SME Policy Index

Latin America and the Caribbean 2019

POLICIES FOR COMPETITIVE SMES IN THE PACIFIC ALLIANCE AND PARTICIPATING SOUTH AMERICAN COUNTRIES



OECD

CAF DEVELOPMENT BANK OF LATIN AMERICA

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Preface

Micro, small and medium-sized enterprises (SMEs) are a fundamental component of the social and economic fabric of Latin America and the Caribbean. They provide jobs, incomes, goods and services to millions of families. Indeed, small shops, restaurants and workshops dot the landscape across the region. As such, they have a key role to play as the region addresses its key challenge of increasing productivity. SMEs and entrepreneurs are also important contributors to innovation and dynamism. These firms will be essential for the region to achieve more competitive economies, more inclusive societies and to bridge the existing gap with other dynamic regions such as emerging Asia. SMEs will also be key for Latin American countries to escape the so called "middle income trap" and to achieve economies that are diversified, adding value and less dependent on primary goods.

Against this backdrop, SME development is a marked priority for Latin American policy makers, who have identified economic growth, formalisation, and diversification as primary policy objectives in recent years, in alignment with overall national development plans. Indeed, the seven countries covered within this study, which includes the four members of the Pacific Alliance (Chile, Colombia, Mexico, Peru), as well as Argentina, Ecuador and Uruguay, have accumulated, to varying degrees, significant SME policy experience, including efforts to improve overall business environments and to provide targeted support to firms. Yet, there are challenges for policy planning, implementation and impact assessment, especially as governments attempt to balance multiple objectives related to economic transformation, employment generation and the reduction of poverty and inequality.

The OECD Regional Programme for Latin America and the Caribbean contributes to this effort by bringing and adapting the OECD working methods of production of relevant and timely statistics, policy assessment, policy dialogue and policy advice to the region on this important topic. This study, which is the first application of the SME Policy Index methodology in the region, is the result of collaboration between the OECD and CAF - Development Bank of Latin America, in co-operation with the Latin American and Caribbean Economic System (SELA), the "Foundation for the Strategic Analysis and Development of the SME" (FAEDPYME), and policy makers in each of the seven participating countries.

We are confident that this study will add value to the regional debate and SME policy reform efforts, thanks to the framework that it provides for assessing and benchmarking progress in the design and implementation of SME policies against internationally-recognised good practice. By examining the policy environment for SMEs across a broad range of areas, as well as transforming what are largely qualitative inputs into numeric information that can be compared across time and across different economies and regions, it constitutes a valuable tool to provide guidance for policy reform and development on the basis of these findings. The comparative nature of the analysis brings to light opportunities for peer learning, which are supported by policy recommendations at both regional and country levels.

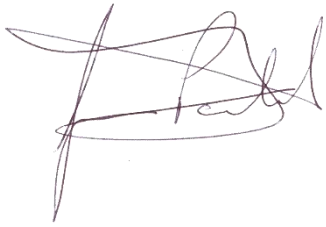
We are proud to jointly bring this work to Latin America, benefitting from the experience of OECD members and other emerging regions, and look forward to continuing this fruitful collaboration to enhance SME development as an important driver of sustainable growth in the region.



Angel Gurría
OECD Secretary-General



Luis Carranza
President of CAF



Ambassador Javier Paulinich
Permanent Secretary of SELA

Foreword

This study is the result of a period of more than two years of collaboration between the OECD, the Development Bank of Latin America (CAF), and the Latin American and Caribbean Economic System (SELA), in response to strong demand from policy makers in the Latin American and Caribbean region for assistance in better leveraging SME policy as a tool for sustainable economic development.

Beginning in 2015, SELA approached the OECD with a proposal for adapting the Organisation's SME Policy Index methodology to the regional context. The SME Policy Index is an analytical tool developed by the OECD, in co-operation with international partners, to map SME policies and programmes and to assess alignment with good practice over time. It was developed for application in emerging economies within the context of the Organisation's Global Relations programmes. Since its first application in 2007, it has been used in 32 economies and various emerging regions of the world, including the Middle East and North Africa (MENA) region, Southeast Europe and Turkey, the Association of Southeast Asian Nations (ASEAN), and Eastern Europe and Central Asia (Eurasia).

While all these assessments share a common methodology, each regional application is adapted to reflect the regional priorities of the economies in question in order to anchor the assessment to the regional policy debate. Thus, the OECD and SELA organised two regional meetings during 2016 to develop the particular LAC assessment framework priorities and identify specific countries and/or sub-regional groups interested in undergoing the assessment process. Following these meetings, letters of interest were received from relevant ministerial authorities in Argentina, Ecuador and Uruguay, as well as the Pro Tempore Presidency of the Pacific Alliance under Chile, expressing interest in engaging in the first application of the SME Policy Index in the region, and leading to the launch of this particular study. Since this time, further letters of interest have been received from various Central American countries, and the OECD looks forward to identifying future opportunities, in continued collaboration with regional partners, to respond to this demand.

This project is an output of the OECD Regional Programme for Latin America and the Caribbean, which, building on the Organisation's longstanding partnership and dialogue with the region, was launched in 2016 to support the region in advancing its reform agenda along the three key regional priorities of increasing *productivity*, advancing *social inclusion*, and strengthening *institutions and governance*. It is a good example of OECD working methods, leveraging the production of comparable statistics, policy assessment, policy dialogue and policy advice, as well as the Programme's commitment to work hand in hand with regional partners and facilitate broader participation of Latin American countries in OECD work and their access to OECD expertise. During its first three years of existence, the Programme, though projects like these, has allowed for a systematic and mutually beneficial dialogue among OECD and Latin American countries, bringing the region's policy perspectives to the work of the Organisation.

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The *SME Policy Index 2019 for Latin America and the Caribbean: Pacific Alliance and participating South American countries* is the outcome of work conducted by the Organisation for Economic Co-operation and Development (OECD) through its Latin America and the Caribbean (LAC) Regional Programme (LACRP), the Development Bank of Latin America (CAF), and the "Foundation for the Strategic Analysis and Development of the SME" *(Fundación para el Análisis Estratégico y Desarrollo de la Pyme,* or FAEDPYME), in co-operation with the Latin American and Caribbean Economic System (SELA) and national policy makers in each of the seven participating countries (LA7). The report is based on the SME Policy Index (SME PI) methodology developed by the OECD and applied to some 38 economies across five regions of the world.

The report was written under the guidance of *Andreas Schaal*, Director OECD Global Relations; *Juan Elorza,* Director of Analysis and Technical Assessment for Private Sector, CAF; and *Jose Antonio Ardavin*, Acting Head of the LAC Division, OECD Global Relations.

This report was made possible thanks to the to the support of SELA and its Permanent Secretary, Ambassador *Javier Paulinich*, who, in his commitment to promote regional integration and the performance of SMEs, pushed for the implementation of this methodology in the LAC region, as well as the contributions of the LA7 national SME PI co-ordinators and FAEDPYME academic researchers who supported the data-gathering and verification processes.

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Abbreviations and acronyms

Currency

ARG	Argentine peso
CLP	Chilean peso
COP	Colombian peso
MXN	Mexican peso
PEN	Peruvian sol
UYU	Uruguayan peso
USD	United States dollar

(Ecuador uses the U.S. dollar.)

Argentina

AAICI	*Agencia Argentina de Inversiones y Comercio Internacional*, or Argentine Agency of Investment and Foreign Trade
AFIP	*Administración Federal de Ingresos Públicos*, or Federal Administration of Public Income
ANPCYT	*Agencia Nacional de Promoción Científica y Tecnológica*, or National Agency of Scientific and Technologic Promotion
BCRA	*Banco Central de la República Argentina,* or Central Bank of Argentina
GACTEC	*Gabinete Científico Tecnológico*, or Science and Technology Cabinet
FONTAR	*Fondo Tecnológico Argentino*, or National Technological Fund
INDEC	*Instituto Nacional de Estadística y Censos de la República Argentina,* or National Statistics and Census Institute of Argentina
MIA	*Mercado de Innovación Argentina*, or Argentinian Innovation Market
MINCYT	*Ministerio de Ciencia, Tecnología e Innovación Productiva*, or Ministry of Science, Technology and Innovation
PNRT	*Plan Nacional de Regularización del Trabajo,* or National Plan for Labour Regularisation
SEPyME	*Secretaría de Emprendedores y PyMEs*, or Secretariat of Entrepreneurs and SMEs
SNCTI	*Sistema Nacional de Ciencia, Tecnología e Innovación Argentino*, or National System of Science, Technology and Innovation

Chile

CNID	*Consejo Nacional de Innovación para el Desarrollo*, or National Council of Innovation for Development

CORFO	*Corporación de Fomento de la Producción,* or Productive Development Corporation
CONICYT	*Comisión Nacional de Investigación Científica y Tecnología*, or National Commission for Scientific and Technological Research
DIPRES	*Dirección de Presupuestos*, or Budget Directorate
DIRECON	*Dirección General de Relaciones Económicas Internacionales,* or General Directorate of International Economic Relations
ELE	*Encuesta Longitudinal de Empresas,* or Longitudinal Enterprise Survey
EME	*Encuesta de Micro Emprendimiento,* or Microenterprise Survey
FIE	*Fondo de Inversión Estratégica,* or Strategic Investments Fund
INE	*Instituto Nacional de Estadísticas,* or National Institute of Statistics
MEFT	*Ministerio de Economía, Fomento y Turismo,* or Ministry of Economy, Development and Tourism
OPEN	*Oficina de Productividad y Emprendimiento Nacional*, or Office of Productivity and National Entrepreneurship
SBIF	*Superintendencia de Bancos e Instituciones Financieras de Chile*, or Superintendence of Banks and Financial Institutions of Chile
SERCOTEC	*Servicio de Cooperación Técnica*, or Technical Co-operation Service
SII	*Servicio de Impuestos Internos*, or Internal Revenue Service
SUPERIR	*Superintendencia de Insolvencia y Reemprendimiento*, or Superintendence of Insolvency and Reinsurance
UF	Unidad de Fomento (accounting unit)

Colombia

ACOPI	*Asociación Colombiana de Medianas y Pequeñas Empresas,* or Colombian Association of Medium and Small Enterprises
BANCÓLDEX	*Banco de Comercio Exterior de Colombia*, or Bank of Foreign Trade
COLCIENCIAS	*Departamento Administrativo de Ciencia, Tecnología e Innovación*, or Administrative Department of Science, Technology and Innovation
CONFECÁMARAS	*Confederación Colombiana de Cámaras de Comercio*, or Colombian Federation of Chambers of Commerce
CONPES	*Consejo Nacional de Política Económica y Social,* or National Council of Economic and Social Policy
DANE	*Departamento Administrativo Nacional de Estadística*, or National Department of Statistics
DNP	*Departamento Nacional de Planificación,* or National Planning Department
FOMIPYME	*Fondo Colombiano de Modernización y Desarrollo Tecnológico de las Micro, Pequeñas y Medianas Empresas,* or Colombian Fund for Modernisation and Technological Development of Micro, Small and Medium Enterprises

MINCIT	*Ministerio de Comercio, Industria y Turismo*, or Ministry of Commerce, Industry and Tourism
MINTIC	*Ministerio de Tecnologías de la Información y las Comunicaciones*, or Ministry of ICT
PAS	*Plan de acción y seguimiento*, or Action Plan (in the CONPES Document 3866 of 2016)
PTP	*Programa de Transformación Productiva*, or Productive Transformation Programme
RUT	*Registro Único Tributario*, or Unique Tax Registry
SENA	*Servicio Nacional de Aprendizaje*, or National Learning Service
SINERGIA	*Sistema Nacional de Evaluación de Gestión y Resultados,* or National System for the Evaluation of Management and Results
SNCCTI	*Sistema Nacional de Competitividad, Ciencia, Tecnología e Innovación,* or National System of Competitiveness, Science, Technology and Innovation

Ecuador

DINARDAP	*Dirección Nacional de Registros de Datos Públicos*, or National Directorate of Public Data Records
ENCMP	*Estrategia Nacional para el Cambio de la Matriz Productiva*, or National Strategy for Economic Change
GPR	*Gobierno por Resultados*, or Government for Results: monitoring tool used by the federal public administration
INEC	*Instituto Nacional de Estadística y Censos*, or National Institute of Statistics and Censuses
LOSNCP	*Ley Orgánica del Sistema Nacional de Contratación Pública,* or Organic Law of the National Public Procurement System
MINTEL	*Ministro de Telecomunicaciones y de la Sociedad de la Información*, or Ministry of Telecommunications
MIPRO	*Ministerio de Industrias y Productividad*, or Ministry of Industries and Productivity
Senplades	*Secretaría Nacional de Planificación y Desarrollo*, or National Secretariat of Planning and Development
RUC	*Registro Único del Contribuyente*, or Single Taxpayer Registry
RUM	*Registro Único de MIPYMES*, or SME Registry
SCVS	*Superintendencia de Compañías, Valores y Seguros*, or Superintendence of Companies, Securities and Insurance
SENESCYT	*Secretaria de Educación Superior, Ciencia, Tecnología e Innovación*, or Secretariat for Higher Education, Science, Technology and Innovation
SERCOP	*Servicio Nacional de Contratación Pública*, or National Service for Public Procurement
ZEDE	*Zona Especial de Desarrollo Económico*, or Special Economic Development Zone

Mexico

BANXICO	*Banco de México*, or Central Bank of Mexico
CCE	*Consejo Coordinador Empresarial*, or Business Coordinating Council
CONACYT	*Consejo Nacional de Ciencia y Tecnología*, or National Council of Science and Technology
CONAMER	*Comisión Nacional de Mejora Regulatoria*, or National Commission on Regulatory Improvement (until recently, COFEMER)
CONEVAL	*Consejo Nacional de Evaluación de la Política de Desarrollo Social*, or National Council for the Evaluation of Social Development Policy
FNE	*Fondo Nacional Emprendedor*, or National Entrepreneur Fund
NAFIN	*Nacional Financiera,* or National Financial Trust
NAFTA	North American Free Trade Agreement
IMCO	*Instituto Mexicano de Competitividad*, or Mexican Competitiveness Institute
INADEM	*Instituto Nacional del Emprendedor,* or National Institute for the Entrepreneur
INEGI	*Instituto Nacional de Estadística y Geografía*, or National Institute of Statistics and Geography
ONE	*Observatorio Nacional del Emprendedor*, or National Entrepreneur Observatory
PDP	*Programa por Democratizar la Productividad,* or Programme to Democratize Productivity
PND	*Plan Nacional de Desarrollo,* or National Development Plan
PRODEINN	*Programa de Desarrollo Innovador*, or Innovative Development Programme
RAE	*Red de Apoyo al Emprendedor*, or Entrepreneur Support Network
RIF	*Régimen de Incorporación Fiscal,* or Fiscal Incorporation Regime
SAT	*Servicio de Administración Tributaria,* or Tax Administrative Service
SE	*Secretaria de Economía,* or Ministry of Economy
USMCA	United States-Mexico-Canada Agreement *(replaced NAFTA as of November 2018)*

Peru

CDE	*Centro de Desarrollo Empresarial*, or Business Development Centre
CEPLAN	*Centro Nacional de Planeamiento Estratégico*, or National Centre for Strategic Planning
CNCF	*Consejo Nacional de Competitividad y Formalización*, or National Council of Competitiveness and Formalisation
CODEMYPE	*Consejo Nacional para el Desarrollo de la Micro y Pequeña Empresa*, or National Council for the Development of Micro and Small Enterprises
CONCYTEC	*Consejo Nacional de Ciencia, Tecnología e Innovación Tecnológica*, or National Council for Science, Technology and Technological Innovation

DGDE	*Dirección General de Desarrollo Empresarial*, or General Directorate of Business Development
INEI	*Instituto Nacional de Estadística e Informática*, or National Statistics Institute
MAC	*Mejor Atención al Ciudadano,* or Centre for Better Citizen Services
MEF	*Ministerio de Economía y Finanzas,* or Ministry of Economy and Finance
MINCETUR	*Ministerio de Comercio Exterior y Turismo,* or Ministry of Foreign Trade and Tourism
PENX 2025	*Plan Estratégico Nacional Exportador,* or Strategic National Export Plan 2025
PESEM	*Plan Estratégico Sectorial Multianual*, or Multiannual Sectoral Strategic Plan
PNDP	*Programa Nacional de Diversificación Productiva*, or National Productive Diversification Programme 2016-2024
PRODUCE	*Ministerio de la Producción,* or Ministry of Production
RUC	*Registro Único de Contribuyentes,* or Consolidated Taxpayer Registry
SIICEX	*Sistema Integrado de Información de Comercio Exterior*, or Integrated Foreign Trade Information System
SUNARP	*Superintendencia Nacional de los Registros Públicos*, or National Superintendence of Public Registries
SUNAT	*Superintendencia Nacional de Administración Tributaria*, or National Superintendence of Tax Administration

Uruguay

AGESIC	*Agencia de Gobierno Electrónico y Sociedad de la Información y del Conocimiento,* or Agency for Electronic Government and the Information and Knowledge Society
ANDE	*Agencia Nacional de Desarrollo*, or National Development Agency
ANII	*Agencia Nacional de Investigación e Innovación*, or National Agency for Research and Innovation
BCU	*Banco Central de Uruguay*, or Central Bank of Uruguay
CCE	*Centro de Competitividad Empresarial,* or Enterprise Competitiveness Centre
DINAPYME	*Dirección Nacional de Artesanías, Pequeñas y Medianas Empresas,* or National Directorate of Artisans and Small and Medium-Sized Enterprises
INE	*Instituto Nacional de Estadística*, or National Statistics Institute
INEFOP	*Instituto Nacional de Empleo y Formación Profesional*, or National Institute of Employment and Vocational Training
LATU	*Laboratorio Tecnológico del Uruguay*, or Technological Laboratory of Uruguay
MIDES	*Ministerio de Desarrollo Social,* or Ministry of Social Development
MIEM	*Ministerio de Industria, Energía y Minería*, or Ministry of Industry, Economy and Mining
OPP	*Oficina de Planeamiento y Presupuesto*, or Office of Planning and Budget

PENCTI	*Plan Estratégico Nacional en Ciencia, Tecnología e Innovación*, or National Strategic Plan of Science, Technology and Innovation

Regional

CAF	*Corporación Andina de Fomento – Banco de Desarrollo de América Latina*, or Development Bank of Latin America
CAN	*Comunidad Andina,* or Andean Community (members included in this study: Colombia and Peru)
CAMIPYME	*Comité Andino de Micro, Pequeña y Mediana Empresas* (CAN's SME working group)
ECLAC	UN Economic Commission for LAC
FOCEM	*Fondo para la Convergencia Estructural*, or Fund for Structural Convergence (Mercosur)
GIP	*Grupo de Integración Productiva*, or Productive Integration Group (Mercosur)
IDB	Inter-American Development Bank
LA7	The seven Latin American countries included in this assessment (Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay)
LAC	Latin America and the Caribbean
MERCOSUR	*Mercado Común del Sur,* or Southern Common Market (members included in this study: Argentina and Uruguay)
MIPYMEs	*micro, pequeñas y medianas empresas*, or micro, small, and medium-sized enterprises
MYPEs	*micro y pequeñas empresas*, or micro- and small enterprises
PA/PA4	Pacific Alliance (members: Chile, Colombia, Mexico, and Peru)
PAC	*Programa de Apoyo a la Competitividad [para MIPYMES]*, or Competitiveness Support Programme (IDB programme)
PIP	*Programa de Integración Productiva*, or Productive Integration Programme (Mercosur)
PYMEs	*pequeña y mediana empresas*, used in the this study to refer collectively to micro, small- and medium-sized enterprises (see also, "SME")
PYMEx	*PYME exportadora*, or exporting SME
REDVUCE	IDB's Inter-American Network of International Trade Single Windows
SICA	*Sistema de la Integración Centroamericana,* or Central American Integration System

Other

AEO	Authorised Economic Operator
APEC	Asia-Pacific Economic Co-operation
BDS	business development services
ECI	Economic Complexity Index (Massachusetts Institute of Technology)
EPA	export promotion agency
EU	European Union

FDI	foreign direct investment
FTA	free trade agreement
GDI	Gender Development Index (United Nations)
GDP	gross domestic product
GNI	gross national income
GNP	gross national product
GPA	global procurement agreement
GVC	global value chain
HDI	Human Development Index (United Nations)
HEI	higher education institutions
ICT	information and communications technology
IFC	International Finance Corporation
IFI	international financial institution
IMF	International Monetary Fund
IT	information technology
ILO	International Labour Organization
IPR	intellectual property rights
KPI	key performance indicator
M&E	monitoring and evaluation
MNE	multinational enterprise
NGO	non-governmental organisation
OSS	one-stop shop
PISA	Programme for International Student Assessment
PMR	Product Market Regulations (index, OECD and World Bank)
POS	point-of-sale
PPC	public-private consultation
PPP	purchasing power parity *or* public-private partnership
PTPR	Productive Transformation Policy Review (OECD)
R&D	research and development
RIA	regulatory impact analysis
RoOs	rules of origin
SDGs	UN Sustainable Development Goals
SME	micro, small- or medium-sized enterprise; used in the this study to refer collectively to all three of these size categories
SME PI	SME Policy Index (OECD)
SOE	state-owned enterprise
SPS	sanitary and phytosanitary standards
StD	standard deviation
STI	science, technology and innovation
TFIs	Trade Facilitation Indicators (OECD)
TFP	total factor productivity

UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
US	United States
VAT	value-added tax
VET	vocational education and training
WCO	World Customs Organisation
WEF	World Economic Forum
WTO	World Trade Organisation
y-o-y	year-on-year

Executive Summary

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

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

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

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

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

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

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

Chapter 1. Economic Context and the Role of SMEs in Latin America and the Caribbean

The economic context

Achieving a sustained, sustainable and inclusive growth is necessary for Latin America to confront important challenges

During the last two decades, the Latin American and Caribbean region has registered relatively dynamic economic growth, above the OECD average, although less than that of other emerging countries such as the Association of Southeast Asian Nations (ASEAN). This growth, which in many cases has been influenced by the levels of production and prices of basic products such as minerals, oil and food, has allowed the reduction of extreme poverty (from 29% to 16% between 2000 and 2014).) and moderate poverty (from 17% to 14% for the same period) (OECD, 2016[1]).

Growth has continued, albeit with some volatility in some countries in recent years. During 2010-2013, the Latin America and the Caribbean region enjoyed high economic growth rates that then stagnated in 2014-2016 and even turned negative in some countries (Argentina and Ecuador - see Table 1.1). The region returned to the growth path in 2017 with an expansion of real GDP of 1.3%, on average, and continues a recovery trend that is expected to continue until 2020 (IMF, 2018[2]). Although expectations for 2018 had been favourable, in June 2018 the International Monetary Fund (IMF) revised downwards its estimates for the second semester of 2018 and 2019 in which the region is expected to continue growing, but less than what was originally projected. In addition, it should be noted that the growth rates forecast for the region for 2019-2020 are well below the average of those of other emerging countries such as Southeast Asia (above 6%).

The countries of the Pacific Alliance (Chile, Colombia, Mexico, and Peru) and the other three countries participating in this report (Argentina, Ecuador, and Uruguay) experienced a less pronounced slowdown in 2015 and 2016 and enjoyed growth rates in excess of regional average in 2017 and 2018 as noted in Table 1.1. However, these differences are expected to be reduced in 2019 and 2020, where their projected growth rates converge with the regional outlook. While the prospects are considerably more positive for Chile and Peru (4.0 and 4.1% in 2018, and 3.4 and 4.1% in 2019, respectively), the IMF considers that the economic crisis in Argentina will not diminish before 2020 (a decline of -2.6% in 2018 and -1.6% in 2019).

The main risks that can divert the region from this path of economic recovery are disruptions due to natural disasters, the uncertainty in the implementation of policies after electoral processes in several countries of the region in 2017 and 2018, and the potential negative effects on the intensification of the trade policies of some of the region's main partners, particularly the United States (BBVA, 2018[3]; World Bank, 2018[4]). Other geopolitical risk factors include the uncertainties between US-China relations, volatility in financial markets during 2018, the process of separation of the United Kingdom from the

European Union (Brexit) and the growing evidence of global slowdown at the end of 2018 early 2019, especially in China.

Table 1.1. Real GDP growth for selected countries (2010-2020)

Real GDP growth (%)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Argentina	10.1	6	-1	2.4	-2.5	2.7	-1.8	2.9	-2.6	-1.6	2.2
Chile	5.8	6.1	5.3	4.1	1.8	2.3	1.3	1.5	4	3.4	3.2
Colombia	4.3	7.4	3.9	4.6	4.7	3	2	1.8	2.8	3.6	3.7
Ecuador	3.5	7.9	5.6	4.9	3.8	0.1	-1.2	2.4	1.1	0.7	1.3
Mexico	5.1	3.7	3.6	1.4	2.8	3.3	2.9	2	2.2	2.5	2.7
Peru	8.5	6.5	6	5.8	2.4	3.3	4	2.5	4.1	4.1	4.1
Uruguay	7.8	5.2	3.5	4.6	3.2	0.4	1.7	2.7	2	3.2	3.4
LA7	6.4	6.1	3.8	4.0	2.3	2.2	1.3	2.3	1.9	2.3	2.9
LAC region	6.1	4.6	2.9	2.9	1.3	0.3	-0.6	1.3	1.2	2.2	2.7

Source: Own elaboration based on (IMF, 2018[2])

Although the economic recession of the middle of this decade seems to have been overcome, the LAC region continues to face considerably lower growth rates than other developing regions and its enterprises continue to be characterized by very low levels of productivity (OECD/CAF/ECLAC, 2018[5]) The latter continues to be one great economic challenge for LAC, whose levels of internal productivity have remained stagnant since 1970 and have continued their prolonged decline compared to markets operating at the technological frontier (IDB, 2016[6]; OECD/CAF/ECLAC, 2018[5]). Consequently, and in spite of the heterogeneity characteristic of Latin America, the convergence with respect to the living standards of the advanced countries has slowed down, and in some countries it has even begun to reverse (OECD, 2016[1]).

To face such challenges, the region must continue and accelerate the pace of structural reforms in terms of education and skills, and a better allocation of human resources and capital to activities of greater productivity. This implies actions on different fronts such as the improvement of human capital, the consolidation of the business and investment environment, the strengthening of innovation frameworks, the improvement of infrastructures and the strengthening of public governance, including through the fight against corruption (OECD, 2016[1]).

Other challenges for the region include the development of a more diverse and numerous export base (after the fall in the external balance for the fourth consecutive year), a greater emphasis on savings and productive investment, and the strengthening of regional collaboration networks (BBVA, 2018[3]; IMF, 2018[2]; OECD/CAF/ECLAC, 2018[5]).

SMEs in the LAC region

Latin America has many SMEs, but their productivity levels are low

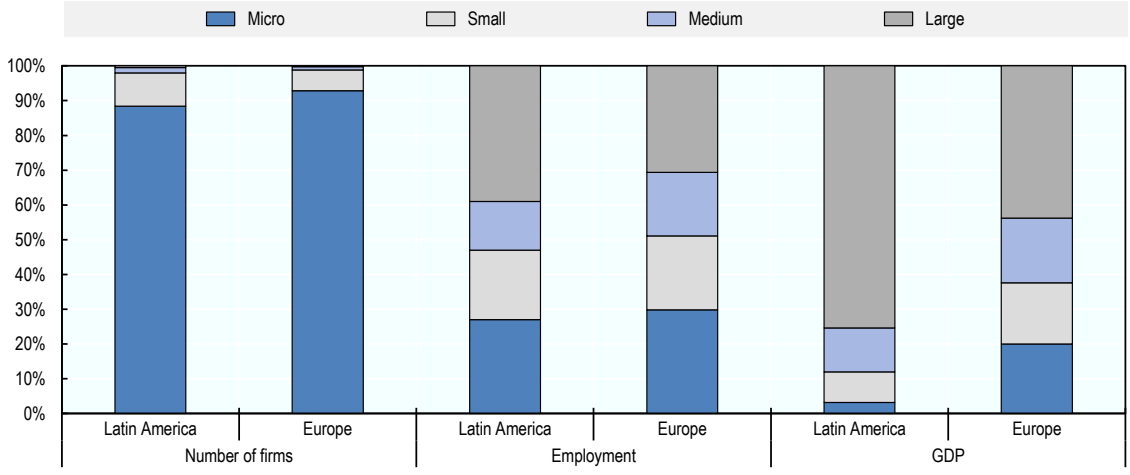
Micro, small and medium-sized enterprises (SMEs)[1] are a fundamental component of the economic fabric of the LAC region, as well as of the region's promotion and economic growth strategies. This leading developmental role is consistent with the high number of small enterprises operating in the region and their significant contribution to employment. According to some traditional measurements based on surveys such as the World Bank's *Enterprise Surveys*, 90% of enterprises in the region can be considered SMEs (Lederman

et al., 2014[7]). However, these surveys are limited to formal manufacturing companies with more than five employees; so although they are useful, they do not describe the entire business universe of the region. Another limitation of these surveys is that they use a single threshold to define large enterprises (100 employees) that does not necessarily coincide with national definitions.

More-recent measures have sought to remedy some of these shortcomings by basing their calculations on household surveys that allow them to derive a more accurate picture of the smallest firms in the spectrum and the self-employed population. According to these calculations, 99.5% of Latin American firms are SMEs, with almost nine out of 10 firms classified as microenterprises (OIT, 2015[8]; Dini and Stumpo, 2018[9]). Together, SMEs represent 60% of formal productive employment in the region, but are responsible for a quarter of the total production value of LAC economies (Dini and Stumpo, 2018[9]).

The difference between labour market participation and value-added generation suggests a significant productivity gap between smaller and larger firms, in which a comparison with more developed regions is revealing. As shown in Figure 1.1, the proportion of formal enterprises that are considered SMEs is similar in LAC and Europe, covering almost the entire business universe (99.5% of the total). These enterprises generate around six out of every ten available formal jobs in the LAC region, while SMEs in Europe generate around seven out of every ten jobs. However, in Europe, SMEs contribute more than twice as much to the generation of wealth as their LAC counterparts. This difference is particularly large for companies at the end of the size spectrum: LAC microenterprises account for about 3.2% of production whereas in Europe they contribute six times more (20% of GDP) even though they have a fairly similar participation in the labour force (28% in LAC and 30% in Europe).

