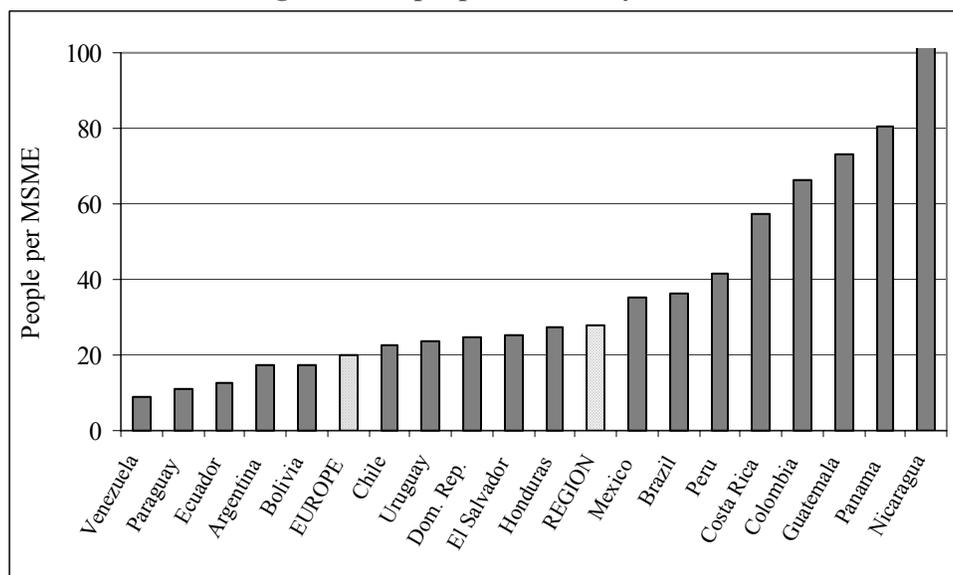
<sup>3</sup> Summing the number of enterprises offers only a general estimate due to data incomparability including: distinct MSME definitions by nation; distinct sources and years of information (ranging up to ten years); and differences in sources including or not including single-person enterprises or self-employment.

formation from either government or other sources, and are not as consistent as other sources. Most countries do not rely on one source to gather all information about the MSME sector. Surveys, research, censuses, and more are implemented. However, the sources for number of firms help to identify the countries with the most reliable data.

There are vast extremes in the number of people per MSME in LAC (Table A1-3 in Appendix 1 and Figure 2). The average across the countries

estimate the number of micro enterprises in the economy (or include informal enterprises, one-person enterprises, and the self-employed). Countries to the left of Mexico include, in order, Honduras, El Salvador, the Dominican Republic, Uruguay, Chile, Bolivia, Argentina, Ecuador, Paraguay, and Venezuela. Countries falling to the right of Brazil may underestimate the number of microenterprises. These countries include Peru, Costa Rica, Colombia, Guatemala, Panama and Nicaragua<sup>5</sup> (Figure 2).

**Figure 2. People per MSME by Nation**



Source: Table A1-3.

is just about 30 people per MSME, with a few countries greatly pulling this average up. Data from Nicaragua indicate more than 100 people per MSME.<sup>4</sup> Grouped right around the average for the region, Mexico and Brazil have about 35 to 36 people per MSME. The clustering of these countries may shed some light on the accuracy of reported data, as they historically possess among the most comprehensive and precise methods for gathering data by firm size in all of LAC. We can make the general conclusion that countries falling to the left of Mexico may over-

Brazil and Chile are able to offer more in-depth analysis on growth of the MSME sector over time compared with large firms (Tables A1-4, A1-5, and A1-6 in Appendix 1). These countries have monitored and published information on the number of firms for more than a decade, providing critical information for assessing the

<sup>4</sup> This high number may point to the possibility that one-person enterprises and the self-employed are not included in Nicaragua's figures, while they are included in data from other countries.

<sup>5</sup> An exception to this conclusion is the case of Chile, which is one of the most developed countries in Latin America and reliably reports economic and firm data. Chile has the sixth highest GDP, sixth highest number of MSMEs in the region, and seventh highest population, but is second only to Brazil in terms of the number of large firms. This helps explain why Chile falls to the left of the average of people to MSMEs. In fact, Chile has close to the same average number of people per MSME as the European Union (23 and 20 people per MSME, respectively).

results of MSME public policies. Mexico and Peru also track and publish information over time. In all countries, the number of microenterprises has greatly increased. For example, micro enterprises added more than 3 million new firms to the Brazilian economy between 1995 and 2002, growing by 45 percent. This is in contrast to large firms, which grew at only 11 percent during the same period. Only in Chile did large firms grow the most in terms of percentage change since 1995. Data tracking the movement of firms indicate that some large firms in 2004 grew from firms that were micro or small in 1995.

### **MSMEs' CONTRIBUTION TO EMPLOYMENT**

Although most countries track employment data by firm size, data constraints such as distinct definitions, outdated information, and incomplete figures bring into question the reliability of MSME employment numbers. However, the available information indicates that just as micro, small, and medium enterprises in LAC make up the bulk of the total number of firms, they also account for the majority of private employment. In 17 countries, MSMEs account for about 77 percent of total employment. Nearly 65 percent of that is due to microenterprise employment alone. Large firms, which make up less than 0.5 percent of total firms in the region, account for 23 percent of employment. Table A1-7 in Appendix 1 highlights total employment and proportional employment by firm size and country.

MSMEs in Latin America have historically played an important role as generators of employment, and in some cases that role has increased. Brazil and Chile have comprehensively tracked MSMEs for the past decade or more, and can report on how the sector is moving or changing. For example, SEBRAE of Brazil maintains an "Observatory" to conduct studies and research on smaller enterprises in the country and produce practical bulletins and updates on the subject (Observatório SEBRAE, 2005). Chile Emprande of Chile also seeks to produce detailed useful information on the sector (Chile Emprande 2005). Mexico also maintains and

publishes statistics from 2000, and Peru offers important but more limited information. Appendix 1 indicates that, overall, MSMEs have accounted for the great majority of employment increases in Brazil, Mexico, and Peru (INEGI 1998 and 2003). In Chile, while small firms continue to grow and add the majority of jobs to the economy, the number of large firms is increasing and their share of employment is also increasing. More details and sources are found in Appendix 1.

SMEs in OECD countries also account for a large share of employment (OECD, 2005). SMEs in these countries are generally firms with fewer than 250 employees. MSMEs (fewer than 250 employees) in the 25 economies that comprise Europe employed 66 percent of the private sector in 2003. Small businesses in the United States (fewer than 500 employees) generate 68 million jobs, employing about half of the private sector workforce. In both Europe and the United States, the general trend is that SMEs are adding more new jobs than large firms are, and that the share of SME employment has been increasing. Latin America in general reflects a similar trend, with the exception of Chile where large firms are growing at a faster rate than small firms.

### **THE PRODUCTIVITY GAP**

The importance of the MSME sector varies across countries (Figure 3). Analysis of eight LAC countries with available data indicates that MSMEs contribute between 30 and 60 percent of GDP.<sup>6</sup> However, MSMEs' percentage contribution to GDP remains at less than 50 percent for most countries, showing that there is room for MSMEs to improve their productivity and contribution to national wealth.

A few LAC countries compile business sales by firm size. Again, the most accurate data come from Chile, which tracks firm sales over time. Between 1999 and 2003, the share of micro enterprises in total sales decreased, while the share of large firms grew. In 2003 microenterprises in Chile accounted for only 3.4 percent of total

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<sup>6</sup> There are many data limitations in obtaining and comparing indicators of MSME contributions to national GDP.

firm sales, while large firms accounted for over 78 percent (Chile Empreende, 2005). Although micro and small enterprises in Chile are noteworthy in terms of number of firms and employment, their impact is not nearly as significant in terms of sales (Figure 4). El Salvador has also recently published business sales data, indicating that small firms offer an insignificant level of sales compared with larger firms (based on percent). This information demonstrates that as the number of employees increases, average monthly sales as well as employee productivity also drastically increase (Figure 3).

Through comparing annual sales and employment, we can also learn about worker productivity (annual sales per worker). In the case of Chile, annual sales per worker in a micro/small enterprise is about US\$9,257, while for a medium/large firm the amount is about US\$94,008 (Chile Empreende, 2005). This productivity gap between micro/small and medium/large enterprises could be a result of different levels of access to hard and soft technologies, financing, markets, and human resources, issues that will be discussed later (Figure 4).

The compilation of comparable, available information makes it possible to measure the size of the MSME sector in the majority of LAC countries. It becomes clear that the sector is overwhelmingly important in terms of jobs provided and number of firms. However, although large in numbers, MSMEs are not able to generate comparably high figures in terms of contributions toward national GDP, or in the case of Chile, sales, compared with large firms. This prompts questions regarding the ability of MSMEs to generate significant income, and, given the grand scale of the sector, points to the potential of MSMEs to increase productivity and contribute to greater national earnings.

## INFORMALITY

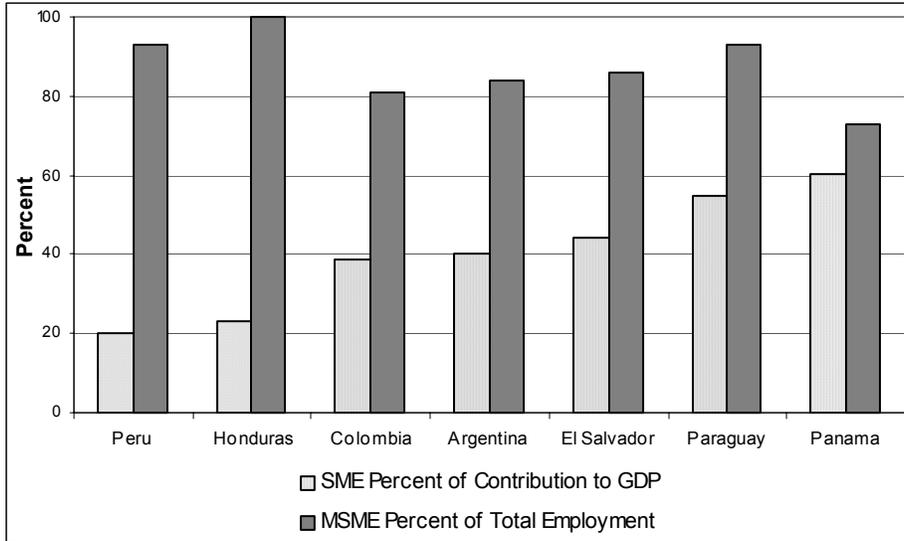
The informal economy in Latin America accounts for more than half of nonagricultural employment (Becker, 2004). Many studies have monitored the large size of the informal economy in Latin America, and its social and economic impacts. The informal economy often

employs the poorer and less educated segments of society, and is composed of more women than men. The informal economy proves to be very flexible in its ability to fill gaps in the market, absorb workers, and create jobs (Becker, 2004). However, because it is often a response to poverty or crisis, informal employment offers low or no worker benefits and low wages. Small, informal firms are less productive, have little access to finance and government services, and have a limited customer base. Further, formal enterprises take issue with the unfair advantage informal firms present. They operate without registration, regulation, or paying taxes (Palma and Anayiotos, 2005).

Defining informal firms and activities, the first step in tracking informality, is difficult. In the simplest terms, the informal economy refers to goods and services that are unregulated in an environment in which similar activities are regulated. In Peru, the National Institute of Statistics and Information estimates the total number of formal and informal firms in the country through a national household survey. From that number the total number of registered, formal firms is subtracted to estimate the number of informal firms. Chile applies a similar process: the total number of firms that reported sales to the Internal Revenue Service is subtracted from the estimate of total firms from a national household survey conducted every two years. By contrast, Brazil has conducted two national Urban Informal Economy Studies (1997 and 2003). Informal firms are defined based on the recommendations of the International Labor Organization, and are considered to be firms that employ up to five workers, and are not formally registered, as well as independent workers.

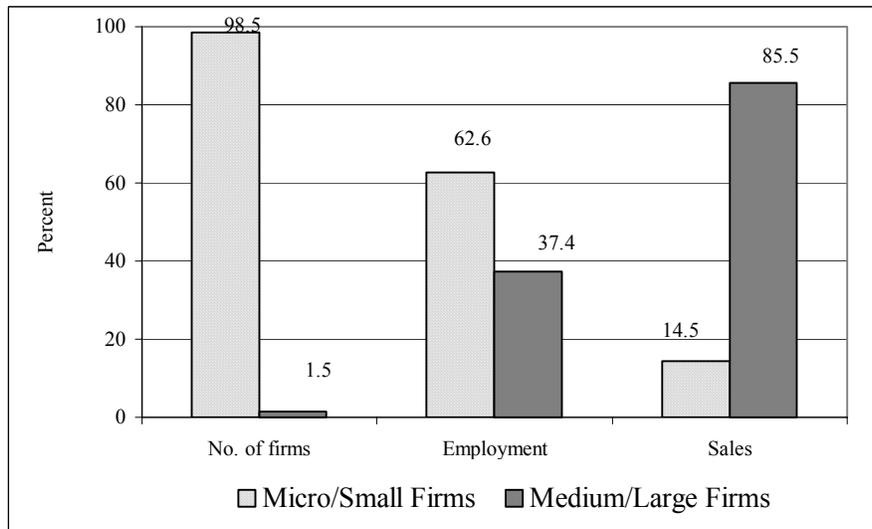
These studies indicate that a majority of informal activity derives from very small firms. According to estimates for Peru, there were 1.87 million informal micro and small enterprises in 2000, or more than twice the number of total formal firms (Dirección Nacional de la MYPE, 2004). Informal firms in Chile account for more than half of total firms. Chile initiated an effort to track the sales of informal firms, and found they are about 42 percent of sales of formal firms (Chile Empreende, 2005). A survey con-

**Figure 3. MSME Contributions to Total GDP and Employment (Percent)**



*Source:* For GDP contributions: Argentina, 1995, Demirguc-Kunt, Beck, and Ayyagari, 2003; Paraguay, including microenterprises by country definition, DGEEC/UTEP-BCP (2004); Honduras, CONAMIPYME (2000) for the average, including MSMEs by country definition; Peru, INEI and ULPYME (2000), including MSMEs by country definition; Panama, El Salvador, Ecuador, and Colombia, Demirguc-Kunt, Thorsten, and Ayyagari (2003), 1990-99 averages, for MSME contributions to total employment.

**Figure 4. Chile: Percentage of Total Firms, Employment, and Sales by Firm Size**



*Source:* Government of Chile. 2005. La situación de la MPYE en Chile.

ducted in Brazil in 2003 indicated the existence of nearly 14 million workers in the informal economy, of which about 80 percent were self-employed. From 1997 the number of workers in the Brazilian informal economy grew, and informal workers, outside of agriculture, are found predominantly in the retail sector (Observatório SEBRAE, 2005). In the United States, the informal sector accounts for about 8.8 percent of the labor force (Schneider, 2002).

Informal activities also exist in formal firms through, for example, tax evasion or using under-the-table tactics. The rate that firms report sales for tax purposes indicates levels of informality by firm size. On average, firms in Latin America report just over 70 percent of total sales. In comparison, OEDC high-income countries report about 94 percent of sales for tax purposes. Analyzing sales reported by firm size, we see that small firms report a bit less than the average, and medium and large firms report more than the average (with large firms reporting about 81 percent).

Limited information is available on the informal sector in Latin America to indicate its magnitude. It is clear that more information and analysis are needed to understand the impacts of the sector, how to harness the potential of the sector, and the appropriate policies for doing so.

## MSMEs AND ECONOMIC SECTORS

Relatively few countries in Latin America provide employment data by sector (industry, service, or retail sector) *and* firm size. The information included in this study is taken from Argentina, Brazil, Chile, Honduras, Nicaragua, Paraguay, Peru, and Uruguay.<sup>7</sup>

The majority of small firms in Latin America are engaged in the commercial trade sector, which includes wholesale and retail trade.<sup>8</sup> It is notable

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<sup>7</sup> Not all the countries offer complete employment data by sector for micro, small, and medium enterprises.

<sup>8</sup> The agricultural sector is not included in this analysis. It should be noted however that the majority of agro producers could be considered part of the MSME sector. In fact, small agro producers are included in MSME policies that

that while the majority of micro and small firms operate in the retail and service sectors, MSME support programs are usually orientated toward the manufacturing or industrial sector. This issue also plays out in studies of the sector, which often focus solely on manufacturing MSMEs.

Jobs in the retail sector typically offer much lower wages and less job growth potential, skills upgrading, and job security. For example, in Brazil in 2002, the median salaries and wages paid in the retail sector across all firm sizes (US\$1,304) was less than half of that in the industrial and service sectors. The trend continues in all firm-size categories. This is despite the fact that the retail sector paid more in total wages and salaries than the industrial sector, and nearly that of the service sector (Observatório SEBRAE 2005). This discovery helps to provide insight into why micro and small businesses, despite their great representation in terms of numbers, do not yield correspondingly high revenues. The fact that nearly half of all micro and small firms in Latin America are located in the more volatile retail sector may also point to why these firms often have a shorter or more unstable life span than that of larger firms (this issue will be discussed later). As noted in the previous section, most informal firms in Latin America are in the retail sector (see Table A1-9 in Appendix 1).

## GAPS IN FINANCING

Among the barriers that MSMEs face in expanding production and reaching new markets, access to credit is one of the most significant (IDB, 2005). Factors that might inhibit access to credit include the lack of guarantees for smaller firms, high interest rates, and excessive bureaucracy and requirements, among others. Smaller enterprises face excessive hardships in qualifying for credit compared with larger firms. It should be noted, however, that information about MSME access to credit is scant in the region, limiting the possibility of tracking the results of public programs aimed at reducing the financing gap.

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focus on increasing the competitiveness of clusters and value chains based on natural resources.

The “Latin American SME Observatory” is an excellent, in-depth analysis of small firms in Argentina and Mexico. The Observatory tracked requests for loans by firm size and sector in 2000-2001 and found that smaller firms less frequently request credit than large firms across all sectors, and work with fewer banks than large firms do (Table A1-10 in Appendix 1). Together these data demonstrate that smaller firms are engaged with the financial sector at a much lower rate than large firms are (Donato and others, 2003). This implies that smaller firms are less aware of and less eligible, interested, and/or inclined to apply for formal financial products. Most firms turn to other forms of credit, which may be either more expensive or more restrictive, impeding other investments.

A recent World Bank study demonstrates that the majority of enterprises in Latin America finance new investments through internal funds or retained earnings. Small enterprises are a bit more likely to use internal funds or retained earnings than large firms are. This may indicate that small firms have fewer opportunities to access formal or traditional sources of financing. Or it may indicate that they reserve internal sources to draw on. Small firms also access and utilize formal loans at a lower rate than large firms. Further, small firms access informal financing 80 percent more than large firms do.

There is somewhat of an inverse relationship between the use of informal funds and bank funds for small firms. That is, the smaller the firm, the less likely it is to use formal bank financing and the more likely it is to use informal financing. One reason small firms may rely less on formal bank loans is because they are generally required to present a greater amount of collateral for a loan or an overdraft, often 3 to 7 percent more than the amount of collateral a large firm must present as a percentage of the loan (World Bank Enterprise Surveys).

MSMEs also confront disproportionately high interest rates compared with larger businesses. In Peru, different lending institutions are able to offer distinct interest rates. In Banco Múltiple, microenterprises encounter a 40-percentage point increase. Institutions that are created to

serve microenterprises (Entidades de Desarrollo de la Pequeña y Microempresa – Edpymes) can offer rates at 2 to 12 points higher (De Rossi, 2005).