Figure 1.1. Number of firms, share of employment, and share of gross domestic product (%)

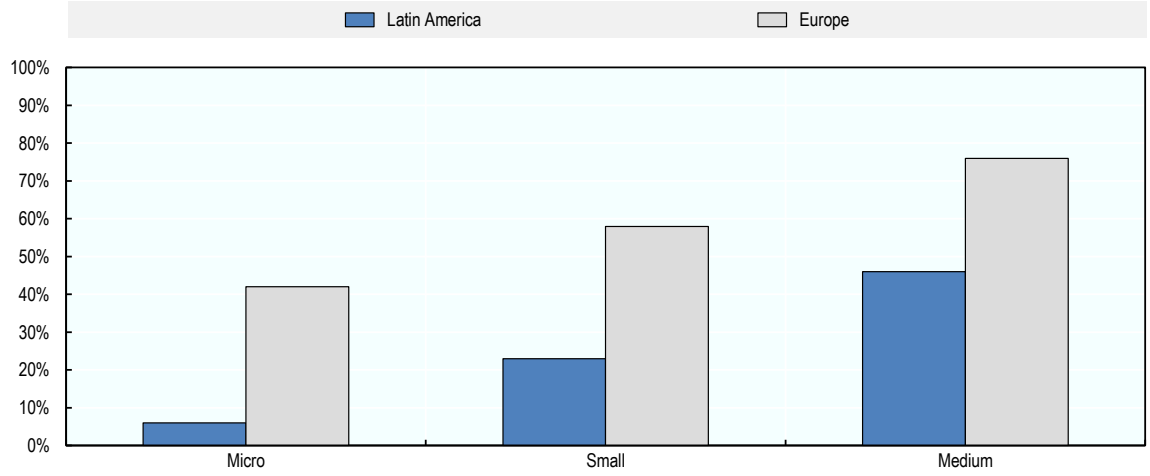


Source: Own elaboration based on (Dini and Stumpo, 2018[9]).

The large number of small firms and their relevance in the workforce contrasts sharply with their limited impact on GDP, revealing a marked productivity gap between large firms and the rest of the business universe in the LAC region. However, this relationship is better described after taking into consideration the different assets of productive factors (land, capital and labour) employed by each of the companies. Figure 1.2 compares the total factor productivity[2] of firms of different sizes. This provides a better measure of the magnitude

of internal productivity gaps and how they are associated with enterprise size. Based on this measurement, within LAC, microenterprise productivity reaches only 6% of the productivity of large firms in the same country. Although small and medium-sized enterprises are considerably more productive than microenterprises, they are far from reaching the productivity levels of large firms in the region: the productivity of small firms is less than a quarter of the productivity of large firms, while the productivity of medium-sized firms is less than half the productivity of large firms. While there is also a positive relationship between enterprise size and relative productivity levels in Europe, the existing gaps are much more moderate. For example, the productivity of microenterprises in Europe is 42% of that of large enterprises, which is similar to the 46% achieved by medium-sized enterprises in Latin America (Dini and Stumpo, 2018[9]). Numerous studies maintain that these differences in productivity are a stylized (i.e. accepted) fact[3] in the different economies of the region (OIT, 2015[8]) and confirm that these gaps with large firms have widened over the past 50 years (Infante, 2011[10]). Older studies such as (Peres and Stumpo, 2000[11]) had already highlighted this trend towards a growing disparity in terms of productivity in past decades.

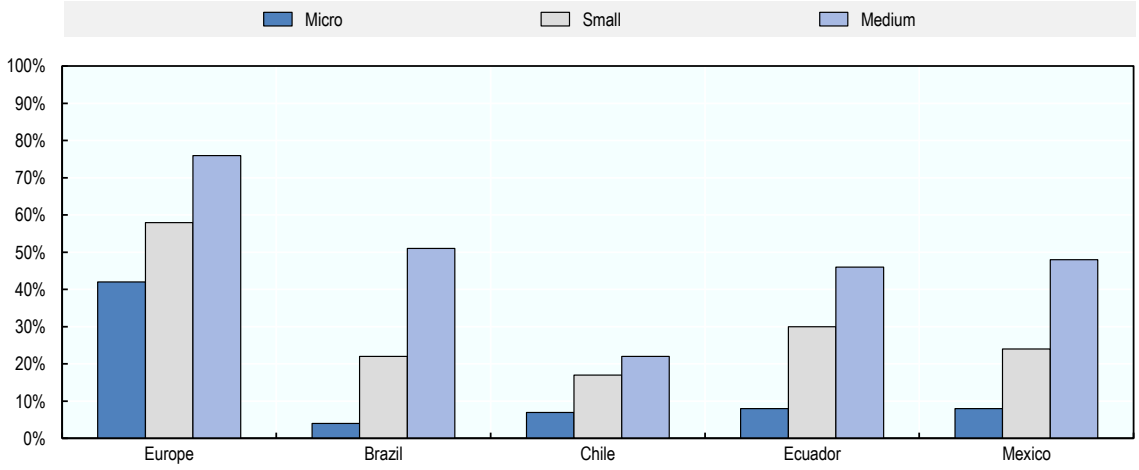
Figure 1.2. SME internal productivity relative to large enterprises



Note: Average productivity levels for micro, small and medium enterprises are expressed as a percentage of that of large enterprises, with average large enterprise productivity totalling 100%.
Source: Own elaboration based on (Dini and Stumpo, 2018[9]).

However, these regional comparisons hide important differences between countries. As shown in Figure 1.3, the productivity gap between microenterprises and larger firms is notable - particularly in Brazil, where microenterprises account for only 4% of the productivity of large firms. On the other hand, the notable gap sustained by small and medium-sized enterprises in Chile, whose relative productivity with respect to larger firms is considerably lower than that observed in other countries in the region, is striking. In other cases, such as Ecuador and Mexico, there are also notable differences in relative productivity levels, but they are less pronounced.

Figure 1.3. SME productivity relative to large enterprises (Europe and selected Latin American countries)



Note: Average productivity levels for micro, small and medium enterprises are expressed as a percentage of that of large enterprises, with average large enterprise productivity totalling 100%.
Source: Own elaboration based on (Dini and Stumpo, 2018[9]).

Part of the productivity gap identified is explained by the relative concentration of SMEs in economic activities with low added value and low productivity. As shown in Table 1.2, large companies dominate in mining, electricity, gas and water supply, and financial intermediation activities. While this is not surprising due to the economies of scale inherent in these activities, these sectors stand out for levels of productivity that are much higher than in the rest of the region's economy. Specifically, the mining sector is characterized by productivity that is nine times higher than the average, while service providers and financial operators have productivity levels that are two and four times the average for the region, respectively (Stumpo and Correa, 2017[12]; Dini and Stumpo, 2018[9]).

Table 1.2. Participation in employment by economic activity

Sector	SMEs	Large
Agriculture, livestock, hunting, forestry and fishing	66.1	33.9
Mining	32.6	67.4
Manufacturing	48.7	51.3
Electricity, Gas and Water	22.7	77.3
Construction	62.3	37.7
Trade	76.5	23.5
Hotels and restaurants	86.1	13.9
Transport, storage and communications	52	48
Financial intermediation	32	68
Real estate	55.8	44.2
Education	46.5	53.5
Health and social services	51.4	48.6
Other	82.3	17.7
Total	61.2	38.8

Source: Own elaboration based on (Dini and Stumpo, 2018[9]).

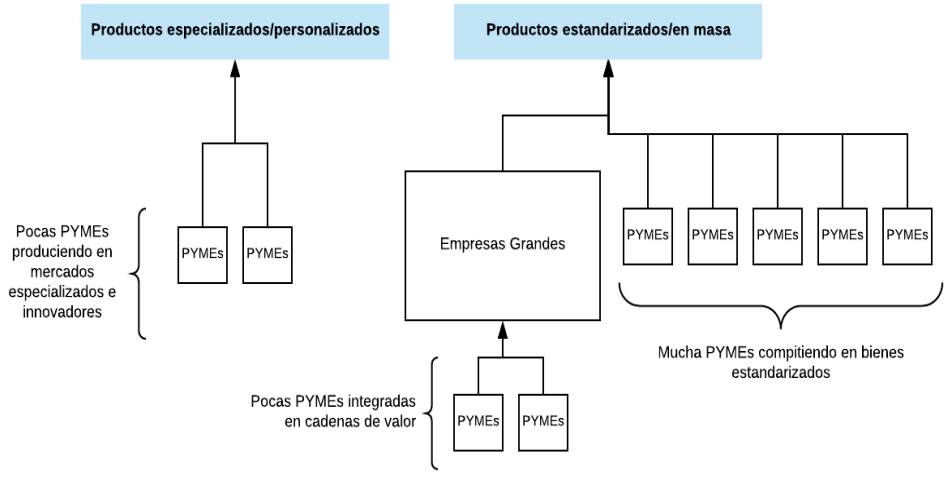
In contrast, smaller economic agents tend to specialize in economic sectors with lower requirements in terms of scale, technical capabilities, productive complexity and other barriers to entry (Burachik, 2002[13]; OIT, 2015[8]). Therefore, it is not surprising that SMEs dominate in activities such as retail trade, or in more traditional and low-productivity segments such as the agricultural sector (GEM, 2016[14]; OIT, 2015[8]; Dini and Stumpo, 2018[9]). In the last decade, this latter sector presented the greatest growth in the number of SMEs (Dini and Stumpo, 2018[9]).

While comparisons of SME productivity levels of SMEs in the LAC region are revealing, they underestimate the magnitude of the productivity problem for two reasons. First, most of these productivity measurements are based on formal enterprises and in some cases are even restricted to enterprises with more than five employees in specific economic sectors (Ibarraran, Maffioli and Stucchi, 2009[15]; CAF, 2013[16]). Since the informal and self-employed sector can be expected to have productivity levels that are even lower than those captured by these measurements, the gaps between large firms and the rest of the region's business universe summarized so far are an underestimation of the real existing gaps. Secondly, these comparisons reflect the differences between SMEs and large firms in the same country and therefore do not take into account the potentially larger external productivity gap: that is, the difference with firms of similar characteristics operating in countries with efficiency levels closer to the technological frontier. This last flaw is particularly relevant since the low levels of aggregate productivity of LAC economies have been consistently identified as one of the fundamental causes of the income gap with respect to other countries (IDB, 2016[6]; OECD, 2016[1]; Thompson Araujo, Voctrokutova and Wacker, 2016[17]).[4]

SMEs in the LAC region, while heterogeneous, lag behind more-developed markets in terms of SME integration into regional value chains

One of the key characteristics of SMEs in developing countries is the way they interact with the rest of the business ecosystem. In the LAC region, most SMEs participate in sectors with low aggregate levels of value added and low levels of human capital, competing in markets with poorly differentiated products such as retail trade and agriculture. These firms are therefore highly exposed both to operating at low rates of return and to being displaced by larger firms (which are able to benefit from economies of scale and lower production and distribution costs). In contrast, only a small proportion of SMEs are integrated into value chains by providing specialized goods and services according to the specific requirements of their clients, or by providing intermediate goods and services to larger firms (see Figure 1.4). These SMEs, although scarce, tend to operate with high levels of both human capital and innovation (Altenburg and Eckhardt, 2006[18]; OIT, 2015[8]; Dini and Stumpo, 2004[19]).

Figure 1.4. Productive Insertion of SMEs: LAC region

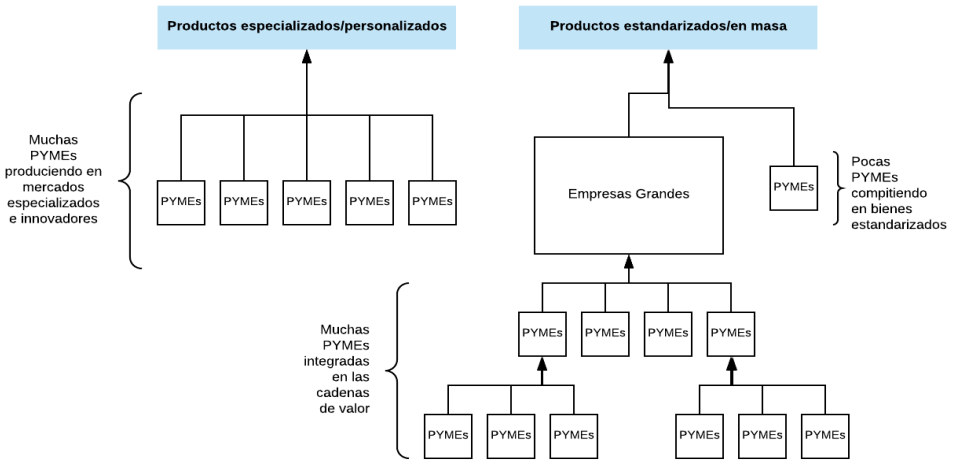


Source: Own elaboration based on (Altenburg and Eckhardt, 2006[18]).

Overall, however, SMEs' productive linkages to business remain weak, even in the most successful cases in the region. This is because these linkages depend on such factors as physical proximity to business agglomerations that generate economies of scale (such as the creation of a specialized labour market or access to public goods). Although these agglomerations are relevant, the advantages they provide are relatively static and do not provide solutions to the constant changes in the internal and external markets where these companies operate.

On the other hand, more advanced co-operative relationships usually require the collective and intentional action of the different participants, which allows them to adapt to changing market conditions. Two types of co-operation can occur: *horizontal* co-operation between competitors in the same market (for example, through the joint purchase of commonly used production machinery or the joint sale of products) or *vertical* co-operation between companies at different stages of the same production process. Although the LAC region has several development poles that seek to exploit some of the advantages of agglomeration, intentional and well-coordinated collective efforts among SMEs are less common than in more advanced markets (Dini and Stumpo, 2004[19]). Furthermore, in developed markets, smaller firms are better integrated into value chains by producing goods and services for larger firms or highly customized specialized products (Figure 1.5).

Figure 1.5. Productive Insertion of SMEs: developed markets



Source: Own elaboration based on (Altenburg and Eckhardt, 2006[18]).

Despite the productivity gap among SMEs in the LAC region, their heterogeneity should be noted. They cover the entire spectrum from small business organizations or one-person initiatives with very low value-added (developed as a refuge from unemployment), to highly specialized companies that are integrated into value chains and possess high levels of innovation and growth potential. In this sense, the World Bank (Lederman et al., 2014[7]) highlights the importance of differentiating between (a) self-employed individuals whose businesses are small but have limited growth potential and (b) young companies that, although still small, have high potential for growth and innovation. The authors argue that enterprise development policies should focus on new firms rather than small ones.

Many ventures in LAC are a refuge from unemployment

According to a 2016 report by the Global Entrepreneurship Monitor, seven out of every ten entrepreneurs in LAC claim to have started their businesses to take advantage of a relevant opportunity (GEM, 2016[14]). However, this view seems too benevolent in light of the results of a 2013 CAF report (CAF, 2013[16]), according to which three quarters of microentrepreneurs can be catalogued as "subsistence enterprises" since their incomes and levels of job satisfaction are very similar to those observed in the informal sector.

Although these findings present a less favourable image of the region's entrepreneurial ecosystem, it would be wrong to conclude that most entrepreneurs in the region operate in the informal sector. The reality in the region is the opposite: the number of formal microentrepreneurs is higher than those who remain in an informal condition (Lederman et al., 2014[7]). However, the similarity between the two segments suggests that many ventures begin as a refuge from the difficulties of the formal labour market. In fact, even the Global Entrepreneurship Monitor recognizes that some of the region's economic difficulties in recent years translated into a greater proportion of individuals starting businesses as a response to unemployment (GEM, 2016[14]).

Another characteristic of these economic units is their high birth and death rates (CAF, 2013[16]; OIT, 2015[8]). According to the aforementioned 2016 GEM report, the percentage of nascent entrepreneurs is higher in LAC than in other developing regions with similar economic structures, although it also has one of the highest discontinuation rates of the

regions considered (GEM, 2016[14]). However, the aforementioned 2014 World Bank report suggests instead that (a) business birth rates in LAC are below the levels expected for the region's level of economic development and (b) they also hide considerable heterogeneity among countries: while Costa Rica is in a very favourable position, others such as Argentina and Brazil are considerably behind what would be expected given their income levels (Lederman et al., 2014[7]).

These differences are usually attributed to entry barriers to the formalization of business activities. However, birth rates of formal enterprises have not risen, despite this area being a focus of policy development in the past decade. This suggests that entry barriers are not the most relevant constraint and that a series of deeper structural reforms would be necessary to stimulate the birth and growth of firms in the region.

A potential explanation for the LAC region's unexpectedly low business birth rates underscores the distinction between (a) the relatively low limitations on undertaking low value-added businesses, the low differentiation among businesses, and the high vulnerability to economic cycles (GEM, 2016[14]), and (b) the higher entry barriers and structural weaknesses that hinder the emergence and consolidation of formal enterprises with greater growth and productivity potential (Lederman et al., 2014[7]).

Exporting and innovating are not the objectives of most SMEs in the region

For many entrepreneurs, exporting has two potential benefits. First, it allows them to expand the size of the markets where they place their products. Second, it offers opportunities for learning and technology transfer: by interacting with customers with more sophisticated requirements or a greater inclination toward high quality, the entrepreneurs learn to operate with higher levels of productivity (Atkin, Khandelwal and Osman, 2017[20]). Access to new markets is also often associated with more innovative ventures that seek to exploit new market niches with novel products or modify the production processes of existing goods to make them more attractive to the public (Lederman et al., 2014[7]).

However, despite these potential benefits, the internationalization of commercial operations is not a high priority for most SMEs in the region. According to GEM data, on average, 71% of the region's enterprises have no income from other markets; this percentage exceeds 90% in Argentina and Brazil, two of the region's largest economies (GEM, 2016[14]). In contrast, in Chile, Colombia and Panama the proportions of exporting firms are considerably higher, but local markets still account for the overwhelming majority of their commercial activities. A 2016 CEPAL report (Urmeneta, 2016[21]), developed a unified definition of exporting SMEs for 14 countries in the region that considers internal and external sales and consolidates information from different public agencies. According to this definition, less than 1% of companies participate in foreign markets, although nine out of ten exporting companies can be considered SMEs. Although this percentage seems high, it should be interpreted in relation to the fact that almost all companies in the region are SMEs. Similarly, exporting SMEs represent only 5% of the value of external sales and 25% of the labour force involved in exporting activities. In developed regions, SME sales represent more than 40% of total exports, eight times more than the average in LAC (Urmeneta, 2016[21]).

Moreover, the few SMEs that do manage to export do not manage to do so in a sustainable manner: only 62% successfully repeat their activities in other markets annually. In contrast, more than 85% of the large enterprises that export are able to continue to sell their products in foreign markets (Urmeneta, 2016[21]). One reason for this difference is that many SMEs

concentrate their activities on a single product and a single destination (45% of exporting SMEs), while larger companies export multiple products to several destinations, making them less vulnerable to changes in one of them. In other words, changes in the export activity of small companies occur mainly on the *extensive* margin (i.e. whether or not to export) while the decision of large companies focuses on the *intensive* margin (i.e. how much to export).

SMEs and the role of the State

SMEs have remained at the centre of policy agendas in LAC as they attempt to foster economic growth while reducing poverty and inequality.

Policies designed to support SMEs can be justified from an economic point of view by the existence of market failures that limit their growth (Ibarraran, Maffioli and Stucchi, 2009[15]). First, SMEs are particularly vulnerable to information asymmetries that, for example, affect their access to credit through traditional financial institutions. Similarly, various factors prevent SMEs from integrating into value chains. In terms of access to finance, for example, the low unit value of loans required by SMEs may not be attractive enough for financial intermediaries to cover the fixed costs associated with processing the necessary information. This situation may also extend to many other factors such as the intensive labour market margin, as workers may not be willing to be employed for a discrete number of hours.

In addition, support for SMEs can be justified in view of the existence of positive externalities derived from their associative capacity to generate demand for goods and services from other productive sectors. In this case, these positive attributes would be an argument to subsidize the emergence and development of SMEs.

A second set of arguments are rooted instead in equity issues. Since SMEs represent a high percentage of the labour force – particularly those with lower levels of training and more limited labour opportunities – supporting the growth, technological upgrading and productive development of SMEs can be considered a mechanism to improve the living conditions of those who derive their livelihood from the commercial activities of these enterprises.

Government initiatives for SMEs in LAC

The SME policies of LAC governments have generally been designed with three main objectives in mind: creating jobs, addressing market failures and increasing competitiveness. However, other issues have also been considered as central objectives by some national strategies, including the development of human capital and innovation capacities (Ferraro, 2011[22]; SELA, 2015[23]).

These SME promotion schemes address a variety of policy areas, among which the following stand out: (Ferraro and Stumpo, 2010[24]; Ferraro, 2011[22]; SELA, 2015[23]; GEM, 2016[14]; Dini and Stumpo, 2018[9]):

- **Enabling factors.** These are measures that benefit all productive entities. They include, for example, (a) macroeconomic stability to allow the development of business activities in a stable and predictable context that facilitates investments made over longer-time horizons; (b) development of the minimum infrastructure required to facilitate productive processes - for example in the area of roads and reliable public services; and (c) physical and legal security that allows

entrepreneurs to enjoy the fruits of their own labour without the risk of appropriation by State officials or third parties.

- **Regulatory framework**. The legal framework for SMEs is usually contained within special legislation that provides (a) a formal definition of the sector for the country and (b) guidelines for the preferential treatment granted to this group.
- **Tax transfers and benefits**. In some cases, the regulatory framework may include fiscal measures that provide tax benefits for small businesses, as well as non-refundable transfers for the development of early-stage business activities.
- **Reduction of entry barriers.** These policies include the simplification of legal processes and reduction of costs associated with the formation of formal enterprises – through, for example, the creation of a simplified business typology applicable to smaller enterprises within the legal regime.
- **Access to finance**. The policy tools available in this case are highly varied, and include the following:
  - Providing funds and lines of credit - either directly through State financial institutions, or indirectly through second-tier agencies that direct resources to the financial system under better-than-market conditions;
  - Developing financial products appropriate to the size and needs of SMEs, such as factoring;
  - Facilitating access to accurate information to judge credit risks, for example by creating registers of credit information goods or services; and
  - Reducing market failures, for example by using government guarantee mechanisms to facilitate access to traditional banking for those without collateral.
- **Technical assistance, technology transfer and training**. These measures include consulting and training services designed to provide entrepreneurs with the financial and technical tools necessary to increase the competitiveness and growth potential of their firms. These also tend to be accompanied by technology transfer programmes to boost the productivity of enterprises through the more efficient use of other productive factors.
- **Innovation and improvement of productive processes.** These measures seek to discourage the paradigm of SMEs as a source of self-employment, while facilitating SME's use of more-advanced technology. The policy tools used for this purpose include subsidies, financing and technical assistance programmes, and business co-operation schemes aimed at encouraging smaller firms to invest resources in improving their production processes and developing new products and services.
- **Export incentives**. Because SMEs represent a very low percentage of the region's export volume, many governments in the region have developed tools to promote the integration of these companies into foreign-exchange-generating markets. The support measures usually employed include promotion efforts with entrepreneurs in foreign markets, provision of information on potential markets, consulting services and legal and technical advice, preferential financing lines, and guarantee schemes for access to credit, among others.

- **Co-operation and articulation in value chains**. These policies tend to follow two distinct approaches. First, there are programmes that seek to promote integration among peers that share a sectoral and/or regional approach, the objective being to exploit the benefits of associativity in terms of technology transfer and knowledge of the business area. Secondly, there are strategies that seek to integrate groups of small entrepreneurs into the supply chains of goods and services for larger companies to provide them with better economic conditions.
- **Public procurement**. The purchasing power of the State has also been used as a catalyst for the production of smaller firms. In this sense, measures have been implemented that favour SMEs in public bids or reduce the transaction costs of participating in these processes – through, for example, the implementation of electronic auction systems.

The multifaceted nature of productive policies aimed at SMEs highlights the importance of an integrated strategy that allows different tools to be used to remove the barriers limiting the birth and development of productive enterprises that are better integrated into the region's value creation systems. However, a fundamental requirement for the development of an integrated strategy is to carry out a holistic diagnosis of the support initiatives that have been implemented by a country in order to identify shortcomings and areas for improvement. This first SME Policy Index within the LAC region represents an effort in this direction.

Notes

[1] For the purpose of this publication and due to varied definitions of micro, small and medium-sized enterprises across the region, the authors of this report typically use the term "SME" to refer collectively to micro, small and medium-sized enterprises, unless specified otherwise. See Chapter 2 for more information on the assessment methodology.

[2] Total factor productivity (TFP) refers to the proportion of the production of a company that cannot be explained by changes in the number of productive factors (normally capital and labour) used by a company in its production processes.

[3] In economics, a *stylized fact* refers to empirical findings that are so consistent (for example, across a wide range of markets and time periods) that they are accepted as fact.

[4] According to (Thompson Araujo, Voctrokutova and Wacker, 2016[17]), if Latin American countries could close the productivity gap with countries such as the United States, their income level would double without any other change in the assets of productive factors.

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Chapter 2. Assessment methodology and policy framework

Assessment methodology

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

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

SME Policy Index: development and application

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

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

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

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

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

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

SME Policy Index methodology: advantages and limitations

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

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

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

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

In addition:

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

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

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

LA7 assessment process

Timing of the 2019 assessment

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

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

Policy framework

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

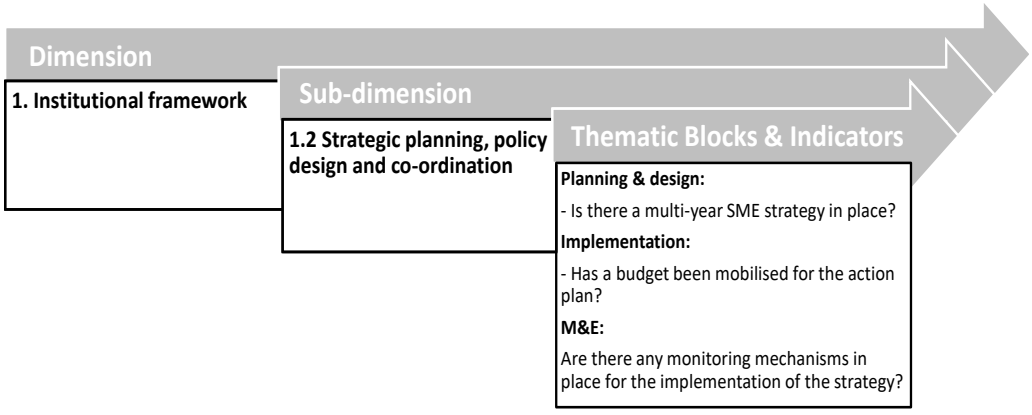
Table 2.1. The 2019 SME PI assessment framework for the PA and Participating South American countries

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

Scoring

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

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



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

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

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

Weighting

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

Integration of pre-existing data from other sources

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

Table 2.2. LA7 SME PI indicators from supplementary data

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

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

Notes

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

Chapter 3. Overview of key findings

LA7 countries (Argentina, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay) devote significant efforts to SME policy and private sector development, identifying these as crucial areas for sustainable and inclusive growth and employment. In particular, they have made notable efforts to build up an institutional framework for SME policies, establish a rich variety of business and entrepreneurial development services, and harness SMEs in productive transformation efforts. The results of the assessment suggest LA7 countries redouble their efforts in this regard, while stepping up their policy efforts to seize the opportunities of increasing regional integration, large domestic markets, young populations and an emerging middle class. The redoubling of efforts is also important to respond to the pervasive challenges of low productivity and high informality among SMEs (especially the smallest firms), high levels of inequality and the need to shift to higher value added activities.

Overall key findings

LA7 SMEs operate mainly in traditional service sectors, with high levels of informality and a significant productivity gap

As detailed in Chapter 1, household surveys demonstrate in Latin American and Caribbean (LAC) show that the productivity gap between SMEs and large enterprises is significant: although they represent 60% of formal productive employment in the region, they are responsible for only a quarter of the total production value. This difference is particularly large for companies at the end of the size spectrum: Latin American microenterprises account for about 3.2% of production whereas in Europe they contribute 6 times more (20% of GDP) even though they have fairly similar levels of labour force participation.[1]

Services account for most of SME employment in the LA7 countries, and a greater share than that of large companies (with the exception of finance and utilities), with SMEs especially active in wholesale and retail trade and food and accommodation. As discussed in Chapter 1, most LA7 SMEs participate in sectors with low aggregate levels of value added and low levels of human capital, competing in markets with poorly differentiated products (such as retail trade and agriculture). These firms are therefore highly exposed both to operating at low rates of return and to being displaced by larger firms (which are able to benefit from economies of scale, lower production and distribution costs, and the diffusion of key and new technologies). In contrast, only a small proportion of SMEs are integrated into value chains – either by providing specialized goods and services according to the specific requirements of their clients, or by providing intermediate goods and services to larger firms.

All LA7 countries must cope with the presence of a large informal sector. High levels of informality are present in most emerging economies, but in the LAC region, (including its upper middle-income countries, such as the LA7) informality is an integral part of the economic structure, with wide implications for the region's social and economic development. Indeed, the large majority of SMEs operating in the LA7 are microenterprises

that are family-based, engaged mostly in traditional service sectors, and managed largely by subsistence-driven entrepreneurs. These types of enterprise are more likely to operate in the informal sector as a response to unemployment and/or refuge from the regulations, complexities, and difficulties of the formal labour market.[2]

SME policy priorities and strategic frameworks are broadly aligned across the LA7, having recently evolved to focus on productive transformation

Over the last decade, in response to the global financial crisis (2008-2010) and the end of the commodity super-cycle (2014-2015), most of the LA7 countries have identified SME policy as means of spurring economic and employment growth, driving productive transformation and promoting technological upgrading of the enterprise sector.

Accordingly, all the LA7 countries pursue a pro-active SME development policy. In doing so, rather than developing standalone mid-term SME strategies, LA7 countries have included strategic SME policy orientations in other mid-term strategic documents; these are generally focused on the subjects of productive development and competitiveness, and aligned with the country's overall national development plan. The exception is Argentina, which, during the period of this study, focused on deploying a number of new SME support initiatives, in many cases linked to simplification of the business environment and productive transformation, and is currently working on a law that will provide a formal strategic framework going forward. The overall objective of this approach has been to reduce the country's dependence on the commodity/oil sector, develop advanced manufacturing and service activities, and further integrate into regional and global value chains. Yet although this productive transformation[3] is often the *primary* objective of SME policy, it is not the only one. Other objectives, such as generating jobs and reducing poverty and inequality, are also relevant.

The great challenge is therefore how to structure an SME policy that supports and promotes productive transformation while also addressing the issue of informality and responding to the basic needs of the vast microenterprise population. As discussed in the previous section, the main actors of the productive transformation are opportunity-driven enterprises, with considerable growth potential and good management, representing a small share of the entire SME population. Striking an effective balance will thus require the design and implementation of programmes targeting different segments of the SME population – as well as managing a wider range of initiatives, investing more resources, and engaging in a more extensive dialogue with various categories of SMEs.

The sophistication of delivery mechanisms varies; most LA7 countries utilise passive call-for-proposals processes rather than more direct engagement at enterprise level

Although the strategic approach in the LA7 is sufficiently articulated, when it comes to implementation, tools are relatively weak. This is due to the limited reliance on quantitative objectives, the relative absence of robust action plans and limited inter-ministerial coordination. Furthermore, while all countries have established specialised departments or agencies dealing with SME policy under the responsibility of a vice-minister or undersecretary, the dividing line between policy design and policy implementation is not always clearly defined. Only two countries (Chile and Mexico) have established SME development agencies; in all other cases, the general directorate for SME policy is in charge of managing the entire policy cycle – from policy elaboration through to implementation and monitoring and evaluation (M&E) – with the support of a number of detached agencies

and bodies. This may create potential confusion of roles and conflicts of interest. Ministry officials are often better versed in dealing with legal, budget and general economic issues than in interacting with small-scale enterprises. Specialised agencies may be more effective in communicating with the enterprise sector and have more operational flexibility than ministerial departments.

Across all LA7 countries, a standard approach to policy implementation is to organise policy actions through periodic calls for proposals *(convocatorias)*. The main role of the body in charge of policy implementation is to define the objective of the policy intervention, elaborate the terms of reference and eligibility criteria and run the call for proposals. In many cases, policy implementation is de facto delegated to intermediary institutions, such as chambers of commerce, producers' associations, local development agencies, private consultants and enterprise networks. This system allows for the containment of operational costs, while at the same time promoting the creation of enterprise support networks at the national and local levels. However, it also distances the main body in charge of SME policy implementation from a continuous dialogue with target enterprises and limits the exchange of information between SMEs and the public bodies in charge of SME policy at the central level.

Weak or non-existent monitoring and evaluation (M&E) efforts complicate policy-makers' ability to make performance-based decisions

Across all LA7 countries, evaluation is a particularly weak area, with only Chile consistently engaged in conducting impact evaluations for specific SME support programmes. While overall objectives have often been clearly stated, the implications for SME policy in terms of specific objectives and measurable targets have not always been fully developed, and the introduction of key performance indicators (KPIs) tracking progress in strategy, and even programme, implementation remains very limited.

When it comes to overall SME statistics, data collection in the LA7 is relatively good, with all countries regularly collecting SME data related to employment and turnover by class of enterprises. Some LA7 countries also collect data on value-added, though only in the cases of Mexico and Peru is it disaggregated by enterprise class and sector. Survey-based statistics are complemented by data from a more exhaustive census conducted at regular intervals (on average every five years) in all LA7 countries. However, the high incidence of informality makes it more complex to collect comprehensive data, particularly for the microenterprise segment. Household and labour force surveys, as well as census data, provide indications on the extent of informality, with a specific focus on labour informality.

Key findings by dimension

Dimension 1: Institutional framework

Policy makers in all the LA7 countries have accumulated significant experience in the area of private sector development, including SME policy, and all have established highly articulated institutional frameworks. On average, SME policy institutions have been set up and are operational, the strategic directions have been identified, and the co-ordination and consultation mechanisms have been put in place. However, the LA7 countries still face major challenges in terms of further mainstreaming SME policy into their wider country strategies for economic and social development, making co-ordination and consultation mechanisms more effective, and improving monitoring mechanisms and conducting impact evaluations at both policy and programme level. The LA7 countries also face a major

challenge in securing a consistency between the overall policy targets, which are often quite ambitious, and the tools at the disposal of the institutions in charge of policy implementation.

Furthermore, the presence of a large informal sector in most of the LA7 countries undermines the governments' ability to conduct inclusive SME policies and to reach the most vulnerable segments of the SME population. All LA7 countries have been particularly active in pursuing policies aiming at reducing informality, and in many cases they have been at the forefront in devising and testing new policy approaches. However, current efforts often focus on specific issues and lack a comprehensive strategy operating on various fronts (labour legislation, tax legislation, legislative simplification, local regulations, etc.).

Dimension 2: Operational environment/simplification of procedures

The LA7 assessment results for this policy dimension are relatively weak in comparison with those of other dimensions. Overall, this means that the targeted support provided to SMEs in other areas (such as innovation, associativity, and internationalisation) functions within a sub-optimal general business environment, with significant barriers to enterprise entry and competition. It is important that LA7 countries consider this overall picture and find the optimal policy mix between improving the general business environment and providing continuous, targeted support to enterprises with high growth potential.

Regulatory reform is still at an early phase. The LA7 countries, with the exceptions of Chile and Mexico, have not yet conducted systematic reviews of legislation and regulations pertaining to enterprise activity and have not fully applied regulatory impact assessment (RIA). Procedures for starting a business and filing taxes in the LA7 countries also remain problematic – even though tax administration reform is a priority for most LA7 countries, particularly in relation to the fight against informality. None of the LA7 countries appears in the upper-third tier of the 2019 *Doing Business* indicator for "starting a business", which covers a total of 190 economies. The establishment of one-stop shops is still at a very early phase, though several countries are introducing electronic portals that include online company registration facilities.

In contrast, e-government initiatives have been developed in all LA7 countries and online tax filing services are fully operational and widely used by enterprises. Data interoperability varies greatly, with most LA7 countries having introduced partial interoperability.

Dimension 3: Access to finance

Most LA7 countries have a robust regulatory and institutional framework and a diversified environment of financing opportunities conducive to the financial inclusion of SMEs. This does not imply that there is no room for improvement with respect to the legal framework, but it does underscore the relatively favourable environment existing in the region.

Particular challenges remain concerning financial education strategies for SMEs and the enhancement of legal procedures to deal with bankruptcy. Regarding the former, LA7 countries should focus efforts on developing a unified strategy - correctly implemented at different levels of influence and supported by an adequate evaluation framework - to promote the universalisation of basic financial knowledge and allow SMEs to make better business decisions. Regarding the latter, there is a pressing need to address lengthy and costly bankruptcy procedures through such measures as the improvement of the regulatory

framework for secured transactions, the creation of insolvency registers and the improvement of procedures to allow entrepreneurs to restart their business activities after unsuccessful initiatives.

Dimension 4: Business development services (BDS) and public procurement for SMEs

In general, the LA7 countries have an established system of BDS for SMEs and entrepreneurs. There is a rich variety of programmes available for different types of entrepreneurs, in some cases provided through specialised agencies supporting specific beneficiaries. What is still missing, however, is a more coherent, *strategic* approach to targeted SME programmes, in this case BDS. This is important given (a) the diversity of SMEs and entrepreneurs; (b) the variety of support programmes and support agencies; and (c) the array of government priorities identified in national development plans or economic agendas, which range from the general (e.g. economic diversification and increasing productivity) to the relatively specific (e.g. increasing exports, business linkages, innovation in firms). In all cases, there is a weak link between the use of BDS as a policy tool and overall strategic objectives; notably, none of the LA7 countries has explicit details on the impact their planned BDS actions will have in terms of productivity, economic sophistication, diversification or other strategic objectives stated in their economic and competitiveness plans.

Regarding public procurement, all the LA7 countries have laws and regulations that facilitate the participation of SMEs in this important market by (with variations from country to country) cutting tenders into smaller lots, allowing the formation of consortia for joint bids, and ensuring that payments are made in time, among other things. All countries also have e-procurement systems and electronic registries of suppliers. However, not all of the e-procurement platforms handle the entire procurement process. Furthermore, only a few countries have in place direct support programmes to help SMEs take advantage of public procurement opportunities.

Dimension 5: Innovation and technology

Promoting innovative SMEs and entrepreneurship is a priority for all countries in the region and an important policy component to address the challenges of increasing productivity and competitiveness. Although national innovation systems are in place in most of the LA7 countries, there is no concrete evidence that the systems include elements specific to the promotion of innovation in SMEs and start-ups; notably, there are no specific SME and entrepreneurship committees focusing on this important policy area. The analysis points to an extensive offer of services covering support for incubators, accelerators, technology transfer offices, access to finance for innovative ventures, R&D incentives, and so on. Yet, the availability and accessibility of information on these schemes, including M&E, is often scattered and at times limited. LA7 countries could thus consider developing specific mechanisms to promote (a) innovative SMEs and entrepreneurship within their national innovation systems and (b) a more structured approach to disseminating information on innovation support programmes, including through online platforms.

Dimension 6: Productive transformation

As noted earlier in this chapter, over the last decade, most of the LA7 countries have identified SME policy as a crucial means of driving productive transformation for their economies, often identifying this as the primary objective of their SME policy efforts.

Accordingly, LA7 governments have clearly invested significant efforts to facilitate productive transformation by identifying barriers to competitiveness, growth, and access to information, and by putting in place corresponding policy and programmatic measures. During the past five years, these efforts have included an increasing amount of targeted measures focused on various segments of the SME population, and often designed to encourage associativity and facilitate inclusion in value chains. This demonstrates policymakers' understanding that trade and investment liberalisation efforts alone are not sufficient; rather, policies designed to promote economic diversification, build productive capacities and develop new comparative advantages in the manufacturing and service sectors are necessary to broaden and deepen trade flows and enable a more active role for SMEs.

The pilot or relatively new nature of many of the current LA7 programmes in this area underscores the importance of M&E systems; while the SME PI results demonstrate a solid level of policy implementation, the actual impact of these programmatic efforts remains to be seen. Putting in place robust M&E mechanisms that measure outcomes and impact, in contrast to a narrow focus on outputs, will be an important and necessary step for governments and stakeholders as they assess the performance of their strategies and corresponding programmatic efforts, informing future policy-making cycles.

Lastly, it is important to re-emphasise here that using SME development as an industrial policy tool requires a selection of and focus on the segment of the SME population that is most able to contribute to and advance the productive diversification of the country, obtain efficiency gains from participation in value chains, and succeed in export activities. It is this prioritisation that, while often present in specific programmes, is less clear at a strategic level in LA7 countries. Establishing priority areas for productive transformation at a strategic level (along with corresponding action plans), even while maintaining flexibility for future adjustments, could help policymakers to more clearly separate between general SME development measures relevant to the entire SME population and more specific interventions in priority sectors related to the process of productive transformation.

Dimension 7: Access to market and internationalisation

Overall, the LA7 countries are relatively well advanced in the areas covered by this dimension, demonstrating a solid level of policy implementation, though somewhat less so in terms of regional integration. One can typically find robust policy support for export promotion, which is targeted at SMEs via training and, to a lesser extent, subsidised financing support; a solid trade facilitation infrastructure in place, with specific programmes to lessen the burden on small exporters; targeted support for SMEs to incorporate e-commerce into their operations and adhere to quality standards; and SME development agendas that are aligned with regional integration efforts. Indeed, regarding the latter point, over the past decade each of the main regional trade blocs to which the LA7 countries belong (Pacific Alliance, Southern Common Market, Andean Community) have developed institutional frameworks with specific programmes to support SME development. However, the LA7 countries still tend to fall short when it comes to the M&E of these efforts, and should prioritise the creation of, or strengthening of existing, M&E systems in order to effectively measure these policies' impact and ensure the effective use of public funds in supporting SMEs' international market access.

SME Policy Index 2019 Scores for the LA7

Table 3.1 presents the 2019 assessment scores for each LA7 country, as well as for the LA7 and Pacific Alliance (PA). It is broken down by dimension, sub-dimension and thematic block, as well as the overall mean, standard deviation (StD) and weights used for each element. Scores range between 1 and 5, with a higher score indicating a more advanced level of policy development and implementation. For the detailed methodology of the assessment, please see Chapter 2.

Table 3.1. LA7 2019 SME PI scores

Dimension /sub-dimension / thematic block	Weight	ARG	ECU	URU	CHI	COL	MEX	PER	Avg. LA7	Avg. PA4	StD
1. INSTITUTIONAL FRAMEWORK		**3.47**	**3.44**	**3.74**	**3.86**	**4.05**	**4.46**	**3.64**	***3.81***	***4.00***	***0.33***
1.1 SME Definition	20%	5.00	4.33	5.00	3.67	4.33	4.33	3.00	*4.24*	*3.83*	*0.66*
Thematic Block 1: Planning & Design	100%	5.00	4.33	5.00	3.67	4.33	4.33	3.00	*4.24*	*3.83*	*0.66*
1.2 Strategic Planning, Policy Design and Co-ordination	40%	2.98	3.19	3.59	4.06	4.00	4.77	3.75	*3.76*	*4.15*	*0.55*
Thematic Block 1: Planning & Design	35%	1.48	2.92	3.37	4.55	3.37	4.48	3.22	*3.34*	*3.90*	*0.96*
Thematic Block 2: Implementation	45%	4.00	3.00	3.67	3.67	5.00	5.00	4.17	*4.07*	*4.46*	*0.68*
Thematic Block 3: Monitoring & Evaluation	20%	3.30	4.07	3.79	4.11	2.85	4.78	3.73	*3.80*	*3.87*	*0.57*
1.3 Public-Private Consultations	20%	2.62	3.50	2.92	3.43	3.76	4.26	3.67	*3.45*	*3.78*	*0.50*
Thematic Block 1: Frequency and Transparency	35%	2.41	4.29	3.51	3.67	4.06	4.68	3.59	*3.74*	*4.00*	*0.67*
Thematic Block 2: Private Sector Involvement	45%	3.20	4.00	2.13	3.73	3.87	3.60	4.33	*3.55*	*3.88*	*0.66*
Thematic Block 3: Monitoring & Evaluation	20%	1.67	1.00	3.67	2.33	3.00	5.00	2.33	*2.71*	*3.17*	*1.23*
1.4 Measures to Tackle the Informal Economy	20%	3.76	3.01	3.61	4.07	4.16	4.17	4.04	*3.83*	*4.11*	*0.39*
Thematic Block 1: Planning & Design	35%	3.01	1.78	3.39	3.89	4.83	3.84	4.72	*3.64*	*4.32*	*0.97*
Thematic Block 2: Implementation	45%	4.50	4.50	4.50	4.50	4.50	4.50	4.50	*4.50*	*4.50*	*0.00*
Thematic Block 3: Monitoring & Evaluation	20%	3.40	1.80	2.00	3.40	2.20	4.00	1.80	*2.66*	*2.85*	*0.85*
2. OPERATIONAL ENVIRONMENT / SIMPLIFICATION OF PROCEDURES		**2.50**	**2.78**	**2.92**	**3.21**	**2.90**	**3.77**	**2.68**	***2.96***	***3.14***	***0.39***
2.1 Legislative Simplification and Regulatory Impact Analysis	30%	1.63	2.14	1.76	2.98	2.33	3.80	2.33	*2.42*	*2.86*	*0.69*
Thematic Block 1: Planning & Design	35%	1.50	2.75	1.25	3.50	1.75	4.25	2.50	*2.50*	*3.00*	*1.02*
Thematic Block 2: Implementation	45%	2.00	2.17	2.50	1.67	3.17	3.50	2.00	*2.43*	*2.58*	*0.62*
Thematic Block 3: Monitoring & Evaluation	20%	1.00	1.00	1.00	5.00	1.44	3.67	2.78	*2.27*	*3.22*	*1.47*

Dimension /sub-dimension / thematic block	Weight	ARG	ECU	URU	CHI	COL	MEX	PER	Avg. LA7	Avg. PA4	StD
2.2 Company Registration	25%	2.65	2.64	3.51	3.13	3.28	3.93	2.98	*3.16*	*3.33*	*0.43*
Thematic Block 1: Planning & Design	35%	3.40	3.60	3.60	3.40	3.80	4.80	3.20	*3.69*	*3.80*	*0.49*
Thematic Block 2: Performance	45%	2.80	2.40	3.00	3.20	3.00	3.00	2.80	*2.89*	*2.90*	*0.24*
Thematic Block 3: Monitoring & Evaluation	20%	1.00	1.50	4.50	2.50	3.00	4.50	3.00	*2.86*	*3.12*	*1.25*
2.3 Ease of Filing Tax	25%	2.33	2.33	2.33	3.22	2.33	2.78	2.33	*2.52*	*2.67*	*0.32*
Thematic Block 1: Performance	100%	2.33	2.33	2.33	3.22	2.33	2.78	2.33	*2.52*	*2.67*	*0.32*
2.4 E-government	20%	3.84	4.46	4.64	3.63	3.98	4.76	3.26	*4.08*	*3.91*	*0.52*
Thematic Block 1: Planning & Design	35%	5.00	5.00	5.00	3.67	5.00	5.00	5.00	*4.81*	*4.67*	*0.47*
Thematic Block 2: Implementation	45%	4.20	3.80	4.20	3.00	4.07	4.47	2.47	*3.74*	*3.50*	*0.68*
Thematic Block 3: Monitoring & Evaluation	20%	1.00	5.00	5.00	5.00	2.00	5.00	2.00	*3.57*	*3.50*	*1.68*
3. ACCESS TO FINANCE		**4.17**	**3.44**	**3.30**	**3.74**	**4.26**	**3.91**	**3.55**	***3.77***	***3.86***	***0.34***
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	25%	4.60	4.07	4.25	3.48	3.96	4.73	4.29	*4.20*	*4.11*	*0.39*
3.1.1 Banking Regulations	25%	5.00	4.20	4.20	1.00	1.00	5.00	5.00	*3.63*	*3.00*	*1.70*
Thematic Block 1: Planning & Design	100%	5.00	4.20	4.20	1.00	1.00	5.00	5.00	*3.63*	*3.00*	*1.83*
3.1.2 Legal Regulatory Framework for Commercial Lending	25%	3.40	2.07	3.47	3.57	4.85	4.57	2.17	*3.44*	*3.79*	*0.98*
Thematic Block 1: Creditor Rights (World Bank Indicators)	50%	2.00	1.33	2.33	2.33	5.00	4.33	3.33	*2.95*	*3.75*	*1.23*
Thematic Block 2: Tangible and Intangible Assets Register	50%	4.80	2.80	4.60	4.80	4.70	4.80	1.00	*3.93*	*3.83*	*1.37*
3.1.3 Credit Information Bureau	25%	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*5.00*	*0.00*
Thematic Block 1: (World Bank Indicators)	100%	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*5.00*	*0.00*
3.1.4 Stock Market Operations and Facilities for SMEs Listing	25%	5.00	5.00	4.33	4.33	5.00	4.33	5.00	*4.71*	*4.67*	*0.33*
Thematic Block 1: Planning & Design	100%	5.00	5.00	4.33	4.33	5.00	4.33	5.00	*4.71*	*4.67*	*0.36*
3.2 Diversified Sources of Enterprise Finance	25%	4.91	4.53	4.18	4.61	4.63	4.83	3.65	*4.48*	*4.43*	*0.40*
3.2.1 Bank Credit or Loans	65%	4.87	4.89	4.47	4.87	4.47	4.89	4.23	*4.67*	*4.61*	*0.26*
Thematic Block 1: Bank products	50%	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*5.00*	*0.00*
Thematic Block 2: Credit Guarantee Schemes	50%	4.56	4.64	3.22	4.56	3.22	4.64	2.42	*3.90*	*3.71*	*0.85*
3.2.2 Microfinance	10%	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*5.00*	*0.00*
Thematic Block 1: Planning & Design	100%	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*5.00*	*0.00*
3.2.3 Alternative Sources of Enterprise Finance	25%	5.00	3.40	3.11	3.80	4.91	4.60	1.62	*3.78*	*3.73*	*1.11*

Dimension /sub-dimension / thematic block	Weight	ARG	ECU	URU	CHI	COL	MEX	PER	Avg. LA7	Avg. PA4	StD
Thematic Block 1: Asset-Based Finance	40%	5.00	4.33	4.78	3.00	4.78	5.00	2.56	*4.21*	*3.83*	*0.93*
Thematic Block 2: Crowdfunding	30%	5.00	2.33	1.67	3.67	5.00	3.67	1.00	*3.19*	*3.33*	*1.46*
Thematic Block 3: Equity Instruments	30%	5.00	3.22	2.33	5.00	5.00	5.00	1.00	*3.79*	*4.00*	*1.52*
3.3 Financial Education	25%	4.10	3.05	1.91	2.86	4.28	3.33	3.08	*3.23*	*3.39*	*0.74*
Thematic Block 1: Planning & Design	35%	3.08	2.75	2.58	4.25	4.25	3.75	2.50	*3.31*	*3.69*	*0.71*
Thematic Block 2: Implementation	45%	5.00	4.20	1.80	2.60	5.00	3.40	4.20	*3.74*	*3.80*	*1.12*
Thematic Block 3: Monitoring & Evaluation	20%	3.86	1.00	1.00	1.00	2.71	2.43	1.57	*1.94*	*1.93*	*1.02*
3.4 Efficient procedures for dealing with bankruptcy	25%	3.05	2.13	2.86	3.99	4.17	2.75	3.16	*3.16*	*3.52*	*0.66*
Thematic Block 1: Design & Implementation	50%	3.77	2.58	3.05	4.32	4.34	1.83	3.32	*3.32*	*3.45*	*0.85*
Thematic Block 2: Performance	50%	2.33	1.67	2.67	3.67	4.00	3.67	3.00	*3.00*	*3.58*	*0.78*
4. SME DEVELOPMENT SERVICES AND PUBLIC PROCUREMENT		**4.14**	**3.29**	**4.39**	**4.75**	**4.08**	**4.21**	**3.80**	***4.09***	***4.21***	***0.42***
4.1 Business Development Services	40%	4.03	2.85	4.65	4.78	4.35	4.59	4.13	*4.20*	*4.46*	*0.61*
Thematic Block 1: Planning & Design	35%	3.00	3.00	4.50	4.50	4.75	4.50	4.00	*4.04*	*4.44*	*0.69*
Thematic Block 2: Implementation	45%	5.00	2.67	5.00	5.00	4.33	4.67	4.33	*4.43*	*4.58*	*0.77*
Thematic Block 3: Monitoring & Evaluation	20%	3.67	3.00	4.11	4.78	3.67	4.56	3.89	*3.95*	*4.22*	*0.55*
4.2 Entrepreneurial Development Services	35%	4.17	3.41	4.37	4.68	4.07	3.86	3.50	*4.01*	*4.03*	*0.42*
Thematic Block 1: Planning & Design	35%	3.40	3.40	4.20	4.20	4.20	4.20	3.40	*3.86*	*4.00*	*0.40*
Thematic Block 2: Implementation	45%	5.00	4.09	4.82	5.00	4.45	4.27	4.09	*4.53*	*4.45*	*0.37*
Thematic Block 3: Monitoring & Evaluation	20%	3.67	1.89	3.67	4.78	3.00	2.33	2.33	*3.10*	*3.11*	*0.93*
4.3 Public Procurement	25%	4.27	3.83	3.99	4.79	3.64	4.11	3.69	*4.05*	*4.06*	*0.37*
Thematic Block 1: Planning & Design	35%	4.80	2.80	4.00	4.40	3.00	3.60	4.60	*3.89*	*3.90*	*0.72*
Thematic Block 2: Implementation	45%	4.43	5.00	4.43	5.00	4.43	5.00	3.29	*4.51*	*4.43*	*0.57*
Thematic Block 3: Monitoring & Evaluation	20%	3.00	3.00	3.00	5.00	3.00	3.00	3.00	*3.29*	*3.50*	*0.70*
5. INNOVATION AND TECHNOLOGY		**3.21**	**3.16**	**3.79**	**4.45**	**3.78**	**4.39**	**3.50**	***3.75***	***4.03***	***0.48***
5.1 Institutional Framework	33%	3.23	2.54	4.10	4.75	4.63	4.53	2.98	*3.82*	*4.22*	*0.83*
Thematic Block 1: Planning & Design	35%	2.79	1.88	4.14	4.66	4.89	4.03	3.13	*3.64*	*4.18*	*1.01*
Thematic Block 2: Implementation	45%	3.67	3.44	4.56	5.00	4.56	5.00	3.44	*4.24*	*4.50*	*0.65*
Thematic Block 3: Monitoring & Evaluation	20%	3.00	1.67	3.00	4.33	4.33	4.33	1.67	*3.19*	*3.67*	*1.11*

Dimension /sub-dimension / thematic block	Weight	ARG	ECU	URU	CHI	COL	MEX	PER	Avg. LA7	Avg. PA4	StD
5.2 Support Services	33%	2.39	3.73	3.32	3.91	2.79	3.75	3.27	*3.31*	*3.43*	*0.51*
Thematic Block 1: Planning & Design	20%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	*3.00*	*3.00*	*0.00*
Thematic Block 2: Implementation	60%	3.32	4.65	3.97	4.52	2.87	4.47	3.45	*3.89*	*3.83*	*0.64*
Thematic Block 3: Monitoring & Evaluation	20%	1.00	3.67	3.67	5.00	4.33	4.33	5.00	*3.86*	*4.67*	*1.27*
5.3 Financing for Innovation	33%	4.00	3.21	3.95	4.70	3.94	4.88	4.24	*4.13*	*4.44*	*0.51*
Thematic Block 1: Planning & Design	35%	4.33	3.00	4.67	5.00	4.67	4.67	4.33	*4.38*	*4.67*	*0.60*
Thematic Block 2: Implementation	45%	4.00	4.00	4.00	4.50	4.50	5.00	4.00	*4.29*	*4.50*	*0.36*
Thematic Block 3: Monitoring & Evaluation	20%	3.40	1.80	2.60	4.60	1.40	5.00	4.60	*3.34*	*3.90*	*1.34*
6. PRODUCTIVE TRANSFORMATION		**3.78**	**3.47**	**3.62**	**4.50**	**4.39**	**4.39**	**3.93**	***4.01***	***4.30***	***0.39***
6.1 Productivity-enhancing measures	33%	3.05	3.85	3.29	4.52	4.37	4.55	4.08	*3.96*	*4.38*	*0.55*
Thematic Block 1: Planning & Design	35%	2.57	3.93	4.14	4.29	4.36	4.36	4.71	*4.05*	*4.43*	*0.64*
Thematic Block 2: Implementation	45%	3.40	3.40	3.00	5.00	4.60	5.00	4.20	*4.09*	*4.70*	*0.76*
Thematic Block 3: Monitoring & Evaluation	20%	3.10	4.71	2.43	3.86	3.86	3.86	2.71	*3.50*	*3.57*	*0.74*
6.2 Productive Association-enhancing measures	33%	4.57	2.85	3.68	4.62	4.43	4.49	3.68	*4.04*	*4.30*	*0.61*
Thematic Block 1: Planning & Design	35%	5.00	4.56	5.00	5.00	4.56	5.00	3.22	*4.62*	*4.44*	*0.60*
Thematic Block 2: Implementation	45%	4.33	2.20	2.73	4.60	4.60	4.60	4.33	*3.91*	*4.53*	*0.93*
Thematic Block 3: Monitoring & Evaluation	20%	4.33	1.33	3.50	4.00	3.83	3.33	3.00	*3.33*	*3.54*	*0.91*
6.3 Integration to Global Value Chains	33%	3.74	3.70	3.89	4.37	4.38	4.13	4.04	*4.04*	*4.23*	*0.26*
Thematic Block 1: Planning & Design	35%	4.75	4.75	4.63	4.75	4.75	4.50	4.63	*4.68*	*4.66*	*0.09*
Thematic Block 2: Implementation	45%	4.17	3.50	4.00	4.17	5.00	4.50	4.50	*4.26*	*4.54*	*0.44*
Thematic Block 3: Monitoring & Evaluation	20%	1.00	2.33	2.33	4.17	2.33	2.67	2.00	*2.40*	*2.79*	*0.87*
7. ACCESS TO MARKET AND INTERNATIONALISATION		**3.71**	**3.82**	**4.36**	**4.33**	**4.43**	**4.14**	**4.10**	***4.13***	***4.25***	***0.26***
7.1 Support Programmes for Internationalisation	40%	3.91	4.02	4.78	4.49	4.74	4.53	4.54	*4.43*	*4.58*	*0.31*
Thematic Block 1: Planning & Design	35%	3.60	5.00	5.00	4.20	4.80	4.20	5.00	*4.54*	*4.55*	*0.51*
Thematic Block 2: Implementation	45%	4.84	3.49	4.63	4.71	4.92	4.92	4.43	*4.56*	*4.74*	*0.47*
Thematic Block 3: Monitoring & Evaluation	20%	2.38	3.50	4.75	4.50	4.25	4.25	4.00	*3.95*	*4.25*	*0.74*
7.2 Trade facilitation	15%	4.25	4.33	4.25	4.67	4.67	3.58	4.67	*4.35*	*4.40*	*0.36*
Thematic Block 1: Trade Facilitation Indicators	25%	4.00	3.33	4.00	4.67	4.67	4.33	4.67	*4.24*	*4.58*	*0.46*

Dimension /sub-dimension / thematic block	Weight	ARG	ECU	URU	CHI	COL	MEX	PER	Avg. LA7	Avg. PA4	StD
Thematic Block 2: Planning & Design	25%	4.00	5.00	4.00	5.00	5.00	1.00	5.00	*4.14*	*4.00*	*1.36*
Thematic Block 3: Transparency and Predictability	25%	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*5.00*	*0.00*
Thematic Block 4: Simplification of Procedures	25%	4.00	4.00	4.00	4.00	4.00	4.00	4.00	*4.00*	*4.00*	*0.00*
7.3 Use of E-commerce	15%	4.08	4.30	4.33	4.39	4.66	4.25	2.79	*4.11*	*4.02*	*0.57*
Thematic Block 1: Planning & Design	35%	4.00	5.00	5.00	5.00	5.00	4.00	2.50	*4.36*	*4.13*	*0.87*
Thematic Block 2: Implementation	45%	5.00	4.20	4.20	4.60	5.00	5.00	3.80	*4.54*	*4.60*	*0.45*
Thematic Block 3: Monitoring & Evaluation	20%	2.14	3.29	3.43	2.86	3.29	3.00	1.00	*2.71*	*2.54*	*0.80*
7.4 Quality Standards	15%	1.95	3.71	3.87	4.79	4.42	4.48	4.41	*3.95*	*4.53*	*0.89*
Thematic Block 1: Planning & Design	35%	1.00	5.00	3.50	5.00	5.00	4.50	5.00	*4.14*	*4.88*	*1.38*
Thematic Block 2: Implementation	45%	2.60	3.40	4.60	4.60	4.60	5.00	4.20	*4.14*	*4.60*	*0.78*
Thematic Block 3: Monitoring & Evaluation	20%	2.14	2.14	2.86	4.86	3.00	3.29	3.86	*3.16*	*3.75*	*0.89*
7.5 Taking Advantage of the Benefits of Regional Integration	15%	4.02	2.41	3.87	3.03	3.15	3.20	3.33	*3.29*	*3.18*	*0.50*
Thematic Block 1: Planning & Design	35%	3.75	2.00	3.75	2.88	3.69	3.38	4.19	*3.38*	*3.53*	*0.67*
Thematic Block 2: Implementation	45%	4.50	3.00	4.17	3.33	3.33	3.33	3.33	*3.57*	*3.33*	*0.50*
Thematic Block 3: Monitoring & Evaluation	20%	3.40	1.80	3.40	2.60	1.80	2.60	1.80	*2.49*	*2.20*	*0.67*

Note: For further information on how scores were calculated, please see Chapter 2.