## **MSMEs AND INNOVATIONS**

Technological and organization innovation is a necessary strategy for all businesses. MSMEs must innovate to maintain their market position, above all in sectors with an elevated level of technological change and/or competition. Innovation can assist with product quality and design, delivery time, and more. Given the relevance of innovation for the competitiveness of MSMEs, developing reliable information about the level of innovation and characteristics of innovative processes is critical for enabling businesses to adjust to business strategies, and for governments to design the most effective scientific and technology policies. However, just a few countries in the LAC region have reliable information about the innovation activity of enterprises, including Argentina, Brazil, Colombia, and Uruguay (Lugones and others, 2003). Surveys have been applied in these countries since the 1990s, and they principally take into account manufacturing and industrial enterprises.

While it is extremely important to gather and compare information on innovation by firm size, it is a difficult task. First, the terms and means for measuring “innovation” are interpreted distinctly, resulting in data that are unique to one country. Second, innovation is a relatively new issue to consider by firm size, and a small but growing amount of data exists, mainly based on the types of surveys previously discussed.

Comparable statistics indicate that the introduction of new and improved products into the market and putting into practice new productive processes are less frequent among the smallest enterprises. And small enterprises innovate significantly fewer commercialization tools than medium or large firms do. Copyright laws and enforcement are often weak in Latin America. As a consequence, entrepreneurs may be unable to appropriate the benefits from innovation, thus decreasing incentives.

World Bank Enterprise Surveys measure research and development (R&D) investment as a percentage of total sales by firm size in four Latin American countries. According to the World Bank, small businesses spend less on R&D than large and medium-size firms do. In fact, large firms invest about 64 percent more in R&D as a percentage of sales than smaller firms do (World Bank Enterprise Surveys). This leads to the conclusion that although innovation is extremely important for small firms, they are unable to invest a significant amount to advance processes or products.

The fact that smaller firms in LAC countries spend less on R&D than large firms do, and also innovate less, may be due to the inability of small firms to access the financing necessary to enhance internal R&D. In Argentina, 73 percent of small firms indicate that the greatest obstacle to the process of innovation is due to difficulties in accessing finance. By contrast, large firms in Argentina find that the rate of return is the most significant obstacle to innovation. Similar obstacles are found by small firms that did not innovate in Brazil. These firms identify economic risk and high costs of innovation as the largest obstacles to entering the innovation process (SEBRAE, 2004).

Despite their lower levels of innovation and investment in R&D, small firms rely on innovation *more* than large firms do to generate new sales. New products in smaller firms account for a greater percentage of internal sales than in larger firms. In total, about 84 percent of total sales in the smallest firm size category (10 to 29 employees) of firms considered innovators in Brazil are due to new technology products developed by the firm. That number is 64 percent for the largest firm size category. This significant finding indicates that the level of sales for smaller firms is related to the level of innovation. Although smaller firms, overall, innovate less, their innovations are much more significant to their profits compared with large firms (SEBRAE, 2004).

## ACCESS TO INTERNATIONAL MARKETS

Despite the large proportion of local and regional businesses accounted for by MSMEs in LAC, data from Argentina, Brazil, Chile, and Colombia indicate that most are not involved in international trade and investment. On average, less than 5 percent of microenterprises export. In many of these countries that number is under 1 percent, and most countries do not have specific data on the subject. Similarly, few SMEs export (Table A1-11 in Appendix 1). The value exported by micro and SME firms is also diminished in comparison with large firms. For example, microenterprises in Chile export about US\$16 million each year, SMEs \$1.11 billion, and large enterprises \$6.3 billion. Similar statistics are found in Argentina and Mexico (Donato and others, 2003).

MSMEs are often at a disadvantage in terms of finance, technology, human resource development, and networking. These barriers to access to international markets increase the importance of the integration of MSMEs into cluster and value chains as a strategy for their survival and development in the global market.

## CLUSTERS, VALUE CHAINS, AND MSMEs

New approaches to developing small-scale industry were stimulated by the successful performance of industrial districts in Northern Italy. Studies indicated that clustered firms tended to be more economically viable and contribute strongly to regional growth. Small firms were shown to gain significantly from these clusters (Pietrobelli and Rabelloti, 2004). LAC countries have not missed out on these recent theories supporting the development of local clusters and strengthening value chains. These activities are especially important to MSMEs, as linking into clusters and value chains offers an opportunity to access larger and foreign markets, obtain integral skills and technologies, as well as overcome some of the major constraints they usually face (Pietrobelli and Rabelloti, 2004).

Nearly every country in the region has identified key clusters, and currently undertakes some form of activity to support and develop firms involved in clusters. This often includes assistance for creating associations to enhance communication, efficiency, and collaboration. However, few countries have taken steps to formally classify, track, and compare cluster characteristics and impacts. Pietrobelli and Rabelloti (2004) gathered existing data and conducted fieldwork to analyze existing SME clusters (or clusters that are formed of small and medium enterprises) in Latin America (Table A1-12 in Appendix 1). Their data indicate that clusters are a significant source of SME firms and employment and that SMEs in clusters are extremely capable exporters. In fact, most clusters included in their study significantly increased production and exports over a seven-year time frame. The significant research conducted by Pietrobelli and Rabelloti should be replicated and enhanced in Latin American countries to better understand the formation, integration, and impacts of clusters for MSMEs.

The majority of clusters in LAC are based on natural resource products and light manufacturing, such as furniture, textiles, and metalworking. In fact, a few LAC countries possess the potential to grow innovation clusters, and are supporting groups of firms creating new technologies and products (Bortagaray and Tiffin, 2000). Innovation clusters, which offer opportunities to expand regional competitiveness and export opportunities for MSMEs, are mostly located in the most industrialized countries in Latin America. A few smaller countries also possess the seeds for innovation clusters. For example, Bortagaray and Tiffin discuss clustering opportunities in the biotechnology and software industries in Uruguay, but note lack of effective public policy to recognize and promote cluster development. This may be the case in a majority of other countries, where a lack of systemic information about the existence and benefits of clusters impedes appropriate policy to best support the integration of geographically and commercially linked MSMEs.

## **ENTREPRENEURSHIP AND ENTERPRISE DEMOGRAPHY**

The majority of the MSME data available, and presented in this study, captures the characteristics of firms at a single point in time. Information on MSMEs in LAC is usually not consistently available over time to analyze longitudinal trends. However, the MSME sector is extremely dynamic in terms of the constant entry and exit of firms, and creation and destruction of jobs. The limited information that exists indicates that a common characteristic of small firms is constant movement.

Regional rates of Latin American firm creation and destruction are only available from Chile (Crespi, 2003) and Argentina (JICA, 2003). Data from Argentina are taken from the manufacturing sector and reveal that, in the manufacturing sector for the period analyzed (1995-2001), firms left the market at a higher rate than firms entered. This is similar to the rate for the hotel and restaurant sector, which was -2.8 percent for the same period. Over nearly the same time period in Chile, more firms entered than exited the economy for a net total gain in business creation. The entry and exit rates for Chile and Argentina fall within the general trend of other developed countries.

Longitudinal databases measuring the growth and survival of MSMEs over time are very infrequent. Variables that would be interesting to measure include firm growth in employment, sales, and employee benefits, and the firm survival rate by size. Crespi's work on Chile studies the evolution of firms from 1995 to 2001 by size. His analysis indicates that over the six-year period about 40.8 percent of micro enterprises from 1995 remained the same size in 2001, 40.3 percent disappeared, 14.7 percent fell into the inactive category, 4 percent became small firms, 0.2 percent became medium-size firms, and 0.04 percent became large firms. It must be noted that 174 micro firms in 1995 became large firms in 2001, along with 489 small firms, and 1,198 medium firms. Microenterprises had a much larger death rate (40.3 percent) over the period than other firm sizes (small, 23.3 percent; medium, 16.2 percent; large, 13.2 percent). To-

gether these numbers support the claim that micro and small businesses are important in economies in terms of generation of employment, as well as for their growth potential (Crespi, 2003).

Other statistics regarding firm mortality illustrate links between small businesses and the business environment. In Brazil, firms that are two years old or less have a 50 percent chance of survival, and firms with up to four years have only a 40 percent chance of survival. Owners of failed firms in one study indicate that the number one cause of firm failure is elevated levels of compulsory government payments, requirements, and taxes. Likewise, existing firms also consider high levels of government requirements to be the number one challenge to conducting activities. Extinct firms are smaller; they invested up to 80 percent less and employed about half as many workers as active firms. In fact, micro enterprises with up to nine workers represent 96 percent of total firm mortality in Brazil. These firms are concentrated in the retail sector and the service sector (SEBRAE, 2004).

## **BUSINESS ENVIRONMENT**

The previous sections stress that although MSMEs in LAC are numerous in both the informal and formal sectors, and significant overall to each national economy, their great numbers do not always indicate corresponding profit generation and success. While they export less and innovate less, MSMEs also have less access to finance and face other market impediments. These issues point to the fact that MSMEs function in a difficult business environment, particularly in regard to regulations and taxation, and that they possess fewer resources to easily maneuver.

An uncertain regulatory and economic climate adds to the burden MSMEs face. Tax regulations do not seem to be a significantly larger burden for MSMEs in Latin America compared with large firms, but better information flows and assistance with regard to payment of tax liabilities is needed. Currently, firms in Latin America spend an average of nearly four days a year

meeting with tax officials to understand tax requirements and obligations. High-income countries (OECD) spend about 1.65 days in meetings with tax officials (World Bank Enterprise Surveys).

Dealing with bureaucracy consumes a large amount of time and resources for many LAC enterprises. In LAC the percentage of senior management's time that is spent in a typical week dealing with requirements imposed by government regulations (e.g., taxes, customs, labor regulations), including dealings with officials, completing forms, etcetera, is nearly 10 percent. Senior managers in high-income countries spend just under 3 percent of their time for government requirements and regulations (World Bank Enterprise Surveys).

Finally, many LAC countries face a high level of corruption, adding to the uncertain business environment. The effect on small businesses can be measured through determining the average value of gifts or informal payments businesses usually paid to public officials to "get things done" with regard to customs, taxes, licenses, regulations, and services. Small businesses in many LAC countries are devoting a great percentage of their human resources and sales revenue both to meet the regulations imposed, as well as to provide officials with direct funds to advance their business.

In summary, small firms are important in LAC because of their many contributions to the economy. Most start-up and new firms start out small. They must be nurtured to create dynamic firms providing higher wages and enhanced profits. The business and institutional environment affects firms of all sizes, but especially small firms, making it difficult for them to access the resources they need to grow, or even survive. Therefore, focus on the business environment and effective functioning of markets must be integral to the discussion of small versus large enterprises. Likewise, firm innovation, firm entry, the linkages between large and small firms, and the proper functioning of institutions should also be important topics for small businesses policy and institutional strategies.

# National Public Policies for Small Business Development

This chapter presents a comparative analysis of small business development policies in the LAC region. The countries included were selected based on the existence of a developed MSME institution with ongoing MSME support programs, and the level of information available about national programs and policies. The analysis is based on an MSME Support Survey conducted between May and June in 2006.<sup>9</sup> The survey was directed at the principal MSME support institution in each nation included in the study.<sup>10</sup> MSME institutions are considered to be at the center of the process to develop optimum support policies for MSMEs. They are the key entity to both directly and indirectly ensure that the optimum flow of information into policy takes place.

The principal MSME support institution in each of the 17 countries included in this study is analyzed in its capacity to coordinate the sector and create a healthy environment for MSMEs to overcome obstacles and increase competitiveness. This is done through several levels of analysis. First is the general review of institutional characteristics (budget, number of personnel, year established), institutional structure (functional tier of the institution and position in the executive formation), and features of the national MSME support environment (existence of national MSME law). The second level of analysis is conducted through mining details to understand the stability of the institution, the means to attend to the problems faced by the MSME sec-

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<sup>9</sup> The MSME Support Survey covered the following elements for each nation: (i) characteristics of the MSME sector; (ii) characteristics of the institution; (iii) principal support programs implemented in the nation; (iv) highlighted programs; and (v) main trends and challenges. The complete survey is found in Appendix 2.

<sup>10</sup> Institutions considered principal institutions in this report meet the following criteria: (i) the mission of the institution includes increasing the competitiveness of MSMEs; (ii) the majority of the institution's financial resources are devoted to supporting the MSME sector; and (iii) the institution is mandated by congress to oversee the development of the MSME sector.

tor, the institution's role in coordinating and developing MSME support policies on a national level, and the existing institutional learning capacities of the organization. This information is used to create an institutional capacity index to arrive at a rating of the institution's capacity to coordinate policies supporting the sector. Institutional characteristics and capacity and a review of the programs offer a deeper level of analysis to understand the specific institutional and broader national effectiveness or gaps in supporting the MSME sector.

The study was structured to create a specific set of criteria for analysis, and represents a first in comparing MSME support policies via national institutions (which are understood to be generators of a system of support for MSMEs). The methodology of this study, relying on surveys submitted by the principal MSME support institutions, presents some limitations. First, the analysis takes into consideration only one institution per country, although most countries included in the study have several institutions that implement direct or indirect activities to serve the MSME sector. Second, the study focuses on institutions that aim to serve a national community. As such, state or municipal MSME activities that range outside the principal institution's activities are not included.

## OVERVIEW OF INSTITUTIONS SURVEYED

Table 2 presents a list of the 17 countries reviewed and their corresponding institutions. The table notes characteristics of each institution, including the related government department and the institution's structure (government or independent), year founded, 2005 budget and number of full-time employees, primary tier at which it functions, and if MSME law exists in the country. These elements will be discussed in turn.

**Table 2. MSME Support Institutions**

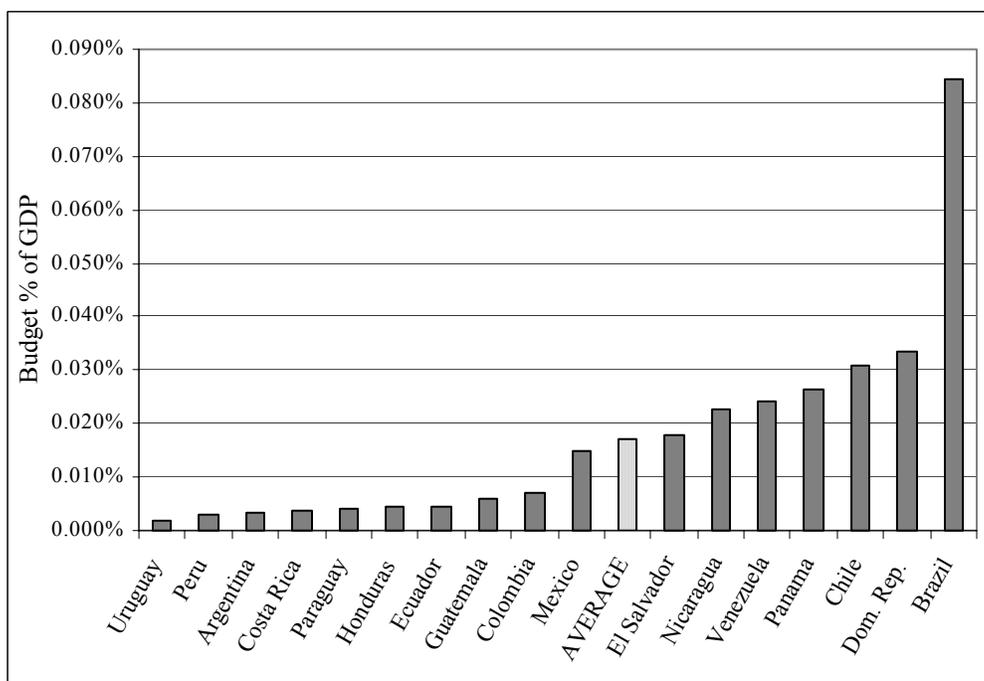
Country	Institution	Acronym	Government department	Structure	Year Established	2005 Budget (US\$)	FTE Employees 2005	Tier	MSME law
Argentina	Subsecretaria de la Pequeña y Mediana Empresa	SEPYME	Secretariat of Industry, Commerce and SME	Within ministry	1995	5,035,188	291	Second	Yes
Brazil	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas	SEBRAE	None	Independent nonprofit	1972	506,000,000	4,500	All	Yes
Chile	Servicio de Cooperación Técnica	SERCOTEC	Ministry of Economy & Reconstruction	Independent	1955	29,014,000	226	Second	Yes
Colombia	Dirección de Micro, Pequeña y Mediana Empresa	DIPYME	Ministry of Industry	Within ministry	2002	6,800,000	21	Second	Yes
Costa Rica	Dirección General de Apoyo a la Pyme	DIGEPYME	Ministry of Economy, Industry, & Commerce	Within ministry	2002	656,465	30	Second	Yes
Dominican Republic	Programa de Promoción y Apoyo a la MiPYME	PROMIPYME	Secretariat of Industry and Commerce	Within secretary	1997	6,500,000 (FY 2002)	110	First	No
Ecuador	Subsecretario de MIPYMES	MICIP	Ministry of Foreign Commerce	Within ministry	1973	1,320,000	16	Second	No
El Salvador	Comisión Nacional de la Micro y Pequeña Empresa	CONAMYPE	Ministry of Economy	Decentralized	1996	2,837,567	41	Second	No
Guatemala	Vice Ministerio de Desarrollo de la MiPYME	ViceMinisterio	Ministry of Economy	Within ministry	2000	1,534,601	70	First	No
Honduras	Consejo Nacional de la Micro, Pequeña y Mediana Empresa	CONAMIPYME	Secretary of Industry & Commerce	Decentralized	2000	326,673	14	First	No
Mexico	Subsecretaría para la Pequeña y Mediana Empresa	SPYME	Secretary of Economy	Within secretary	2001	99,500,000	283	Second	Yes
Nicaragua	Instituto Nicaragüense de Apoyo a la Pequeña y Mediana Empresa	INPYME	Ministry of Industry & Commerce	Independent	1994	997,125	60	First	No
Panama	Autoridad de la Micro, Pequeña y Mediana Empresa	AMPYME	None	Independent	2000	3,658,228	50	Second	Yes
Paraguay	Centro de Apoyo a las Empresas	CEPAE	Ministry of Industry and Commerce	Within ministry	2004	293,774	28	First	No
Peru	Centro de Promoción de la Pequeña y Micro Empresa	PROMPYME	Ministry of Employment and Commerce	Decentralized	1997	2,131,076	85	Second	Yes
Uruguay	Dirección Nacional para la Artesanía, Pequeña y Mediana Empresa	DINAPYME	Ministry of Industry and Mining	Within ministry	1990	205,700	20	Second	Yes
Venezuela	Instituto Nacional para del Desarrollo de la Pequeña y Mediana Empresa	INAPYMI	Ministry of Economy	Within ministry	2002	26,000,000	372	First	No

## The Big and the Small of It

Table 2 shows that MSME support institutions in Latin America vary greatly in size. Here size is measured by both total budget and personnel. The average budget in the region is about US\$40.7 million. However, the median is US\$2.8 million. Brazil has the highest budget by far at US\$506 million. The smallest budget pertains to Uruguay, which reaches just over US\$200,000. In fact, seven of the institutions maintained a budget at or below US\$1.5 million in 2005. Of the remaining ten organizations with a budget above US\$1.5 million, four budgets are at or below US\$5 million. That is to say, the majority of MSME support institutions in Latin America maintain a relatively modest budget, bringing into question the resources devoted to small business development.<sup>11</sup>

It is difficult to compare budgets from countries distinct in wealth and population. Looking at the MSME support institution as a percentage of the 2005 GDP of the country, Brazil continues to demonstrate the greatest provision of resources (0.002 percent of GDP in 2005). The budget for SEBRAE in Brazil represented nearly 0.1 percent of Brazil's GDP in 2005, significantly more than any other country. Institutions in Chile and the Dominican Republic, the next after Brazil, maintain a budget of about .03 percent of national GDP. The budget for nine of the MSME support institutions is less than 0.01 percent of national GDP, the lowest being the budget of the Uruguayan MSME support institution at 0.002 percent of GDP in 2005.