Notes

[1] See Figure 1.1 in Chapter 1 for more detailed information.

[2] See Chapter 1 for more detailed information. It is also important to note here, as stated in Chapter 1, that it would be erroneous to conclude that most entrepreneurs in the region operate in the informal sector, since the reality in the region is the opposite: the number of microentrepreneurs formalized is higher than those who remain in an informal condition.

[3] For a further explanation of this concept, see https://www.caf.com/en/topics/p/productive-transformation/; https://www.ilo.org/employment/areas/industrial-policy/lang--en/index.htm; and (UN-Habitat, 2015[1]). Overall productive transformation aims to create jobs and foster sustainable growth through sectoral transformation from agriculture to manufacturing and service sectors; diversification into new economic activities and into increasingly complex products across sectors; and technological change within sectors.

References

UN-Habitat (2015), *The role of cities in productive transformation: six case studies from Africa, Asia, and Latin America.*, UN-Habitat, https://unhabitat.org/books/the-role-of-cities-in-productive-transformation/ (accessed on 1 February 2019). [1]

Part I. Findings by dimension

Chapter 4. Institutional framework (Dimension 1)

This chapter assesses the level of development of the LA7 countries in relation to the main building blocks of SME policy, notably the policy scope, as determined by the country's SME definition; the policy objectives and strategic orientation; the assignment of the SME policy mandate; the design and governance of the main policy institutions; the mechanisms of policy consultation and co-ordination; and the actions taken to reduce enterprise informality. The assessment results show that the LA7 countries have accumulated significant experience in private sector development and SME policy and established highly articulated institutional frameworks.

However, the LA7 countries still face major challenges in terms of further integrating SME policy into their wider country strategies for economic and social development, making co-ordination and consultation mechanisms more effective, improving monitoring and evaluation mechanisms, and securing a consistency between overall policy targets and the tools and budgets at the disposal of the institutions in charge of policy implementation. The presence of a large informal sector in most of the LA7 countries is a further challenge to policy making, as it undermines the governments' ability to conduct inclusive SME policies and to reach the most vulnerable segments of the SME population.

Introduction

This chapter deals with the main building blocks of SME policy, notably the policy scope, as determined by the country's SME definition; the policy objectives and strategic orientation; the assignment of the SME policy mandate; the design and governance of the main policy institutions; the mechanisms of policy consultation and coordination; and the actions taken to reduce enterprise informality.

SME policy is a complex public policy area. This is due both to the extreme heterogeneity of the SME population – in terms of enterprise size, physical and human capital endowment, sectors of operation and growth potential – and to the number of policy dimensions and public institutions related to the SME policy domain.

The way governments structure and operate their SME policy frameworks has a very significant impact in shaping policy outcomes. Previous SME Policy Index (SME PI) assessments have shown a close correlation between the scores obtained in the institutional framework dimension and those of several other policy dimensions, particularly those dealing with access to markets, the provision of business development services (BDS) and the enhancement of human capital and skills.

SME policy consists of a combination of horizontal and targeted (vertical) policy measures. Horizontal measures are those that aim at improving the overall operational environment for all classes of enterprises, such as regulatory simplification measures. Targeted measures are aimed at improving the conditions of a specific segment of the SME population, defined in terms of class size, sector of operation, growth potential, area of activity (such as research and development, or R&D), location or other features.

SME policy measures often span over policy areas that are not directly under the remit of the central ministry or agency mandated to conduct SME policy. For instance, they may include areas such as fiscal and labour policy, support for R&D activities, and/or skill development and educational training, which generally fall under the portfolio of line ministries and agencies other than those directly mandated to design and implement SME policy. Comprehensive and effective policy coordination plays therefore a central role in SME policy.

Most governments, across countries with different levels of economic development, have adopted a strategic approach to SME policy, by integrating SME policy into their broader strategy of economic development, defining a set of policy objectives and organising their policy actions around a medium-term strategy. The strategic approach is in most cases supported by an evidence-based diagnosis of the main issues faced by the SME sector. The level of success of the strategy implementation is closely linked to the quality of policy co-ordination mechanisms and to systems of public-private dialogue, as well as to the level of human and financial resources committed by the different public institutions. Crucial complementary elements are the availability of timely and comprehensive SME statistics as well as advanced monitoring and evaluation (M&E) systems.

Governments must combine all these elements as they pursue an effective mix of horizontal and targeted policies. SME policy is an area where there are no pre-defined models and directives and where a pragmatic approach, based on tests and trials, is often the most productive. It is not all trial and error, of course; an extensive body of good practices in policy-making exists, based on policy reviews and lessons learned, that can be put to good use in avoiding costly mistakes and delays. While it is impossible, given the scope of this report, to assess the quality and effectiveness of the SME policy approach adopted by each

of the LA7 countries, it is feasible to measure the level of institutional development with reference to recognised good policy-making practices.

All the LA7 countries have accumulated significant experience in the private sector development and SME policy areas and have established highly articulated institutional frameworks. Over the last decade, in response to the negative impact of the global financial crisis (2008-2010) and the end of the commodity super-cycle (2014-2015) on the countries' economic development, most of the LA7 countries have identified SME policy as one of the crucial areas to spur economic and employment growth and to drive productive transformation.

This chapter will show how the LA7 countries have defined their strategic SME policy objectives, then developed their institutional framework accordingly, from a regional perspective; it will then present a detailed assessment of each country's performance.

Assessment framework

The assessment framework for Dimension 1 is structured along the main building blocks of SME policy, as presented above. The framework comprises four sub-dimensions: SME definition; strategic planning, policy design and policy co-ordination; public-private consultation; and measures to address the informal sector (Figure 4.1). The first sub-dimension is concerned with the policy scope, while the other sub-dimensions deal mainly with the institutional design, strategic approach and organisation of the policy interventions.

Sub-dimension 1.1 covers the terms and the operational use of the country's SME definition. The purpose of the SME definition is to define the scope of the public policy, to set the segmentation of the SME population into sub-classes (micro-, small- and medium-sized enterprises), and to establish a common base for policy co-ordination among public institutions. The primary justification for SME policy is to address structural market failures due to enterprise size, linked to the economy of scale and scope, higher transaction costs, etc. The boundary between SMEs and larger enterprises should therefore define the limit above which such structural market failures cease to play a significant role in determining the enterprise performance.

Sub-dimension 1.2 focuses on how the LA7 countries set their strategic objectives and organise their SME policy interventions. It also includes a set of indicators dealing with the structure of the SME policy framework, the intra-government co-ordination and consultation mechanisms, and the availability of timely and comprehensive SME statistics.

Sub-dimension 1.3 focuses on the channels and the practice of consultation with the private sector associations representing the SME sector, looking at the frequency, transparency and openness of the consultations.

The final sub-dimension looks at how the LA7 countries are dealing with the issue of informality. Labour and enterprise informality has a high incidence in all the LA7 countries. In most countries, informality is dominant among the self-employed and microenterprises, which often escape any form of formal registration; but it is also present among SMEs – which, while formally registered, fail to be fully compliant with laws and regulations, particularly those related to tax payments and labour issues. Enterprise informality is a complex phenomenon with wide social, fiscal and legal/regulatory implications. The presence of a large informal sector has significant implications for SME policy-making, as in most cases informal enterprises de facto operate outside the scope of

SME policy. They tend to respond differently from other enterprises to policy signals and incentives, as they are afraid of being pursued for their non-compliance and of losing any advantage gained from not respecting laws and regulations. Sub-dimension 1.4 looks specifically at the implications of informality on enterprise growth and competitive dynamics, and at the government policy response.

Figure 4.1 SME PI LA7 framework for assessing Dimension 1

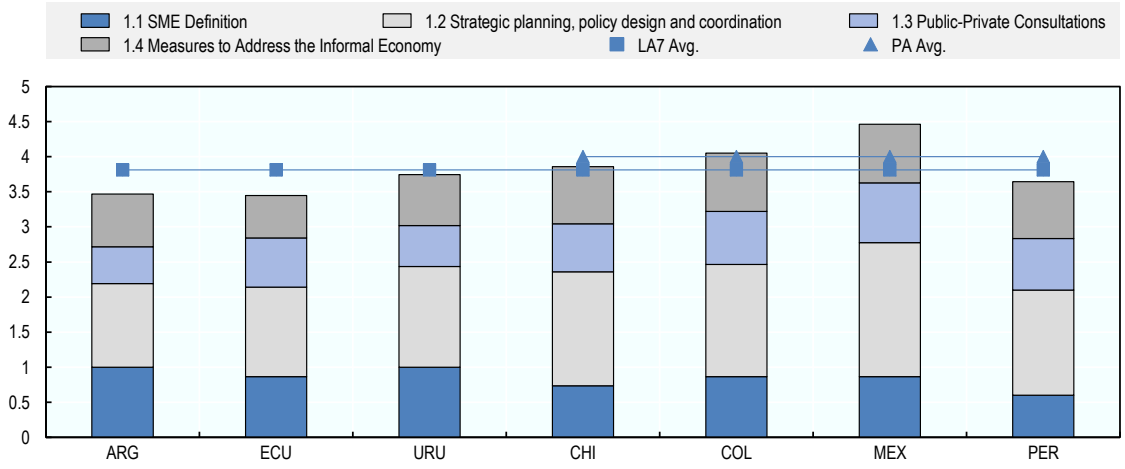
Dimension 1: Institutional framework	
1.1 SME definition	• Legal definition • Consistent use of definition in legislation • Multiple criteria • Independence criterion
1.2 Strategic planning, policy design and co-ordination	• SME development strategy • SME policy implementation agency or equivalent • Availability of statistical data on SMEs
1.3 Public-Private Consultations	• Frequency and transparency of public-private consultations (PPCs) • Private sector involvement in PPCs • Formal feedback and review mechanisms
1.4 Measures to address the informal economy	• Background analysis on informal sector • Formalisation strategy • Private sector feedback • Monitoring and transparency

In combining the assessment results, sub-dimension 1.2 (strategic planning, policy design and co-ordination) has been assigned the highest weight (40%), while the remaining sub-dimensions each carry a weight of 20%.

Analysis

The overall LA7 average score for the policy dimension analysing the SME institutional framework is 3.81 on a scale of 5 (see Figure 4.2), indicating that on average SME policy institutions have been set up and are operational, the strategic directions have been identified, and the co-ordination and consultation mechanisms have been put in place. However, the LA7 countries still face major challenges in terms of further integrating SME policy into their wider country strategies for economic and social development, making co-ordination and consultation mechanisms more effective, and improving monitoring mechanisms and conducting impact evaluations at both policy and programme level. Furthermore, the presence of a large informal sector in most of the LA7 countries undermines the governments' ability to conduct inclusive SME policies and to reach the most vulnerable segments of the SME population.

Figure 4.2. Weighted scores for Dimension 1: Institutional Framework



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Sub-dimension 1.1: SME definition

This sub-dimension includes four indicators: 1) the presence of a legal SME definition in the country; 2) the number of parameters used in the SME definition; 3) the use of a single SME definition across the public administration; and 4) the inclusion of an independence clause in the SME definition – meaning that an enterprise is not classified as a SME if it is controlled by a large company, even if the enterprise satisfies the standard criteria set in the SME definition.

The average performance of LA7 countries in this sub-dimension is relatively high (4.24), as all countries have a valid legal definition, based on multiple criteria in most cases and often used consistently across the public administration. Argentina and Uruguay have recorded the highest scores (5.0), as they are the only LA7 countries to have introduced an explicit independence clause in their SME definitions.

Table 4.1. Sub-dimension 1.1 scores: SME definition

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	5.00	4.33	5.00	3.67	4.33	4.33	3.00	*4.24*	*0.66*
Total sub-dimension score	**5.00**	**4.33**	**5.00**	**3.67**	**4.33**	**4.33**	**3.00**	***4.24***	***0.66***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

All LA7 countries have adopted an official SME definition

The first building block of any SME policy consists of the introduction of a legally based and operationally sound SME definition. The purpose of the definition is to clearly delineate the policy scope and to provide a clear reference to enterprises on the kind of policy conditions that apply to them.

While all LA7 countries have in place an official SME definition, the way it has been set varies considerably. In a number of countries, the definition is included in the main legislative act defining the scope and objectives of the country's SME policy, as in the

cases of Chile and Colombia. In other cases (e.g. Ecuador, Mexico, Peru) the SME definition is included in set of dispositions regulating the application of specific policy instruments – for instance, the regulation of Ecuador's Production Code *(Reglamento al Código de la Producción)* or the operational rules of Mexico's National Entrepreneur Fund *(Reglas de Operación del Fondo Nacional Emprendedor)*. In Argentina and Uruguay, the SME definition is set by decree issued by the competent ministry.

Consistent application throughout the public administration is generally a standard practice

The presence of a single definition and its consistent application are important elements to promote co-ordination among all different ministries and public agencies involved in the elaboration and implementation of SME policy and to facilitate communications with the private sector. The SME definition's value is in setting the broad policy scope, which in turn defines the intended area of application of policy measures, often fiscal or regulatory, designed to favour the entire SME sector, or a targeted sub-class.

It is also important to make a distinction between the broad parameters set by the SME definition, which are only reviewed over a number of years, and the eligibility criteria set in the framework of specific SME support programmes and measures through ministerial and agency regulations. All LA7 countries refrain from setting eligibility criteria by law, assuring therefore the necessary flexibility for the design of SME support programmes, while they periodically adjust the SME definition parameters and class threshold following the evolution of the SME population.

Peru is the only LA7 country to not consistently apply its SME definition across the public administration. In its case, the definition applies to the legislative acts and policy measures taken by the Ministry of Production (PRODUCE), but it is not compulsorily applied by other ministries and branches of the public administration. However, the government is making an effort to promote a consistent application of the SME definition throughout the different components of the public administration.

SME definitions vary considerably across the LA7 and several parameters are considered

Standard parameters for SME definitions include the number of full time employees, annual turnover and assets. The employment criterion, often associated with one or two of the other standard parameters, is considered a good proxy for enterprise size and structure. The employment criterion is applied by four LA7 countries (Argentina, Colombia, Mexico, and Uruguay) in conjunction with a second parameter, either annual turnover or total assets. Reluctance to use the employment parameter is often justified by the lack of reliable employment data, due to the high incidence of informal labour. Among all LA7 countries, only Chile and Peru base their SME definition on a single parameter: annual turnover. Chile, Peru, and Uruguay incorporate the turnover parameter into a special accounting unit (see note to Table 4.2 for more information), which is periodically reviewed in line with the country's inflation rate, avoiding the task of periodically reviewing the legal SME definition.

Table 4.2. SME definition criterion in the LA7 countries

Region	Country	Definitions		
		Micro	Small	Medium
Pacific Alliance	**Chile**	Turnover: up to 2 400 UF[1]	Turnover: between 2 400 and 25 000 UF	Turnover: between 25 000 and 100 000 UF
	Mexico	up to 10 employees Turnover: up to 4 MXN million	11–50[2] employees Turnover: between 4–100 MXN million	51–250 employees[3] Turnover: between 100–250 MXN million
Pacific Alliance /Andean Community	**Colombia**	up to 10 employees Turnover: total assets excluding housing are worth equal to or less than 500x the current legal monthly minimum wage	11–50 employees Turnover: total assets excluding housing are worth between 501 and 5 000x the current legal monthly minimum wage	51–200 employees Turnover: total assets excluding housing are worth between 5 001 and 30 000x the current legal monthly minimum wage
	Peru	Turnover: up to 150 UIT[4]	Turnover: between 151–1 700 UIT	Turnover: between 1 701–2300 UIT
Andean Community	**Ecuador**	1–9 employees Turnover: ≤ USD 100 000 Assets: ≤ USD 100 000	10–49 employees Turnover: between USD 100 001-1 000 000 Assets: between USD 100 001-750 000	50–199 employees Turnover: between USD 1 000 001-5 000 000 Assets: between USD 750 001-3 999 999
MERCOSUR	**Argentina**	up to 5–15 employees, depending on the sector[5] Turnover: up to ARS 3 800 000–15 800 000, depending on the sector	up to 10–60 employees, depending on the sector Turnover: up to ARS 23 900 000–95 000 000, depending on the sector	Group A: up to 50–235 employees, depending on the sector Turnover: up to ARS 182 400 000–661 200 000, depending on the sector Group B up to 215–655 employees, depending on the sector Turnover: between ARS 289 300 000–1 140 300 000, depending on the sector
	Uruguay	≤ 4 employees Turnover: up to 2 000 000 UI[6]	5-19 employees Turnover: between 2 000 000-10 000 000 UI	20-99 employees Turnover: between 10 000 000-75 000 000 UI

1. UF - *Unidades de Fomento*: Accounting unit used in Chile. The exchange rate between the UF and the Chilean peso is constantly adjusted to take inflation into account, so that the value of the UF remains almost constant daily during periods of low inflation. UF Value in Chilean Pesos (29/11/2018): 27 518.15. 1 USD/CLP exchange rate (29/11/2018): 673.31. UF Value in US Dollars (29/11/2018): 41.11.
2. The upper limit is set at 30 employees in the case of the "trade" sector (other sectoral categories include "industry" and "services").
3. The lower limit is set at 51 employees in the cases of the services and industry sectors. The upper limit is placed at 100 employees in the case of the trade and services sectors.
4. UIT - *Unidad Impositiva Tributaria*: Accounting unit used in Peru. 1 UIT=4 150 PEN (2018); 1 USD/PEN exchange rate = approximately 3.36 (12/12/2018); UIT value in USD = approximately USD 1 236 USD (12/12/2018).
5. The lowest sectoral threshold corresponds to the agricultural sector, while the highest corresponds to the industry and manufacturing sectors. Other sectoral categories are construction, services and trade.

6. UI - *Unidades Indexadas*: Accounting unit used in Uruguay, which is readjusted based on inflation, as measured by the Consumer Price Index (CPI). The UI value is approximately 4.02 Uruguayan pesos (UYU) (12/12/2018). 1 USD/UYU exchange rate = approximately UYU 32 (12/12/2018). UI value in US dollars (12/12/2018): 0.13.

Sub-definitions of micro, small and medium-sized enterprises are used by all LA7 countries, but size-thresholds vary significantly across countries

All LA7 countries segment their SME population into three classes: micro, small and medium-sized enterprises. Among those countries (Argentina, Colombia, Ecuador and Mexico) that apply the employment criterion, there is a general convergence in setting the threshold to define a microenterprise at around 10 full time employees. For small-sized enterprises, the upper threshold is set at 50 employees, while the upper threshold for medium-sized enterprises is set at between 200 employees (Colombia and Ecuador) and 250 (Mexico), largely in line with the thresholds set by most of the OECD member countries.[1] In the case of Uruguay, the upper employment threshold is set at a much lower level (4 for micro, 19 for small and 99 for medium-sized enterprises), a decision justified by the relatively small size of the Uruguayan economy.

Argentina has introduced a two-tier definition for medium-sized enterprises, primarily based on annual turnover value.[2] The second-tier upper threshold is set at a relatively high value, allowing for the extension of government support to enterprises with an advanced structure and a consolidated market presence.

Argentina and Uruguay are the only LA7 countries to include in their SME definitions a clause explicitly excluding from the SME population small-scale enterprises controlled by large groups. The introduction of such a clause should prevent large enterprises from establishing small-scale units under their control to exploit preferential treatment for SMEs.

SME definitions in the LA7 countries are sufficiently well structured, but there is room for further improvement both within and among countries towards a higher level of co-ordination

Overall, the LA7 countries have established SME definitions that set quite clearly the policy scope and satisfy basic criteria of operability. However, three main observations should be highlighted.

The first concerns the application of criteria based on annual turnover and total assets. This requires access to reliable information at firm level, which is not directly accessible from government-managed data banks and often not fully available for micro- and small-sized enterprises. In order to get around this limitation, several LA7 countries require enterprises to register with the relevant ministry, or to present direct evidence in order to prove their SME status.

The second is related to the relative lack of correspondence in several LA7 countries between the SME definition used by the national statistical offices (which is largely based on employment criteria) and the policy definition. This may limit the ability of policy makers to base their policies on a solid statistical base.

The final observation concerns the limited convergence of the SME definitions within the main regional trading blocks, namely the Pacific Alliance (PA), MERCOSUR and the Andean Community. This is particularly relevant in the case of the PA. As PA member states move ahead with market access measures, including reciprocal access in public

procurement, there is an increasing need to move towards a common definition to avoid distortion in the competition regimes and to simplify the operation at enterprise level.

Sub-dimension 1.2: Strategic planning, policy design and coordination

As mentioned in the introductory section, a standard practice widely adopted across countries at different stages of economic development to effectively organise their policy interventions is to elaborate a multi-year SME development strategy. Either (a) the strategy is presented as a stand-alone document or (b) strategic orientations for SME development are included in other broader government strategic plans, such as the country's medium-term development plan, industrial policy, private sector development strategy, productive transformation strategy or social development plan.

Whatever form it takes, a well-structured strategy should include a clear vision statement stating how the SME sector is expected to perform at the end of the strategy time-line; this is often described in qualitative terms (for instance, a more "innovative and dynamic" or a more "export-oriented" SME sector). The vision statement should be complemented by well-defined and quantifiable objectives, intermediary targets, and a sufficiently detailed presentation of how the government intends to organise public policy to achieve these objectives. The document should also include a section on the planned sequence of policy interventions, as well as indications of the resources and legislative/regulatory and institutional changes required and the systems that the government intends to adopt to monitor and evaluate the strategy implementation. Finally, the strategy implementation should be supported by yearly or bi-annual action plans, detailing the actions that should be undertaken and assigning resources and responsibilities to the different public and private organisations involved in its implementation, as well as indicating the monitoring mechanisms adopted to keep track of the strategy/action plan's implementation.

The strategy elaboration is normally the result of an intense period of consultation within and outside the public administration, so that the objectives and policy interventions are supported by a large consensus. The strategy argumentation should be anchored to solid evidence, a well-developed analysis of the characteristics and trends of the SME population, and a diagnostic of the obstacles that the SME sector and the public administration face in order to reach the objectives in the strategic document.

The assessment results show that the LA7 are relatively well advanced in this sub-dimension (Table 4.3). All countries, with the exclusion of Chile, perform better in the *Implementation* than in the *Planning and Design* and *Monitoring and Evaluation* phases. Mexico leads the LA7 countries with high scores across all three phases of the policy cycle.

Table 4.3. Sub-dimension 1.2 scores: Strategic planning, policy design and coordination

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	1.48	2.92	3.37	4.55	3.37	4.48	3.22	*3.34*	*0.96*
Implementation	4.00	3.00	3.67	3.67	5.00	5.00	4.17	*4.07*	*0.68*
Monitoring & Evaluation	3.30	4.07	3.79	4.11	2.85	4.78	3.73	*3.80*	*0.57*
Total sub-dimension score	**2.98**	**3.19**	**3.59**	**4.06**	**4.00**	**4.77**	**3.75**	***3.76***	***0.55***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Planning and design: SME policy objectives and orientations are set in the framework of the wider country strategy of economic development and/or productive transformation

None of LA7 countries has to date developed a standalone mid-term SME strategy. In all LA7 countries, with the exception of Argentina, strategic SME policy orientations are included in other mid-term strategic documents (see Table 4.4). In the cases of Chile, Colombia, Ecuador and Uruguay, SME strategic indications are contained in the plans to enhance productivity, innovation and growth (Chile); industrial policy (Ecuador); and productive transformation and competitiveness (Colombia and Uruguay).

In Mexico and Peru, SME policy strategic orientations are included in the country's multi-area development plans and related documents. Argentina is the only case among the LA7 where SME policy strategic orientations have not been fully developed. The Ministry of Production and Labour has issued briefings stating the government's broad SME policy directions, but it has not developed these indications into a strategic plan.

Of the LA7 countries that have developed a strategic approach, Chile and Mexico are the most advanced in terms of policy design.

The case of Chile is a good example of how SME policy objectives have been developed in the context of a wider strategy economic strategy: the 2014-18 Productivity, Innovation and Growth Agenda *(Agenda de Productividad, Innovación y Crecimiento 2014-2018)*. The Agenda has a broader scope than SME policy and its overall objective is to define the path leading to the transformation of Chile into a fully developed economy. It contains 47 detailed measures, structured around seven axes. Eight of these measures are specifically aimed at supporting the SME sector, while all other measures are designed to support the entire private enterprise sector; yet all have significant implications for SMEs. However, while the agenda's qualitative objectives are clearly defined, quantitative targets are not explicitly stated. Instead, their definition is left to the implementation agencies.

In Mexico, the SME strategic indications have been derived from the National Development Plan (2013-18) and they are specified in the Ministry of Economy's Program of Innovative Development (PRODEINN 2013-2018), which also contains a number of quantitative and qualitative objectives. Budget allocations to support SME policy actions and the activities of INADEM, the country's national SME development agency, are funded annually and channelled through the National Entrepreneur Fund *(Fondo Nacional Emprendedor*, or FNE).

In Colombia, the SME strategic directions are defined by a set of complementary documents. The SME law, first introduced in 2000 and then amended in 2004, set the official SME definition, defined the institutional framework and indicated the SME strategic policy guidelines. The Productive Development Policy 2016-2025 (CONPES Document 3866 of 2016) presents the five strategic directions the government intends to pursue to secure the country's productive transformation. None of the measures presented in the document are SME-specific, but the government recognizes that the vast majority of these measures are designed to support small-scale enterprises.

Table 4.4. Comparison of LA7 Strategic Frameworks for SME Development

Country	Relevant Strategic Document	SME Development Component	Observations
Argentina	N/A	Various actions at programmatic level led by the Ministry of Production and Labour's Secretariat of Entrepreneurs and SMEs (SEPyME), but no overarching strategy.	-
Chile	Productivity, Innovation and Growth Agenda 2014-18	"Support for SMEs" component (eight out of the 47 total measures included in the Agenda)	-
Colombia	National Development Plan 2014-2018	Chapter V (on Competitiveness and Strategic Infrastructure) includes the objective to "increase the productivity of firms", which includes key aspects of SME policy.	A "National SME Support System", established by Law 905/2004, facilitates inter-ministerial and private sector co-ordination, and also elaborates annual action plans.
	CONPES Document 3866 of 2016– Productive Development Policy 2016-2025	The policy includes various references to SMEs throughout, in both the diagnostic and lines of action, but no dedicated strategic component.	
Ecuador	National Development Plans: *Plan Nacional del Buen Vivir 2013-2017; Toda una vida 2017-2021*	Various strategic development objectives have indirect implications for SME development, but no dedicated SME component.	-
	Industrial Policy 2016-2025	The industrial policy includes various references to SMEs throughout, in both the diagnostic and lines of action, but no dedicated strategic component.	
Mexico	National Development Plan 2013-18: Programme to Democratise Productivity (federal government)	Programme to Democratise Productivity: SME Strategy Component (Strategy #2.3)	The Operational Regulations of the National Entrepreneur Fund (FNE) are updated each year to reflect the projects that will be funded and to set the Fund's overall annual objective.
	Innovative Development Programme 2013-18 (Ministry of Economy)	Innovative Development Programme 2013-18: SME Strategy Component (Sectoral Objective #3)	
Peru	Multiannual Strategic Sectorial Plan 2017-2021, or PESEM (Ministry of Production)	Sets specific actions and quantitative objectives for the whole productive sector and the SME sub-sector	The DGDE of PRODUCE is in charge of the implementation of the set of actions included in the PESEM for the SME sector and the fulfilment of the PESEM's SME-related objectives.
	Competitiveness Agenda 2014-18 (Federal Government, led by Ministry of Economy and Finance)	The Competitiveness Agenda includes various SME-related strategic goals, linked to a previous "Strategic Diversification Plan" 2014-16 implemented by the Ministry of Production.	
Uruguay	Transforma Uruguay: First National Plan for Productive Transformation and Competitiveness (2017-2021)	Includes various SME-targeted projects, but no dedicated SME component.	MIEM also issued strategic guidelines for the 2015-2020 period; MIEM-DINAPYME issues annual action plans in line with these guidelines.

In Uruguay, the government's strategic engagement with the SME sector is based on a dual approach. The Directorate for SME Policy (DINAPYME) within the Ministry of Industry, Economy and Mining (MIEM), has elaborated a set of strategic guidelines for 2015-2020. At the same time, the government has elaborated a medium-term productive transformation strategy (*Transforma Uruguay 2017-2021*), articulated around four pillars. The actions proposed by *Transforma Uruguay* are not SME-specific, but rather are directed to support

the entire enterprise eco-system; however, SMEs are expected to receive most of the government support.

Ecuador also has no explicit SME strategy. Strategic SME policy orientations are integrated into the country's Industrial Policy (2016-2025) and have been anchored in the country's development plans *(Plan Nacional del Buen Vivir 2013-2017; Toda una vida 2017-2021)*.

Similarly, in Peru the SME strategic policy orientations are contained in the Ministry of Production's (PRODUCE) Strategic Multi-sectorial Plan (PESEM 2017-2021) and include a set of objectives comprising employment generation, productivity enhancement, productive diversification and enterprise internationalization. The PESEM includes a matrix of actions and objectives and a set of quantitative targets.

Implementation could be improved by introducing more quantitative objectives and the use of action plans, as well as strengthening inter-ministerial co-ordination

Although the strategic approach is sufficiently articulated across all LA7 countries (with the exception of Argentina), the policy implementation tools are relatively weak. In four of the seven countries (Colombia, Ecuador, Mexico and Peru), strategic orientations are translated into quantitative objectives. In only two countries, Colombia and Ecuador, strategic orientations are complemented by action plans.

At the same time, in all LA7 countries the SME policy mandate is clearly defined and assigned to a specific line ministry. All countries have established a specialized department dealing with SME policy under the responsibility of a vice-minister or undersecretary. The dividing line between policy design and policy implementation is not always clearly defined. Only two countries have established SME development agencies: Chile (SERCOTEC and CORFO) and Mexico (INADEM). Uruguay has established a National Economic Development Agency (ANDE) which, among other functions, is in charge of the implementation of several SME support programmes. In all other cases, the general directorate for SME policy is in charge of managing the entire policy cycle – from policy elaboration through to implementation and M&E – with the support of a number of agencies and bodies.

In fact, across all LA7 countries, a standard approach to policy implementation is to organise policy actions through periodical calls for proposals *(convocatorias)*. The main role of the body in charge of policy implementation is to define the objective of the policy intervention, elaborate the terms of reference and the eligibility criteria and run the call for proposals. In many cases, policy implementation is de facto delegated to intermediary institutions, such as chambers of commerce, producers' associations, local development agencies, private consultants and enterprise networks.