**Figure 5. The Institutional Budget as a Percentage of National GDP**



Source: Table 18 (budget data) and Table 3 (national GDP); authors' calculations.

<sup>11</sup> A more thorough estimate of national efforts devoted to supporting the MSME sector would include the total amount of resources corresponding to all institutions and organizations that implement direct or indirect programs for the sector.

MSME support institutions in Latin America employ an average of 366 employees per institution. Honduras has the fewest employees, at 14. Brazil employs the greatest number; 4,500 full-time employees work in SEBRAE Brazil, with an additional 9,300 external consultants employed by SEBRAE. Institutions with a budget of less than \$1million employ 28 employees on average. Taking all of the institutions together, they average US\$89,996 in budget per employee (Figure 6). Uruguay has the lowest budget-to-employee ratio, at US\$10,285 per employee, followed closely by Paraguay. Mexico has the highest ratio, at US\$351,590 per employee. The next three institutions with the highest budget-to-employee ratio are Colombia, Chile, and Brazil (Figure 6).

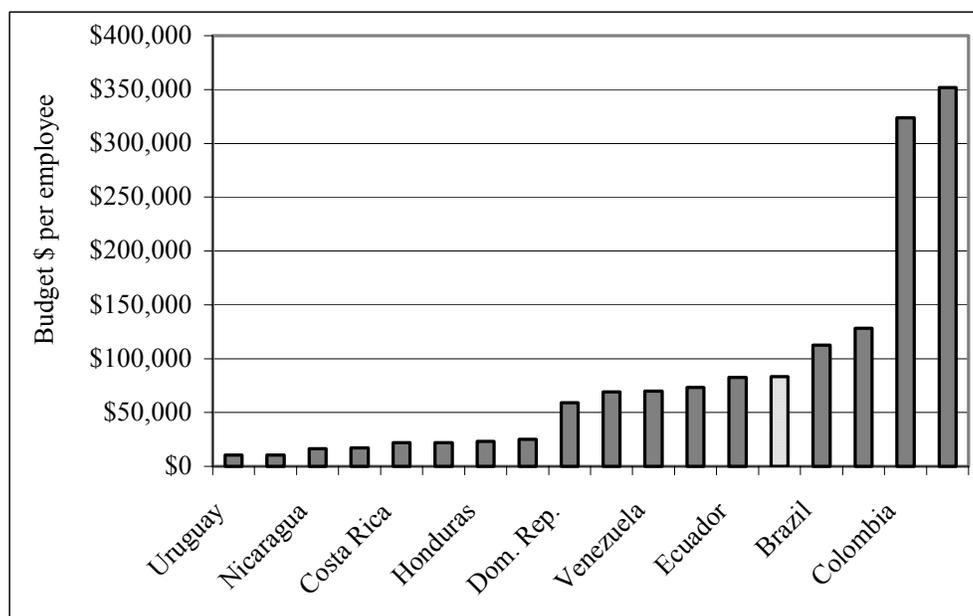
Comparing the budget-to-employee ratio with the institutional tier (tiers will be reviewed later), and the top six organizations in terms of the budget-to-employee ratio are also all second-tier institutions. All first-tier institutions have a

lower than average (US\$83,352) budget-to-employee ratio, indicating budgets are likely very stretched in these institutions. Brazil and Chile, two of the most established and well-regarded institutions in the region, fall next to each other, possibly indicating an optimum use of resources in their organizations. Brazil's budget-to-employee ratio is US\$112,444 and Chile's is US\$128,381.

### The Old and the New

MSME support institutions in Latin America are relatively young. The average MSME support institution in the region was initiated in 1992. Fourteen of the institutions in the study were initiated during or after 1990. Over half of those institutions were founded during the 1990s.<sup>12</sup> Chile and Brazil established primary MSME support institutions in 1955 and 1972, respectively, the oldest MSME support institutions in Latin America. They also represent two of the largest institutional budgets in the region (Brazil is first and Chile is third, after Mexico).

**Figure 6. Institutional Budget per Employee**



Source: Table 18 (organization budget and number of employees); authors' calculations.

<sup>12</sup> For comparison, the Small Business Administration in the United States was established in 1953 and the Small and Medium Enterprise Agency in Japan was established in 1948.

The 14 institutions founded during or after 1990 have an average budget of about US\$11 million and 90 employees. By contrast, the Chilean and Brazilian institutions average about US\$267.5 million in budget and 2,363 employees (with SEBRAE of Brazil greatly pulling up the average).

### **Position in the Federal Government**

MSME support institutions in LAC possess distinct governing structures in relation to their position in or outside the federal government. Three principal categories summarize these positions:

1. Inside the federal government structure (as a secretariat, sub-secretary, ministry, etc.)
2. Decentralized from the federal government but supervised by a government entity
3. Autonomous or independent.

The majority of MSME support institutions in Latin America are positioned in the federal government or are dependant entities of government ministries or secretariats. In total, ten of the 17 institutions studied are a secretariat, sub-secretariat, ministry, vice-ministry, government department, or program within a government agency.

Five organizations are decentralized from the federal government but dependant on and supervised by a government entity (ministry or secretariat). These institutions include SERCOTEC of Chile, INPYME of Nicaragua, CONAMYPE of El Salvador, CONAMIPYME of Honduras, and PROMPYME of Peru. These organizations are considered decentralized from the State, or private corporations that remain under the administration of a government agency. Their governance structure often includes a counsel from both the public and private sector, allowing for a participatory context.

The two organizations that are completely independent of the government structure and do not report directly to a government department are SEBRAE of Brazil and AMPYME of Panama. SEBRAE is currently considered a private organization. It was part of the federal system until

1990, when it became an independent, not-for-profit social service agency. The Brazilian Ministry of Development, Industry and Foreign Commerce recognizes SEBRAE as the leading MSME institution in the country. Delegates from the government and the private sector make up SEBRAE's National Board. Similarly, the board of AMPYME in Panama is primarily made up of private representatives from the MSME sector. It is an autonomous entity that collaborates with the Ministry of Commerce and Industry.

Independence from the government suggests the provision of varying levels of autonomy or support from the government. As such, institutions may be better able to utilize government resources, create efficient and flexible programs, be more accountable, and require greater accountability from other intermediary institutions. Incorporating the MSME private sector into the decision-making and directive level of an institution provides ideal input and collaboration among public and private stakeholders. These strategies may help foster a more comprehensive MSME program and institutional evaluation system. It is important to note that the successful development of more autonomous MSME institutions requires provision of the necessary resources and support.

### **Functional Tier**

Table 2 offers a general description of the tier level at which each institution functions. Tiers range from 1 to 3. Tier 1 indicates the institution mostly offers direct services to businesses and entrepreneurs, tier 2 institutions generally provide resources and oversight to first-tier institutions, and tier 3 institutions create the structure and regulations to promote and organize MSME sector resources and institutions.

Six of the MSME support institutions analyzed here function at primarily the first tier, and ten function at the second tier. It should be noted that many institutions function at more than one tier level, but Table 2 indicates the tier at which each institution primarily functions. The one exception is SEBRAE of Brazil, which heavily functions in direct services, institution and re-

source oversight, as well as policy formation and regulation. SEBRAE is able to effectively operate in all three tiers due to its division of services. The central office is more dedicated to policy and evaluation issues, while the regional offices provide direct services to clients. One of SEBRAE's largest initiatives recently has been the reform of the new general law for MSMEs in Brazil.

### National MSME Laws

Numerous internal and external factors play a role in determining a country's success in increasing the competitiveness of the MSME sector. The legal framework within which businesses and MSME institutions function can create a supportive internal environment. Laws or other national policies are passed by congress and backed by the force of the state to promote and develop the MSME sector, or to create resources to assist in MSME competitiveness. Table 3 organizes national MSME promotion and development laws by the themes that the law

mandates, establishes, or authorizes. Nine countries have specific MSME support law. Common titles include Argentina's "Law for the Promotion of Micro, Small and Medium Enterprises," and objectives often seek to strengthen the competitive environment of small and medium-size enterprises to achieve a more integrated and productive structure. Seven countries in the study do not have comprehensive laws to promote the MSME sector, but have instituted decrees or agreements to establish and regulate MSME institutions or financing, or offer national MSME policy guidelines. These rulings include some of the same themes as MSME promotion laws. Note that information regarding the Dominican Republic is not included in the table because this country does not possess laws or other rulings directly related to overseeing aspects of the MSME sector.

Table 3 illustrates that laws created to promote the MSME sector are generally more expansive in the number of areas promoted and/or mandated than other rulings. The areas in Table 3

**Table 3. National SME Promotion Policies in Latin America**

Nation	Policy Type	Date Initial Policy Passed	Areas			
			1. Establish or Organize MSME Institution	2. Definition of MSMEs	3. Financing Programs	4. Transaction Costs
Argentina	Law	1995	x	x	x	x
Brasil	Law	1999	x	x	x	x
Chile	Law	1980*	x	x	x	
Colombia	Law	1999	x	x	x	x
Costa Rica	Law	2002	x	x	x	x
Ecuador	Agreement	1994	x			
El Salvador	Policy Guideline	2000	x	x		x
Guatemala	Agreement	2001	x	x		x
Honduras	Decree	2000	x	x		
Mexico	Law	1988	x	x		
Nicaragua	Decree	1994	x		x	
Panama	Law	2000	x	x	x	
Paraguay	Finance Funds Law	1995	x	x	x	
Peru	Law	2000	x	x	x	x
Uruguay	Law	1991	x	x	x	
Venezuela	Decree	2001		x	x	

\*Chile maintains several laws that serve to support and regulate small businesses

fall into four general categories determined by the main principles of each national law. Of the 16 countries included in the table, each national law and most other policies incorporate the establishment and/or organizational structure of a national MSME institution, as well as mandate the coordination of other entities to support the institution in its mission (i.e., other MSME institutions or banks that provide resources or services). Most laws and other policies also include a definition of micro, small, and medium enterprises. Five of the seven countries with no MSME support law establish definitions through their “other” policy. Eight of nine MSME support laws include directives on the need for and source of financing for the SME sector, and often establish special funds and funding sources. Only three of the seven countries with “other” policies have established such financing mandates.

The majority of MSME support laws include focus on reducing constraints to the development and growth of SMEs through simplifying business registration, licensing, and reporting requirements. The intent of these transaction-reducing themes is usually to establish a “one-stop window” where all registration and licensing procedures can be completed at a single place rather than in distinct offices in different locations. Laws also mandate the simplification and reduction of registration, licensing forms, and requirements for SMEs. Most nations without an MSME law do not include transaction reduction in their MSME policies. Only policies in El Salvador and Guatemala refer to the need to simplify SME registration, licensing, and reporting requirements.

### **CAPACITY TO SUPPORT THE MSME SECTOR**

The information compiled in the MSME Support Survey enabled the creation of an index to rate the institutions according to their capacity to support the MSME sector. The institutional capacity index is based on four main factors with 11 total variables (See Box 1).

Each variable is assigned a number of points, and institutions can earn up to a total of 15

points (see Appendix 3 for a complete description of index factors, variables, and point allocations). Institutions are rated based on the number of points earned using the following scale:

A = High capacity	12-15 points
B = Moderate capacity	8-11 points
C = Less capacity	4-7 points
D = Low capacity	0-3 points

Table 4 displays the results of the application of the institutional capacity index for 17 MSME support institutions in LAC. A minority of LAC institutions are considered to be very well prepared to support MSMEs based on the institutional capacity index. The institutions with the highest rating (“A”), include those in Brazil, Chile, and El Salvador. The MSME support institutions in these countries obtained all or nearly all of the possible points. The group that obtained a “B” or medium standing includes institutions in Argentina, Guatemala, Mexico, Panama, and Peru. Institutions one level below, in the “C” category, include Colombia, Costa Rica, Ecuador, Honduras, Uruguay, and Venezuela. The countries with the least points and are awarded the “D” rating: Dominican Republic, Nicaragua, and Paraguay. These countries require the most assistance in identifying and filling gaps.

The following discussion highlights what institutional characteristics contribute to ratings, based on the information presented in Table 4.

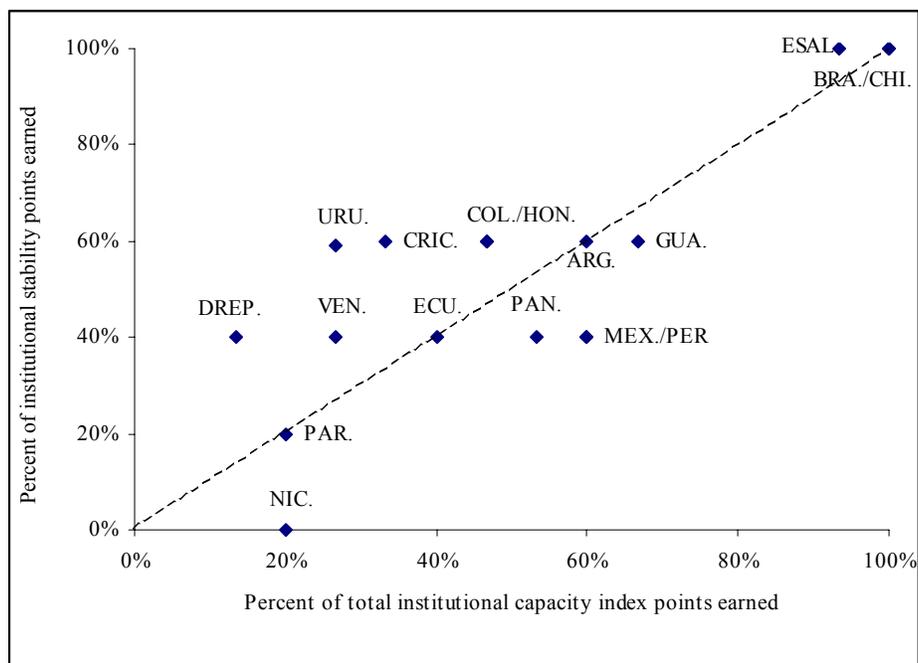
### **Institutional Stability Success Variables**

Institutional stability takes into consideration variables related to the evolution or stability of the human resources and budget, as well as the capacity of the institution to plan in the short and medium terms. Figure 7 compares the rating of institutions by plotting the total percentage of points the institution earned in the index on the x-axis compared with the percentage of total points the institution earned for this factor on the y-axis. Five total points were possible for this factor.

**Table 4: Institutional Capacity Rating**

Nation	Institutional Stability					MSME problems			Coordination	Learning	Total		
	Budget Evolution	Personnel Evolution	Stability of Key Personnel	Strategic Plan	Annual Work Plan	Programs	Virtual Services	Territory Coverage	Inter-institutional coord.	Learning Mechanisms	Total	% of Total	Rating
Brazil	1	1	1	1	1	2	2	2	2	2	15	100	A
Chile	1	1	1	1	1	2	2	2	2	2	15	100	A
El Salvador	1	1	1	1	1	2	2	2	2	1	14	93	A
Guatemala	0	1	1	1	0	1	2	2	2	0	10	67	B
Argentina	0	1	1	0	1	1	2	2	1	0	9	60	B
Mexico	1	1	0	0	0	2	2	2	1	0	9	60	B
Peru	0	1	0	0	1	2	2	1	1	1	9	60	B
Panama	0	1	1	0	0	2	1	2	1	0	15	100	B
Colombia	1	1	1	0	0	1	1	1	1	0	7	47	C
Honduras	1	1	0	0	1	1	0	1	2	0	7	47	C
Ecuador	1	0	0	1	0	1	0	2	1	0	6	40	C
Costa Rica	1	1	1	0	0	0	0	2	0	0	5	33	C
Uruguay	0	1	1	0	1	0	0	1	0	0	4	27	C
Venezuela	1	1	0	0	0	1	1	0	0	0	4	27	C
Nicaragua	0	0	0	0	0	1	1	1	0	0	3	20	D
Paraguay	1	1	0	0	0	1	0	0	0	0	3	20	D
Dom. Rep	1	1	0	0	0	0	0	0	0	0	2	13	D

**Figure 7. Institutional Rating and Institutional Stability**



Logically, the higher the institutional rating overall, the more points the institution gained in the institutional stability category. A trend line diagonally across the figure shows the general tendency when crossing the percentage of institutional capacity index points earned on average with the percentage of points earned in the institutional stability category. It is clear that few institutions follow the general trend, and that many deviate far from it. For example, Peru and Mexico earned highly in points overall (x-axis), but lower than the average for institutional stability (y-axis). Uruguay scored low on points overall, but relatively well in the institutional stability category. The same is true for Costa Rica and the Dominican Republic. The following sections will review the details of each institutional capacity variable.

### *Evolution of Budget and Personnel*

The budget and personnel evolution variables serve to indicate the amount of resources attributed by the government or other entities, or earned, to support MSMEs and institutions.<sup>13</sup> They also generally indicate the organization's ability or effectiveness in seeking and accessing national, international, public or private funds.

Eleven of the 17 MSME support institutions maintained a stable or increasing budget over the last five years (or another timeframe, depending on information available). All three of the A-rated institutions (SEBRAE of Brazil, SERCOTEC of Chile, and CONAMYPE of El Salvador) increased their budget and number of personnel. However, many C-rated institutions (five out of six) and D-rated institutions (two out of three) also maintained or increased their budget.

Most of the institutions included in the study increased personnel over the course of the last five years. Only two did not: one C-rated institution (Ecuador) and one D-rated institution (Nicaragua).

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<sup>13</sup> All MSME institutions in this study obtain the majority of funding from the national government.

### *Stability of Key Personnel*

Many MSME support institutions in Latin America and the Caribbean are managed by appointed civil servants. As such, key personnel may change often, undermining mid or long-term strategies and development efforts. Nine of the 17 countries in the survey maintained a stable level of key personnel over the last five years. The majority (six) were A or B-rated institutions, with all of the A-rated institutions achieving key personnel stability. Peru and Mexico did not achieve personnel stability, which may explain why they are relative outliers in 7. Three of the six C-rated institutions and none of the D-rated institutions achieved key personnel stability.

Of note is a cross-comparison of key personnel stability with institutional structure. Four of the seven institutions decentralized from the central government (see Table 2) maintained key personnel stability. There may be a connection between institutional structure and the stability of key personnel of the institution.

### *Planning*

The development of a strategic plan helps institutions align their structure and resources with priorities, missions, and objectives. The strategic planning process enables an organization to comprehensively analyze and integrate these factors and develop action plans identifying responsibilities and timelines. The surveys generated from this study indicate that few institutions implement a strategic plan of any kind—only five institutions, or less than 30 percent, actively develop, follow, and update a strategic plan. These institutions include all of the A-rated, one B-rated (Guatemala), and 1 C-rated (Ecuador) institution.

A few more institutions employ an annual work plan (seven), which is essentially an action plan for the year listing objectives, programs, instruments, and responsibilities. Six A and B-rated institutions implement an annual work plan. Uruguay, which earned a C rating, also implements a plan. None of the organizations rated least effective employs an annual work plan.

The strategic plan and working plan complement one another, as the working plan looks to the strategic plan as a guide for activity direction, but the plans do not replace one another.

### Attention to MSME Problems

The variables measuring institutions' attention to problems facing MSMEs seek to identify whether the institution engages in activities to address common challenges faced by the MSME sector. This factor evaluates whether the institution maintains programs to attend to issues, and the capacity to effectively deliver programs to clients throughout the nation, as well as virtual services to attend to problems confronted by MSMEs. Figure 8 displays the percentage of points the institution earned in the index against the percentage of total points received for this factor (six possible).