This system allows for the containment of operational costs, while at the same time promoting the creation of enterprise support networks at national and local level, as in the case of the Mexican Entrepreneur Support Network (RAE) and the National SME Support System in Colombia. However, it also distances the main body in charge of SME policy implementation from a continuous dialogue with the enterprises and limits the exchange of information from and to SMEs and the public bodies in charge of SME policy at central level. This operational system is significantly different from that adopted by the most advanced SME development agencies in South East Asia, as in the case of Singapore Enterprise, Malaysia Enterprise Corporation and Thailand's OSMEP. Among the different

LA7 organisations operating in the SME policy implementation area, only SERCOTEC and CORFO have developed a more direct engagement at enterprise level.

All the LA7 countries have established a form of intra-government co-ordination for the SME policy area. A common approach is to establish a Consultative Council composed of representatives from the various line ministries and public agencies dealing with SME policy issues. Consultative and co-ordination councils have also been established within the framework of the implementation of the industrial and productive transformation strategies. Unique among all LA7 countries, Argentina has not established a formal inter-ministerial coordination body dealing with SME policy, but it relies more on informal consultations conducted by the Ministry of Production and Labour.

Monitoring and Evaluation (M&E): Although all LA7 countries have put in place programme monitoring systems, monitoring at strategic level remains weak

The assessment results for M&E for the LA7 countries are mixed. Overall, all LA7 countries have established regular monitoring mechanisms keeping record of the implementation of the different SME support programmes, although at different levels of sophistication. A description of these mechanisms is reported in the chapters dedicated to other policy dimensions.

The LA7 countries also have, with limited exceptions, established weak mechanisms for monitoring the fulfilment of the objectives set in the country strategic plans that have direct implications on SME development, such as the industrial policy or the productive transformation strategies and plans. This is due to several factors, including the relative lack of quantitative objectives, the frequent absence of action plans, and the relative weakness of policy co-ordination mechanisms, which limits the ability to collect timely information from the institutions involved in the strategy implementation.

Across all LA7 countries, evaluation is a particularly weak area, with only Chile consistently engaged in conducting impact evaluations for specific SME support programmes. Indeed, among all LA7 countries, Chile, Colombia, Mexico are the most advanced in the area of strategy and programme monitoring:

- In Chile, a public website was created to monitor the implementation of the aforementioned 2014-2018 Productivity, Innovation and Growth Agenda. However, while this website tracked the overall implementation status of each project included in the Agenda, it did not go so far as to set any quantitative key performance indicators (KPIs). The programmes conducted by SERCOTEC and CORFO are closely monitored and ad hoc publicly-available impact evaluations are conducted by the government's central budget directorate (DIPRES), in consultation with the implementation agencies.
- In the case of Colombia, there is regular monitoring of the implementation of the Productive Development Policy 2016-2025 (CONPES Document 3866 of 2016) through bi-annual public reports issued by the National Planning Department (DNP). The Ministry of Commerce, Industry and Tourism (MINCIT) is also due to produce annual reports to the Congress on the implementation of the SME support programme, while the various entities in charge of conducting SME support programmes, such as iNNpulsa, have to regularly provide detailed information on the characteristics and location of the enterprises that benefit from these programmes.

- In Mexico, the evaluation of public policy programmes is conducted by an independent body (CONEVAL), which monitors and evaluates the FNE, among other programmes. The Ministry of Economy also publishes annual reports on the status of PRODEINN implementation, and INADEM has an additional "Results Matrix" directly related to the impact of FNE interventions; however, in both cases, the information presented tends to be more process- than performance-oriented. Furthermore, at the strategic level, the relationship between the selected macro-level performance indicators and the stated strategic lines of action is unclear (see Chapter 15 on Mexico for more information.) Lastly, basic information on the beneficiaries of INADEM SME support programmes is regularly published on INADEM's website ("*Datos Abiertos*" section).

In Peru, CEPLAN regularly monitors the implementation of the PESEM 2017-21; in doing so, it organises regular monthly meetings with all the public institutions involved and twice a year publishes a monitoring report on the advances in the plan's implementation. In Ecuador, the government has introduced a specific tool for public policy management called "Management for Results" (*Gestión por Resultados*, or GPR), which should allow for timely monitoring of government programmes. Each institution is in charge of uploading information on programme implementation at regular intervals; while these reports are not public, they do form the basis of annual public reports that are published by each public body. In addition, the Ministry of Industries and Productivity (MIPRO) publishes regular implementation reports aligning their activities to the Industrial Policy 2016-2025.

In Uruguay, the government is developing a comprehensive monitoring system for the *Transforma Uruguay* strategy, while both MIEM-DINAPYME and the different implementation agencies (ANDE, AGEV/OPP and INEFOP) have developed their own M&E units.

In Argentina, the Ministry of Production and Labour compiles regular reports on programme implementation, but only for internal use. No information on the typologies of beneficiary enterprises, locations and sectors is made public.

SME statistics in the LA7 are relatively good, although collection of data on value-added generation by SMEs is limited. The timely availability of comprehensive SME data from official sources is a key requirement for evidence-based policy making and provides important inputs for policy M&E. In particular, data on employment, turnover, value-added generation, investment and import-export flows (by enterprise class and sector) allow for a detailed analysis of growth and productivity trends across the SME population. Data at firm level allows for a more granular analysis, while regular surveys of the SME population provide policy makers with information on the key issues faced by enterprises in relation to the operational and investment environment.

All LA7 countries regularly collect SME data related to employment and turnover by class of enterprises, according to the parameters set by the different national statistical offices. In addition, Mexico and Peru collect data on value-added generation by class of enterprises and sector of activity, allowing for a more precise analysis of productivity performance across the various enterprise classes. Colombia and Uruguay also collect value-added data, but it is not disaggregated by enterprise class and sector. Argentina is able to collect a vast amount of firm data through its SME registration system, but this data is not made public, even in aggregate form; instead, it is collected for the exclusive use of the Ministry of Production and Labour.

Survey-based statistics are complemented by data from a more exhaustive census conducted at regular intervals, on average every five years in all LA7 countries. However, the high incidence of informality makes it more complex to collect comprehensive data, particularly for the microenterprise segment. Household and labour force surveys, as well as census data, provide indications on the extent of informality, with a specific focus on labour informality.

Sub-dimension 1.3: Public-private consultations (PPC)

The establishment of open and well-structured mechanisms of consultation with the organisations representing private enterprises, as well as the capacity of the governmental institution to engage in a constructive public-private dialogue, provide a fundamental contribution to the elaboration of well-designed policies for the SME sector and to their effective implementation.

While larger enterprises are usually well-versed in engaging in dialogue with the public sector and have significant resources to support lobbying activities, SMEs face much greater difficulties in actively participating in public-private dialogue sessions. Their efforts are limited by the wide diversity within the SME population, limited human and financial resources, and the presence of a high level of informality. In particular, smaller enterprises, start-ups and enterprises located in less-developed areas of the country tend to be under-represented in private sector organisations. Public-private dialogue risks being captured by larger and more established enterprises that exert influence to further secure their market positions and limit competition. It is therefore important that governments take a proactive approach in organising consultations with the private sector – to ensure that a variety of different voices from the private enterprise sector are heard, and to prevent the consultations from being captured by specific interests.

Overall assessment results for sub-dimension 1.3 indicate that Mexico has the most comprehensive and advanced PPC system of all the LA7 countries. Chile, Colombia, Ecuador and Peru are at an intermediate level of development, while Uruguay and Argentina are still in the process of building effective PPC channels.

Table 4.5. Sub-dimension 1.3 scores: Public-Private Consultations

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Frequency and Transparency	2.41	4.29	3.51	3.67	4.06	4.68	3.59	*3.74*	*0.67*
Private Sector Involvement	3.20	4.00	2.13	3.73	3.87	3.60	4.33	*3.55*	*0.66*
Monitoring & Evaluation	1.67	1.00	3.67	2.33	3.00	5.00	2.33	*2.71*	*1.23*
Total sub-dimension score	**2.62**	**3.50**	**2.92**	**3.43**	**3.76**	**4.26**	**3.67**	***3.45***	***0.50***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology

Frequency and transparency of public-private consultations (PPCs): practice varies across the LA7 countries, but open web-based consultations are becoming more common

Most LA7 countries have a long-established practice of PPCs. However, the approach to PPCs (centralized or decentralized, formal or informal), the levels of frequency and transparency, and the extent of public-private partnerships vary considerably from country to country.

The introduction of web-based platforms managed by governmental institutions in order to receive feedback from citizens and enterprises on planned government laws and regulations, has provided new avenues for a more direct and diffuse channel of consultations.

All the LA7 countries except Argentina have introduced formal requirements to consult with the private sector during the process of elaboration of laws and regulations. In several countries, these requirements are extended to all laws and regulations that have a direct economic impact, as in Colombia, Ecuador, and Peru; in other countries (Chile, Mexico and Uruguay), the obligation is valid only for major laws and regulations. All LA7 countries, with the exception of Argentina, have also established specific guidelines on how PPCs should be conducted, usually specifying the minimum time open for consultations.

Posting by public institutions of new draft laws and regulations on the web for public comments and suggestions is a common practice in all LA7 countries. Only in Mexico, however, are all postings are placed on a centralized website. In all other countries, the posting is made on the website of the responsible line ministry or agency.

Private sector involvement in PPCs: the private sector is mostly asked to provide inputs during the policy elaboration phase, is rarely invited to review policy implementation, and is given access to M&E results

Most of the LA7 countries conduct PPCs on a regular basis, asking for private sector feedback during the drafting stage of laws and regulations. In Uruguay and Peru, consultations are called once the initial drafting process is completed.

Mexico and Argentina are emblematic of two very different approaches to PPCs. In Mexico, public-private dialogue is highly institutionalized. Private sector organisations are members of the Business Coordinating Council (*Consejo Coordinador Empresarial*, or CCE), which was established to gather views and suggestions from the different private sector organisations. The FNE's Board of Directors includes a representative of the private sector with equal rights to all the other members. In addition, INADEM has established an SME Advisory Council (*Consejo Consultivo Mipymes),* which is consulted on all the major laws and regulations as well as support actions concerning the SME sector, while at the level of the Ministry of Economy there exists a National Council for the Competitiveness of SMEs (*Consejo Nacional para la Competitividad de la Mipyme)*. It is important to note, however, that INADEM's SME Advisory Council does not require the participation of the private sector and, if invited, does not give private sector voting rights. Thus, despite these various SME-focused groups, at operational level, there is only one regular private sector representative with voting rights (on the FNE board). At enterprise level, INADEM promotes direct communications with SMEs through blogs, such as the "Entrepreneurs Blog" *(Blog del Emprendedor),*[3] which is part of the RAE; and through the organisation of a series of meetings, conferences and workshops. A further channel of communications is constituted by the National Entrepreneur Observatory (ONE),[4] a platform for the diffusion of information and statistics concerning entrepreneurship and SMEs.

Argentina has instead adopted a largely informal system. The government decides when consultations are needed and independently invites its private sector counterparts (either the chambers of commerce or other sectoral organisations) for a round of informal talks, the outcomes of which are not available to the public. Beginning in 2017, the Ministry of Production and Labour organised a series of Executive Roundtables for Productive Transformation *(Mesas Ejecutivas para la Transformación Productiva)* – tri-partite consultations comprising representatives of the main sectoral organisations and trade

unions – to promote the elaboration of sectoral development plans (with no specific SME focus). These sectoral agreements now exist with close to 30 sectors (see section on "Productive Transformation" for more information).

Most governments tend to be selective in terms of which private sector organisations they invite to take part in public-private sessions. The representation of the SME sector is largely delegated to chambers of commerce and other sectoral organisations, which may dilute the representation of the smaller enterprises. A partial exception is Ecuador, where a large representation is given to the country's socially and/or well-being oriented economic system (*Sistema Económico Social, Solidario y Sostenible)*, which is made up of co-operatives, locally-based productive associations and the community sector supporting commercialisation and distribution of products made by local microenterprises. The organisations that are an expression of this system, including those representing its financial system,[5] play a significant role in influencing the government's development policy, under the supervision of the Superintendence of the Popular and Solidarity Economy (*Superintendencia de Economía Popular y Solidaria*).[6]

Monitoring and evaluation (M&E): a relatively neglected area

Argentina, Colombia, Chile and Mexico have recently conducted reviews of their PPC processes, but in most cases these reviews have not yet resulted in significant changes.

Sub-dimension 1.4: Measures to address the informal economy

All LA7 countries have to cope with the presence of a large informal sector. High levels of informality are present in most emerging economies, but in Latin America and the Caribbean (LAC) (including in its upper middle-income countries, such as the LA7) informality is an integral part of the economic structure, with wide implications for the social and economic development of the region.

Informality is defined as "the collection of firms, workers and activities that operates outside the legal and regulatory framework" (Loayza, Serven and Sugawara, 2009[1]). At firm level, informality includes all these enterprises, but also self-employed persons that produce legal goods and services but are not compliant with the country's labour, fiscal and/or other administrative laws and regulations (Feige, 2016[2]).

Labour informality has attracted most attention from public opinion, economists, and policy makers. Labour informality – defined for the purposes of this report as the non-compliance with labour regulations, the non-payment or partial payment of social security and pension contributions, and/or the exclusion from labour rights – is both a symptom and a cause of inequality and social injustice, as it disproportionally affects weaker groups of workers. Informality can also be survival strategy for sections of the population that struggle to enter the formal labour market.

The implications of the presence of a large informal sector on government fiscal revenues and budgets have been widely analysed.[7] The impact of enterprise informality has been relatively less studied, mostly due to the extreme difficulty of collecting data for empirical analysis. Labour market and household surveys have helped collect a wide range of statistics on labour informality, with the ILO playing a major role in data collection, harmonization and analysis. Data on enterprise informality, for instance comparing the performance of similar enterprises operating at different levels of informality, are largely unavailable and depend on access to highly confidential data collected through tax inspection, tax returns or loan applications to microfinance institutions.

There are different degrees of informality among enterprises and the self-employed, ranging from those who are not registered and escape detection by the public administration (total informality) to those who are registered and are acknowledged by the public administration but are not fully compliant (partial informality).

In general terms, informal enterprises have lower operational costs than their formal peers, but also very limited or no access to bank loans and bank services; limited legal protection; a high risk of having to pay bribes to escape government inspections; and, in most cases, no access to government support programmes.

Data for LAC (ILO, 2018[3]) shows that informality is the highest among the self-employed and microenterprises. While in some cases they provide a way out of extreme poverty for vulnerable populations, taken together informal enterprises distort competition, reduce the margins of formal enterprises and discourage investment and innovation. This distorted dynamic may force formal enterprises to move towards partial informality or to rely on informal suppliers and sub-contractors to be able to compete. Overall, informal enterprises are less inclined to invest in skill development and fixed assets, which makes them less productive than their formal counterparts (La Porta and Shleifer, 2014[4]). Nor are they keen to expand, as the risk of detection by public officials grows in line with the enterprise size.

The presence of a large informal sector therefore has significant implications for enterprise development and is highly relevant for SME policy. Yet, at the same time, microenterprises and self-employed operating in the informal sector generally lack any form of representation in public-private dialogue, they do not appear in official statistics, and they often fall in a limbo, outside the scope of SME policy. Governments need therefore to engage proactively in order to deal effectively with enterprise informality.

Policy response to enterprise informality tends to conform to four different approaches:

1. Enterprise informality may be considered a transitory status related to the country's level of economic development. Most informal enterprises are led by necessity-driven entrepreneurs, looking for subsistence income, often as a result of internal migration from the countryside to urban areas. As the economy expands and more jobs become available in the formal sector, informal entrepreneurs will seek employment opportunities that are more stable and better paid and protected, and the informal sector will naturally shrink. This kind of approach, defined often in the literature as the McKensey approach (van Elk and de Kok, 2014[5]), calls for governments to focus on growth opportunities and on enforcement of laws and regulations, promoting a market-based enterprise selection.
2. Another prevalent and complementary approach is to consider informality as a spontaneous answer to a weak social protection system. The lack of unemployment benefits and a weak or inexistent social safety net drives people towards self-employment and necessity-driven entrepreneurship.
3. An alternative view, popular in LAC, sees informality as a rational response by entrepreneurs to the excessive costs of regulations. After assessing the cost and the benefits of formality and considering the risks of being fined and penalized, entrepreneurs may conclude that being informal leads to better economic returns. Higher costs of compliance, unappealing incentives and ineffective enforcement lead to a large informal sector. Government policy should therefore focus on the reducing the costs associated with formality and on providing incentives for a return of enterprises to formality, rather than insisting on legal and regulatory enforcement.

4. Finally, although legal frameworks in most LAC countries abide by international standards, weak enforcement and corruption hinder enterprise formalisation efforts. To round up formalization strategies, incentives and economic growth should be accompanied by credible enforcement mechanisms to make informality a costlier – and riskier – alternative.[8]

Informality could also be seen as the product of a dual economic system, with part of the economy operating at the margin, providing cheap labour, goods and services to the formal sector, being highly integrated with the latter and providing a boost to the country's competitiveness. In this case, informality becomes a permanent, structural feature of the economic system.

Although most governments have estimated the size of the informal sector in their domestic economies, it remains difficult for policymakers to get a good picture of the forces driving the informal economy and characteristics of informal enterprises.

In this report, the assessment framework for the sub-dimension covering informality looks first at the efforts conducted by the LA7 countries to analyse and understand the issue of informality. It then considers the government policy response to informality, particularly in relation to enterprise informality and the status of policy implementation. The final set of indicators covers the phase of M&E.

All LA7 countries have been particularly active in pursuing policies aiming at reducing informality, and in many cases they have been at the forefront in devising and testing new policy approaches. The average regional score is particularly high, standing at 3.83 on a scale of 1-5, with a relatively low indicator of score dispersion around the average (StD = 0.39), indicating that all governments are engaged, at different levels, in the policy implementation phase.

Colombia, Mexico, Chile and Peru have the most advanced policies in this area, all recording scores above or equal to 4, with Mexico and Chile being well advanced through the different phases of the policy cycle; while Colombia and Peru appear strong in the first two phases, but relatively weak on M&E. Argentina, Ecuador and Uruguay appear relatively advanced on policy implementation, but relatively weaker on the other two phases.

Table 4.6. Sub-dimension 1.4 scores: Measures to address the informal economy

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	3.01	1.78	3.39	3.89	4.83	3.84	4.72	*3.64*	*0.97*
Implementation	4.50	4.50	4.50	4.50	4.50	4.50	4.50	*4.50*	*0.00*
Monitoring & Evaluation	3.40	1.80	2.00	3.40	2.20	4.00	1.80	*2.66*	*0.85*
Total sub-dimension score	**3.76**	**3.01**	**3.61**	**4.07**	**4.16**	**4.17**	**4.04**	***3.83***	***0.39***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Planning and design: efforts have been made to analyse the informal sector and devise actions to reduce its size

The LA7 countries employ a range of different data sources to get an in-depth understanding of the size, features and trends in the informal sector.

Most countries rely on data collected through a combination of household surveys, labour force surveys and enterprise surveys regularly conducted by the national statistical offices.

In Uruguay, for instance, the national statistical office conducts a continuous household survey process, which allows for the measurement of the number of self-employed or workers employed with a formal contract in formal or informal enterprises. In Chile, the national statistical office conducts regular surveys of the microenterprise sector (most recently in May-August 2017), combined with labour force surveys designed in co-operation with the Ministry of Employment. Mexico has built an extensive database covering both formal and informal employment, with data disaggregated by type of labour informality and location.

The availability of a wide set of data, although mostly limited to employment data, has led to more in-depth analytical studies on the causes and trends of informality. This is the case in Mexico, for example, with the work conducted by the Mexican Institute of Competitiveness; in Colombia, with work by the Central Bank; and in Peru, with work by CEPLAN.

In response to pressure from domestic public opinion, international organisations and development banks, all LA7 countries have introduced measures aiming at reducing the areas of informality.

In Peru, this has led to the elaboration of a national formalization strategy, structured around five main axes and integrated in the country's national development plan. The National Competitiveness and Formalization Council, an inter-ministerial body, is in charge of the strategy co-ordination.

In Chile, Colombia and Mexico, government actions against informality have been conducted within the framework of specific programmes or initiatives that combine a number of measures, as in the case of the "Let's Grow Together" *(Crezcamos Juntos)* initiative in Mexico or the "Business Desk" *(Escritorio de Empresa)* programme in Chile. In Colombia, the government established in 2014 a National Labour Formalization Network across the country, co-ordinated by the Ministry of Labour, and involving several other ministries and institutions including MINCIT. Mexico and Chile have taken an approach that aims at simplifying enterprise formalization, associated with the introduction of a set of fiscal and regulatory incentives. In Colombia, the government has introduced fiscal and financial incentives, combined with a set of BDS tailored to the need of microenterprises.

In Argentina, Ecuador and Uruguay, government action has taken more the form of targeted interventions in the fiscal and company registration areas. Argentina and Uruguay have emphasised fiscal policy with the introduction of a *monotributo*, a lump-sum payment that combines profit tax and social contributions for the self-employed and microenterprises. In Ecuador, the government has introduced a simplified tax regime (RISE) to encourage microenterprises to register with the Single Taxpayer Registry (RUC) and the SME Registry (RUM).

Implementation: many initiatives to fight informality are under way, but a strategic approach is often absent and policy co-ordination remains weak

The level of implementation of the various strategies, programmes and actions directed at reducing the level of informality varies considerably across the LA7 countries.

In the cases of Mexico and Chile, programme implementation is well advanced. For instance, in Mexico both the Fiscal Incorporation Regime (RIF) and the portal *Tu Empresa* allow for simplified company registration procedures that are fully operational. Budget support has been mobilised, including a substantial contribution from INADEM. Similarly,

in Chile, the simplified company registration portal *Tu empresa en un día* is operational and the country's network of regional business development centres provide orientation services to informal enterprises.

In other cases – Ecuador, Peru, Uruguay and Argentina, and to a certain extent also Colombia – policy measures are being progressively implemented. In Argentina and Uruguay the *monotributo* is already operational. In addition, in Uruguay the network providing assistance to informal enterprises in registration procedures has already been established by the Ministry of Social Development (MIDES). In Argentina, the National Labour Regulation Plan has been operational since 2003, and a close co-operation has been established with the ILO to promote labour and enterprise formalization.

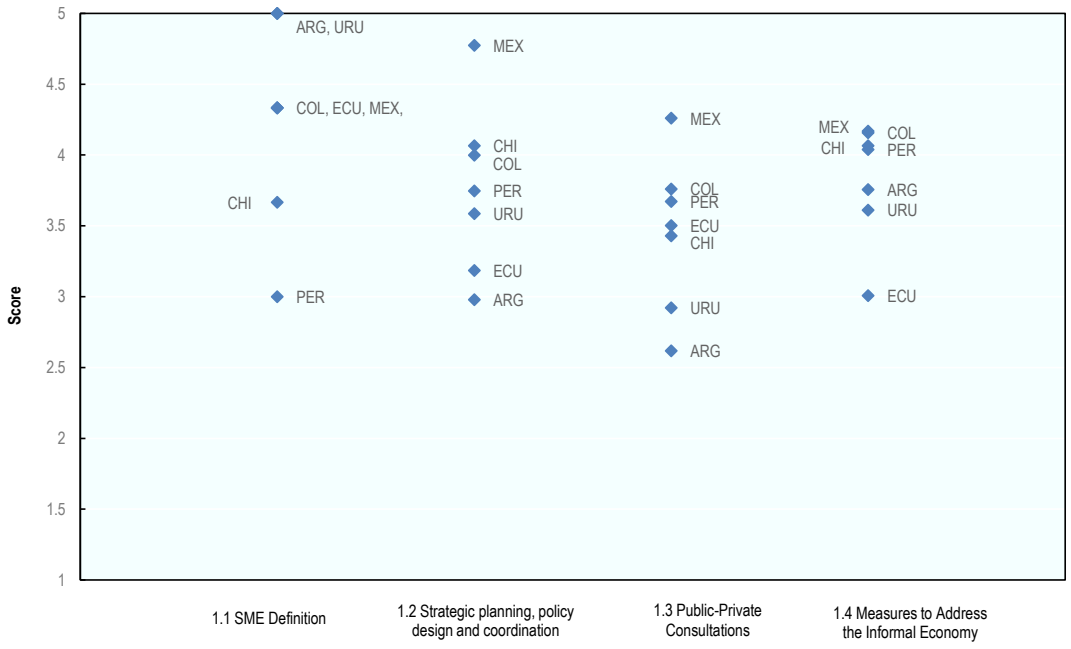
Monitoring and evaluation (M&E): a number of LA7 countries are starting to pay more attention to M&E, as evidence of the impact of current measures is needed to adjust the policy interventions

The presence of monitoring mechanisms related to measures to reduce informality varies considerably among the LA7. Argentina and Mexico are relatively well advanced, conducting regular monitoring activities. In both countries, the focus is on monitoring the results in terms of reduction of informal labour. Argentina has established an inter-ministerial committee that meets monthly to monitor the regime of social contributions and labour registration. Furthermore, regular reports are published on the results of enterprise inspections, disaggregated by sector of activity, province and typology of non-compliance. In Mexico, efforts to reduce the informal economy are monitored and reported in the framework of the National Development Plan's Programme to Democratize Productivity *(Programa para Democratizar la Productividad)*. Data are collected in collaboration with INEGI, the national statistical institute, through regular labour force and household surveys. In addition, data on RIF registration is regularly monitored, providing a relatively comprehensive picture of the progress achieved in reducing labour and enterprise informality. Colombia published a report in 2013 on implementation of the Law on Formalisation which led to a reduction in registration fees in 2016; regular reports are published on the implementation of this law, including progress reports on the aforementioned National Labour Formalization Network. Although Chile has not introduced a monitoring system, its *Escritorio Empresa* system has a private advisory board that is regularly consulted on its implementation. A similar situation is in place in Ecuador, Peru and Uruguay, where monitoring systems are yet to be established, but the mandated ministry publishes annual reports on the implementation of the various measures put in place to reduce informality.

The way forward

Over the last decade, all the LA7 countries have engaged in proactive SME policies. On average, they have made good progress in developing the SME policy institutional framework, promoting intra-government and intra-agency co-ordination, engaging private sector organisations in public-private consultation, and organising SME policy intervention around strategic objectives. Figure 4.3 charts the country scores across the four sub-dimensions.

Figure 4.3. Weighted scores for Dimension 1 by sub-dimension



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

All the LA7 countries, with the partial exception of Argentina, see SME policy primarily as a tool to enhance the country's productive transformation and to promote technological upgrading of the enterprise sector. They have made considerable efforts over the last few years in trying to integrate SME policy actions into the country's productive transformation strategy, with the overall objective of reducing the country's dependence on the commodity/oil sector, developing advanced manufacturing and service activities, and further integrating their productive structure into regional and global value chains. Yet although productive transformation is often the *primary* objective of SME policy, it is not the only one. Other objectives, such as job generation and reducing poverty and inequality (as in the case of Ecuador) are also relevant.

Although these overall objectives have often been clearly stated, the implications for SME policy in terms of specific objectives and measurable targets have not always been fully developed, and the introduction of key performance indicators (KPIs) tracking progress in strategy implementation remains very limited. The LA7 countries also face a major challenge in securing a consistency between the overall policy targets, which are often quite ambitious, and the tools and budgets at the disposal of the institutions in charge of policy implementation.

A second challenge concerns the division of roles throughout the policy cycle. In most LA7 countries – with the exception of Chile, Mexico and, partly, Uruguay – the same institution is in charge of overseeing the entire policy cycle, from policy design through the phases of implementation and M&E. This may create potential conflicts of interest and confusions of roles. Ministry officials are often better versed in dealing with legal, budget and general economic issues than in interacting with small-scale enterprises. Specialised agencies may be more effective in communicating with the enterprise sector and have more operational flexibility than ministerial departments.

A further challenge concerns the general modalities of policy implementation. The most common tool for programme implementation and budget spending, the call for proposals *(convocatoria)*, tends to confine the institutions in charge of policy implementation to a relatively passive role, giving too much emphasis to their role in allocating public funds. In order to steer productive transformation, public institutions need to engage in partnerships with enterprise associations, local authorities and technical research centres. They are required to share risks, to act as co-ordinators and to promote synergies among different programmes. The call-for-proposal model seems to respond more to a need for independence and equity than to a partnership-building approach.

The final challenge is related to the need to engineer a qualitative change in the composition of the SME population. The main actors of the productive transformation are opportunity-driven enterprises, with considerable growth potential and good management. These enterprises represent a small share of the entire SME population. The large majority of SMEs operating in the LA7 are microenterprises that are family-based, engaged mostly in traditional service sectors, managed largely by subsistence-driven entrepreneurs, and operating largely in the informal sector. A strategy that focuses exclusively on dynamic, high-growth potential enterprises will exclude most of the SME population from public policy support. However, assisting informal or semi-formal microenterprises requires the development of a different set of tools and implementing institutions, with an extensive territorial presence. The LA7 countries have been heavily engaged in reducing labour informality, with some recent but still limited success; but they have been less effective in dealing with enterprise informality. Until they address this area, the large presence of informal enterprises will continue to distort the development of the entire SME sector, spread unfair competition practices, and constrain the operation of the formal enterprises.

The great challenge is therefore how to structure an SME policy that on the one hand supports and promotes productive transformation, but also addresses the issue of informality and responds to the basic needs of the vast microenterprise population. This will require the design and implementation of programmes targeting different segments of the SME population – as well as managing a wider range of initiatives, investing more resources, and engaging in a more extensive dialogue with various categories of SMEs.

Building on current efforts, LA7 policy makers could prioritise the steps shown in Table 4.7 going forward:

Table 4.7. Dimension 1: Policy recommendations

Policy Area	Challenges/ Opportunities	Policy recommendations
SME definition	The SME definition sets the scope of SME policy; it is important that it is consistently used across the public administration and well-understood by the enterprise population.	• **Base the SME definition on criteria that are easy to measure and verify, avoiding complex, sector-specific definitions. To avoid any possible interpretation issues, the definition should, for instance, clarify the status of the self-employed and introduce an independence clause.** Employment is considered a good proxy for enterprise size, but the employment criterion is not widely used across the LA7. Wide consultations should conducted within the public administration and with the private sector to ensure that the definition is applicable across various policy areas and well understood by the enterprise sector. • **Move towards a co-ordinated SME definition within the regional trading blocs and in particular within the Pacific Alliance.** As regional economic integration is progressing, it is important that SME definitions converge at regional level.