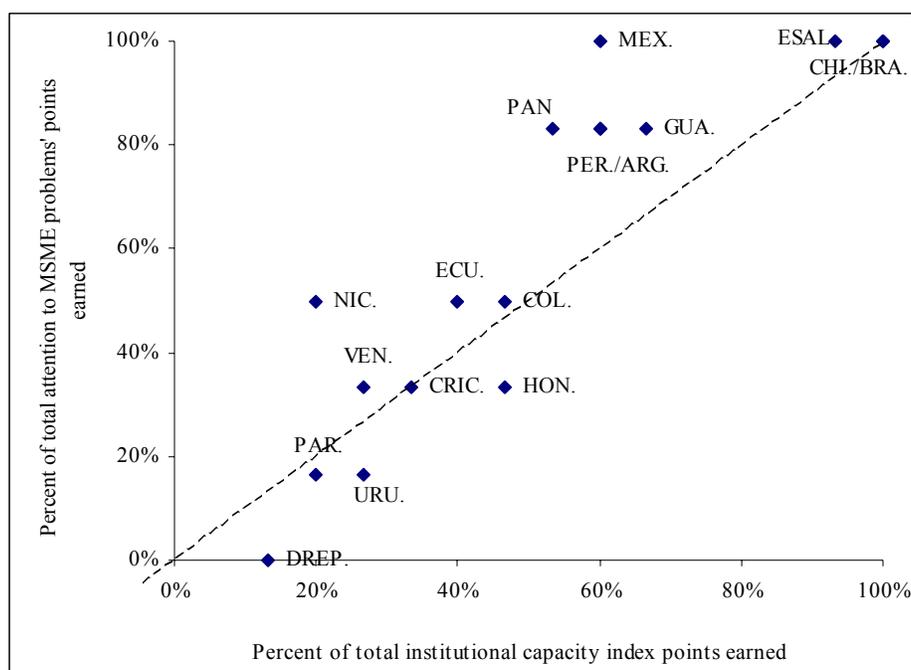
Figure 8 shows a few cases in which institutions (by country) deviate particularly far from the trend line. Nicaragua scored high compared with its overall rating, as did Mexico. Peru and Argentina scored somewhat high in this category. Uruguay and Honduras scored quite below the trend line, and the Dominican Republic did not gain any points in this category. The following paragraphs will review the variables for this factor in more detail.

### Programs

Table 5 presents a detailed review of programs offered by MSME support institutions in each nation grouped into nine categories. A "1" is assigned if the MSME support institution analyzed offers a program in the category, and a "0" if no program is present. The ratings in the programs category show that only A and B institutions gain the highest points possible, indicating that the MSME support institutions in these countries offer a broad range of programs. Only gained 0 points for this category two C-rated institutions and one D-rated institution.

Five of the seven countries with an independent structure gained the highest point range possible in this category. Exceptions are the institutions in Nicaragua and Honduras, which are independent or decentralized and scored 1 of the 2 points possible in the programs variable. The Mexican MSME support institution is the only entity that gained the total 2 points; the institution is not independent or decentralized, but located directly within and operated by the federal government. A detailed review of the programs can be found in Appendix 3, including a list of programs and highlighted programs.

**Figure 8. Institutional Rating and Attention to MSME Problems**



**Table 5. Presence of Programs by Category**

Country	Institution	<i>Programs: 1=exists, - =does not exist</i>									Total	Rating
		Financing	Innovation & Technology	Business Development Services	Business Linkages	Business Environment	Professional Development	Entrepreneurial Culture	Exports	Institutional Capacities		
Argentina	SEPYME	1	-	1	-	-	1	-	1	-	4	1
Brazil	SEBRAE	1	1	1	1	1	1	1	1	1	9	2
Chile	SERCOTEC	1	1	1	1	-	1	1	-	1	7	2
Colombia	MINCOMERCIO	-	1	1	1	-	-	-	1	-	4	1
Costa Rica	DIGEPYME	-	-	1	-	-	-	-	-	1	2	0
Dom. Rep	PROMIPYME	1	-	-	-	-	-	-	-	-	1	0
Ecuador	MICIP	-	-	1	1	-	1	-	-	-	3	1
El Salvador	CONAMYPE	1	1	1	1	1	1	1	-	1	8	2
Guatemala	ViceMinisterio	1	1	1	-	-	-	-	-	1	4	1
Honduras	CONAMIPYME	1	-	1	-	-	-	-	-	1	3	1
Mexico	SPYME	1	1	1	1	-	1	1	1	1	8	2
Nicaragua	INPYME	1	-	-	-	-	1	-	-	1	3	1
Panama	AMPYME	1	1	1	1	-	1	1	1	-	7	2
Paraguay	MIC	-	-	1	-	1	-	-	1	-	3	1
Peru	PROMPYME	-	-	1	1	1	-	1	1	1	6	2
Uruguay	DINAPYME	-	-	1	-	-	1	-	-	-	2	0
Venezuela	INAPYMI	1	-	1	1	-	-	-	-	-	3	1

**Table 6. Virtual Services Offered by the Institution**

Country	Institution	<i>1=exists, - =does not exist</i>				Total	Rating
		Basic Website	Programs, Publications, Event Details	Consultant & Institution Database	Tool box		
Argentina	SEPYME	1	1	1	1	4	2
Brazil	SEBRAE	1	1	1	1	4	2
Chile	SERCOTEC	1	1	1	1	4	2
Colombia	MINCOMERCIO	1	1	-	1	3	1
Costa Rica	DIGEPYME	1	-	-	-	1	0
Dom. Rep	PROMIPYME	-	-	-	-	0	0
Ecuador	MICIP	1	-	-	-	1	0
El Salvador	CONAMYPE	1	1	1	1	4	2
Guatemala	ViceMinisterio	1	1	1	1	4	2
Honduras	CONAMIPYME	1	-	-	-	1	0
Mexico	SPYME	1	1	-	1	3	1
Nicaragua	INPYME	1	1	1	1	4	2
Panama	AMPYME	1	1	1	-	3	1
Paraguay	MIC	1	-	-	-	1	0
Peru	PROMPYME	1	1	1	1	4	2
Uruguay	DINAPYME	1	-	-	-	1	0
Venezuela	INAPYMI	1	1	-	-	2	1

### *Virtual Services*

Seven of the 17 institutions gained the total 2 points possible for the virtual services variable. Only countries rated in the top two rating categories provide clients, or the MSME sector, with detailed information via an online portal. All A and four of the five B institutions earned 2 of the 2 points for this category, indicating that a dedicated website exists to attend to MSME sector issues. Websites for these institutions have at least detailed information regarding programs and support tools, information on the sector, consultant and MSME support institution databases, and a business toolbox. A few institutions offer even more extensive information and tools, some of which are discussed in Appendix 4. Six of the seven institutions that gained 2 points are second-tier organizations.

C and D institutions have a basic website. They offer only limited “flat” information, the site is not interactive, and no online tools are provided. Table 6 highlights the types of virtual services offered by institutions and the total points earned for the virtual services variable.

### *Territory Coverage*

The majority of institutions in Latin America and the Caribbean provide services throughout at least half the country, either through their own offices or those of affiliates. Several institutions create special programs to serve rural businesses and entrepreneurs. However, the general trend is that the higher rated institutions also cover a greater territory. Of the nine institutions that earned the total of 2 possible points for this variable, seven are A or B-rated institutions. The five institutions that scored 1 point include a mixture of B and C institutions, and one D-rated institution. The institutions with the lowest rating also have the lowest level of territory covered; services are primarily offered to the MSME sector through the central office. Those that scored 0 points include two D-rated institutions and one C-rated institution.

Of note is the fact that only one first-tier institution obtained the maximum number of points for the territory coverage variable. However, the

Vice Ministerio de Desarrollo de la Mipyme in Guatemala is an organization that indeed also works at the second tier. For this analysis the institution was classified in the first tier to represent the great number of services it offers at that level. Most first-tier institutions in Latin America provide services directly to clients in a limited area.

### **Inter-Institutional Coordination**

The inter-institutional coordination category stands alone, and is significant to the final rating of an institution. If an institution effectively coordinates and oversees the development of appropriate programs and services, it can be considered extremely effective, even if it does not offer a significant number of programs.

Of the 17 institutions analyzed, five obtained the maximum points (2) for this category: A and B institutions and one C-rated institution. Four B institutions also gained 1 point, and represent four of the six countries that have average inter-institutional coordination. Those that scored no points for inter-institutional coordination include only C and D-rated institutions.

We find that institutions that fared well in the number and breadth of programs also scored higher in inter-institutional coordination. Of the six countries that scored the maximum number of points for the programs variable, three also scored the highest for the inter-institutional coordination category, and the remaining three institutions weighed in with average inter-institutional coordination. The three countries that did not score at all in the programs variable also received 0 points for inter-institutional coordination. It appears that countries that offer a wide range of programs in their national MSME support institution also coordinate with other entities serving the sector.

### **Institutional Learning Mechanisms**

The institutional learning mechanism factor evaluates whether the institution maintains tools to continue learning from activities and programs. Table 2 demonstrates that very few LAC MSME support institutions implement and util-

ize learning mechanisms for programmatic and organizational feedback. Only four implement some level of learning tool. Of those, the institutions that gained the total 2 points were from Brazil and Chile, the highest rated institutions. Institutions from Peru and El Salvador implement a moderate level of learning tools.

There is basic correlation between the institutional capacity index rating and learning mechanisms, as none of the institutions ranked C or D have learning mechanisms in place. There may also be a link between the longevity of the institution and its ability to effectively use learning mechanisms. Chile and Brazil are the only countries that scored the total 2 points possible in this category, and claim the most established institutions in terms of age. Brazil also has the largest institution in terms of budget.

Finally, the four institutions that scored high or moderate in learning mechanisms are also independent, decentralized, or autonomous from the central government. Their separation from the central government may afford the freedom to independently conduct evaluations, and their structure may stimulate interest and awareness of the benefits of implementing learning mechanisms.

## INSTITUTIONAL CAPACITY CROSS-COMPARISONS

Table 2 offers a review of general characteristics of each MSME institution, and some details on the environment in which they are embedded (national definition and law). Table 4 applies the institutional capacity index to review details of each institution and creates a final rating from least to most effective. Comparing Tables 2 and 4 offers further insight into the structure and effectiveness of MSME support institutions in Latin America.

### Institution Size and Resources

There is a basic correlation between the size of an institution, in terms of funds and personnel, and the rating. An institution does not gain more or less points in the institutional quality index based on budget amount. However, more resources obviously allow for greater activity and thus may push up an institution's total points earned in the index. Thus, while this study does not precisely measure the correlation of budget and effectiveness, it does indirectly point to the effective use of resources to serve the MSME sector. Figure 9 cross-examines institutional rating (by percentage of total points earned) with institutional budget. Note that the y axis measures budget in US\$ millions, and the budgets for SPYME of Mexico and SEBRAE of Brazil are noted, as they extend well beyond the chart.

**Figure 9. Institutional Rating and Budget (in US\$ millions)**

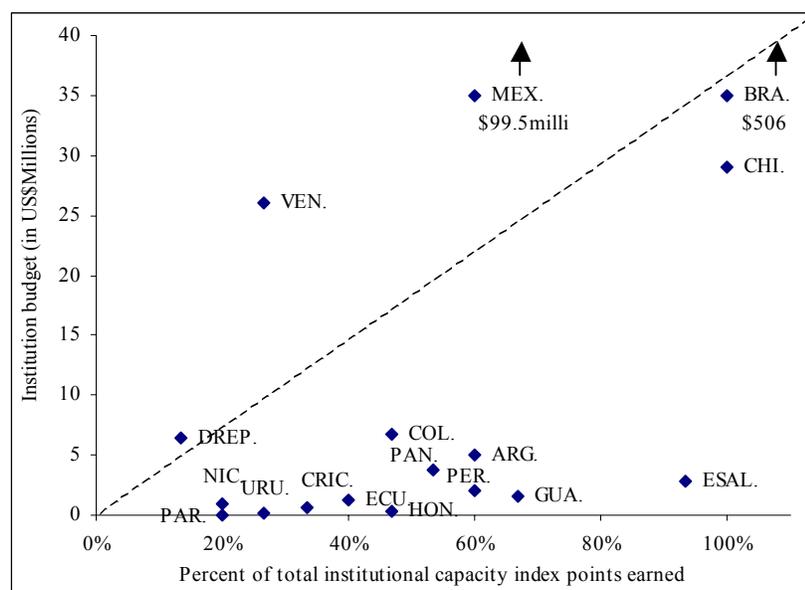


Figure 9 shows that the budgets of a few institutions (Mexico, Brazil, Chile, and Venezuela) greatly surpass the rest. Most institutions fall well below the diagonal line that indicates the linear equilibrium points for total institutional capacity index points earned crossed with budget. SERCOTEC of Chile arrives very close to the equilibrium point. Deviation from the incremental equilibrium line is a concern for a few institutions, namely Venezuela. INAPYMI of Venezuela boasts the fourth largest budget, but gained only 27 percent of the total points possible in the index. PROMIPYME of the Dominican Republic has a budget over US\$6 million, but scores very low in the index. By contrast, CONAMYPE of El Salvador maintains a budget below US\$3 million but scores at nearly the highest range in the index. Institutions in Peru and Guatemala also score relatively high given their modest budget. Institutions with a high budget and low rating bring into question the effective use of resources.

### Establishment of the Institution

The age of an institution appears to affect the implementation of learning mechanisms. SERCOTEC of Chile and SEBRAE of Brazil, established in 1955 and 1972, respectively, maintain the best learning mechanisms in the region. These two institutions seem to benefit from their

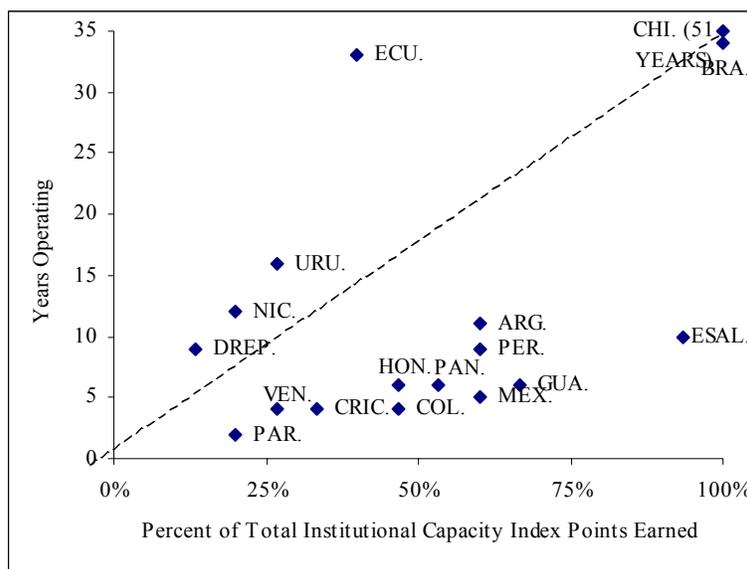
age. Figure 10 displays the general trend that institutions that score higher in the index (and are rated highly capable) are correspondingly older institutions. Note that SERCOTEC of Chile has been operating for 51 years, which is beyond the chart's coordinates. SEBRAE of Brazil falls directly on the equilibrium point for percentage of total points earned with years in operation.

However, other institutions exhibit signs of success in fewer years. CONAMYPE of El Salvador, for example, was established in 1996, and has put in place a comprehensive evaluation system through the Sistema de Seguimiento Sectorial y Evaluación de Impacto (Sector Impacts Tracking and Evaluation System). El Salvador is a case in point of a young institution with a relatively modest budget that has effectively taken hold of the MSME services field. Other, newer institutions have aspects of successful programs but the experiences of Chile and Brazil remain unsurpassed.

### Functional Tier

Table 2 offers a general description of the tier level (between 1 and 3) at which each institution functions. Figure 11 charts the percentage of institutions in each rating category that are in either tier 2 or Tier 1. In this case, SEBRAE of

**Figure 10. Institutional Rating and Years in Operation**



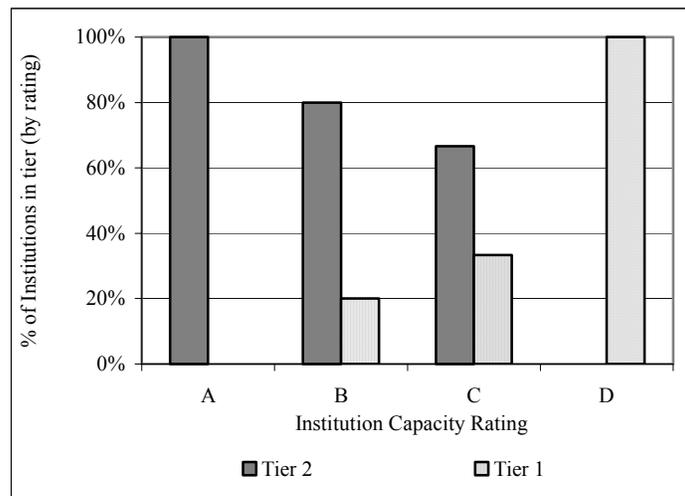
Brazil (which functions at tier 2 as well as tier 3) is included in tier 2. All A-rated institutions are in tier 2, and all D-rated institutions are in tier 1.

Most of the institutions included in the study that operate at primarily the first tier are rated as C or D institutions. This likely points to the fact that national policies in these countries do not provide the framework and/or resources for institutions to specialize in administering MSME competitiveness strategies. This observation is supported by the fact that these same institutions overall are not engaged with inter-institutional coordination activities. CONAMIPYME in

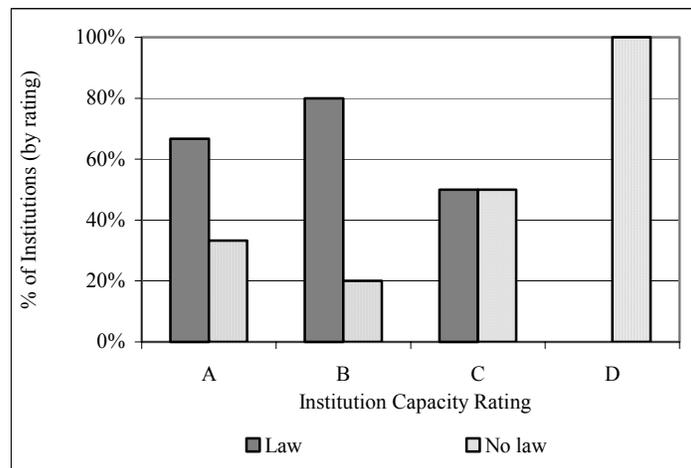
Honduras is the only first-tier, B-rated institution that engages in inter-institutional coordination.

Four of the ten institutions that function at primarily the second tier are B-rated institutions, and two are A-rated institutions. These institutions are more efficient in working with intermediary institutions that directly serve clients. Institutions in Colombia, Costa Rica, Ecuador, and Uruguay are second-tier institutions rated below the B level. This indicates that these countries do not guide national MSME support strategies.

**Figure 11. Percentage of Institutions in Tier 2 and Tier 1 by Institutional Capacity Rating**



**Figure 12. Percentage of Countries with or without a National MSME Support Law, by Institutional Capacity Rating**



## MSME Law

According to the institutional capacity index, most highly capable institutions are in countries with MSME law, indicating that more successful institutions are generally embedded in a political environment that is devoted to promotion of the MSME sector. The broad effort and consensus required for establishing MSME law may create an environment ripe for the promotion and growth of the MSME sector.

Most institutions rated A and B have comprehensive MSME promotion laws, and most countries with a C or D rating have established only basic laws for MSME promotion, or do not have a ruling of any kind. Of the nine countries that possess MSME law, two are A-rated institutions, four are B-rated institutions, and three are C-rated institutions. Figure 12 illustrates this general trend by graphing the percentage of countries that have or do not have national MSME support law by institutional rating.

Figure 12 demonstrates the general trend that, although the existence of an MSME support law was not configured into the institutional quality index, the lower an institution is rated, the more

unlikely it is that national MSME support law exists, and vice-versa.