Policy Area	Challenges/ Opportunities	Policy recommendations
Strategic planning, policy design and co-ordination	SME policy is most effective when is organised around a medium-term strategy, contains measurable targets and is anchored in the country's wider economic development strategy. Many LA7 countries are entering a phase of new strategic planning or are reviewing current development strategies.	• **Make sure that SME policy is fully integrated in new strategic development plans.** The plans should be based on solid, evidence-based analysis and include a set of SME policy-related objectives that are at the same time realistic, measurable and relevant. If oriented towards productive transformation, the strategic plans should also identify the targeted typologies of enterprises, sectors and productive areas. Attention should be placed in defining the policy co-ordination mechanisms and in assuring a coherence between objectives, policy tools and budget allocations. • **Review the results achieved during the implementation of any current plans relevant to SME development and incorporate lessons learned into the new strategic plans.** As strategic plans in several LA7 countries near completion, it is important to conduct a comprehensive review of the plans' achievements and failures and take stock of the lessons learned. • **Elaborate detailed action plans and introduce key performance indicators (KPIs) to keep track of strategy implementation.** Action plans are crucial instruments in strategic plan implementation, as they specify the concrete actions that will be undertaken to meet the plan's objectives, identify the responsibility at institutional level, and allocate budgets. KPIs are essential to track implementation progress and react with the introduction of corrective measures in case of disruptions. • **Review the system of calls for proposals (*convocatorias*).** Conduct a review of the current call for proposal procedures and implementation mechanisms and experiment with more direct systems of public support programme management, including the development of joint public-private partnership projects. • **Introduce a separation between the policy planning, implementation and M&E functions and consider the establishment of specialised government agencies in charge of SME development**, if they do not already exist. • **Improve strategy/programme monitoring systems and establish the basis for conducting impact evaluations for the most important SME programmes.** The LA7 countries generally devote too few resources to M&E, missing the opportunity to adjust and improve the quality of their policy interventions. The obligation to conduct M&E functions should be clearly specified in the SME strategic plans, while timing and resources should be included in the actions plans.
Public-private consultations (PPCs)	In many LA7 countries, the main PPC channel is through private sector participation in consultative councils.	• **Significantly enlarge private sector representation in relevant consultative councils**, so that organisations representing the whole spectrum of the SME population are included. It is important that consultative council representation is not entirely captured by the organisations representing the larger and more established enterprises. • **Establish an open and transparent system of PPCs by opening up new channels for consultations using a range of modalities such as blogs, digital platforms, focus groups and informal meetings.** The SME population is under constant transformation and public institutions must have an understanding of the ongoing changes in order to design suitable policies. • **Use PPCs not only to solicit private sector support, but also to build public-private partnerships.** PPCs should cover all the phases of the policy cycle and encourage public and private institutions to move towards the development of joint projects, where public support is conditional on direct engagement by the private sector.

Policy Area	Challenges/ Opportunities	Policy recommendations
Measures to tackle the informal economy	LA7 countries are stepping up efforts to bring down their levels of informality, but they often focus on specific issues (labour informality, tax evasion) and lack a comprehensive strategy.	• **Develop a comprehensive mid-term plan to tackle the various aspects of informality at the same time, including the definition of realistic and measurable targets.** Informality is a complex phenomenon with extensive social and economic implications. It requires operating on various fronts (labour legislation, tax legislation, legislative simplification, local regulations, etc.) and the creation of synergies among the different measures and incentives, while at the same time strengthening enforcement mechanisms. • **Build a wide alliance against informality by bringing together representatives of the enterprise sector, trade unions, local authorities and central administration institutions.** Joint actions are often more effective than uncoordinated ones, as informal enterprises are quick to spot loopholes and regulatory inconsistencies. While at enterprise level informality may bring short-term gains, particularly for traditional microenterprises, there are clear collective gains from reduction of informality. A wide alliance will allow for an effective exchange of data and points of view and may contribute to reducing the public level of tolerance towards informality.

Notes

[1] Argentina differs from this general model, thanks to its sectoral breakdowns and two different medium-size categories. See Table 4.2 for more information.

[2] An employment criterion and asset threshold (of ARG 100 000, or about USD 2 700) is also given, to be used in cases when over 70% of a firm's turnover comes from sales on commission or consignment. See the Argentina country profile (Chapter 11) for more information.

[3] See https://www.inadem.gob.mx/blog-del-emprendedor/.

[4] See http://www.one.inadem.gob.mx/.

[5] See http://www.seps.gob.ec/#sector-financiero for more information.

[6] See http://www.seps.gob.ec/web/guest/inicio for more information.

[7] For a more extensive review of the forms and implications of informality see: (Andrews, Caldera Sánchez and Johansson, 2011[7]) (Bruhn and Loeprick, 2014[13]); (de Mel, McKenzie and Woodruff, 2013[8]); (Demirgüc-Kunt, Klapper and Panos, 2011[9]); (EU and OECD, 2015[10]); (Ferragut and Gómez, 2013[12]); and (Levy, 2008[11]).

[8] See (Ulyssea, 2013[6]) for more information. The study analyses firms' choices regarding entry, production and compliance with imperfectly enforced regulations, finding that there exist important trade-offs when designing policy at the firm or the aggregate level. For instance, reducing regulatory costs effectively increases enterprise formality, but increasing enforcement has better effects at the aggregate level (i.e. tax revenues, TFP, GDP, firm and labour formality rates).

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Chapter 5. Operational environment/simplification of procedures (Dimension 2)

This chapter covers a number of areas related to the operational and regulatory environment faced by SMEs, such as regulatory reform and the application of regulatory impact analysis (RIA), company registration and tax-filing procedures and access to e-government services. While these issues may not all be under the direct remit of the line ministry in charge of SME policy, they are highly relevant for creating a conducive business environment.

The LA7 assessment results for this policy dimension are relatively weak in comparison with those of other dimensions. Overall, this means that the targeted support provided to SMEs in other areas (such as innovation, associativity, and internationalisation) functions within a sub-optimal general business environment, with significant barriers to enterprise entry and competition. It is important that LA7 countries consider this overall picture and find the optimal policy mix between improving the general business environment and providing continuous, targeted support to enterprises with high growth potential.

Introduction

As highlighted by the OECD, "Regulations are indispensable to the proper function of economies and societies. They create the 'rules of the game' for citizens, business, government and civil society. They underpin markets, protect the rights and safety of citizens and ensure the delivery of public goods and services." A well-designed regulatory policy makes significant contributions to economic development, for instance by maintaining a healthy level of competition and promoting positive spill overs across enterprises and different sectors and branches of the economy (OECD, 2011[1]; OECD, 2015[2]; OECD, 2018[3]).

At the same time, the OECD recognises that regulations are not costless. Businesses complain that red tape holds back competitiveness while citizens complain about the time that it takes to fill out government paperwork. Moreover, designing and enforcing regulations also requires resources for government and public administrations. Regulations can also have unintended costs, when they become outdated or inconsistent with the achievement of policy objectives (OECD, 2011[1]; OECD, 2015[2]; OECD, 2018[3]). While regulations are essential governing tools, studies (OECD, 2004[4]; Schiffer and Weder, 2001[5]) show that they are often associated with significant compliance costs that increase the cost of doing business. The impact of compliance costs tend to be inversely related to enterprise size; in other words, they are particularly onerous for SMEs, as they have to spread those costs on a lower turnover (European Commission, 2007[6]). Smaller enterprises tend to possess fewer human and financial resources than larger enterprises, and often simply do not have the time or the resources to deal with a complex regulatory environment. Therefore, they either depend on advice and support provided by external business advisors (accountants, lawyers, technical experts), raising their operational costs; or they focus on activities that are lightly regulated and are associated with low compliance obligations, at the cost of losing business opportunities; or they simply skip some of the compliance obligations and move towards informality.

Complex and costly regulations that drive a significant segment of the SME population towards informality have a detrimental impact on enterprise development, on the business environment and the level of inequality, as well as on fiscal revenues and overall public governance. (Bannock, Gamser and Juhlin, 2003[7]) have argued that unrealistic rules and unpredictable enforcement may contribute to dividing the economy into formal and informal sectors, erecting barriers between the two sectors and thereby creating a dual economy.

That seems to be the case in most of the LA7 countries, where smaller enterprises tend to operate largely informally and where progress towards enterprise formalisation is painfully slow. Regulations are often developed under the influence of shifting economic views, political influences and ideological orientations, and reactions to market distortions are in a pendulum dynamic that periodically oscillates from a strict regulatory approach to a more liberal and laissez-faire approach (De Grauwe, 2017[8]). This dynamic has been present in most of the LA7, adding complexity and unpredictability to the SME business environment.

Regulatory policy implementation is subject to a number of potential risks. For instance, governmental action may be inconsistent over time, due to frequent revisions of the regulatory regime. In addition, each branch of the public administration may pursue its own regulatory agenda in isolation, unaware of the rules and regulations introduced by other public institutions. It is therefore extremely important that, in line with OECD recommendations (OECD, 2012[9]), countries "commit at the highest political level to an

explicit whole-of-government policy for regulatory quality. The policy should have clear objectives and frameworks for implementation to ensure that, if regulation is used, the economic, social and environmental benefits justify the costs, the distributional effects are considered and the net benefits are maximised".

Regulators should first ensure that regulations are clear and well-planned, are applicable at reasonable costs, and are designed with SMEs in mind. This approach has been adopted in many OECD countries, including in the EU, under the "Think Small First" principle. This principle requires policy makers to consider the interests of SMEs from the early phase through the entire process of regulatory approval, to ensure that laws and regulations are not overly onerous and complex for SMEs. This requires the application of advanced tools to evaluate ex-ante and ex-post the cost and benefits related to the introduction of new regulations or the modification and revision of existing ones, such as the application of Regulatory Impact Analysis (RIA). According to the OECD, "RIA examines and measures the likely benefits, costs and effects of new or changed regulations" and is a useful tool that provides decision-makers with valuable empirical data and a comprehensive framework in which they can assess their options and the consequences their decisions may have. RIA is used to define problems and to ensure that government action is justified and appropriate rather than resulting in regulatory failures (OECD, 2011[1]).

It is also fundamental that an effective and constructive system of public-private consultations (PPCs) involving all classes and typologies of enterprises and stakeholders is in place, in order to avoid costly mistakes, for both the public and the private sector.

In recent years, there has been significant progress in the identification and institutionalisation of good practices in public governance and regulatory policy, the establishment of digital platforms, the introduction and diffusion of e-government services, and the rationalisation of procedures for business registration and compliance. Governments can now rely on a wide range of publications of regulatory performance indicators, regulatory reviews and impact evaluation studies, opening up new opportunities for improving countries' regulatory environments.

This chapter covers a number of areas that are typically part of the horizontal dimension of SME policy. They may not all be under the direct remit of the line ministry in charge of SME policy, but they are highly relevant for creating a conducive business environment for SMEs.

Assessment framework

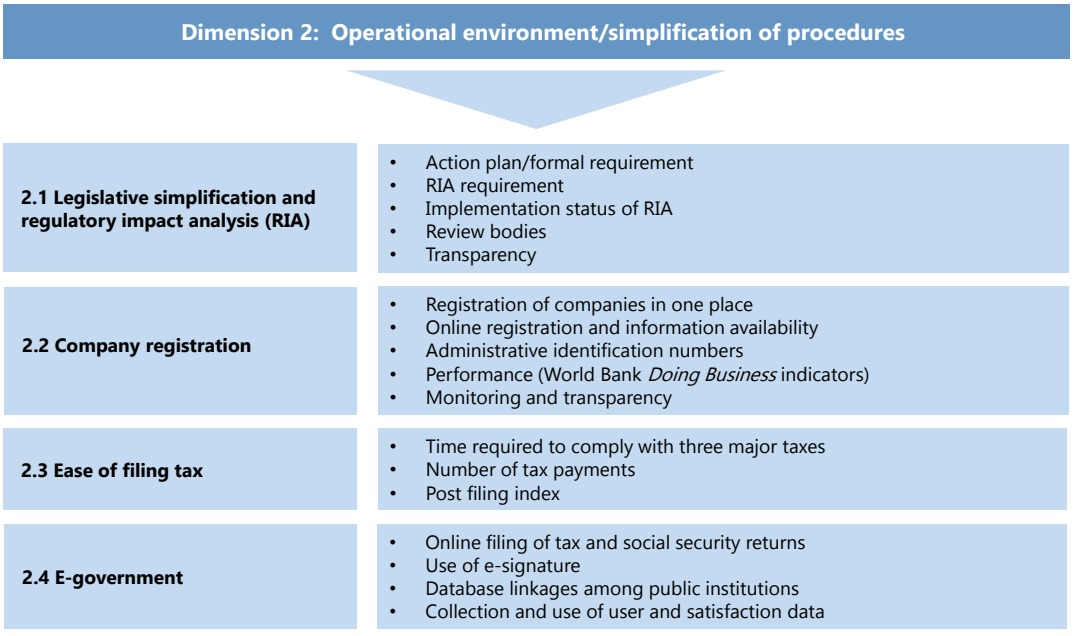
The assessment framework for Dimension 2 consists of four sub-dimensions. Sub-dimension 2.1 deals with **legislative simplification** – that is, the process of reviewing and developing laws and regulations that may have an impact on SME operations. It starts with a set of indicators assessing each LA7 country's engagement, at the central level, in conducting systematic reviews of the stack of existing laws and regulations. It also includes indicators looking at the application of **Regulatory Impact Analysis (RIA)** to evaluate the impact of major laws and regulations on the enterprise sector and in particular on SMEs.

Sub-dimension 2.2 looks more in detail at how the system of **company registration** is structured and performs in term of number of procedures, costs and time. Sub-dimension 2.3 does the same for the **tax-filing function**. Both sub-dimensions rely on a set of performance indicators from the World Bank's *Doing Business 2019* report (World Bank Group, 2019[10]).

The final sub-dimension, 2.4, has a more forward-looking perspective and assesses the level of development and sophistication of "**e-government**," a term that indicates the provision of government services through applications based on information and communication technology (ICT). The assessment focuses on the set of services most relevant for SMEs, such as online tax and social security filing and payments. Digital platforms can significantly lower compliance costs for smaller companies by reducing the administrative and managerial time needed to fill out paper forms and eliminating the need to pay regular visits to public administration offices.

These four sub-dimensions and their key components are presented in Figure 5.1.

Figure 5.1. SME PI LA7 framework for assessing Dimension 2



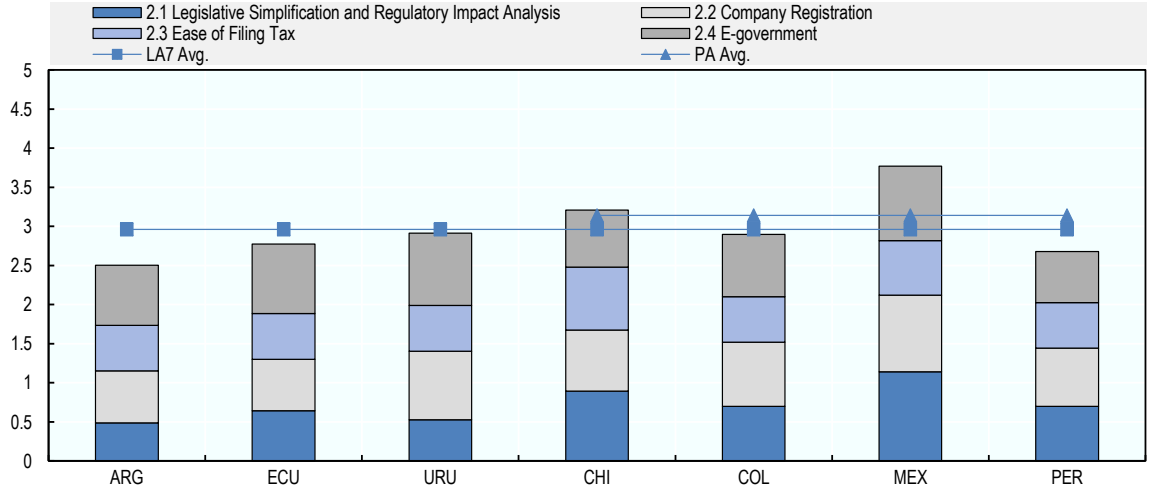
The assessment results are based on information collected through the double assessment process (as described in Chapter 2) and through the regulatory policy reviews and regional assessments conducted in most of the LA7 countries by the Public Governance Directorate of the OECD.

In aggregating the dimension assessment scores, sub-dimension 2.1 has been assigned a weight of 30%, while sub-dimensions 2.2 and 2.3 each carry a weight of 25% and sub-dimension 2.4 has a weight of 20%.

Analysis

The LA7 assessment results for this policy dimension are relatively weak. The average score is 2.96 on a scale of 1 to 5 (Figure 5.2), indicating that significant gaps remain in terms of both policy elaboration and implementation.

Figure 5.2. Weighted scores for Dimension 2: Operational Environment/Simplification of Procedures



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Sub-dimension 2.1: Legislative simplification and regulatory impact analysis (RIA)

This sub-dimension focuses on the actions taken by LA7 countries to elaborate and implement plans for conducting a systematic review of laws and regulations affecting the operations of the enterprise sector and in particular of SMEs, and for the introduction and application of RIA.

Regulatory reform is still in a relatively early phase in many of the LA7 countries. Argentina, Colombia and Mexico have adopted regulatory reform plans. However, among all the LA7 countries, only Mexico has made progress in regulatory reform implementation, as it conducts regular RIAs and has established a regulatory reform monitoring system (OECD, 2014[11]; OECD, 2015[2]; OECD, 2018[3]). All other countries have introduced ad hoc regulatory reforms, particularly in the company registration area, and in a number of cases conduct light forms of impact assessment for new laws and regulations; but only Colombia and Chile are moving towards a systematic application of RIA.

As Table 5.1 shows, the scores for this sub-dimension are therefore relatively low, with only Mexico well above the level of three, indicating that policy is well into the implementation phase.

Table 5.1. Sub-dimension 2.1 scores: Legislative simplification and Regulatory Impact Analysis (RIA)

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	1.50	2.75	1.25	3.50	1.75	4.25	2.50	*2.50*	*1.02*
Implementation	2.00	2.17	2.50	1.67	3.17	3.50	2.00	*2.43*	*0.62*
Monitoring & Evaluation	1.00	1.00	1.00	5.00	1.44	3.67	2.78	*2.27*	*1.47*
Total sub-dimension score	**1.63**	**2.14**	**1.76**	**2.98**	**2.33**	**3.80**	**2.33**	***2.42***	***0.69***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Planning and Design: Mexico leads the way on RIA application, while steps have been taken in several other LA7 countries to move ahead with RIA

Regulatory reform is most effective when it is conducted in a systematic way and reaches a critical mass – leading to a noticeable reduction in the administrative burden placed on the enterprise sector and an improvement in the business environment. Given the complexity of regulatory reforms and the considerable time required to complete the reform process, governments should ideally organise their interventions around multi-year plans, identifying priority areas for reform, adopting adequate analytical tools, training teams of civil servants, establishing effective systems of consultation with the enterprise sector and major stakeholders, co-ordinating with the public administration,, and introducing monitoring and evaluation (M&E) mechanisms.

Among the LA7 countries, Argentina, Colombia and Mexico have so far adopted a more systematic approach to regulatory reform, but only Mexico has adopted an explicit whole whole-of-government policy for regulatory quality. In 2000, it established an administrative agency responsible for promoting regulatory reform policy, the Federal Commission for Regulatory Reform (COFEMER), recently re-named as the National Commission on Regulatory Improvement (CONAMER), reporting to the Ministry of Economy. This follows the issue of a new General Law of Better Regulation in 2018. CONAMER functions include reviewing the national regulatory framework, diagnosing its application, and developing legislative and administrative proposals. It also prepares programmes to improve regulation in specific economic sectors; analyses draft regulations proposed by federal agencies to ensure that their impact in terms of social benefits outweighs their costs; and administers the Formalities and Services Federal Register *(Registro Federal de Trámites y Servicios)*, an inventory of the procedures of the federal public administration. CONAMER's mandate covers both existing regulations and those to be issued. Over the last few years, Mexico has completed several regulatory programmes at federal and state level that affect important sectors, such as the energy sector. Two national plans are relevant for horizontal regulatory reforms directly affecting the enterprise sector: the National Digital Strategy, which deals with the introduction of e-government services, and the reform of company registration procedures.

In Colombia, the government has been planning regulatory reform since 2012, when the enactment of *Decreto* (Decree) 019 introduced norms for reforming regulations and administrative procedures. A second decree enacted in 2015 (Decreto 1595) introduced the obligation to conduct an "analysis of normative impact" on all technical regulations from 1 January 2018. While regulatory reform legal instruments and evaluation tools have been introduced accordingly, the government has yet to establish a systematic plan for regulatory reform.

In Argentina, a highly regulated economy, the government outlined in 2017 the general orientations of an ambitious plan of regulatory reform, starting with reform of the tax administration, to be implemented from the beginning of 2018. In November 2017 the government approved a decree introducing good practices related to administrative simplification, and in November 2018 it established a "Regulatory Policy Group", [1] which includes the Legal and Technical Secretariat of the Presidency, the Secretariat of Administrative Modernization, and the Ministry of Production and Labour; the latter has also established a Secretariat of Productive Simplification *(Secretaria de Simplificación Productiva)*. However, the regulatory reform plan has not yet been fully structured.

All other LA7 countries have adopted a more ad hoc approach to regulatory reform. In Chile, regulatory reform was part of the wider 2014-2018 Agenda for Productivity,

Innovation and Growth led by the Ministry of Economy, Development and Tourism (MEFT) and the country has succeeded in reducing administrative burdens in several areas, as shown by its relatively good position in the 2019 *Doing Business* overall ranking (56), the second highest among the LA7 countries after Mexico (54). Similarly, in Uruguay, specific regulatory reform actions are included in the *Transforma Uruguay* strategy, under the project related to improving the business climate and the efficiency of the public administration (Project no. 4). Areas targeted for reform include company registration and export procedures.

In Peru, the government has issued several decrees aimed at administrative simplification, particularly in relation to the tax administration. In Ecuador, the government in 2017 enacted an action plan for administrative simplification (Decreto Executivo 372) and established an inter-ministerial committee for Administrative Simplification.

The degree of RIA application varies significantly among the LA7, from regular application to very early phases of investigation. Only one country, Mexico, is currently applying RIA in a systematic way on all new technical regulations. Colombia has made RIA mandatory from January 2018 and it is working on its systematic application. Chile is currently applying a different impact assessment tool, the Productivity Impact Analysis, while preparing for the introduction of a full RIA system. Similarly, in Peru the government made compulsory as of July 2017 the elaboration of an "Analysis of Regulatory Quality", a more limited and qualitative type of regulatory assessment, for any new regulation or administrative act.

In Ecuador, the National Planning and Development Secretariat is helping line ministries launch pilot RIA projects, and the Ministry of Industries and Productivity (MIPRO) is developing pilot RIA projects on regulations affecting the enterprise sector. In Uruguay, there has been limited action on the introduction of RIA; RIA exercises are currently conducted by the Centre of Fiscal Studies, a public research institution, but there is no legislation that requires the public administration to take into consideration the results of those studies. There is no evidence of any systematic work on the introduction of RIA in Argentina.

Implementation: regulatory reform is an increasing priority for most LA7 countries, but implementation in many cases is still at an early stage

Given that regulatory reform has only recently become a priority for most of the LA7, the level of implementation is relatively low. Most of the LA7 countries, with the notable exception of Mexico, are still in the phase of defining the institutional framework and finalising procedures and analytical tools.

Four countries (Argentina, Colombia, Peru and Uruguay) have indicated that less than 25% of the laws and regulations affecting business activities have been reviewed to date. Mexico and Ecuador have indicated between 25 and 50%, while Chile has not provided any indication.

However, there are signals that governments intend to strengthen their regulatory reform efforts. For instance, Argentina has initiated nearly 300 regulatory reform projects, while in Peru the Ministry of Production (PRODUCE) has launched, with the support of the Council of Ministers, a programme called *Dime Tu Traba*, aiming at receiving feedback from entrepreneurs on the presence of excessive administrative burdens.

Monitoring and Evaluation (M&E): there has been progress in Mexico and Chile, but most LA7 countries have not yet established M&E tools

M&E in the region is at an even earlier phase than regulatory reform implementation. Only Mexico has established a monitoring system, managed by CONAMER. In particular, the establishment of the country's Formalities and Services Federal Register *(Registro Federal de Trámites y Servicios)* allows the government to monitor the introduction of new regulations across the entire public administration. In Chile, the government is reviewing the entire regulatory reform system, including the M&E functions, and is working closely with the OECD to implement the recommendations resulting from various recent regulatory policy reviews (OECD, 2016[12]; OECD, 2017[13]; OECD, 2018[3]).

Sub-dimension 2.2: Company registration

Entrepreneurs' first interaction with the public administration takes place when they go through the company registration procedures and complete the other formalities necessary to start a business, such as registration with the tax and social security authorities and application for business licences. Costly and lengthy procedures are a burden for the new entrepreneurs, as they draw away time and resources from business activities during a crucial phase and deter enterprise formalisation. Studies have proved that once new enterprises have taken an informal path, it is very difficult to convert them into formal enterprises (van Elk and de Kok, 2014[14]).

Complex and costly company registration procedures for starting a business also create opportunities for corruption. More complexity increases the need to employ lawyers, notaries and accountants in the registration process, further raising the overall company registration costs, while restrictive business licence regulations may raise market entry barriers and limit competition.

An efficient company registration system is also advantageous for the public administration and the entire economic system. The information collected during the company registration process is kept in the Company Register, a primary source of legal and business information; this is used not only by the public administration, but also by the financial sector, business intelligence companies and legal firms. The data contained in the register are also used to construct the country's enterprise statistical register, a key instrument to collect structural business statistics and data for the compilation of the country's national accounts.

Company registration procedures for starting a business can be divided into three phases. The first includes the pre-registration procedures (selection of the company name, elaboration of the company by-laws, authentication of the company's basic documents) and the company registration proper, until the issue of the company registration certificate. The second phase involves the procedures related to the notification of company establishment and registration to various public bodies, such as the tax, labour and social security offices. The third phase concerns compliance with licencing requirements at national or local level.

This sub-dimension looks specifically at the procedures for incorporated companies, especially limited liability companies, in line with the methodology applied by the World Bank's *Doing Business* report. It is quite common for small businesses to register according to different legal forms (sole ownership, self-entrepreneurs, etc.), which may involve less complex and costly procedures; however, as there are significant differences in the regimes for non-incorporated enterprises, it is very difficult to conduct meaningful cross-country comparisons.

Procedures for starting a business in the LA7 countries remain problematic. None of the LA7 countries figures in the upper-third tier of the 2019 *Doing Business* indicator for "starting a business", which covers a total of 190 economies. Uruguay (65), Chile (72), Mexico (94) and Colombia (100) are included in the second tier, while Peru (125), Argentina (128) and Ecuador (168) belong to the bottom-third tier.

When other indicators are taken into consideration, the overall results remain relatively poor (Table 5.2). The LA7 score for this sub-dimension is 3.16 on a scale of 5, indicating that the region on average is still far from implementing internationally recognised good practices in this area. Mexico appears to be the best performer, while Argentina, Ecuador and Peru receive lower scores.

Table 5.2. Sub-dimension 2.2 scores: Company Registration

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	3.40	3.60	3.60	3.40	3.80	4.80	3.20	*3.69*	*0.49*
Performance	2.80	2.40	3.00	3.20	3.00	3.00	2.80	*2.89*	*0.24*
Monitoring & Evaluation	1.00	1.50	4.50	2.50	3.00	4.50	3.00	*2.86*	*1.25*
Total sub-dimension score	**2.65**	**2.64**	**3.51**	**3.13**	**3.28**	**3.93**	**2.98**	***3.16***	***0.43***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Planning and Design: Company registration procedures are still lengthy and costly in many LA7 countries, but efforts have been made to introduce one-stop shops and online registration

An efficient company registration system has three key features: (a) a *single identification number*, which results from the harmonisation of the registration process across different sections of the public administration; (b) the presence of a *one-stop shop* that allows for the performance of company registration and notification procedures in one location – or, in the most efficient case, at a single window; and (c) the ability to perform all, or at least part, of the company registration procedures and notification *online*.

Among the LA7 countries, three (Chile, Colombia, Mexico) have adopted a single identification number, in most cases issued by the tax administration. In Uruguay, several identification numbers are in place, but the tax identification number is sufficient for company identification, while Argentina and Peru use two identification numbers (tax number and company registration number) and Ecuador three different numbers.

The establishment of one-stop shops (*ventanillas únicas*) in the LA7 is still at a very early phase. One-stop shops, operating as single windows, are operational only in Chile, as part of its "Business Desk" (*Escritorio Empresa)* programme, while Ecuador and Uruguay have introduced a single location system, where the new entrepreneurs can find under one roof the different institutions dealing with the registration and notification phase, allowing for the completion of those functions in parallel. All the other countries are at different phases of introducing one-stop shops. Argentina, for instance, is conducting a pilot one-stop-shop project in Buenos Aires, while Mexico has introduced a single window for registration with the tax authorities.

Several countries are introducing electronic portals that include online company registration facilities. For instance, Mexico has established the portal *Tu Empresa*, and in Chile, the *Escritorio Empresa* portal allows for the completion of most company-

registration procedures online. However, there is no case where an entrepreneur can complete all the registration procedures for a limited liability company online.

Implementation: reforms should focus on reducing pre-registration requirements and simplifying the notification phase

Scores for this section are based on the indicators for "starting a business" of the World Bank's *Doing Business 2019* report (World Bank Group, 2019[10]). The indicators take into consideration the necessary time to obtain a company registration certificate and to complete company registration procedures, the number of steps required, the overall cost of the registration procedures, and the existence of a minimum capital requirement. As mentioned above, the LA7 countries perform relatively poorly in terms of their *Doing Business* rankings for this area. Furthermore, the results of the *Doing Business 2019* report show a relative deterioration in the rankings for all the LA7 countries – except for Argentina, which has gained 29 positions (a remarkable result), and Ecuador, which has maintained its ranking (168).

The number of days required to obtain a company registration certificate, starting from the pre-registration phase, range from three in Colombia to nine in Peru, while the number of days required to complete the procedures for starting a business, including all three phases of the process, ranges from six in Chile to 48.5 in Peru. The number of steps involved in the process varies from five in Uruguay to 11 in Argentina and Ecuador. The costs of those procedures, measured in terms of share of the gross national income per capita, vary from a low of 5.3% in Argentina, where public registration fees are close to zero, to 21.2% in Ecuador and 22.6% in Uruguay. No LA7 country requires the deposit of a minimum amount of capital.

Overall, the main issues with company registration in the LA7 are related to notary and legal costs and the time required to complete the notification procedures.

Monitoring and Evaluation (M&E): much remains to be done to correctly monitor and evaluate the impact of on-going reforms

M&E procedures in this area are relatively weak. Several countries are mainly concerned with compliance with legal procedures and do not monitor directly the performance of the starting-a-business process; this is the case of Chile, Colombia and Peru. Others are monitoring performance as part of their programmes for improving the business climate (Argentina, Ecuador, Mexico and Uruguay).

Sub-dimension 2.3: Ease of filing taxes

Tax filing may entail considerable time and costs for small companies, particularly when the number of tax payments per year is high and spread across various administrations. The introduction of electronic tax filing and payment systems can substantially reduce those charges.

This sub-dimension assesses the performance of the LA7 countries in the tax filing area on the basis of the results shown in the *Doing Business 2019* report (World Bank Group, 2019[10]). The indicators take into consideration the number of tax payments per year, the time required to file tax payments, and the post-filing index, which measures the ease of claiming value-added tax (VAT) refunds and of going through a corporate tax income audit. The availability of a platform for electronic tax filing is reviewed in sub-dimension 2.4.

Table 5.3. Sub-dimension 2.3 scores: Ease of Filing Taxes

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Performance	2.33	2.33	2.33	3.22	2.33	2.78	2.33	*2.52*	*0.32*
Sub-dimension score	**2.33**	**2.33**	**2.33**	**3.22**	**2.33**	**2.78**	**2.33**	***2.52***	***0.32***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology

Performance: tax filing procedures are still problematic in most LA7 countries, with the exception of Chile

As shown in Table 5.3, LA7 country performance in this sub-dimension is generally poor, with only Chile rising above a score of 3 on a scale of 1 to 5. This is despite the fact that tax administration reform is a priority for most LA7 countries, particularly in relation to the fight against informality.

The time required to file the three most important taxes varies from 163 hours in Uruguay to 664 in Ecuador, while the number of tax payments per year ranges from six in Mexico to 20 in Uruguay. Finally, the post-filing index reaches a high of 57.03 in Chile and a low of 19.4 in Peru.

Sub-dimension 2.4: E-government

Digital government services can greatly facilitate the interaction between enterprises and public institutions. Electronic platforms can be used by public institutions to provide a wide set of information to entrepreneurs and enterprises, reducing to near zero the marginal cost of new contacts. They can also be used to perform regular administrative functions, such as receiving tax and social security payments from enterprises and individuals; public procurement bids; and applications for business registration, licences and permits. Electronic filing reduces costs and time for the enterprise sector and at the same time greatly speeds up data processing by the public administration, while allowing for the collection of a vast amount of economic data. Micro and small enterprises can particularly benefit from access to digital government services, as they have fewer resources to perform administrative functions than larger enterprises. Advances in information technology (IT), software development and processing of "big data" (data sets that are too large or complex for traditional data-processing software to handle) have made it possible to extend e-digital government services to a large number of functions and allowed latecomers to catch up quickly with the countries at the frontier.

However, while technological solutions are readily available at decreasing costs, in order to benefit fully from the introduction of digital services, governments often have to update the relevant legal framework, reorganise the public administration, train their civil servants and greatly improve the automatic exchange of information among government databases.

A prerequisite to benefiting from digital government services is an advanced level of information and communications technology (ICT) connectivity across the country. According to data released by the International Communications Union, the LA7 countries have achieved a good level of interconnectivity, with Argentina, Chile and Uruguay reaching levels of mobile phone and internet penetration similar to those of Europe and the Asia-Pacific region (Table 5.4).

Table 5.4. Selected ICT connectivity: LA7 vs. Europe and Asia-Pacific

	ARG	ECU	URU	CHI	COL	MEX	PER	Europe	Asia-Pacific
Number of mobile subscriptions per 100 inhabitants (2017)	139.8	83.5	147.5	127.5	126.8	88.5	121.0	118.2	101.9
Individuals using internet (% of adult population, 2016)	71.0	54.1	66.4	83.6	58.1	33.4	55.5	79.6	70.4
Number of fixed broadband subscriptions per 100 inhabitants (2017)	17.8	10.1	27.5	16.9	12.9	13.3	7.2	30.9	12.3

Source: (ITU, 2018[15])

The indicators included in this sub-dimension take into consideration the availability of electronic tax filing, electronic filing for social security and public pensions, electronic access to cadastre data, and the electronic reporting of statistical data by enterprises. The indicators also cover the introduction of electronic signature (or a similar system of identification) and interconnection and data-exchange capabilities ("interoperability") among public data banks, reducing the need for enterprises to provide the administration with already available data and information.

The assessment results indicate that the LA7 countries have achieved good progress in this area, with all countries scoring above a level 3 (Table 5.5).

Table 5.5. Sub-dimension 2.4 scores: E-government

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	5.00	5.00	5.00	3.67	5.00	5.00	5.00	4.81	0.47
Implementation	4.20	3.80	4.20	3.00	4.07	4.47	2.47	*3.74*	*0.68*
Monitoring & Evaluation	1.00	5.00	5.00	5.00	2.00	5.00	2.00	*3.57*	*1.68*
Total sub-dimension score	**3.84**	**4.46**	**4.64**	**3.63**	**3.98**	**4.76**	**3.26**	***4.08***	***0.52***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Planning and Design: most LA7 countries are actively introducing e-government services

Several of the LA7 countries have launched a strategy or an agenda for the introduction of e-government facilities. This is, for instance, the case in Peru, which launched its first digital agenda in 2006 and elaborated a detailed National e-Government Policy for the period 2013-17, co-ordinated by a central e-government secretariat. Similarly, in 2008 Uruguay launched a series of digital agendas (the latest being *Agenda Uruguay Digital 2020)* co-ordinated by a central agency, the *Agencia de Gobierno Electrónico y Sociedad de la Información y del Conocimiento* (AGESIC). During this time period, all other LA7 countries, except Argentina, also had comprehensive digital agendas covering relevant topics, such as e-commerce (see Chapter 10 for more information).

All LA7 countries have introduced electronic filing services for most taxes charged to enterprises. Most have also introduced online social security and pension payments.

Implementation: online tax filing is operational in all LA7 countries

Online tax filing services are fully operational in all LA7 countries and they are widely used by the enterprise sector. Other services have been progressively introduced, with

Chile, Mexico and Uruguay the most advanced in this area. Electronic signature is operational in Argentina, Colombia, Ecuador, Mexico and Uruguay, while Peru uses a different form of unique identification *(El Documento Nacional de Identidad)* and Chile and is progressively introducing e-signature.

Data interoperability varies greatly among the LA7. Mexico has achieved a good level of interoperability through its "Open Data*" (Datos Abiertos)* initiative. Uruguay is enhancing data interoperability through a programme supported by the Inter-American Development Bank (IDB) and Argentina has established a data-sharing system. Chile, Colombia, Ecuador and Peru have introduced partial interoperability.

Monitoring and Evaluation (M&E): customer satisfaction surveys are regularly carried out in several LA7 countries

The LA7 countries monitor the implementation of e-digital government services mainly through regular user satisfaction surveys. This is the case for Chile, Ecuador, Mexico and Uruguay. In Uruguay, for instance, the "Laboratory of Social Innovation in Digital Government" (LAB)[2] is in charge of collecting and publishing regular information regarding the level of satisfaction of e-government services users.

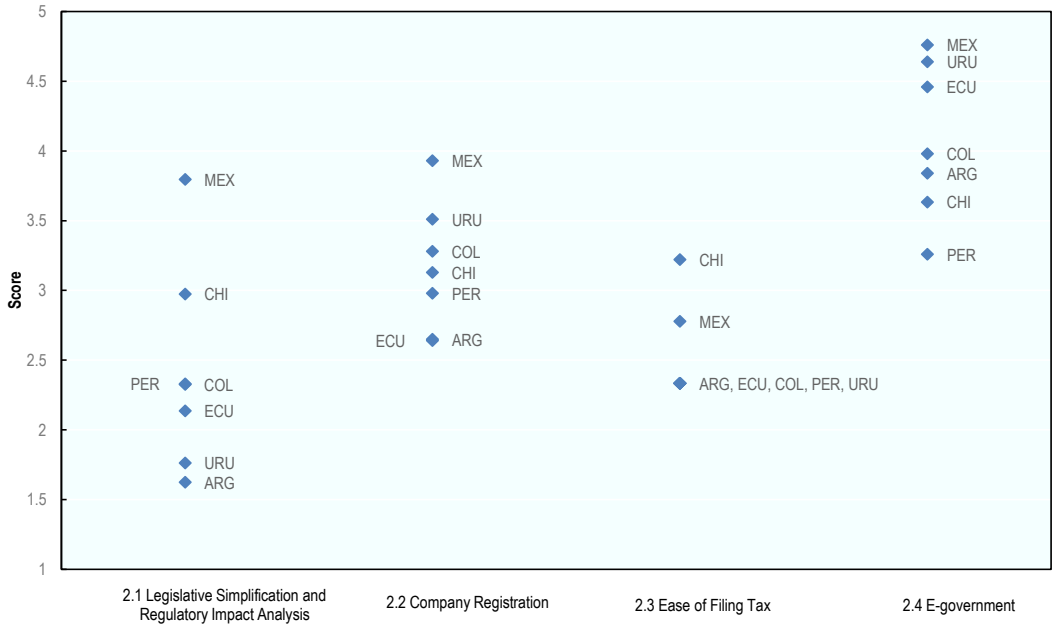
In Peru and Colombia, services are monitored through dedicated surveys.

The way forward

The LA7 countries, with the exceptions of Chile and Mexico, are still in an early regulatory reform phase, not having yet conducted a systematic review of the current most relevant regulatory and legislative acts for enterprise activity and not having fully applied RIA for the impact evaluation of new laws and regulations. Their performance on specific regulatory functions, such as procedures for company registration and starting a business (sub-dimension 2.2) and tax filing (sub-dimension 2.3), also appears on average to be weak, with a respective average score of 3.16 and 2.52, while progress has been achieved in the introduction of e-government services, where the LA7 average country score is as high as 4.08.

Figure 5.3 charts the country scores across the four sub-dimensions.

Figure 5.3. Weighted scores for Dimension 2, by sub-dimension



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

In the regulatory reform area, the LA7 countries have to deal with multiple challenges:

- The first challenge is related to the lack of a regulatory reform strategy and a concrete action plan for reform. A systematic approach to regulatory reform is missing in most countries, even if in several cases regulatory reform and legislative simplification is one of the priority areas identified in the strategic development plans.
- The second challenge is related to the slow introduction of RIA across the region, with the notable exceptions of Chile and Mexico. Without the systematic application of RIA, there is a considerable risk of introducing unnecessary regulatory restrictions and of further increasing the administrative burden imposed on the SME sector.
- The third challenge concerns the need to reduce significantly the costs and the complexity of some basic procedures related to company registration and other regulatory and fiscal obligations, such as tax filing procedures. This has also important implications for the reduction of enterprise and labour informality.
- The fourth challenge concerns the capacity of LA7 countries to build and maintain momentum in pursuing regulatory reform. Administrative simplification and regulatory review tend to produce effects over the medium term, when the new regimes are fully operational. Additionally, reforms need to reach a critical mass, touching different areas of enterprise activity, before benefits become tangible for the majority of the enterprises. The LA7 countries tend to focus on specific areas, resulting in great variation in performance across the 10 regulatory functions monitored by the World Bank's *Doing Business* report. Finally, the momentum for regulatory reform across the LA7 countries has recently lost force, and most of the

countries saw their rankings fall significantly in the *Doing Business 2019* report, compared with the 2018 report.

However, the prospects for regulatory reform in the LA7 could be significantly improved if the investments that the countries are making in the digital government area prove successful. The introduction of e-government services through digital platforms could potentially improve access to government services and significantly reduce the time and cost associated with the completion of regular administrative procedures. Most of the LA7 countries have drawn up detailed plans for the digitalisation of the public administration. Connectivity levels are generally good and a number of digital services are already operational. The diffusion of the electronic signature (or other systems of digital identification) and progress in the automatic exchange of data among the different branches of public administration could pave the road for a rapid and significant reduction of the administrative burdens currently imposed on SMEs operating in the LA7.

Table 5.6. Dimension 2: Policy recommendations

Policy Area	Challenges/Opportunities	Policy recommendations
Regulatory reform and administrative simplification	A systematic approach to regulatory reform is missing in most LA7 countries, even if in several cases regulatory reform and legislative simplification is one of the priority areas identified in strategic development plans.	• **Elaborate a mid-term regulatory reform plan, based on the result of a comprehensive regulatory review and inputs from private sector associations and stakeholders.** Regulatory reform is a complex undertaking. It requires careful planning, as it may entail legislative changes and the identification and review of redundant regulations. The plan must be complemented by an action plan and policy co-ordination mechanisms. It must also focus on the areas where regulatory restrictions and overall administrative burden are the highest.
RIA application	The application of RIA improves the quality of a country's regulatory environment and reduces the risk of introducing new unnecessary regulatory restrictions and of further increasing the administrative burden imposed on the SME sector.	• **Introduce mandatory RIA, if not done yet, for the most relevant legislative and regulatory acts affecting economic and enterprise activity.** A number of steps have to be completed to achieve a smooth and effective introduction of RIA. Those steps include identifying the body or bodies responsible for applying the RIA, defining the RIA scope and legislative framework, elaborating the application guidelines, and training civil servants.
Company registration and starting a business procedures	Complex company registration and starting a business procedures act as entry barriers to new enterprises, distort the allocation of resources in the initial phase of enterprise activity, and may contribute to push new enterprises towards informality.	• **Review current procedures for company registration and starting a business and identify the main procedural barriers.** In many cases, the main costs and delays involved in starting a business stem from the need to obtain notary certification of the registration documents and notify and register the new company with different public institutions. These requirements can often be greatly simplified without compromising the quality of the registration process. • **Introduce one-stop shops (OSSs) across the country and strengthen orientation and advisory services for new entrepreneurs.** OSSs can significantly reduce the time required to complete registration procedures, but they require active co-ordination by the various institutions involved. • **Extend online registration facilities.** Advances have been made in introducing online registration procedures in several LA7 countries, but the projects are mostly still in a pilot phase and it is seldom that the entire procedure can be completed online.

Policy Area	Challenges/Opportunities	Policy recommendations
Tax filing	Tax filing in most of the LA7 is complex and time consuming.	• **Review tax-filing procedures, particularly those related to VAT refunding and post-filing company auditing by tax authorities.**
e-Government services	The introduction of e-government services through digital platforms could potentially improve access to government services and reduce significantly the time and cost associated with the completion of regular administrative procedures.	• **Facilitate the access of SMEs to e-government services through better communication with the enterprise community and the provision of orientation courses and assistance services.** The LA7 are making good progress in diversifying the range of e-government services, including spreading the adoption of the electronic signature and other types of digital identification. It is therefore important that SMEs are well informed about the opportunities offered by government digital platforms and are in a position to take full advantage of e-services.

Notes

[1] See Decree 018-1070-APN-PTE, available at http://servicios.infoleg.gob.ar/infolegInternet/anexos/315000-319999/316691/norma.htm.

[2] See http://agesic.gub.uy/innovaportal/v/5344/1/agesic/lab.html for more information.

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World Bank Group (2019), *Doing Business 2019: Training for Reform*, http://www.doingbusiness.org/en/reports/global-reports/doing-business-2019 (accessed on 16 November 2018). [10]

Chapter 6. Access to finance (Dimension 3)

Ensuring access to credit is critical to enable SMEs to innovate and grow to their optimal size. However, SMEs lack access to finance due to the acute information problems, higher transaction costs and limited financial knowledge that characterize them. Government and private organisations can improve SMEs' access to sources of credit by providing prudential regulation, facilitating access to information, resolving market failures and addressing existing knowledge gaps. This chapter addresses these issues and finds that the region has a moderately advanced level of policy development with an average of 3.77 points. The region's major challenges in this area concern financial education strategies for SMEs and the refinement of legal procedures for dealing with bankruptcy.

Introduction

It is crucial for all enterprises to have access to resources that permit them to finance their innovation and expansion activities in order to reach their potential. While a functional financial market should allow efficient redistribution of resources to those individuals with profitable projects and ideas, SMEs' access to financing is restricted both by supply factors, defined by information asymmetries and transaction costs; and by demand factors, associated with the capacity of entrepreneurs to process and interpret available information to make appropriate financial decisions, as well as to present their projects to the relevant financial institutions. These problems represent a barrier to SME scale-up and mitigate the potential effects attributed to them in terms of economic growth, poverty reduction and innovation. (Beck, Demirguc-Kunt and Levine, 2005[1]; Beck and Demirguc-Junt, 2006[2]).

From the point of view of the supply of financing, information asymmetries generate two types of difficulties: adverse selection and moral hazard. First, SMEs suffer from acute adverse selection problems because while entrepreneurs have knowledge of their business ideas and the possible risks they would incur, financial institutions lack the tools and information to judge this type of risk. Since financial institutions cannot distinguish between good and bad borrowers, they are forced to offer more expensive credit terms than they would have offered in a context of perfect information. As a result, the risk profile of all borrowers increases artificially, potentially excluding from the market those entrepreneurs with moderate risks. This problem is exacerbated for SMEs due to the informality and opacity of the financial and accounting information they possess, the narrow division between the personal finances of the entrepreneur and the company, and the lack of collateral that prevents them from delivering part of their assets as a method of compensating creditors in the event of non-payment.

Second, SMEs are also affected by problems of moral hazard, as creditors cannot observe how entrepreneurs use the funds allocated to them. (Levine, 2005[3]; Beck, 2007[4]; OECD, 2014[5]; Rojas, 2017[6]). While financial institutions may be tempted to raise interest rates to compensate for these risks, manipulating the cost of borrowing exacerbates the problems of adverse selection and moral hazard to which they are subject. A third problem from the supply side is the costs derived from the process of credit evaluation, processing and monitoring. Since a portion of these costs is independent of the value of the loan, the costs per unit borrowed are higher for SMEs than for larger enterprises. These higher costs are evidenced in the inflated fees and higher interest rates that exacerbate the information problems discussed above and may exclude SMEs from some sources of formal finance. (Beck, 2007[4]; Beck and de la Torre, 2007[7]).

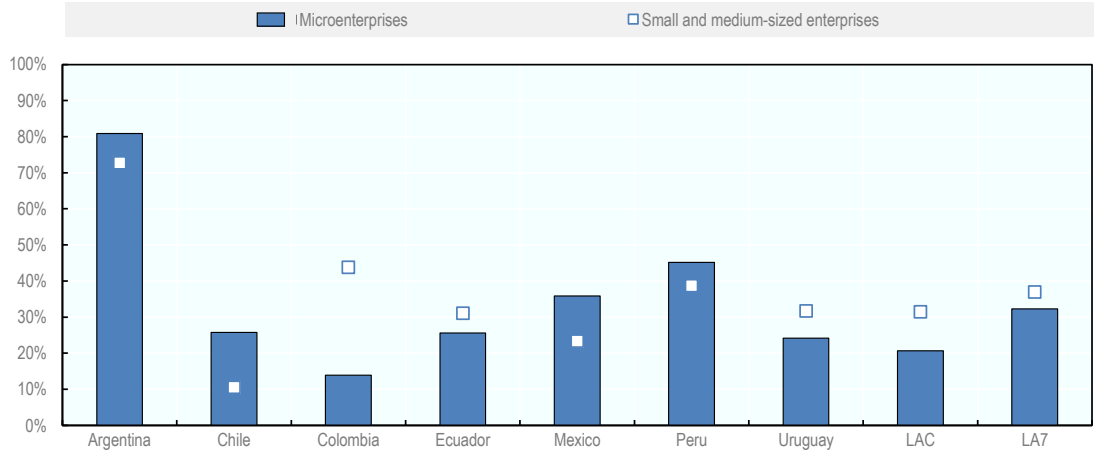
On the other hand, SMEs may also see their access to credit restricted by demand factors that include their limited financial knowledge in terms of identifying funding sources, processing information, and effectively presenting business plans to entities potentially interested in financing their business activities. (CEPAL, 2011[8]; Rojas, 2017[6]).

These conceptual issues are confirmed by empirical regularity: smaller firms are more prone to credit constraints (Beck and Demirguc-Junt, 2006[2]; Ardic, Mylenko and Saltane, 2012[9]; Kuntchev et al., 2012[10]). These financing restrictions affect SMEs' growth prospects to a greater extent than those of larger companies, for example, since the latter may have their own resources (accumulated throughout their growth process) that allows them to make investments when access to financial markets is limited (Beck, 2007[4]; Beck, Demirguc-Kunt and Maksimovic, 2005[11]).

In Latin America the picture is no different as smaller firms also face greater financing restrictions (CEPAL, 2011[8]; Ferraro, 2014[12]; Makler, Ness and Tschoegl, 2013[13]; Rojas, 2017[6]) and these barriers are systematically reported by entrepreneurs as one of the main burdens for business growth in the region. (Zevallos, 2006[14]).

Although the problem is notable, the most recent measurements carried out by (IFC, 2017[15]), for Latin America and the Caribbean (LAC)[1] reveal that the region has the lowest percentage of SMEs that report barriers to accessing credit: 31%, which is comparable to the percentage in Eastern Europe and Central Asia, and considerably lower than the percentages of other developing regions (see Figure 6.1). Interestingly, LAC microenterprises face fewer restrictions as only 21% encounter problems accessing to credit - the lowest percentage among the regions included in the study. However, as can be seen in graph 3.1, SMEs in the seven countries included in this report (LA7) are more restricted than the average for the region: in the LA7, 32% of microenterprises and 37% of SMEs have problems accessing credit. The limitations are particularly acute in Argentina (81% for microenterprises and 73% for small and medium-sized) and Peru (45% for microenterprises and 39% for small and medium-sized), but they are also notable in other countries such as Colombia (44% for small and medium-sized enterprises).

Figure 6.1. Percentage of SMEs reporting restrictions on access to finance: LA7 and LAC regions



Source: Own calculations based on (IFC, 2017[15]).

While these barriers are notable, a survey of 119 financial institutions from 19 countries in the region suggests that 90% of banks consider SMEs one of the key segments for their business strategy, but 51% also highlight the lack of information as the main barrier to penetration in this segment (IDB/MIF, 2015). Although bank debt is only one of the credit vehicles available to SMEs, this data reveals the magnitude of the potential to be exploited in offering financing solutions for this market segment.

Taking note of the difficulties that SMEs face in accessing sources of finance, governments, regulatory bodies, and private sector entities have sought ways to mitigate some of these problems by offering a conducive ecosystem for the financial integration of this crucial productive segment. This chapter explores the extent to which these support policies and strategies have been implemented in LA7.

Assessment Framework

This third dimension concerning access to finance for SMEs is divided into four sub-dimensions (as broadly described in Figure 6.2), each of which is given an equivalent weighting of 25%. Each of these sub-dimensions is composed of a series of sub-sub-dimensions that are divided into thematic blocks that address different factors of interest.

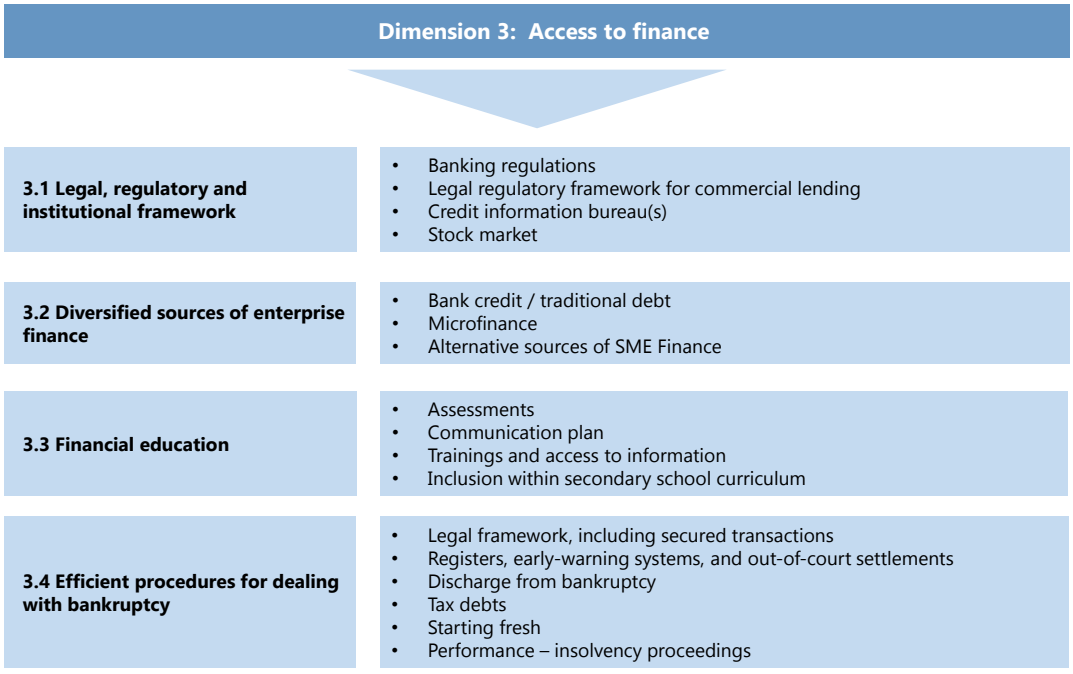
The first of these sub-dimensions (3.1) covers the legal, regulatory and institutional framework on access to finance. It is divided into four sub-sub-dimensions with equal weighting: 25% each. The first (3.1.1) explores the existence of banking regulations to facilitate access to credit for SMEs, particularly with respect to collateral requirements for medium-term loans. The second sub-sub-dimension (3.1.2) is closely linked to the first and explores other areas of the regulatory framework available for commercial loans, particularly around the rights and prerogatives of creditors (thematic block 3.1.2.1; 50%), and on the existence and accessibility of tangible and intangible records of goods that can be used as collateral for these loans (thematic block 3.1.2.2; 50%). The third sub-sub-dimension (3.1.3) investigates the existence of credit information offices, which play an important role in identifying the risk profiles of individuals and firms. Finally, the fourth sub-sub-dimension (3.1.4) focuses on the existence of a formal stock market, as well as mechanisms to facilitate SMEs' access to these financing mechanisms.

The second sub-dimension (3.2) investigates the various sources of available business financing identified by each of the three sub-dimensions that compose it. The first sub-dimension (3.2.1) receives a weighting of 65% and verifies whether traditional banks offer any type of scheme for SMEs for financing exports (thematic block 3.2.1.1; 70%) and the existence and characteristics of credit guarantee schemes that make it possible to overcome some of the market failures that affect SMEs, particularly around the lack of collateral (thematic block 3.2.1.2; 30%). The second sub-sub-dimension (3.2.2) has a considerably lower weighting, of only 10%, incorporating information on the existence and scope of microfinance organizations. The third sub-dimension (3.2.3) has a weighting of 25% and analyses the existence of financing mechanisms based on assets available to SMEs, for example, factoring or purchase of payment orders (thematic block 3.2.3.1; 40%); collective financing mechanisms (thematic block 3.2.3.2; 30%); and, other instruments for making capital investments through angel investors and venture capital funds (thematic block 3.2.3.3; 30%).

The third sub-dimension (3.3) highlights the importance of financial education initiatives that equip entrepreneurs with the basic tools and knowledge to make appropriate financial decisions. It is divided into three thematic blocks that evaluate the design (thematic block 3.3.1; 35%), implementation (thematic block 3.3.2; 45%) and monitoring and evaluation (thematic block 3.3.3; 25%) of national financial education strategies.

Finally, the fourth sub-dimension (3.4) provides information on existing procedures for dealing with insolvency and bankruptcy. It is divided into the design and implementation of these processes (thematic block 3.4.1; 50%) and the evaluation of their performance (thematic block 3.4.2; 50%).

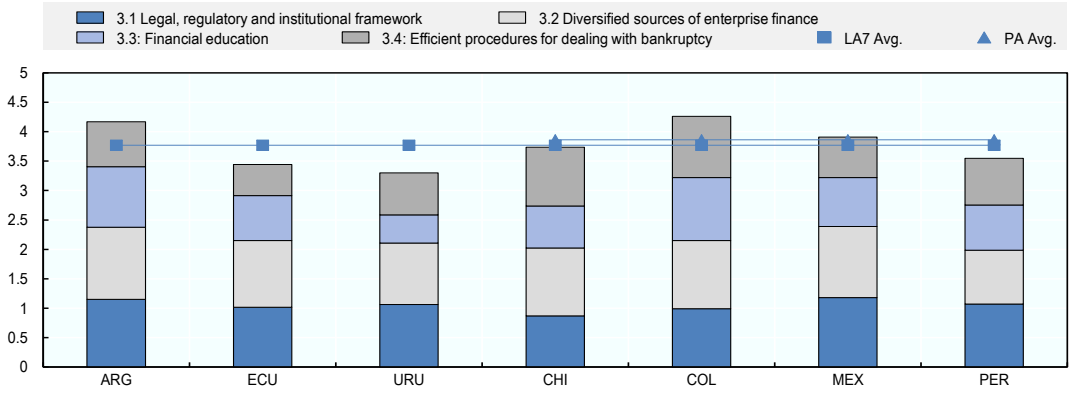
Figure 6.2 SME PI LA7 framework for assessing Dimension 3



Analysis

This dimension discusses how LA7 governments have developed initiatives to regulate, accompany and support existing financial systems with the objective of facilitating SMEs' access to the resources needed to enhance their economic and productive activities. The LA7 countries reach an average of 3.77 points, suggesting that there are important areas for improvement, especially with respect to the role of financial education (3.23 points on average) and the procedures for dealing with insolvency and bankruptcy (3.16 points on average). Among the selected countries, Colombia stands out with the highest score in this dimension (4.26) followed by Argentina (4.17); Uruguay, for its part, appears more behind in this dimension than other LA7 countries with only 3.30 points (Figure 6.3).

Figure 6.3. Weighted scores for Dimension 3: Access to finance



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Sub-dimension 3.1: Legal, regulatory and institutional framework on access to finance

In general terms, the LA7 countries obtain relatively high scores (an average of 4.20 points) in the sub-dimension referring to the regulatory and institutional context for access to financing; this is the second highest average score within this dimension Table 6.1.

Table 6.1. Sub-dimension 3.1 scores: Legal, regulatory and institutional framework on access to finance

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg*	*StD*
3.1.1 Banking Regulations	5.00	4.20	4.20	1.00	1.00	5.00	5.00	*3.63*	*1.70*
3.1.2. Legal regulatory framework for commercial lending	3.40	2.07	3.47	3.57	4.85	4.57	2.17	*3.44*	*0.98*
3.1.3 Credit Information Bureau	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*0.00*
3.1.4 Stock market operations	5.00	5.00	4.33	4.33	5.00	4.33	5.00	*4.71*	*0.33*
Total sub-dimension score	**4.60**	**4.07**	**4.25**	**3.48**	**3.96**	**4.73**	**4.29**	***4.20***	***0.39***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Banking regulations: Financial institutions in most countries require less than 125% of the loan value as collateral.