The existence of established MSME support institutions might enable the structure and implementation of MSME promotion laws. This is a probable justification for the fact that El Salvador, which has a very new and very successful MSME institution, is in the process of establishing an MSME promotion law. CONAMYPE, the Salvadoran MSME support institution, is very active in developing the law, which again points toward the finding that established and thriving institutions are more apt and able to create MSME law. Further investigation is required to draw concrete conclusions regarding the relationship between highly capable MSME institutions, their age, and the presence of national MSME promotion law.

Also of note is the fact that most second-tier institutions are embedded in countries that maintain laws to oversee the MSME sector, and none of the countries in the first tier has a similar MSME regulation and promotion law. This hints at the importance of national law to establish the framework and direct the provision of resources to guide successful institutions.

## Conclusions and Recommendations

This study has served the dual purpose of gathering and analyzing the most up-to-date information on the MSME sector in Latin America, and creating a methodology to measure the capacity of national public institutions that are at the center stage of supporting the sector. The ultimate purpose of this study is to contribute to the dialogue on MSME support policies in Latin America, and to stimulate an exchange of ideas, information, and best practices.

Through the course of the study, it becomes clear that available information in LAC countries regarding the MSME sector is scarce, out of date, and often incompatible for comparisons across the region. Despite these limitations, we drew on the most current and comparative information available to measure the size and impact of the MSME sector. MSMEs constitute nearly all private sector firms in the region, and employ a majority of private sector employment—well over 70 percent of total private sector employment in most countries in the region. However, the smaller contribution of MSMEs to GDP does not match the significance of these enterprises in terms of their representation in numbers and employment, signaling a considerable gap in productivity and competitiveness between MSMEs and large firms. Low productivity is not solely explained by the small scale in which MSMEs operate. Other, more critical causes include difficulty accessing financing, high concentration in the lower-wage retail sector, the high costs of innovation, difficulty exporting, and positioning in a somewhat corrupt and inefficient business environment. Many MSMEs remain in the informal sector, which in turn increases unfair competition with those small firms in the formal economy.

It must be highlighted that the information collected in this study provides a general snapshot of the MSME sector, and is thoroughly insufficient for the design and evaluation of development policies and programs. In many countries, for example, it is not known how many firms

exist, how many rise and fail each year, the level of capacity of the business owners and employees, the form in which businesses are financed, the markets in which they compete, and more. The lack of up-to-date information increases the probability of error in the design of policies and programs, and the risk of attending to erroneous problems or estimating incorrectly the level of effort required.

Turning to the institutions that support MSMEs in Latin America, we found that a majority does not effectively maintain capacity levels to successfully coordinate services to meet MSME needs. Many institutions are working with limited resources, and may be stymied by bureaucracy or left unguided by the private sector. The main limitations or problems confronted by these institutions include: (i) lack of stability in key personnel; (ii) deficient resources in terms of institutional budgets and qualified personnel; and (iii) absence of program tracking and evaluations.

Given the current lack of quality information about the MSME sector and disparate levels of institutional capacity in Latin America, increased information exchange about the sector and among MSME support institutions could benefit the entire region. Based on this assessment, a concluding recommendation is the development of an *MSME Institutional Learning System* (the System) to organize and promote the sharing of information among MSME support institutions of all types in LAC, as well as with their international counterparts and international development organizations. The design of such a system would offer opportunities for institutions to identify needs and access resources to meet those needs. Resources may come in the form of training, program models and best practices, program evaluation planning, management-personnel exchanges, and overall information-sharing and technical assistance. The positive aspects of programs that currently exist would be built upon to design the System. The System

would be developed in conjunction with MSME institutions in Latin America to ensure the structure is suitable and needs are met. Discussions with and feedback from institutions resulting from this study make it clear that there is consensus among institutions in the region regarding the need and support for such a system.

The following outlines broad recommendations to develop and implement an MSME Institutional Learning System.

**Recommendation 1: Analyze current data collection techniques and develop a structure for enterprise-by-size data collection.**

This study reviewed the difficulties of collecting and gathering comparable data across the LAC region. Indeed, many countries do not have systems in place to regularly collect even the most basic of economic data. To understand the MSME sector and create policies accordingly, countries must implement regular data collection schedules. Initiatives through the MSME Institutional Learning System include:

- Inventory MSME data currently collected in countries, identify the institution that collects the information, who analyzes the data, and how the data are analyzed, distributed, and used.
- Develop standardized MSME definitions and information categories, and work with institutions to implement standardized definitions and categories to facilitate the comparison of data among cities, provinces, states, and countries.
- Evaluate data collection methods, resources, gaps, etc., and develop country-specific structures to collect data. For example, use MSME observatories and MSME-specific information gathering from economic censuses, business registries, or national surveys.
- Involve the private sector in the generation and funding of the collection, analysis, and dissemination of valuable information.

- Work to create a culture for the consumption of information, including public institutions and governments for the design of effective policies and private entities for increasing competitiveness.
- Provide countries with support to develop a centralized entity to collect and analyze data regarding the MSME sector.
- Strengthen the capacity of the public sector to process and analyze available information.

**Recommendation 2: Identify best practices.**

A more microscopic analysis is required to understand the current capacity of countries and institutions to support the MSME sector and develop effective public policies. The MSME Institutional Learning System could work with countries to apply studies at the program level, and thus develop a set of best practices to overcome identified institutional and programmatic challenges. Best practices will be created for a wide range of techniques, processes, activities, programs, or initiatives that most effectively develop effective institutions and support MSME competitive growth. Best practices will be continually updated and improved through ongoing learning.

Identified best practices will be translated into services so that institutions may take advantage of them. The MSME Institutional Learning System will work with countries to match their needs with established best practices to upgrade and transfer knowledge, skills, technology, and more. Best practices would be applied through offering services to national, state, regional, or local institutions.

**Recommendation 3: Disseminate evaluation and monitoring techniques and methodologies.**

The lack of evaluation and monitoring is one of the principal weaknesses of MSME institutions. The majority of institutions do not possess the knowledge, experience, or resources to monitor and evaluate their programs and initiatives, un-

derstand impacts, and incorporate learning into the institution. Low levels of evaluation and monitoring could be due to the lack of incentives. Institutions may feel that evaluations could uncover less than completely satisfactory results and threaten the continuity of programs or the institution itself. However, institutions that implement evaluation tools are found to be highly capable, demonstrating opportunities to truly improve programs or continue successful programs. The MSME Institutional Learning System can help by:

- Overcoming hesitations to developing evaluation and monitoring systems through promoting such systems as valuable tools for learning and improving, as well as demonstrating successes in adapting programs per findings.
- Identifying best practices in evaluation and advising institutions on implementing models. This includes providing technical assistance to institutions to adapt and modify models to meet their needs and objectives, as well as fitting within resource constraints.

**Recommendation 4: Carry out dissemination and training.**

Models and best practices to support institutions should be disseminated through publications,

forums, and education training courses. A publication will consistently gather best practices and distribute the information. Forums bring together colleagues from across the globe, including leaders and those working on the ground. Forums also stimulate partnerships and other opportunities.

Some challenges confronted by the MSME sector are shared by most countries in the region. Education training courses will teach business development professionals, institution managers, and others involved in MSME development about techniques and models to confront challenges. Courses will serve as an opportunity for networking and sharing of information and ideas. The development of a system that trains business development professionals will professionalize the career and ultimately lead to increased focus on effective management of MSME institutions, as well as a larger, more accepted body of knowledge.

By providing MSME institutions with the resources they need to evaluate and understand the sector, identify critical needs, create appropriate responses to improve services, share and gain information, and increase education, the MSME Institutional Development System will truly contribute to the long-term development of economies in Latin America.

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# Appendix 1. Statistical Index

**Table A1-1. Enterprise Definitions**

Country	Criteria	Micro (in US\$)	Small (in US\$)	Medium (in US\$)
Argentina <sup>1</sup>	Sales: Industry	900,000	540,000	43,200,000
	Sales: Retail Trade	1,800,000	10,800,000	86,400,000
	Sales: Services	450,000	3,240,000	21,600,000
	Sales: Agriculture	270,000	1,800,000	10,800,000
Bolivia <sup>2</sup>	Employment	10	20	
	Annual Sales	80,000	400,000	1,600,000
	Assets (activos productivos)	10,000	100,000	1,000,000
Brazil <sup>3</sup>	Employment - industry	19	99	499
	Employment-Services/Retail	9	49	99
	Sales	433,455	2,133,222	
Chile <sup>4</sup>	Sales (UF)	2,400	25,000	100,000
Colombia <sup>5</sup>	Employment	10	50	200
Costa Rica <sup>6</sup>	Points System	10	35	100
Dominican Republic <sup>7</sup>	Employment	10	50	100
	Annual Sales	60,000	1,200,000	5,000,000
Ecuador <sup>8</sup>	Employment	10		
El Salvador <sup>9</sup>	Employment	10	50	100
	Monthly Sales	5,714	57,143 <sup>a</sup>	380,952 <sup>b</sup>
Guatemala <sup>10</sup>	Employment	10	25	60
Honduras <sup>11</sup>	Employment	10	25	150
	Average Monthly Sales	3,125	9,375	154,000
	Average Monthly Assets	2,400	25,000	200,000
Mexico <sup>12</sup>	Employment: Industry	10	50	250
	Employment: Retail	10	30	100
	Employment: Services	10	50	100
Nicaragua <sup>13</sup>	Employment	5	20	100
Panama <sup>14</sup>	Employment	5	20	100
Paraguay <sup>15</sup>	Employment	5	20	50
	Annual Sales	70 million	271 million	1,355 million
	Assets	23 million	92 million	460 million
Peru <sup>16</sup>	Employment	10	50	199
	Annual Sales (UIT) <sup>c</sup>	150	850	
Uruguay <sup>17</sup>	Employment	4	19	99
	Annual Sales (net)	60,000	180,000	5,000,000
	Assets	20,000	50,000	350,000
Venezuela <sup>18</sup>	Employment	10	50	100
	Ventas Anuales	60,000	180,000	500,000

(a) Includes businesses with up to 10 workers but with monthly sales above \$5,714 and less than \$57,143. (b) Includes businesses with up to 50 workers but with monthly sales above \$57,143 and less than \$380,952 (c) Unidades Impositivas Tributarias (UIT).

Source: (1) Resolución 675/2002. INDEC (2) Multiministerial No. 202 del 24 de septiembre de 2004. Employment: Viceministerio de Micro Empresas (3) O Estatuto da Micro e Pequena Empresa, uma lei de 1999, alterado pelo Decreto 5028, de 31 de março de 2004. (4) Corporación de Fomento de la Producción (CORFO). (5) DANE- Departamento Administrativo Nacional de Estadística. (6) DIGEPYME: Dirección General de Apoyo de la Pequeña y Mediana Empresa. (7) Fondomicro. Pequeñas y Medianas Empresas en la República Dominicana, 2001. (8) USAID. Microenterprises and Microfinance in Ecuador, 2005. (9) Comisión Nacional de las Micro y Pequeña Empresa. (10) La Micro y Pequeña Empresa en América Central: Realidad, Mitos y Reto. Jorge Arroyo y Michael Nebe-lung, 2002. (11) Comisión de la Micro, Pequeña y Mediana Empresa (CONAMIPYME). (12) La Secretaría de Economía - publicada en el Diario Oficial de la Federación. (13) Directorio Económico Urbano INEC/MIFIC/GTZ, 2000. (14) Ley 8 de 25 de mayo de 2000 y la Ley 33 de 25 junio de 2000. (15) Ley 606/95. (16) Ley N° 28015 de Promoción y Formalización de la PYME Empresa. (17) Decreto No. 54/92 del 07.02.1992 y Decreto Nro. 266/95 del 19/07/1995. (18) Fundes Venezuela.

**Table A1-2. Number of Firms by Size, Total Number, and Proportion to Total**

Country	Data Year	Micro	Small	Medium	SMEs	MSMEs (totals)		Large		Total
						Number	%	Number	%	
Argentina <sup>1</sup>	1998	1,911,170			276,704	2,187,874	99.9	3,067	0.1	2,190,941
Bolivia <sup>2</sup>	1995	500,000	1,007	326		501,333	99.9	234	0.1	501,567
Brazil <sup>3</sup>	2002	4,605,607	274,009	23,652		4,903,268	99.7	15,102	0.3	4,918,370
Chile <sup>4</sup>	2004	571,535	112,731	15,748		700,014	99.9	7,620	1.1	707,634
Colombia <sup>5</sup>	2000/1990	976,315			26,694	1,003,009	99.9	821	0.1	1,003,830
Costa Rica <sup>6</sup>	2000	58,620			14,898	73,518	98.2	1,348	1.8	74,866
Dom. Rep. <sup>7</sup>	1999/2000	344,845	8,480	1,850		355,175	99.6	1,500	0.4	356,675
Ecuador <sup>8</sup>	2001	1,043,440				1,043,440	100			1,043,440
El Salvador <sup>9</sup>	2004	247,735	15,777	1,402		264,914	99.6	941	0.4	265,855
Guatemala <sup>10</sup>	1998	135,000	29,024	9,675		173,699	98.6	2,438	1.4	176,137
Honduras <sup>11</sup>	2000	252,582	5,114	257		257,953	100		0.0	257,953
Mexico <sup>12</sup>	2003	2,853,291	118,085	27,073		2,998,449	99.8	6,708	0.2	3,005,157
Nicaragua <sup>13</sup>	1996	49,718	4,523	712		54,953	100		0.0	54,953
Panama <sup>14</sup>	1999	33,029	5,274	1,333		39,636	96.2	1,554	3.8	41,190
Paraguay <sup>15</sup>	2002	418,000			130,000	548,000	99	5,642	1.0	553,642
Peru <sup>16</sup>	2004	622,000	25,938	10,899		658,837	100			658,837
Uruguay <sup>17</sup>	2000	129,074	11,663	2,298		143,035	99.7	427	0.3	143,462
Venezuela <sup>18</sup>	1998/2000	2,898,280	8,701	2,613		2,909,594	100	776	0.0	2,910,370
<b>Total</b>		17,650,241	620,326	97,838	448,296	18,816,701	99.7	48,178	0.3%	18,864,879

**Sources:** (1) Argentina. INDEC - Encuesta de hogares, 1998. (2) Bolivia. Estimated by the Centro de Estudios para el Desarrollo Laboral y Agrario (CEDLA). Larrababal, H.: Microempresa vs. Pobreza, 1995. (3) Brazil. Instituto Brasileiro de Geografia e Estatística (IBGE) - Statistics from the Cadastro Central de Empresas (CEMBRE)-IBGE. Data in Observatório Sebrae, "Boletim Estatístico de Micro e Pequenas Empresas," 1 Semestre 2005. (4) Chile. Statistics from the Servicio de Impuestos Internos (SII). Data in Chile Emprende, "La Situación de la Micro y Pequeña Empresa en Chile." Gobierno de Chile. Diciembre 2005. (5) Colombia. DANE- Departamento Administrativo Nacional de Estadística. For Micro: Encuesta Nacional de Microestablecimientos de Comercio, Servicios e Industria (2000). For SMEs and Large: Censo Economico Nacional (1990). (6) Costa Rica. Data reported by FUNDES, "SME Indicators in the FUNDES Region." (7) Dominican Republic. Micro and Small Enterprises: Encuesta Nacional de Micro y Pequeña Empresa en la República Dominicana, 1999. For large and medium enterprises: Estimación de Nogales y Asociados (2000). "Lineamientos para el Apoyo a la Microempresa en República Dominicana." Working Paper, IADB. (8) Ecuador. Encuesta de Condiciones de Vida. Source Publication: USAID. Microenterprises and microfinance in Ecuador. March 2005. Only data for micro enterprises available. (9) El Salvador. Dirección General de Estadística y Censos (DIGESTYC), "Encuesta de Seguimiento Sectorial," 2004. (10) Guatemala. Instituto nacional de estadística - Economic Census, 1998. (11) Honduras. CONAMIPY-ME/SIC. ROMYPE/GTZ. Diagnóstico de la micro, pequeña y mediana empresa, 2002. (12) Mexico. Inegi - Instituto Nacional de Estadística Geografía e Informática. Economic Census, 2004. (13) Nicaragua. Directorio Económico Urbano INEC/MIFIC/GTZ, 2000. (14) Panama. Contraloría General de la República, directorio de establecimientos, 1999. (15) Paraguay. BCP - Banco Central del Paraguay, UTEP - Unidad Técnica Ejecutora de Programas, 2002. (16) Peru. Superintendencia Nacional de Administración Tributaria (SUNAT). Declaración de Renta, 2004. (17) Uruguay. Elaboración por el Observatorio Pymes de la División Empresas de Dinapyme. En base a datos extraídos de "Uruguay en Cifras 2004" del INE. (18) Venezuela. For Microenterprises: Oficina Central de Informática, Household Survey (1998). For Small, Medium, & Large Enterprises: Instituto Nacional de Estadística (previously OCEI), 2000. Only includes Industrial firms.

**Table A1-3. Number of Micro Enterprises by Size of the Economy and Population**

Country / region	2004 GDP (in US\$ billions) <sup>1</sup>	2004 Population (in millions) <sup>2</sup>	Number of MSMEs <sup>3</sup>	People per MSME
Brazil	599.8	179.1	4,903,268	37
Mexico	676.5	106.2	2,998,449	35
Venezuela	107.5	26.2	2,909,594	9
Argentina	151.9	37.9	2,187,874	17
Ecuador	29.9	13.4	1,043,440	13
Chile	93.7	16.0	700,014	23
Colombia	95.2	45.3	684,646	66
Peru	67.9	27.5	658,837	42
Paraguay	7.0	6.0	548,000	11
Bolivia	9.4	8.8	501,333	18
Dom. Rep.	19.4	8.8	355,175	25
El Salvador	15.8	6.7	264,914	25
Honduras	7.4	7.0	257,953	27
Guatemala	26.1	12.7	173,699	73
Uruguay	12.0	3.4	143,035	24
Costa Rica	18.5	4.2	73,518	57
Nicaragua	4.4	5.6	54,953	102
Panama	13.8	3.2	39,636	81
Region TOTAL	1,956.2	518.0	18,498,338	28
EUROPE 4/ <sup>4</sup>	12,213.0	460.0	23,000,000	20

Sources: (1) IMF World Economic Outlook - April 2005. (2) Population Reference Bureau World Population Data Sheet, 2004. (3) Table A1-2 Appendix 1. (4) GDP and Population: OECD in Figures - 2005 edition (for EU 15). European SMEs: OECD SME & Entrepreneurship Factbook - 2005.

**Table A1-4. Number of Firms by Size: Brazil, 1996 and 2002**

Year	Micro	Small	Medium	Large	Total
1996	6,878,964	4,054,635	2,474,449	8,194,085	21,602,133
2002	9,967,201	5,789,875	2,700,103	9,104,745	27,561,924
% Change	45	43	9	11	28
Number of new firms	3,088,237	1,735,240	225,654	910,660	5,959,791

Source: IBGE - Estatísticas do Cadastro Central de Empresas - CEMPRE.

**Table A1-5. Number of Firms by Size: Chile, 1995 and 2004**

Year	Micro	Small	Medium	Large	Total
1995	435,852	80,099	11,217	4,950	532,118
2004	571,535	112,731	15,748	7,620	707,634
% Change	31	41	40	54	33
Number of new firms	135,683	32,632	4,531	2,670	175,516

Source: Servicio de Impuestos Internos (SII).

**Table A1-6. Percentage of Firms by Size: Mexico, 2000 and 2005**

Year	Micro	Small	Medium	Large
2000 in %	60.0	29.1	7.4	3.5
2005 in %	66.6	24.5	6.2	2.6
Change	6.60	-4.60	-1.20	-0.90

Source: Secretaría de Economía-Subsecretaría para la Pequeña y Mediana Empresa.

**Table A1-7. Total and Proportional Employment by Firm Size**

Country	Year	Size								Total Number
		Micro	Small	Medium	SMEs	MSMEs		Large		
					Number	Number	%	Number	%	
Argentina <sup>1</sup>	1998	4,487,838			2,628,916	711,675	84	1,355,572	16	8,472,326
Bolivia <sup>2</sup>	2002	9,967,201	5,789,875	2,700,103		184,571	67	9,104,745	33	27,561,924
Brazil <sup>3</sup>	2003	1,376,397	822,745	600,787		279,992	75	933,858	25	3,733,787
Chile <sup>4</sup>	2000/1990	1,094,755			731,996	182,675	81	432,091	19	2,258,842
Colombia <sup>5</sup>	2000	160,136			263,611	423,747	55	351,604	45	775,351
Costa Rica <sup>6</sup>	1999	832,434	178,302	138,750		114,948	75	375,000	25	1,524,486
Dom. Rep. <sup>7</sup>	2004	1,018,135				101,813	100		0	1,018,135
Ecuador <sup>8</sup>	2004	576,391	138,439	21,850		73,668	86	118,352	14	855,032
El Salvador <sup>9</sup>	1998	475,240	170,647	477,098		112,295	100		0	1,122,985
Guatemala <sup>10</sup>	2001	585,200	136,800	38,000		76,000	100		0	760,000
Honduras <sup>11</sup>	2003	6,224,965	2,478,964	2,828,306		115,322	71	4,707,301	29	16,239,536
Mexico <sup>12</sup>	1998	168,640	16,976	9,568		19,518	81	44,691	19	239,875
Nicaragua <sup>13</sup>	2000/1999	266,000	58,892	40,158		36,505	73	134,982	27	500,032
Panama <sup>14</sup>	2005	1,602,391	356,885	117,365		207,664	93	160,479	7	2,237,119
Paraguay <sup>15</sup>	2002	6,352,695	873,687	386,242		761,262	93	591,434	7	8,204,058
Peru <sup>16</sup>	2004	116,440	107,125	95,758		31,932	69	146,766	31	466,089
Uruguay <sup>17</sup>	1998/2000	3,973,502			210,598	418,410	94	267,368	6	4,451,468
<b>Total</b>		<b>39,278,360</b>	<b>11,129,337</b>	<b>7,453,985</b>	<b>3,835,121</b>	<b>61,696,803</b>	<b>77</b>	<b>18,724,243</b>	<b>23%</b>	<b>80,421,045</b>

Sources: (1) Argentina. INDEC - Encuesta de hogares, 1998. (2) Brazil Instituto Brasileiro de Geografia e Estatística (IBGE) - Statistics from the Cadastro Central de Empresas (CEMBRE)- IBGE. Data in Observatório Sebrae, "Boletim Estatístico de Micro e Pequenas Empresas". 1 Semestre 2005. (3) Chile Statistics from the Servicio de Impuestos Internos (SII). Data in Chile Emprende, "La Situación de la Micro y Pequeña Empresa en Chile". Gobierno de Chile. Diciembre, 2005. (4) Colombia DANE-Departamento Administrativo Nacional de Estadística. For Micro: Encuesta Nacional de Microestablecimientos de Comercio, Servicios e Industria (2000). For SMEs and Large: Censo Economico Nacional (1990). (5) Costa Rica Micro & Large Enterprises: Instituto Nacional de Estadística y Censos. Encuesta de Hogares de Propósitos Múltiples, 1998. SMEs: Fundes, Costa Rica- "Análisis y Recomendaciones de Política de MIPYMES en Costa Rica", 1999. (6) Dom. Rep Micro and Small Enterprises: Encuesta Nacional de Micro y Pequeña Empresa en la República Dominicana, 1999. For large and medium enterprises: Estimación de Nogales y Asociados (2000). "Lineamientos para el Apoyo a la Microempresa en República Dominicana". Working Paper, IADB (7) Ecuador. Encuesta de Condiciones de Vida. Source Publication: USAID. Microenterprises and microfinance in Ecuador. March 2005. Only data for microenterprises. (8) El Salvador. Dirección General de Estadística y Censos (DIGESTY), "Encuesta de Seguimiento Sectorial", 2004. (9) Guatemala. "La Microempresa en Guatemala: Años 90", Cuadro 10, por Juan Diego Trejos, con base en la encuesta de Ingresos y Gastos 1998/99. (10) Honduras. CONAMIPYME/SIC. PROMYPE/GTZ. Diagnostico de la micro, pequeña y mediana empresa, 2002. (11) Mexico Inegi - Instituto Nacional de Estadística Geografía e Informática. Economic Census, 2004. Elaborated by the Secretary of Economy. (12) Nicaragua. Directorio Económico Urbano INEC/MEDE/GTZ, Febrero 1998 (13) Panama. For microenterprises: PROMICRO/ILO, "The Microenterprise in Central America", 2000. For Small, Medium, Large Enterprises: Contraloría General de la República, directorio de establecimientos, 1999 (14) Paraguay. Principales Resultados de la Encuesta Permanente de Hogares 2005". Dirección General de Estadística, Encuesta y Censos (DGEEC). Basado en la distribución de la población económicamente activa ocupada, según tamaño de la empresa (15) Peru.. Dirección Nacional de la MYPE, 2004 (16) Uruguay. Elaboración por el Observatorio Pymes de la División Empresas de Dinapyme. En base a datos extraídos de "Uruguay en Cifras 2004" del INE. (17) Venezuela For Microenterprises: Oficina Central de Informática, Household Survey (1998). For Small, Medium, & Large Enterprises: Instituto Nacional de Estadística (previously OCEI), 2000. Only includes Industrial firms.

**Table A1-8. Sales Reported by a Typical Firm for Tax Purposes (Percent)**

Country	Total	Small	Medium	Large
		(1-19 employees)	(20-99 employees)	(100+ employees)
Brazil	67	62	65	74
Ecuador	79	73	81	85
El Salvador	76	75	79	76
Guatemala	77	72	77	88
Honduras	68	65	70	73
Nicaragua	66	59	75	90
Peru	70	72	77	83

Source: World Bank Enterprise Surveys.

**Table A1-9. MSME Firms by Sector**

Country	Year	Source	Size	Industrial		Retail		Services		Total	
				Number	%	Number	%	Number	%	Number	%
Argentina	1995	World Bank	SME	89,505	10.0	503,193	56.3	301,371	33.7	894,069	100.0
Brazil	2002	Sebrae	Micro	439,013	9.5	2,454,176	53.3	1,712,418	37.2	4,605,607	100.0
			Small	37,227	13.6	114,173	41.7	122,609	44.7	274,009	100.0
			Medium	6,548	27.7	6,556	27.7	10,548	44.6	23,652	100.0
			Large	1,430	9.5	3,064	20.3	10,605	70.2	15,099	100.0
Chile	2003	FUNDES Chile	Micro	38,021	36.5	222,563	61.0	104,272	28.6	364,856	126.0
			Small	10,860	43.8	30,770	46.3	24,809	37.3	66,439	127.4
			Medium	1,884	112.1	2,151	37.6	1,681	29.4	5,716	179.1
			Large	1,221	72.6	2,151	42.6	1,681	33.3	5,053	148.5
Honduras	2000	CONAMIPYME	Micro	40,013	37.3	52,920	49.4	14,198	13.3	107,131	100.0
			Large	1,380.78	36.5	1,534	40.5	869	23.0	3,784	100.0
Nicaragua	2000	Directorio Económico Urbano	Micro	20,142	20.3	55,725	56.2	23,333	23.5	99,200	100.0
			Med.	3,761	29.1	4,044	31.3	5,110	39.6	12,915	100.0
			Large	287	35.7	134	16.6	384	47.7	805	100.0
Paraguay	2004	FEPAME	Micro		23.0		51.0		26.0	0	100.0
Peru	2002	Villaran	MSE		13.5		49.7		33.3	0	96.5
Uruguay	2000	INE	Micro	8,019	10.0	33,113	41.3	39,141	48.8	80,273	100.0
			Small	3,669	19.4	7,445	39.3	7,818	41.3	18,932	100.0
			Med.	826	27.5	820	27.3	1,361	45.3	3,007	100.0
			Large	179	34.0	61	11.6	287	54.5	527	100.0

**Table A1-10. Percentage of Firms Requesting Credit, by Firm Size and Sector: Argentina and Mexico**

Industry			Trade			Services		
Firm size	Argentina	Mexico	Firm - size	Argentina	Mexico	Firm - size	Argentina	Mexico
Up to 15	1.8	2.6	Up to 10	30.8	7.6	Up to 15	6.1	5.4
16-30	2.3	18.3	11-15	39.3	17.6	16-25	29.4	2.1
31-50	2.5	14.1	16-30	37.5	24.5	More than 25	48.6	16.6
51-99	2.9	27.2	More than 30	57.7	16.3			
More than 100	3.6	28.5						

Source: Donato, Vicente N. and Christian M. Haedo and Sara Novaro. Observatorio Latinoamericano de las pequeñas y medianas empresas: un estudio de panel en Argentina y México. Inter-American Development Bank, September 2003.

**Table A1-11. Number of Firms Exporting, by Size**

Country	Year	Micro	SME	Large	Others	Total
Argentina	2001	5,424	3,774	668	0	9,866
Brazil	2004	2,767	8,085	1,064	60	11,976
Chile	2001	750	2,863	841	659	5,113
Colombia	2003	2,971	4,147	1,006	269	8,393

Source: FUNDES (Brazil: Sebrae).

**Table A1-12. Basic Characteristics of Selected Clusters**

Cluster	Country	Date of creation	No. of firms	Production 2002 (US\$ mil)	Production 1995 (US\$ mil)	Exports 2002 (US\$ mil)	Exports 1996 (US\$ mil)	Direct jobs	Indirect Jobs
Salmon - Austral Region	Chile	1978	65 + 150	1,005.0	500.0	970.0	480.0	29.000	12.500
Milk and dairy - Boaco, Chontales	Nicaragua	mid 1990s	10.605	31.8	25.4	12.7	2.9	15.624	6.544
Mangoes - Petrolina-Juazeiro	Brazil	1980s	330	37.0	8.0	51.0	22.0	17.400	11.600
Grapes - Petrolina-Juazeiro	Brazil	1980s	250	56.0	45.0	34.0	10.0		
Melons - Rio Grande do Norte	Brazil	1980s	120	13.0	19.0	38.0	25.0	19.000	12.500
Apples - Santa Catarina	Brazil	1960s	750	51.7	23.3	31.0	6.0	23.500	6.800
Furniture - Chipilo, Puebla	Mexico	1987	146	6.7	17.5	7.0	17.1	5.400	..
Metalworking, Espirito Santo	Brazil	1988	66	33.3	23.3	1.7	1.1	12.000	48.000
Software - Aguascalientes	Mexico	2000s	13	4.3	..	..	..	121	..
Software - Mexico, D.F.	Mexico	1980s	130	57.5	..	..	..	2.000	..
Software - Guadalajara	Mexico	1990s	152	..	..	..	..	1.040	..
Software - Monterrey	Mexico	1982	76	120.0	..	51.1	..	2.000	..

Source: Piorelli and Rabelotti, 2004.

## Appendix 2. MSME Support Institution Survey

### Guidelines for the Preparation of the National Report

The following pages present questions or definitions. Please answer the questions or provide information, including detailed comments.

To assist you in the preparation of this report, we have included available information on MSME programs and institutions in your country as reported in a study completed in 2005. If you believe there are any discrepancies or errors in the information provided here, please make any modification that you deem necessary.

#### **THE MICRO, SMALL, AND MEDIUM BUSINESS (MSME) SECTOR**

- ✓ Briefly describe the characteristics of the MSME sector in your country (2-3 pages), including:
  - Most common and widely accepted definition of MSMEs in the country.
  - Most recent statistics on the number of existing businesses by size, employment, and production/sales within each category (micro, small, medium, and large enterprises).
  - Other statistics on business size including productivity, number or percent of informal businesses, type of financing, exports, innovation, use of information technology, and communications.

Note: Sources of information should be clearly noted on the last page, to allow for accuracy in comparison among countries.

#### **MAIN CHARACTERISTICS OF THE INSTITUTION**

- ✓ State the year the institution was founded, its organizational structure, mission, and institutional objectives.
- ✓ Specify if the institution implements a medium-term strategic plan (3 to 5 years) or an annual work plan. If possible, please attach such plan.
- ✓ Comment on the physical area covered by the institution through direct services to clients. Choose the option that best applies to the institution:
  - a. *Most of the covered area* has access to support programs run by business assistance centers managed by your institution or those of strategic partners.
  - b. Your institution or strategic partners have business assistance centers that provide programs to about half of the physical area covered.
  - c. Attention to clients is concentrated in the institution's main office.
- ✓ Comment on the level of coordination between programs managed by your institution and other MSME support initiatives in the country—both at the national and regional level. Choose the option that best applies to the institution:
  - a. Every three to four months, the institution holds meetings with authorities of other programs to coordinate activities, achieve synergies, and avoid duplications. The institution is consulted and actively participates in the design of different MSME support initiatives, although it may not be

responsible for implementation.

- b. The institution holds occasional meetings with authorities of other MSME programs.
- c. A system is not in place to allow interaction among institutions that support MSMEs, although this is necessary to increase the efficiency of MSME support policies.

Note: If your answer to questions ‘a’ or ‘b’ above was “yes,” please mention below the main institutions you interact with.

Comments:.....

- ✓ Fill in information on how the total budget (US\$) and number of employees in the institution (including all programs) has changed over the last five years.

Year	2001	2002	2003	2004	2005
Total Amount (US\$)					
Employees					

- ✓ Comment on the stability of key personnel in the institution over the last five years. Choose the option that best applies to the institution:
  - a. There was only one change in the post of director.
  - b. There were two changes in the director’s post and a few changes in managers.
  - c. There were more than two changes in the director’s post and frequent changes in managers.
- ✓ Comment on the institutional learning structures in the institution:
  - a. Most national programs have independent evaluation systems that are abundantly shared among and discussed with those responsible for MSME policies.\*
  - b. Some programs have independent evaluation systems that are abundantly shared among and discussed with those responsible for MSME policies.\*
  - c. There exists a significant gap in the evaluation of programs and opportunities to use them as a learning mechanism for effective policies to support the MSME sector.

Note: Please name other means of institutional learning, such as a program of visits to other institutions and countries, employment of specialized consultants, etc.

\*If your answer to questions ‘a’ or ‘b’ above was “yes,” please attach a few examples of standard evaluations used by the institution.

Comments:.....

### MAIN PROGRAMS

For each of the following areas, please identify the most important MSME support program in the country, whether managed or not by your institution. For each area we have provided a general definition to facilitate the classification of programs and their comparison among countries. Please follow this basic structure outlined by the program’s descriptions. If no programs exist, please leave a blank.

- ✓ Financing. These programs seek to facilitate MSME access to financing in the short, medium, and long term, as well as to improve financial conditions (interest rates and periods). Examples of these programs include special lines of credit for MSMEs and guarantees.

Name:	
Starting Date:	
Institution:	
Objective:	
Description:	
Type of Beneficiary:	
Beneficiaries (2005):	
Types of Services:	
Instruments Used:	
Budget (2004, 2005):	
Performance Indicators and internal/external evaluations	

- ✓ Innovation and technology. Innovation and technology programs seek to promote and facilitate the development of new processes and programs among MSMEs. Some common examples include providing research, technological development, and subsidies for modernization; technological business incubators; support to protect intellectual property and develop patents; and awards for innovative businesses, among others.
- ✓ Technical assistance. Technical assistance programs seek to facilitate MSME access to a wide range of consulting and information services to increase competitiveness. Typical examples include subsidizing a portion of consulting fees for technical assistance to address problems (organizational, commercial, productive) that limit their competitiveness, business development or assistance centers, and directories or registries (or websites) that help advertise and locate specialized business services, among others.
- ✓ Business cooperation/development of clusters and value chains. These programs seek to help businesses *act in a collective manner* to address problems (productive, technological, access to inputs) and/or capture opportunities (new clients/markets) to allow for greater collective competitiveness. Examples include forums or roundtables to discuss to analyze trends and challenges for regional clusters or business sectors, subsidies to facilitate the development of collective action among businesses in a cluster or value chain (counseling, service centers, shared branding), supplier development programs, and public-private partnerships to improve the business climate, among others.
- ✓ Regulatory framework and competitiveness. Regulatory framework and competitiveness programs seek to reduce barriers to entry and exit for MSMEs in the economy, as well as challenges to efficient performance. Examples include service centers to register a business or to export, efforts to simplify tax and labor laws and intellectual property protection, and review of laws and regulations to identify obstacles they may impose to micro, small, and medium enterprises.
- ✓ Professional and management training. These programs seek to encourage businesses to direct more resources to training employees, managers, and business owners, to ultimately increase competitiveness. Examples include subsidies to reduce costs of access to training and development, as well as information centers to disseminate information about specialized training institutions, among others.
- ✓ Business development and an entrepreneurial culture. These programs primarily focus on providing services to individuals that are seeking to become business owners, and on those in the first stages of business development (for example, less than three years of operation). Examples include courses on

business plan development and instilling entrepreneurial spirit, both within and outside the formal education system; tutoring and mentoring services for entrepreneurs; financial tax exemptions for start-ups; and incentives to develop specialized financial tools for new businesses (seed capital, angel investor network, risk capital, etc.).

- ✓ Exports and participation in international markets. These programs seek to increase the presence of MSMEs in international markets. Examples include platforms to provide information about international demand (markets, products, regulations, business culture), marketing campaigns abroad, support to the development of strategic partnerships with businesses in other countries, and subsidies to participate in trade shows and commercial missions and as such to provide training and support so that businesses understand and comply with requirements in international markets.
- ✓ Development of institutional capacity (local agencies and MSME consultants). These programs seek to increase the capacities of public and private institutions in terms of design, implementation, and evaluation of MSME support programs. Examples include training for MSME consultants; improvement in management capacities, accounting, and communication technology in support institutions, especially at the local or regional level; training and dissemination of best practices in program evaluation.

### **HIGHLIGHTED PROGRAMS**

Among the programs described in the previous section, please name two that deserve special recognition for their positive results (range or scope achieved, number of businesses served, their impact on clients or markets, etc.), or for their innovative nature (new instruments or methods in Latin America and the Caribbean or in the country).

*Comments: .....*

### **MAIN TRENDS AND CHALLENGES FOR MSME PROGRAMS**

Identify the main challenges in reference to MSME policies over the last few years, and mention the outlook for MSME policy-making in the future.

*Comments: .....*

### **REFERENCES AND SOURCES OF INFORMATION**

## Appendix 3. Support for MSMEs:

### The Institutional Capacity Index

The information compiled in the surveys (institutional characteristics and implementation programs) enabled the creation of an index to rate institutions according to their capacity to support the MSME sector. The index is based on four main factors with a total of 11 variables, which are described below.

#### FACTOR 1. INSTITUTIONAL STABILITY

This factor takes into consideration variables related to the institutional stability of human resources and the budget, as well as the capacity of the institution to plan in the short and medium terms. Variables include the following:

- ✓ Evolution of the annual budget. This variable is awarded a value of 1 if the budget remained stable or grew in a five-year period (2000/2001 – 2005), and 0 if there was a decrease in the annual budget. Budget amounts are analyzed in 2005 real dollars.
- ✓ Evolution of number of personnel. This variable receives a value of 1 if the number of personnel remained stable or grew over a five-year period (2000/2001-2005) and 0 if there was a decrease.
- ✓ Stability of key personnel. This variable receives a value of 1 if two or fewer changes occurred in key personnel in the 2000-2005 period, and 0 if there were three or more changes. Key personnel include the top official in the institution and immediate subordinates.
- ✓ Implementation of a strategic plan (mid term, 3 to 5 years). This variable assumes a value of 1 if a strategic plan was made available that includes at least: mission, goals and objectives, appraisal of available resources, constraints and opportunities, and an action plan identifying responsibilities and timeframes; and a value of 0 if there is no plan or it does not include the noted elements.
- ✓ Development of an annual work plan. This variable assumes a value of 1 if the institution has an annual work plan listing objectives, programs, instruments, and responsibilities; 0 is awarded no work plan exists or it does not include the noted elements.

#### FACTOR 2. ATTENTION TO PROBLEMS CONFRONTED BY MSMEs

Factor 2 of the study seeks to identify whether the institution engages in activities to address problems facing the MSME sector. The factor estimates whether the institution maintains programs to address the main problems affecting the target group, and the capacity to effectively implement programs in the area physically or virtually (by electronic means) covered. Variables for Factor 2 include the following:

- ✓ Lines of activities covered by support programs. This variable assumes a value of 2 if the institution manages at least one program in six to nine of the lines of activities covered; a value of 1 if at least three lines are covered, and a value of 0 if two or fewer lines are covered.
  - The nine lines of activities include: 1) financing, 2) innovation and technology, 3) technical assistance, 4) business cooperation and linkages, 5) competitiveness, 6) professional development, 7) business development and entrepreneurial culture, 8) export assistance, and 9) institutional capacity.
  - Physical area covered. This variable assumes a value of 2 if the institution has regional offices to

implement programs (managed by the institution itself or through agreements with other strategic partners) in most of the national territory, a value of 1 if the physical area covered corresponds to less than half of the territory, and a value of 0 if the institution only has a main office and no local branches to provide services to MSMEs.

- ✓ Internet services. This variable assumes a value of 2 if the institution's website offers detailed information on its programs and support tools as well as on the sector, databases of consultants and MSME support institutions, and a business toolbox; a value of 1 is assigned if the website includes information on programs and other interactive information; and 0 is assigned if no website exists or it includes only basic information about the institution and its programs (address, contacts, basic description of programs).

### **FACTOR 3. INTER-INSTITUTIONAL COORDINATION**

Factor 3 seeks to understand the level of interaction among the principal MSME support institution and other public and private organizations that also support the sector in the country. The goal is to effectively synchronize strategies in the medium term, avoid duplications of activities, and make a more efficient use of public funds to support the sector. The inter-institutional coordination variable includes the following:

- ✓ Interaction with other MSME support institutions. This variable assumes a value of 2 if the institution has frequent meetings (at least one every three to four months) with other support organizations to coordinate short and mid-term actions, a value of 1 if stated meetings occur sporadically, and 0 if there is little or no formal interaction.

### **FACTOR 4. INSTITUTIONAL LEARNING**

This factor assesses whether the institution has tools to continue learning from its activities and programs. The variable is described below:

- ✓ Evaluation of programs. This variable assumes a value of 2 if most programs have independent evaluation systems that are abundantly shared among and discussed with those responsible for MSME policies, a value of 1 if only some programs have independent evaluation systems, and a value of 0 if there are evaluation systems for a small number of programs and there exists a significant gap in the evaluation of programs and opportunities to use them as a learning mechanism for effective MSME support policies.

The institutional quality index results in the sum of the four factors described above, and can achieve a value between 0 points (minimum) and 15 points (maximum). An institutional rating is then applied according to the total of points obtained:

A = High capacity:	12-15 points
B = Moderate capacity:	8-11 points
C = Less capacity:	4-7 points
D = Low capacity:	0-3 points

## Appendix 4. Overview of MSME Support Programs

This appendix provides an overview of programs to support the MSME sector in Latin America by type and institution. The high number of programs in the region makes it impossible to create an all-inclusive list. For example, SEBRAE of Brazil implemented nearly 1,500 MSME support programs in 2005 alone. In many cases, programs are summarized and/or only key programs are noted. For more information on programs, see website for each of the institutions listed in Table A4-1.

**Table A4-1. MSME Support Institution Websites**

<b>Country</b>	<b>Institution</b>	<b>Web-site</b>
Argentina	SEPYME	<a href="http://www.sepyme.gov.ar">www.sepyme.gov.ar</a>
Brazil	SEBRAE	<a href="http://www.sebrae.com.br">www.sebrae.com.br</a>
Chile	SERCOTEC	<a href="http://www.sercotec.cl">www.sercotec.cl</a>
Colombia	DIPYME	<a href="http://www.mincomercio.gov.co/">www.mincomercio.gov.co/</a>
Costa Rica	DIGEPYME	<a href="http://www.meic.go.cr">www.meic.go.cr</a> , <a href="http://www.meic.go.cr/esp2/pyme/index.html">www.meic.go.cr/esp2/pyme/index.html</a>
Dominican Republic	PROMIPYME	<a href="http://www.promipyme.gov.do">www.promipyme.gov.do</a>
Ecuador	MICIP	<a href="http://www.micip.gov.ec/">www.micip.gov.ec/</a>
El Salvador	CONAMYPE	<a href="http://www.conamype.gob.sv">www.conamype.gob.sv</a>
Guatemala	<i>Vice Ministerio</i>	<a href="http://www.mineco.gob.gt/mineco/mipyme/mipyme.php">www.mineco.gob.gt/mineco/mipyme/mipyme.php</a>
Honduras	CONAMIPYME	<a href="http://www.sic.gob.hn/mipyme/index.htm">www.sic.gob.hn/mipyme/index.htm</a>
Mexico	SPYME	<a href="http://www.contactopyme.gob.mx">www.contactopyme.gob.mx</a>
Nicaragua	INPYME	<a href="http://www.inpyme.gob.ni">www.inpyme.gob.ni</a>
Panama	AMPYME	<a href="http://www.ampyme.gob.pa/sitenev/">www.ampyme.gob.pa/sitenev/</a>
Paraguay	MIC	<a href="http://www.mic.gov.py">www.mic.gov.py</a> , <a href="http://www.programapymes.gov.py">http://www.programapymes.gov.py</a>
Peru	PROMPYME	<a href="http://www.prompyme.gob.pe/">www.prompyme.gob.pe/</a>
Uruguay	DINAPYME	<a href="http://www.dinapyme.gub.uy/">www.dinapyme.gub.uy/</a>
Venezuela	INAPYMI	<a href="http://www.inapymi.gov.ve/">www.inapymi.gov.ve/</a>

Each category highlights innovative programs in the region that have produced successful results and had positive impacts (such as reaching a great number of firms), are established and generally well-regarded programs, or exhibit some other specific merits.

### FINANCING

MSME support institutions in Latin America have a variety of programs to create opportunities for smaller businesses to access financing (Table A4-2). For example, SPYME in Mexico operates the *Red Nacional de Extensionismo Financiero Pyme* program, in which finance consultants from SPYME provide assistance to SMEs in assessing if and what modality of credit is needed and most appropriate, as well as applying for and securing such credit. A small number of institutions actually lower financial costs involved in accessing credit. Such is the case of the ‘Regimen de Bonificación de Tasas’ program in

Argentina, which since 2000 allows MSMEs to access credit at an affordable cost and in favorable terms. It is becoming less common for MSME support institutions to provide direct credit to businesses, but more common among first-tier institutions. Institutions in the Dominican Republic, Guatemala, Nicaragua, and Venezuela implement programs to provide direct credit to small businesses.

**Table A4-2. Finance Programs**

<b>Country</b>	<b>Institution</b>	<b>Program</b>
Argentina	SSEPYMEyDR	Régimen de Bonificación de Tasas
Bolivia	Ministerio de Producción y Microempresa	Sistema Nacional de Financiamiento para el Desarrollo
Brazil	SEBRAE	<ul style="list-style-type: none"> <li>• Programa Capital de Risco</li> <li>• Fondo de Aval</li> <li>• Sistemas de Garantías</li> </ul>
Chile	SERCOTEC	Programa de Acceso al Crédito
Dominican Republic	PROMIPYME	PROMIDIGNA
El Salvador	CONAMYPE, Ejecuta BMI	Programa de Ampliación de la Cobertura del Microcrédito (PACM)
Guatemala	Vice Ministerio de la MI-PYME	<ul style="list-style-type: none"> <li>• Programa Nacional para el Desarrollo de MSME</li> <li>• Programa Global de Créditos</li> </ul>
Honduras	CONAMIPYME	Sistema de Garantías Recíprocas
Mexico	SPYME	Red Nacional de Extensionismo Financiero Pyme
Nicaragua	INPYME	Fondo de Crédito para la Micro Empresa (FOMICRO)
Panama	AMPYME	Programa de Garantías para Financiamiento (PROFIPYME)
Venezuela	INAPYMI	<ul style="list-style-type: none"> <li>• Financiamiento de Capital de Trabajo</li> <li>• Activos Fijos</li> <li>• Deuda por Inversión</li> <li>• Financiamiento de Activos Intangibles</li> <li>• Cooperativas de Producción</li> <li>• Transporte Utilitario</li> </ul>

Although many MSME support institutions in LAC offer some type of finance program, most countries included in the study have other financial institutions that specialize in this type of activities. Usually it is development banks that provide direct and/or indirect credit and financial services to MSMEs. They are the main source of funding for microcredit, and an important tool for new or small firms and entrepreneurs. Micro and small credit offered by development banks in Latin America often entail more flexible rates and terms, and lower fees.

Many second and third-tier MSME support institutions included in this study work in collaboration with development banks to improve products and services offered to MSMEs and entrepreneurs. Usually, the role of MSME support institutions is to assist in the coordination of activities, as well as participating in programs and the development of specialized financial instruments, while banks implement finance programs and tools and distribute funds.

It is typical for MSME support institutions not to be involved in angel investors and venture capital networks or funds. In fact, although these financing schemes are a mainstay in the United States and its use is growing in other parts of the world, they are largely absent in LAC. These networks and financing programs provide funds to start-up firms and small businesses with exceptional growth potential. Technical assistance and managerial expertise is often offered to recipients of funds to ensure that they realize their potential. Brazil's SEBRAE is a leading institution in this area. Its Risk Capital program, discussed below, could serve as a model on how to bring together private lenders to nurture new firms.

### **Highlighted Programs**

Through the 'Regimen de Bonificación de Tasas' program in Argentina, SEPYME helps reduce the financial costs of access to credit by MSMEs. The goal of the program is to facilitate such access under reasonable conditions and costs for MSMEs. The national government implemented this program as a way of absorbing part of the financial cost involved in lending to MSMEs, which constitutes a strong and active policy for truly meeting that objective. The program offers a "bonus" of up to 8 percentage points above the nominal annual interest rate offered by intermediary financial entities. SEPYME assigns credit quotas to intermediary institutions and established criteria to give priority to certain MSME sectors and regions. By March 31, 2006 more than 163,000 MSMEs had already benefited from the program through financing for working capital, purchase of goods, and investment projects totaling about US\$66.5 million.

In Mexico, SPYME manages the National SME Finance Extension Program. The objective of the program is to help SMEs access appropriate financing suited to their characteristics and needs. Under this program, consultants provide independent technical assistance to SMEs in matters related to credit options, loan applications and use of funds, reporting results back to the SPYME. Funds for the program are provided by the Economic Affairs Secretariat, and contributions are made by state governments, business networks, and other institutions. In 2002 and 2003 the program assisted 1,260 businesses for a total of about US\$45.5 million in loans.

In Brazil, SEBRAE is implementing a risk capital program, a relatively unique experience in the region. Risk capital is offered to innovative micro and small enterprises to assist emerging tech-enterprises and enterprises with export potential. SEBRAE works jointly with private domestic and international research institutes and mutual investment funds to supply capital to firms. Eight risk capital funds have been established to date, and SEBRAE plans to create another 22 in the near future.

## **INNOVATION AND TECHNOLOGY**

By fostering technology and innovation SMEs can improve their competitiveness locally and internationally. Programs offered by MSME support institutions focus on the transfer and dissemination of technology, and nearly every country implements programs to that end. The most common national programs include financing for production innovation or modernization, training and workshops to promote upgrading and technology transfer, as well as the creation of new businesses through incubators or technology parks. However, programs to promote innovation are largely implemented by institutions that do not always have a focus on the MSME sector. Box A4-1 outlines a few of the innovation organizations in LAC.

The most common innovation and technology tools implemented by MSME support institutions are training and workshops on specific sectors (Table A4-3). A few MSME support institutions have taken the lead in supporting innovation in small businesses. For example, institutions in Chile, Brazil, and Colombia implement programs to fund the development and implementation of new technology, support the creation of technology-oriented clusters, help small businesses access technical innovations through consultation and technical feasibility studies, offer awards as incentives to increase innovation, send business

managers to technological cooperation forums, and create technology industrial parks. Brazil’s SEBRAE offers an excellent program to help MSMEs access new technology (see Table A4-3).

### Box A4-1. Innovation Development Organizations in Latin America

- The Argentinean Technology Fund (FONTAR - Fondo Tecnológico Argentino) manages resources to finance public and private innovation projects. Tools include soft credits, tax breaks and direct subsidies.
- The Corporation for Production and Growth in Chile (CORFO - Corporación de Fomento de la Producción) offers support programs and funds to Chilean firms and institutions to develop and implement innovative products and processes.
- The National Secretariat for Science, Technology and Innovation of Panama (SENACYT - Secretaría Nacional de Ciencia, Tecnología e Innovación) is a decentralized organization responsible for the management and development of innovation, science and technology.
- Guatemala, Mexico, Nicaragua, Peru, El Salvador, and Paraguay have a National Science and Technology Council (Consejo Nacional de Ciencia y Tecnología), decentralized public organizations in charge of developing national technology and science policies.
- The Ministry of Science and Technology in Costa Rica oversees innovation programs and policy development.

**Table A4-3. Innovation and Technology Programs**

Country	Institution	Program
Bolivia	Ministerio de Producción y Microempresa	Sistema Boliviano de Innovación y Difusión Tecnológica
Brazil	SEBRAE	<ul style="list-style-type: none"> <li>• Tecnología Industrial Básica (TIB)</li> <li>• Unidade de Inovação e Tecnologia</li> <li>• Centros Tecnológicos e redes de design</li> <li>• Sebraetec</li> </ul>
Chile	SERCOTEC	REDSERCOTEC
Colombia		Fondo Colombiano para la Modernización y el Desarrollo Tecnológico de las MIPYMES (FOMIPYME)
Colombia		Apoyo Tecnológico a las Mipymes
El Salvador	CONAMYPE y CONACYT	Desarrollo y Mejora del Marco Jurídico-normativo del Sistema de Calidad Nacional (SIN)
Guatemala	Viceministerio de la MIPYME	Premio a la Innovación Artesanal
Mexico	SPYME	Program for Innovation and Technological Development
Panama	AMPYME	<ul style="list-style-type: none"> <li>• Programa de Oportunidades de Negocios “Plantas Móviles”</li> <li>• Actualización Tecnológica - Área Metalmecánica</li> </ul>

## Highlighted Program

The Brazilian Basic Industrial Technology (TIB) Program was developed by SEBRAE in the 1980s and, since then, it has been key to incorporating metrology, standardization, quality, and intellectual property into the technology sector in the country. The program seeks to provide small businesses with technical expertise to increase quality, price, and product delivery. The TIB offers technical assistance and training in logistics, international regulations and standards, intellectual property, access to infrastructure, and business financing. SEBRAE trains experts to offer technical assistance to businesses. The TIB's website presents a list of institutions that provide technical assistance, and also includes a special section providing answers online to technology and innovation-related questions.

## BUSINESS DEVELOPMENT SERVICES

Business development programs seek to facilitate MSME access to a wide range of technical assistance, consulting, and information services to enhance competitiveness. This is the main focus of most MSME support institutions in Latin America and the Caribbean, although programs take many different forms. The most widely implemented programs include the following (see also Table A4-4):

- Subsidies or grants to contract consulting or technical assistance services to help businesses address problems (organizational, commercial, productive) that limit their competitiveness. In El Salvador, CONAMYPE's Technical Assistance Fund (discussed below) is an example of this type of business development program.
- A database of consultants for technical assistance projects or to help increase businesses productivity. Databases are usually posted on the institution's website and are available at regional offices. Some MSME support programs train consultants to provide effective assistance to MSMEs. AMPYME in Panama, for example, partners with the Technical University of Panama and Fundes Panama in the CRISOL program to train graduate students to be able to offer technical assistance. Students work directly with enterprises to identify challenges and present solutions. A handful of MSME support institutions in Latin America partner with Fundes to implement the CRISOL program in their universities.
- Seminars, courses, and workshops on relevant topics.
- Online portals that serve as virtual training or toolboxes on myriad MSME topics, including marketing, legal issues, business planning, financing, accounting, digital forms, etc. Examples include the SME Portal Project in Costa Rica, which provides an extensive online information system for SMEs. CONAMYPE in El Salvador has developed a one-stop shop to formalize a business, called the Business Transaction Center, as well as a toolbox for SMEs to access information on instruments and other resources.
- Support to business development and assistance centers that offer assistance to businesses. Business development or assistance centers provide SMEs with information and access to the Internet, video conferencing, as well as training and technical assistance, such as the MICRONET program in Ecuador. SEBRAE's Via Design program in Brazil provides small businesses and artists with support for image and brand development through 15 design centers and 85 innovation and design hubs.

But there are a few issues with business development programs. First, many institutions that offer services free of charge to enterprises, but there is little input from the businesses themselves, which limits quality control. This is especially significant when consultants work directly with businesses. Often, businesses are not given the opportunity to select or interview a consultant to determine if they are a good match in terms of expertise. There also exists the danger that subsidies could be given directly to consultants or

businesses. Lack of monitoring increases the risk that funds will be improperly used or that services will not be delivered.

**Table A4-4. Business Development Services Programs**

<b>Country</b>	<b>Institution</b>	<b>Program</b>
Argentina	SSEPYMEyDR	Programa de Reestructuración Empresaria (PRE)
Bolivia	Viceministerio de la Micro y Pequeña Empresa	Normativo Jurídico de MYPES, Artesanos, OECAS, Cooperativas Productivas y Organizaciones Productivas Comunales y otras
Brazil	SEBRAE	<ul style="list-style-type: none"> <li>• Via Design</li> <li>• Unidade de Acesso a Mercados</li> <li>• Centrais de Compras e de Vendas</li> <li>• Rodadas de Negócios</li> </ul>
Chile	SERCOTEC	Proyectos Asociativos
Colombia	DIPYME	Programa de Diseño Industrial
Costa Rica	DIGEPYME	<ul style="list-style-type: none"> <li>• Red de Apoyo a la Pyme</li> <li>• Proyecto Portal PYME</li> </ul>
Ecuador	MICIP	<ul style="list-style-type: none"> <li>• MICRONET</li> <li>• RED TIPS: Sistema de Promoción de Información Tecnológica y Comercial</li> </ul>
El Salvador	CONAMYPE	<ul style="list-style-type: none"> <li>• Fondo de Asistencia Técnica (FAT) MYPE</li> <li>• Centro de Desarrollo de Negocios</li> <li>• Escuela Virtual para las MIPYMES</li> <li>• Centro de Desarrollo Artesanal</li> </ul>
Guatemala	Viceministerio de Desarrollo de la MIPYME	Dirección de Servicios de Desarrollo Empresarial (SDE)
Honduras	CONAMIPYME, with outside support	Caja de Herramientas
Mexico	SPYME	<ul style="list-style-type: none"> <li>• The Business Development Centers Network.</li> <li>• Program for training and strengthening SME capabilities.</li> </ul>
Panama	AMPYME, with Instituto de Microfinanzas / Universidad Tecnológica de Panamá /FUNDES	<ul style="list-style-type: none"> <li>• Asistencia técnica, Proyecto Seminarios a empresarios en el extranjero</li> <li>• Diálogo de Gestiones</li> <li>• CRISOL</li> <li>• Centros MYPE. Orientación y Asistencia Técnica</li> <li>• Desarrollo del Comercio Electrónico (E-Commerce)</li> </ul>
Peru	PROMPYME	<ul style="list-style-type: none"> <li>• Portal de Información de Compras del Estado</li> <li>• Portal de Compras en Línea</li> <li>• MypePlaza</li> </ul>
Uruguay	DINAPYME	Asesoramiento a PYMES, Sensibilización y Capacitación
Venezuela	INAPYMI	<ul style="list-style-type: none"> <li>• Asesoramiento en la Fase de Preinversión</li> <li>Asistencia Técnica Individual y Sectorial</li> </ul>

## Highlighted Programs

CONAMYPE in El Salvador implements the Technical Assistance Fund (Fondo de Asistencia Técnica MYPE – FAT) that provides funding for micro and small businesses to contract technical assistance services to improve business management and competitiveness. FAT operates in three modules: individual, group, and association. Services include technology and innovation support, commercialization, training in human resources, and support for network development and export development, among others. Services are provided through grants or matching grants, financing up to 80 percent of the costs. The remaining 20 percent is provided by the business receiving the services. The FAT is a three-tier operational model. In the third tier the government regulates and evaluates activities; the second tier comprises the interface with intermediary institutions; and the first tier includes the direct interaction of MSMEs and service providers.

In 2005, 1,592 businesses received funding through the FAT program, which is CONAMYPE's largest, representing nearly half of its total budget. The program is monitored through impact indicators for 508 enterprises served in 2005. Nearly 70 percent of the enterprises increased profits by more than a minimum wage (a measure often used in El Salvador to calculate and compare growth).

### BUSINESS COOPERATION AND LINKAGES

These programs focus on the identification and development of industrial clusters and cluster associations, creation of networks, or the insertion of small businesses into existing value chains. The programs most widely implemented by MSME support institutions in Latin America and the Caribbean involve the following lines of activities (Table A4-5):

- Suppliers development business centers. These centers provide information to small businesses regarding opportunities, requirements, processes, and best practices.
- Events such as trade fairs to create supplier development linkages between small suppliers and larger buyers.
- Forums or roundtables to discuss to establish public-private partnerships to improve the business climate.
- Technical assistance to entities that work with businesses, as well as directly to businesses in a cluster or an association of clusters.
- Training of professional consultants to implement cooperative initiatives among MSMEs. CONAMYPE in El Salvador trains consultants on how to provide technical assistance on the development of associations.
- Grants or subsidies to promote collective action among businesses in a cluster or value chain.
- Formal network development programs to create clusters, including strategy, training, analysis, , action plan, legal services, and market access. Peru's PROMPYME supports an integrated business network development program (see below).

These activities usually result in the identification, support, and growth of industrial clusters and business networks, which, through joint action, can increase productiveness in MSMEs. Clusters and value chains are usually formed organically, and selected to receive support based on merit. However, cases may exist where clusters or networks are created or selected to receive assistance in order to respond to political or other interests, and not to proper merits.

## Highlighted Programs

In Peru, PROMPYME supports business network development in specific sectors and regions. By 2006, 29 networks were created out of 280 micro and small businesses. The four primary components of the program include: (i) *Develop business network associations* by establishing public-private strategic councils, training advocates and consultants in network development and business collaboration; (ii) *Access to organization and productivity technologies* by financing the hiring of a Business Network Manager and other training and technical assistance services, network action plans, and legal services; (iii) Facilitate market access through the identification of business opportunities, compliance with quality standards, organization of quarterly forums to promote and commercialize the products offered by the network, and the development of design and commercialization strategies (trade shows, samples, road shows, and campaigns); and (iv) Project monitoring and dissemination of information through the project monitoring information system, an annual participant evaluation, and an Association Business Plan contest.

**Table A4-5. Business Cooperation and Linkage Programs**

Country	Institution	Program
Brazil	SEBRAE	<ul style="list-style-type: none"> <li>• SEBRAE-RedeSist</li> <li>• PROMOS – BID</li> <li>• Distritos Industriais Italianos</li> <li>• PROGERAR</li> <li>• Desenvolvimento local integrado e sustentavel</li> </ul>
Bolivia	Ministerio de Producción y Microempresa	Programa de Asociatividad y Redes Productivas y Responsabilidad Social Empresarial
Chile	SERCOTEC	Chile Emprende
Colombia	DIPYME	<ul style="list-style-type: none"> <li>• Creación de minicadenas productivas</li> <li>• Desarrollo de proveedores</li> <li>• Centros de Subcontratación</li> </ul>
Ecuador	MICIP	Desarrollo de Clusters
El Salvador	CONAMYPE	Estrategia de Fomento de la Asociatividad
Mexico	SPYME	<ul style="list-style-type: none"> <li>• Sistema Nacional de Información e Integración de Mercados</li> <li>• Sistema Nacional de Información de Subcontratación Industrial</li> </ul>
Panama	AMPYME	Programa de Capacitación y Asistencia Técnica para las MiPymes Agropecuarias (AGROPYME)
Peru	PROMPYME	<ul style="list-style-type: none"> <li>• Desarrollo de Redes Empresariales</li> <li>• Formación y Fortalecimiento de una Red de Micro-productores Rurales</li> </ul>
Venezuela	INAPYMI	Desarrollo de Proveedores:

## BUSINESS CLIMATE AND CREATION OF OPPORTUNITIES

These programs seek to reduce barriers to entry and exit for MSMEs in the economy, as well as obstacles to efficient performance. Activities often address the regulatory framework in the nation. In Latin America, implementation of one-stop service centers is the most common modality in these programs, so that MSMEs can register a business in a very simple and quick manner, which is the goal of the Tramifácil program in Peru (see below). Other efforts include simplification of tax and labor laws, and the review of laws and regulations in the case of undue obstacles for micro, small, and medium enterprises.

**Table A4-6. Programs to Improve Business Climate and Create Opportunities**

Country	Institution	Program
Brazil	SEBRAE	<ul style="list-style-type: none"> <li>• Unidade de Políticas Públicas</li> <li>• SEBRAE Legal</li> </ul>
Bolivia	Viceministerio de Micro y Pequeña Empresa	Marco normativo tributario de MYPES, Artesanos, OECAS, Cooperativas Productivas y otras Organizaciones Productivas
El Salvador	CONAMYPE	Centro de Trámites Empresariales
Peru	PROMPYME,	Plan Nacional de Simplificación de Trámites Municipales para Empresas. Tramifácil

The reduction of transaction costs and simplification of procedures are important, but advocacy efforts by MSME support institutions could produce a positive change in the business climate. The United States Small Business Administration's (SBA) Office of Advocacy is an excellent example of an organization devoted to the promotion of a positive business climate and the creation of opportunities. Box A4-2 outlines the objectives and structure of the SBA Office of Advocacy.

### Box A4-2. Office of Advocacy for Small Businesses

Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent agency within the federal government of the United States. Appointed by the President and confirmed by the U.S. Senate, the Chief Counsel for Advocacy is the head of the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Economic research, policy analyses, and small business outreach help identify issues of concern. Regional offices and the headquarters in Washington, DC, provide support to the Chief Counsel.

The Office of Advocacy comprises:

- the Office of Economic Research: Analyzes the role and status of small businesses in the economy.
- Office of Interagency Affairs: Pursues regulatory, legislative, and other policy initiatives to support the growth of small businesses.
- Office of Information: Provides outreach to the small business community and ensures that the views of small firms and their representatives are heard by the Chief Counsel.
- Office of Regional Affairs: Ten regional offices help identify regulatory issues of concerns to small businesses in each state by monitoring the local impact of federal and state policies. Regional offices promote programs and policies to encourage fair regulatory treatment of small businesses, and educate policy makers using research and data produced by the SBA.

For more information see [www.sba.gov/advo](http://www.sba.gov/advo)

## Highlighted Programs

In Peru, PROMPYME oversees Tramifácil, or the national Plan for the Simplification of Municipal Procedures for Businesses, whose motto is “Fewer Procedures, More Businesses.” The program groups more than 20 key institutions to form INTERMESA (National Meeting for the Simplification of Municipal Procedures). This group works to seek solutions to the high costs and time to formalize businesses. It also links small businesses with state purchasing opportunities through the State Purchase Information Portal. This is a simple tool, free to businesses, that presents information on bidding opportunities and the annual purchasing plan of the government. Further, “business alerts” are sent electronically to businesses according to their line of activity (about 18,000 businesses receive these daily alerts). Since the portal was launched, nearly half of state purchases directed at micro and small businesses, and the number of businesses providing services to the government, increased from 63,000 in 2001 to over 103,000 in 2004.

## PROFESSIONAL DEVELOPMENT

Professional development programs focus on training employees, managers, and business owners, and they seek to encourage businesses to direct more resources to training and education, always to increase competitiveness (Table 7). Eight of the 17 MSME support institutions in this analysis are currently implementing professional development programs. Most of the institutions offer subsidies to businesses or institutions to reduce costs involved in training and development. For example, SSEPYMEyDR in Argentina offers tax credit to MSMEs investing in human resources development or training (see below). In Panama, AMPYME’s Training Program for SMEs (Programa de Capacitación para Pyme-PROCAPYME) is relatively new, but aims to strengthen MSMEs through the provision of nonfinancial resources, increasing management capacity. Partial scholarships are provided to selected applicants, who must first pass an exam and obtain a minimum number of points.

One factor that may explain why relatively few (about half) of the MSME support institutions studied here do not earmark resources for professional development may be the fact that many LAC countries have an agency in charge of professional development or vocational training, but which usually has no special focus on MSMEs, such as the National Service of Professional Promotion in Paraguay, SENCE in Chile, SENA in Colombia, and SENAI in Brazil.

## Highlighted Programs

SEPYME in Argentina offers tax credits to MSMEs investing in human resources development or training. The goal of the Tax Credit System for Training program (Régimen de Crédito Fiscal para Capacitación) is to improve MSME management, provide incentives to create formal development plans, promote collaboration among enterprises, and encourage competition among local businesses. Trainers or training institutions must be registered with the Administración Federal de Ingresos Públicos (AFIP) and the Régimen de Crédito Fiscal para Capacitación to assist enterprises in the development of training plans. A database of registered institutions is available on the SEPYME website. The program reimburses up to 8 percent of a firm’s annual salary amount for investments in professional development training. Businesses are provided with a Tax Credit Certificate, which can be applied toward the payment of income tax. In 2005 SSEPYMEyDR approved training projects for \$9 million in tax credits.

**Table A4-7. Professional Development Programs**

<b>Country</b>	<b>Institution</b>	<b>Program</b>
Argentina	SSEPMEyDR	Régimen de Crédito Fiscal Para Capacitación
Bolivia	Viceministerio de Mediana, Gran Empresa e Industria	Programa de fortalecimiento (capacitación y asistencia técnica), de los mecanismos de certificación de calidad de productos y servicios, acreditación productiva y manejo ambiental sostenible
Brazil	SEBRAE	<ul style="list-style-type: none"> <li>• Matriz de Solucoes Educacionais (cursos pela Internet, presenciáis, e kits educativos)</li> <li>• Serie de Publicacoes (39 titulos en tres niveis)</li> </ul>
Chile	SERCOTEC	Chile Emprende
Ecuador	MICIP	Proyecto para el Mejoramiento Continuo de la Productividad y la Calidad en las Pymes Ecuatorianas
El Salvador	CONAMYPE, FESIDAL	Programa de Bonos de Capacitación (BONOMYPE)
Mexico	SPYME	<ul style="list-style-type: none"> <li>• Sistema de Capacitación y Formación Empresaria</li> <li>• Guías Empresariales</li> <li>• La Universidad PyME</li> </ul>
Nicaragua	CONVENIO MIFIC - INPYME – INATEC	Cursos de Capacitación y Certificación
Panama	AMPYME	PROCAPYME "Programa de Capacitación para Pyme"
Uruguay	DINAPYME	Capacitación para Pequeñas y Medianas Empresas

### **BUSINESS CREATION AND CULTURE OF ENTREPRENEURSHIP**

Programs focused on business creation and entrepreneurial culture primarily provide services to individuals seeking to become business owners and business owners in the first stages of business development (for example, fewer than three years of operation). Many LAC business support institutions target these groups to boost employment and ensure the success of firms (Table A4-8). Most of these programs include the following components:

- Courses on business plan development.
- Agreements with the formal education system and universities. An example is the Proyecto Empresa-rio of AMPYME in Panama, which is discussed below in more detail.
- Tutoring and mentoring services for entrepreneurs.
- Business plan competitions.
- Business development associations, for example Chile Emprende by Sercotec. This program brings together a variety of stakeholders with the goal of supporting and developing entrepreneurs and new businesses.

- Business incubators. For example, SPYME in Mexico supports an extensive business incubator program to promote SMEs specialized in innovation and technological development (described below).
- Subsidies to cover start-up costs for small firms.

**Table A4-8. Business Creation and Entrepreneurial Culture Programs**

Country	Institution	Program
Brazil	SEBRAE	<ul style="list-style-type: none"> <li>• Premio Mulher Empreendedora</li> <li>• Desafío Sebrae</li> <li>• Programa Incubadoras de Empresas</li> <li>• Orientação Empresarial Colectiva</li> </ul>
Bolivia	Ministerio de Producción y Microempresa	Sistema Boliviano de Innovación y Difusión Tecnológica
Chile	SERCOTEC	<ul style="list-style-type: none"> <li>• Chile Emprende</li> <li>• Capital Semilla</li> </ul>
El Salvador	CONAMYPE	Programa Nacional para Emprendedores
Mexico	SPYME	National System of Business Incubators
Panama	AMPYME	<ul style="list-style-type: none"> <li>• Capacitación “Crear Empresas”</li> <li>• Proyecto “Empresario”</li> <li>• Metodologías “OIT”</li> </ul>
Peru	PROMPYME	Martes Empresariales

### Highlighted Programs

SERCOTEC’s Chile Emprende program has been very successful in developing business and employment opportunities. It organizes working meetings in regions where business owners and representatives, public officials, and other stakeholders jointly identify possible regional projects. Chile Emprende is present in 27 regions, in a total of 145 communities. SERCOTEC also offers seed money to businesses and entrepreneurs. Subsidies are offered as start-up capital to entrepreneurs with a business idea. Between 1993 and 2003 the program helped develop 160,000 new microenterprises.

The objective of the Mexican National Incubator System for New Businesses and Entrepreneurs is to boost and strengthen new SMEs, in particular those specialized in innovation and technological development. This program includes a network of business incubators and business acceleration organizations located in education, innovation and technological development centers, mostly housed in universities throughout the nation. Municipalities and business organizations also sponsor and support business incubators. The incubator system provides a wide range of services to assist in the creation and strengthening of new businesses such as: seed capital; training and technical assistance on technology, innovation, and business management; access to information; and promotional events. Furthermore, through its SME Fund (Fondo PyME), SPYME provides grants to support businesses. Before initiating the incubator project, SPYME thoroughly researches international incubator projects and best practices.

AMPYME in Panama provides technical assistance and training to new entrepreneurs and new businesses, and also seeks to integrate an entrepreneurial culture into all levels of the education system. The “Proyecto Empresario” organizes seminars in universities, and acts as an exchange point for students, professors, and businesses to share information. This exchange results in the production of materials on best practices in business development. Information is disseminated through newspapers, events, regional offices, and affiliate banks. In 2005 events organized under this program reached an audience of 540,000 participants.

## EXPORTS AND INTERNATIONALIZATION

These programs increase the presence of MSMEs in markets abroad. Many MSME support institutions actively implement programs supporting exports. However, seven out of the 17 institutions analyzed in this study do not. Often countries in LAC have agencies that provide assistance to enterprises involved in exports, including MSMEs. Examples of this type of programs include PROCHILE (Chile), EXPORTAR (Argentina), and PROCOMER (Costa Rica).

MSME support institutions implementing export and internationalization programs address the following:

- Information dissemination and training in international demand (markets, products, regulations, and business culture). A program in Colombia, for example, will help SMEs prepare for and enter into procurement opportunities with the United States.
- Subsidies to participate in trade shows and commercial missions.
- One-stop windows for exporting.
- Compliance with international standards. SEBRAE in Brazil manages the Bonus Metrologia program, which assists small businesses in complying with international standards. Specialized technical assistance is provided according to the type of product and sector. Services include equipment calibration and product testing to ensure quality of products and services and their opportunities to compete internationally. Services are offered through a national network of laboratories.

**Table A4-9. Exports and Internationalization Programs**

Country	Institution	Program
Argentina	SSEPYMEyDR	Proargentina
Brazil	SEBRAE	<ul style="list-style-type: none"> <li>• Bonus Metrologia</li> <li>• Centrais de Compras e Vendas</li> <li>• Bolsa de Negócios</li> <li>• APEX - Agência de Promoção de Exportações</li> </ul>
Bolivia	Ministerio de Producción y Microempresa,	Inserción de productos con valor agregado en mercados externos
Colombia	DIPYME	Compras Públicas: Programa Cooperación Internacional TLC
Mexico	SPYME	<ul style="list-style-type: none"> <li>• Programa Impulsoras</li> <li>• Pymexporta</li> <li>• Programa para Misiones Comerciales</li> </ul>
Panama	AMPYME	<ul style="list-style-type: none"> <li>• Programa de Asistencia para la Exportación de Pro-</li> </ul>

		ductos de la Pequeña Empresa (PYMEXPORTA)
Peru	PROMPYME, World Bank	Generando Capacidades para las Cadenas de Exportación (GECEX)

### Highlighted Programs

Colombia is developing the International Government Procurement program to export Colombian products and services to the United States within the Free Trade Agreement between Colombia, the United States, Ecuador, and Peru. The agreement allows for the participation of international firms in the US public bidding system. DIPYME is overseeing an international government procurement program in Colombia to provide assistance to SMEs regarding regulations of public purchasing in the United States.

### INSTITUTIONAL CAPACITY

These programs seek to increase the capacities of public and private institutions to design, implement, and evaluate MSME support programs. A minority of MSME support institutions incorporate programs to support strength local institutions. Programs often train MSME consultants to work with businesses or institutions, and provide training or technical assistance to MSME support institutions in distant regions. INPYME in Nicaragua oversees a group of MSME support institutions that work under an agreement to share resources for a training program for trainers. Also, CONAMIPYME in Honduras is implementing the Business Association Professionalization Program targeting small business development organizations.

Other institutions coordinate regional counsels or networks that work together to offer MSME business development services, as well as to provide technical assistance to these intermediaries to increase their service delivery and management abilities. SEBRAE of Brazil and SERCOTEC of Chile are examples of organizations that present exemplary methods of working with the network of institutions throughout their countries.

**Table A4-10. Institutional Capacity Programs**

Country	Institution	Program
Brazil	SEBRAE	Gestão Estratégica Orientada para Resultados
Chile	SERCOTEC	Fortalecimiento Municipal – Chile Emprende
Costa Rica	DIGEPYME	Regionalización de la Atención a PYME
El Salvador	CONAMYPE	Centro de Información y Documentación (CINDOC)
Guatemala	Viceministerio de de la MIPYME, Ministerio de Economía	Promoción de Inversiones e Intercambios Comerciales
Honduras	CONAMIPYME	Programa De Profesionalización en Asociatividad Empresarial
Mexico	SPYME	Curso en línea para Centros de Desarrollo Empresarial
Nicaragua	INPYME -MIFIC -	Cursos de Capacitación y Certificación

	INATEC	
Peru	PROMPYME	Centros MYPE. Orientación y Asistencia Técnica

### **Highlighted Programs**

In Chile, SERCOTEC provides training to municipal officers in local economic development and issues facing MSMEs. The objective is to strengthen the application of programs, laws, and policies that foster small business activity. The program has trained more than 200,000 officers over the past five years. Training focuses on skills upgrading, project development, and business formalization.