One of the biggest barriers preventing SMEs from obtaining commercial bank loans is often the collateral requirements banks impose on small and medium-sized entrepreneurs. Argentina, Mexico and Peru receive a maximum rating in this section since their collateral requirements do not exceed 100% of the value of the resources requested by SMEs. In contrast, in Chile these requirements are notable, with averages higher than 200%. In Colombia there are no specific rules regarding collateral requirements for loans to SMEs.

Legal regulatory framework for commercial loans: There are large disparities between countries regarding the rights of creditors, but most have registers of assets that can be used as collateral.

One of the greatest barriers to access to commercial loans is the lack of assets that can be used as collateral in the event of non-payment. On the one hand, borrowers must have access to information regarding the characteristics and value of the assets they receive as collateral; but there also needs to be a regulatory framework that allows them to resolve disputes and recover assets that have been given as collateral in the event of default.

On average, LA7 countries receive a score of 3.44 in this sub-sub-dimension, but it hides important disparities between countries. Colombia obtains a score close to the maximum for this indicator (4.85), whereas other countries such as Ecuador (2.07) and Peru (2.33) require important advances to be on a par with the rest of the countries included in the study.

This variability is also evident when separately analysing the two thematic blocks that make up this sub-sub-dimension. Colombia and Mexico lead the scores in this segment, complying with 100% and 83.3% of the requirements included in the thematic block associated with the rights of creditors (5 and 4.3 points, respectively). In stark contrast, Ecuador does not even have a minimum regulatory framework for collateralised transactions that adequately describes the rights and prerogatives of creditors. That said, all LA7 countries that provided information for this section[2] have a comprehensive land ownership register that is at least partially updated and in some cases available online (Argentina, Chile, Colombia and Mexico).

Since most SME assets are usually movable assets, maintaining databases of these assets may be even more relevant to this business segment. In line with this need, most LA7 countries also have registers of other movable goods with characteristics similar to the cadastral services mentioned above. The exception is Ecuador, where there is no unified registry, but different state institutions keep separate registries according to their competencies. Peru obtains the lowest score in this thematic block since the relevant information was not provided.

Credit bureau(s): All countries have credit bureaus.

Credit bureaus play a key role in facilitating access to credit history to determine the reliability of a potential borrower based on previous interactions with other financial and non-financial institutions. In this section, all LA7 countries receive a maximum score since there is at least one public or private body that provides this facilitating role. However, there are differences between the type of agencies that do this work, the type of information collected, and its accessibility to the public. For example, in Argentina such information is collected and published by the Central Bank of the Argentine Republic (*Banco Central de la República de Argentina,* or BCRA) on its online platform,[3] while in other countries such as Colombia, Ecuador and Mexico this role is played by specialized private companies that operate under rules established by the respective financial regulator.

Stock market: All countries have a formal stock market, but only some have a specialised platform for SMEs.

Consistent with the level of financial development of the countries in the region, all have a formal securities market regulated by competent bodies. Although not all of them have a segment specialized in transactions for SMEs (Chile, Mexico and Uruguay do not meet this

requirement), there have been pilot projects that did not succeed, as in the case of Chile,[4] or are in the process of implementation. Among those countries where there is a strategy specifically aimed at smaller companies, the case of the Alternative Securities Market (*Mercado Alternativo de Valores)*[5] created in 2012 in Peru should be highlighted; it was created with the purpose of allowing smaller companies to obtain financing through a primary public offering, as well as allowing the negotiation of their debt and equity securities in secondary markets. Similarly, in 2017 Ecuador established securities trading standards in the Special Stock Registry (*Registro Especial Bursátil*, or REB),[6] a permanent segment of the stock market created exclusively for SMEs.

Beyond the creation of specific markets to guarantee SMEs' access to these sources of financing, state agencies can work to reduce the overall administrative burden on SMEs trying to comply with the necessary requirements to access securities markets. For example, in Colombia the regulations concerning secondary market transactions were modified in 2014, expediting the processes and reducing the associated costs.[7]

Sub-dimension 3.2: Diversification of sources of financing for enterprises

Sub-dimension 3.2 explores the landscape of sources of financing available to businesses. These include the financial products of traditional commercial banks, those of microfinance institutions designed to serve the needs of small entrepreneurs and other alternative resources available through debt or equity instruments, such as venture capital funds.

In general, SMEs in the region have a rich and diverse ecosystem of financing opportunities, as suggested by the average score of this sub-dimension: 4.48, the highest score among the components of the access to financing dimension (see Table 6.2). Argentina and Mexico receive scores very close to the maximum, with 4.91 and 4.83 points, respectively, while Peru has greater room for improvement, mainly due to the lack of collective financing instruments and other capital investment mechanisms, as well as the respective legal frameworks to regulate such activities.

Table 6.2. Sub-dimension 3.2 scores: Diversification of sources of financing for enterprises

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
3.2.1 Bank credit or loans	4.87	4.89	4.47	4.87	4.47	4.89	4.23	*4.67*	*0.26*
3.2.2 Microfinance	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*0.00*
3.2.3 Alternative sources of financing for SMEs	5.00	3.40	3.11	3.80	4.91	4.60	1.62	*3.78*	*1.11*
Total sub-dimension score	**4.91**	**4.53**	**4.18**	**4.61**	**4.63**	**4.83**	**3.65**	***4.48***	***0.40***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Bank Credit/Traditional Debt: all countries have financial instruments for exporting SMEs and credit guarantee schemes, although there are differences in how these operate.

Companies that have access to external markets are often more innovative and have higher growth prospects than firms with similar characteristics, but which have not begun their internationalization process. Although the causal direction is not clear, it can be assumed that it is desirable for SMEs to have financing mechanisms for their operations abroad. In this sense, all the countries of the region have products designed to support SMEs in their internationalization efforts, but the characteristics of these are varied: they include access to resources at subsidized rates, technical support, and training programmes, among others.

One example worth highlighting is Mexico's National Foreign Trade Bank (*Banco Nacional de Comercio Exterior)*, which offers special loans to SMEs that need to offer financing to their clients abroad for the acquisition of goods and services.[8]

In addition to regulatory measures and specialized banking products to strengthen exporting SMEs, all LA7 governments have some form of credit guarantee. These initiatives seek to dismantle one of the main market failures that prevent SMEs from accessing credit: the inability to provide guarantees in the event of non-payment. These programmes, generally public, offer to absorb part of the potential losses incurred by lenders in the event of default. For example, FOGAPI[9] offers this type of guarantee for small businesses in Peru, while the National Guarantee Fund (*Fondo Nacional de Garantías*)[10] plays a similar role in Colombia. In the case of Chile, CORFO's Bank Loan Coverage for Exporters (COBEX) programme[11] provides guarantees against potential defaults by SMEs that require financing specifically for exporting.

While all LA7 countries have such schemes, there are considerable differences in how these initiatives are operated in terms of private sector participation, national and sectoral scope of influence, and the provision of complementary training and accompaniment services. For example, only in Argentina and Colombia do members of the private sector have decision-making power as part of boards of directors; whereas, in Chile, Ecuador, Mexico and Uruguay there are no geographical or sectoral restrictions on which companies can benefit from these schemes. In Argentina, Chile, Ecuador and Mexico, public guarantee schemes coexist with other private initiatives covering similar roles.

Another common element in the design of credit policies for SMEs is that regulatory agencies usually set interest rate ceilings for this market segment or even offer subsidized interest rates. Ecuador and Mexico obtain the highest scores in this thematic block (4.64 points), with Argentina and Chile achieving very similar scores (4.56 points).

Microfinance: all have a consolidated microfinance system

The long and successful history of microfinance institutions in the region is clearly reflected in the results for this sub-sub-dimension, as all LA7 countries are matched with the maximum score: five points. Different financial institutions coexist in this segment, where traditional commercial banks participate (with products designed for SMEs) alongside microfinance organizations specialized in offering financial products for those who cannot access commercial banking, as well as local savings and credit co-operatives.

Alternative sources of finance: SMEs have a diverse ecosystem of funding sources, but some governments need to develop specific regulations for these financial products.

In addition to the products offered by traditional banks and the microfinance segment, SMEs have other instruments and mechanisms for obtaining financing through debt and equity that allow them to access the resources necessary to cover their operations. In this section, Argentina stands out from the rest of LA7 by obtaining the maximum score (5 points) for this sub-sub-dimension, followed by Colombia, with 4.91 points. Further away, Chile has 3.80 points, while Peru is considerably behind due to the incipient existence of collective financing mechanisms and equity investment instruments (1.62 points).

This sub-dimension is divided into three thematic blocks.

First, asset-based financing refers to any type of loan secured by the existence of an asset. For example, *factoring* is a common modality whereby a company sells its receivables to a third party for a fraction of their face value. Other asset-based instruments include deposit

receipts that allow goods to be used as collateral; financing for purchase orders used to allow firms to process orders that they could not process without financing; and leasing contracts that allow the usufruct (i.e. the right of use) of assets acquired by a third party for a specified period. The degree of prevalence of these different instruments varies between countries, with Chile and Peru being the countries where financing opportunities for SMEs are most limited. With the exception of Chile, where there is no specific regulatory framework, this type of product is well regulated by the competent bodies.

Second, collective financing, commonly referred to as *crowdfunding*, involves raising funds from a large and diverse group of small investors, each of whom contributes a modest amount, usually through internet platforms. Although these financing schemes are available in almost all of the LA7 countries (with the exception of Colombia and Peru), they usually lack a legal framework regulating the transactions of these instruments and their penetration is limited. In fact, the only exceptions are Argentina, where the National Securities Commission *(Comisión Nacional de Valores)* regulated these operations in January 2018[12], specifying the rights and obligations of the parties, as well as the protection mechanisms for investors; and Colombia, where Decree 1357 was approved in mid-2018, through which collective financing activity is regulated.

Thirdly, there are also multiple instruments for capital financing that include (a) "angel" investors – that is, people who invest directly in new ventures in exchange for shareholding; (b) venture capital, which usually involves investors acquiring minority shareholdings in companies with high growth potential; and, (c) private capital, also called *private equity*, which are funds focused on the most consolidated segment of companies and are characterized by acquiring majority or even total shareholdings in these companies. According to the results of this thematic block, these types of financial activities are more deeply rooted in the countries of the region (3.78 points) since this type of schemes exist in six of the LA7 countries. For Peru, the necessary information could not be collected.

In cases where there is a market niche for these actors, there is a legal and regulatory framework under which their activities are governed. The only exception in this section is Uruguay, where this legal framework has yet to be designed and implemented.

Sub-dimension 3.3: Financial education

The third sub-dimension addresses policies designed to equip entrepreneurs with the financial and economic planning tools necessary to make informed business and financial decisions conducive to the development and growth of their businesses. Despite their relevance, there is still a long way to go for the countries of the region in terms of their financial education policies, and particularly initiatives aimed at SMEs. Colombia and Argentina achieve high scores in this sub-dimension because of their efforts to establish financial literacy as one of their policy priorities (4.28 and 4.10 points, respectively). Others, such as Mexico and Peru, have advanced significantly in their financial education strategies, although they reach moderate scores (see Table 6.3).

Table 6.3. Sub-dimension 3.3 scores: Financial education

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning and design	3.08	2.75	2.58	4.25	4.25	3.75	2.50	*3.31*	*0.71*
Implementation	5.00	4.20	1.80	2.60	5.00	3.40	4.20	*3.74*	*1.12*
Monitoring and evaluation	3.86	1.00	1.00	1.00	2.71	2.43	1.57	*1.94*	*1.02*
Sub-dimension score total	**4.10**	**3.05**	**1.91**	**2.86**	**4.28**	**3.33**	**3.08**	***3.23***	***0.74***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Planning and Design: There are plans for financial education initiatives, but they are not usually aimed specifically at SMEs.

All LA7 countries have made some kind of effort to gather information about the financial capacities of the population, although these measurements have not concentrated on the knowledge of micro entrepreneurs. For example, between 2012 and 2018, with the support of CAF, a series of local institutions gathered information on the financial capabilities of the population, in which small entrepreneurs are identified as one of the groups of interest.[13] Similarly, in the framework of the OECD PISA evaluations,[14] financial knowledge measurements of young people of school age (15 years) in Colombia, Chile and Peru have been made. Additionally, Chile (and Brazil) participated in a pilot survey conducted by the OECD focusing on the financial knowledge of micro entrepreneurs; the survey results will be available in 2019. The objective is to conduct the final survey in these countries between 2019 and 2020.

One of the biggest challenges for the design and implementation of policies requires the development of a consensual and articulated strategy among all interested organizations and institutions. In this sense, some of the countries included in the study have a national financial education strategy (Chile,[15] Colombia,[16] Mexico[17] and Peru[18]), or are in the process of developing a unified strategy (Argentina and Uruguay[19]). Ecuador, for its part, has a partial communication programme directed by its Superintendence of Banks *(Superintendencia de Bancos)*, but which does not yet incorporate a unified financial education strategy.

Chile and Colombia achieve the highest score in this thematic block with 4.25 points each; however, Colombia stands out from the rest by identifying SMEs as one of the core sectors for their national financial education strategy.[20] The design of these initiatives incorporated some of the needs of the private sector through its representation of a consultative committee co-ordinated by Bancoldex, as well as the perspectives of some entrepreneurs represented in the Large SME Survey underpinned by ANIF.[21] In addition, the Colombian government has a varied offer of programmes aimed at entrepreneurs, for example, the content offered by Bancoldex on financial issues, management, and corporate governance, which is aimed primarily at entrepreneurs. Mexico also identifies small entrepreneurs as one of the stakeholders of its national financial education strategy, but did not explicitly incorporate the needs of the private sector in formulating the strategy.

Implementation: All countries offer financial education programmes, but they have yet to be included in the school curricula of some

The "implementation" thematic block addresses the existence of financial education training programmes as part of the national curriculum in secondary schools as well as other training programmes specifically designed for SMEs. In this section, Argentina and

Colombia stand out by reaching the maximum scores (5 points): in both cases, basic financial education and business development concepts have been included as part of compulsory instruction in secondary schools, with specialized training for those teaching these subjects. Specifically, in the case of Argentina, the BCRA in conjunction with the Ministry of Education initiated a project called "Financial Skills for Life" *(Habilidades Financieras para la vida)* [22] for secondary school students. The first pilot programme was implemented in the province of Córdoba in 2017 and was expanded to other provinces in 2018. According to the Law of Productive Financing No. 27.400,[23] the inclusion of financial education programmes in all secondary schools was approved. In the case of Colombia, schools have curricular autonomy, but the Ministry of Education includes in its guidelines[24] the development of competencies for making financial and business decisions. These guidelines include suggestions on the thematic conceptualization of these courses, as well as examples of interest. In Ecuador and Peru, and more recently in Chile,[25] financial education topics have also been included as part of the curriculum.

In all LA7 countries, at least one state entity offers some type of training programme on financial decision-making issues for SMEs. The other differences observed in this thematic block are due to variations in the degree of penetration and accessibility to these resources.

Monitoring and evaluation: Mexico and Peru have tools to evaluate and monitor their financial education strategies; Argentina and Colombia are in the development phase

A robust assessment of the implementation and potential impact of financial education policies helps refine the strategies employed and modify those components that can be improved. While these measurement programs should be an integral part of policy development, only Mexico and Peru have clearly defined performance indicators, while in the cases of Argentina and Colombia the current legislation refers to the fact that such a monitoring framework must be created.

Mexico, as part of a series of recommendations by the OECD, has developed a framework for measuring and evaluating the results of its strategy, which establishes relevant and specific metrics that allow for objective evaluation of the different lines of action. These include evaluation periods of up to five years and recognise the importance of generating data periodically. Similarly, Peru has a detailed monitoring strategy as part of its overall strategy, which includes some key performance indicators (KPIs) set in comparison to established baselines.

In Argentina, the aforementioned Productive Financing Law suggests the creation of an evaluation framework with performance indicators that should be collected periodically through objective indicators, as well as the perspectives of users regarding various implementation aspects. In Colombia, there are plans to develop monitoring and follow-up initiatives, but they are still at such an early stage (baseline survey) that they have not yet yielded lessons that will inform changes in the design of financial education policies.

In addition to these monitoring efforts, and as mentioned above, the LA7 countries have been involved in a series of surveys measuring financial capabilities and some financial education initiatives have been evaluated through randomised controlled trials. For example, BCRA initiatives in Argentina,[26] the Ministry of Education of Peru,[27] and the Bank of the Republic of Colombia[28] have been evaluated using these methodologies, the results of which have contributed to making adjustments to the programmes under evaluation.

Sub-dimension 3.4: Effective procedures for bankruptcy treatment

Starting a business is a complex process whose success depends on multiple variables, not all of which are under the control and influence of entrepreneurs. For this reason, many entrepreneurial initiatives do not succeed in achieving sustainable businesses over time. However, these past setbacks should not prevent innovative and responsible entrepreneurs from having a new opportunity to present their products and services on the market. Therefore, the fourth sub-dimension of this "access to finance" dimension addresses the legal framework and relevant procedures for handling insolvency and bankruptcy situations, as well as mechanisms to facilitate the productive re-insertion of entrepreneurs whose previous ventures have failed.

This is the sub-dimension where LA7 countries have the most room for improvement: as shown in Table 6.4, the average score of the region is in the intermediate range (3.16 points) and is the lowest average score within the dimension. Colombia and Chile are not as far behind as other countries in the regional bloc with 4.17 and 3.99 points, respectively; but in the case of Ecuador (2.13 points) there is still a long way to go to improve the design and performance of bankruptcy treatment procedures.

Table 6.4. Sub-dimension 3.4 scores: Effective procedures for bankruptcy treatment

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Design and Implementation	3.77	2.58	3.05	4.32	4.34	1.83	3.32	*3.32*	*0.85*
Performance	2.33	1.67	2.67	3.67	4.00	3.67	3.00	*3.00*	*0.78*
Sub-dimension score total	**3.05**	**2.13**	**2.86**	**3.99**	**4.17**	**2.75**	**3.16**	***3.16***	***0.66***

Note: Scores are on a scale of 1 to 5, with 5 being the highest score. Please refer to Chapter 2 for more information on the methodology.

Design and implementation: LA7 countries should improve their regulatory frameworks governing insolvency and bankruptcy processes

All LA7 countries have a regulatory framework or other procedures for companies in insolvency. These laws are generally universally applied and based on internationally accepted principles. In the cases of Argentina, Colombia and Peru, these laws are also applicable to state-owned enterprises. Similarly, in all countries except Ecuador, there are early warning systems for insolvency situations and the possibility of resorting to out-of-court settlements that are less onerous than declaring bankruptcy.

Once a company declares insolvency, its details are stored in special registers in most LA7 countries (Argentina, Chile, Mexico and Peru), but only in Chile and Peru are they freely accessible to the public.[29] There is greater variability, however, with respect to the procedures for lifting the restrictions imposed after a company goes bankrupt: only four LA7 countries regulate these procedures and only in Colombia and Chile is a maximum insolvency period imposed, which in no case exceeds three years and which includes the automatic removal of such information from all insolvency and credit records after that period has been exceeded. Argentina also meets most of these requirements except for the automatic withdrawal of the bankruptcy filing after all conditions for total exemption have been met.

Similarly, it is important to provide new opportunities to entrepreneurs whose initial ideas have not come to fruition. However, only Chile and Colombia offer specialized information and training for entrepreneurs seeking a new opportunity. For example, Chile's

Superintendence of Insolvency and Re-Enterprise (*Superintendencia de Insolvencia y Re-emprendimiento,* or Superir*)* provides these training and accompaniment services through Insolvency Economic Advisors (*Asesores Económicos de Insolvencia*).[30]

Other issues of relevance included in this thematic block include the existence of a regulation for secured transactions - including for example the ability to recover assets following a business reorganization, or the requirement to have priority payment when the assets of the bankrupt company must be liquidated. While these schemes exist in all LA7 countries, none meet all the characteristics included in the indicator.

Colombia and Chile obtain the highest scores in this sub-dimension with 4.34 and 4.32 points, respectively.

Performance: LA7 insolvency proceedings are lengthy and relatively costly

According to the results obtained by the 2019 World Bank *Doing Business* indicator included in this thematic block (World Bank Group, 2018[16]), the performance of bankruptcy procedures can be considerably improved throughout the region as suggested by the average of only 3.00 points in this segment: the average periods of insolvency exceed one year in all countries, they have high average costs (more than 15% of equity) and low recovery rates (less than 25% in three countries, although closer to 70% in the best cases: Mexico and Colombia).

Colombia (4.00 points), followed by Chile and Mexico (both 3.67 points) have the best scores in this section, while Ecuador receives a low score of 1.67.

The way forward

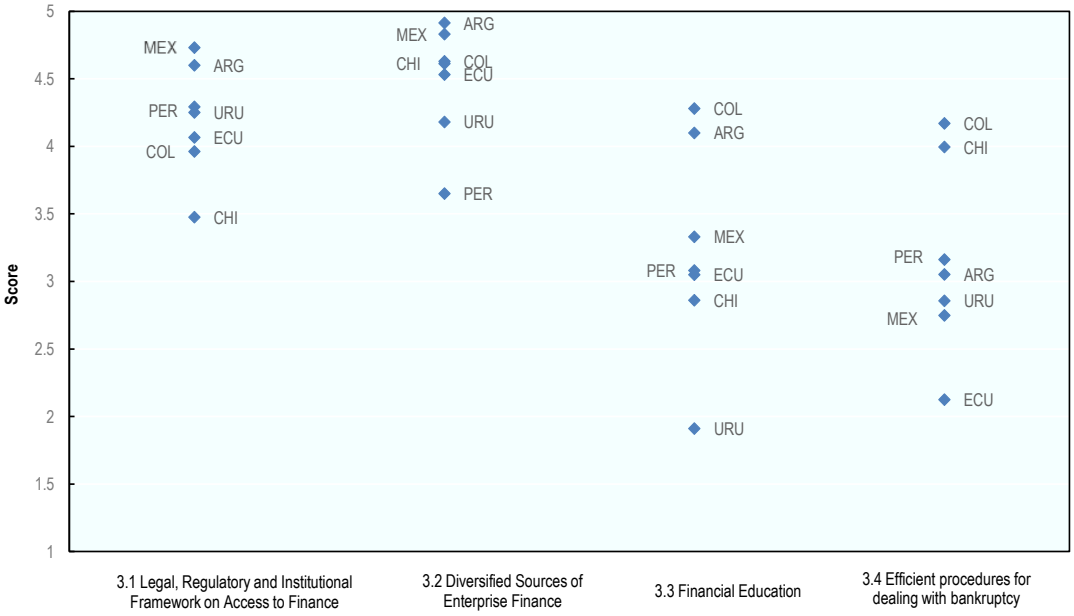
Access to financial resources is a fundamental requirement for business growth. However, SMEs, being one of the fundamental catalysts of this growth process, often see their means of accessing these resources limited due to increased information asymmetries, higher risk perceptions, and other difficulties associated with providing financial opportunities for this market segment.

Appreciating the importance of SMEs, most LA7 governments have undertaken initiatives to strengthen the ecosystem of available financing opportunities. This interest is reflected in the results for this dimension, where the region's overall average score of 3.77 points (see Figure 6.3) suggest a moderately advanced level of policy development. However, two clearly distinguishable facets emerge from the analysis. On the one hand, most countries have a robust regulatory and institutional framework (sub-dimension 3.1, 4.20 points) and a diversified environment of financing opportunities (sub-dimension 3.2, 4.48 points) conducive to the financial inclusion of SMEs. This does not imply that there is no room for improvement with respect to the legal framework, but it does underscore the relatively favourable environment existing in the region (for example, in countries such as Ecuador, considerable progress is needed around the rights of creditors when it comes to recovering the commitments acquired by companies in default – thematic block 3.1.2.1).

In contrast, most LA7 countries must focus efforts on developing a unified strategy, correctly implemented at different levels of influence and with an adequate evaluation framework, to support the universalization of basic financial knowledge to make business decisions (sub-dimension 3.3, 3.23 points – see Figure 6.4). Argentina and Colombia, leaders in the access to finance dimension, achieve high scores in this section, although other countries, such as Chile, Mexico and Peru, also have made important advances on

this topic. Even more pressing is the need to adapt bankruptcy procedures, including the adaptation of the regulatory framework for secured transactions, the creation of insolvency registers and the improvement of procedures to allow entrepreneurs to restart their business activities after unsatisfactory initiatives. The waiting time and significant resources required to settle insolvency cases are a barrier to overcome in terms of policy design (sub-dimension 3.4, 3.16 points).

Figure 6.4. Weighted scores for Dimension 3 by sub-dimension



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

The main challenges and corresponding recommendations for LA7 countries in terms of access to finance for SMEs are summarised in Table 6.5:

Table 6.5. Dimension 3: Policy recommendations

Sub-dimension	Challenges/opportunities	Policy recommendations
Regulatory framework	The regulatory framework for secured transactions must be aligned to international standards.	• **Creditors' rights:** Adapt the regulatory framework to strengthen the rights and prerogatives of creditors involved in transactions secured by collateral. This should allow the use of fixed and movable assets, without prejudice to the descriptions included in the agreements and whose obligations are derived from the agreements reached by the parties. This legal framework should ensure that creditors of secured debts have priority to take possession of assets placed as security in the event of insolvency and liquidation. The regulatory changes made by Colombia during the last five years in this section may reveal lessons for other countries in the region.
	Land records, as well as real and personal property, could be updated and modernized.	• **Asset registry**: Consider the creation of comprehensive, unified and freely accessible registers of land and movable assets. In some cases these systems are managed by sub-national entities. The unification, homogenization and periodic publication of this information contributes to reducing asymmetries of information regarding the availability of

Sub-dimension	Challenges/opportunities	Policy recommendations
		collateral that all companies can use to access financing sources.
Sources of financing	The ecosystem of financing opportunities in the LA7 has expanded in recent years, but lacks an appropriate regulatory framework that identifies the rights and obligations of the different parties involved.	• **Crowdfunding:** While collective financing mechanisms are still incipient in the region, a set of rules designed for this segment could increase confidence, and thus the penetration of such schemes**.**
Financial education	Several countries in the region have a financial education strategy or are developing it, but they do not usually identify SMEs as a key group. Financial education strategies can take advantage of the knowledge of the private sector to define priorities and match policies to the needs of the local market. Engaging in financial literacy with the population from an early age can allow them to make more profitable financial decisions throughout their lives. Developing methods for M&E initiatives framed in national financial education strategies would allow for the scrutiny of the population, as well as the re-design of policies to improve their implementation and effectiveness.	• **Improve the support offer for SMEs**: Identify SMEs as part of the financial education strategy with products aimed at this segment, including advisory and accompaniment programs designed with SMEs' needs in mind. This can be complemented with lines of action defined for the other target groups defined in the strategy, for example, heads of family, youth or women, among others. Offer recommendations concerning the basic competencies that should be incorporated into the specific financial education programmes for SMEs. • **Inclusion of the private sector:** Involve the needs of the private sector in the national financial education strategy. In particular, large financial institutions and others specialized in providing services to small entrepreneurs can provide suggestions on the type of content to be included in financial training programmes. Other private sector organizations and education service providers can be included in periodic consultations. • **Financial education in schools:** Incorporate business development and personal finance issues as part of the mandatory secondary school curriculum, although these issues can also be included in multiple stages of the educational process. In cases where educational institutions have curricular independence, as in the case of Colombia, governments can still offer and develop tools that can be utilised and modified by particular institutions. • **M&E**: Develop performance indicators for the different financial education initiatives that allow for monitoring the progress made with respect to the goals and objectives identified. These performance indicators should be collected and published periodically and transparently, in order to allow the different stakeholders to follow up and make recommendations to adjust the implemented programs. These indicators can gather information regarding the financial knowledge of the beneficiaries and the impact on the results obtained by their entrepreneurial initiatives. The pilot programmes developed by BCRA through randomised controlled trials can serve as an example of good practice in assessing the impact of these initiatives.
Bankruptcy proceeding	Complement the regulatory framework of insured transactions to include prerogatives to creditors in case of insolvency. Most LA7 countries lack a unified and accessible registry of insolvent companies.	• **Secured transactions**: Expand the regulatory framework for secured transactions to include elements that inform creditors of insolvency situations, allow them to have priority to recover their claims, and recover their assets even after business re-organization. • **Bankruptcy and exoneration registry**: Develop a unified and freely accessible register of companies in a state of insolvency. This must be integrated with a regulatory framework that allows for the elimination of restrictions imposed on insolvent entrepreneurs after a prudential period (usually less than 3 years) after which the registries of their insolvency situations should be automatically excluded.

Sub-dimension	Challenges/opportunities	Policy recommendations
	The average cost and duration of bankruptcy proceedings remain costly and prolonged.	• **Cost and duration of bankruptcy proceedings**: Some legal and regulatory efforts have been made to reduce the periods of insolvency and judicial liquidation, as well as the associated costs. However, bankruptcy proceedings are still extensive and burdensome and need to be simplified.

Notes

[1] This measurement includes 31 countries in LAC.

[2] All except Peru.

[3] See http://www.bcra.gob.ar/BCRAyVos/Situacion_Crediticia.asp.

[4] For example, in 2001 a segment was created within the Santiago Stock Exchange for emerging companies, but it was discontinued. The founding document of the initiative is available at https://www.bovalpo.com/site/stat/capacitacion/Caracteristicas_de_los_Mercados_de_Empresas_Emergentes.pdf.

[5] https://www.bvl.com.pe/mav/

[6] http://www.seps.gob.ec/interna-npe?12702

[7] See Decree 2555 of 2010.

[8] See https://www.bancomext.com/empresas-que-apoyamos/pymex for more information.

[9] https://www.fogapi.com.pe

[10] http://www.fng.gov.co

[11] See https://www.corfo.cl/sites/cpp/convocatorias/cobex for more information.

[12] See https://www.cronista.com/finanzasmercados/CNV-reglamento-el-Sistema-de-Financiamiento-Colectivo-para-emprendedores-20180103-0070.html for more information.

[13] For example, see http://scioteca.caf.com/handle/123456789/740 or http://scioteca.caf.com/handle/123456789/985.

[14] See http://www.oecd.org/pisa for more information.

[15] See http://www.inclusionfinanciera.cl/educacion-financiera/documentos/estrategia-nacional-de-educacion-financiera.

[16] https://pesospensados.gov.co/sites/default/files/doc_final_eneef

[17] See https://www.gob.mx/shcp/documentos/estrategia-nacional-de-educacion-financiera.

[18] See https://www.bn.com.pe/inclusion-financiera/archivos/ENIF/plan-nacional-educacion-financiera-junio2017.pdf.

[19] Note that in the case of Uruguay, the government has a tax education programme (https://www.dgi.gub.uy/wdgi/page?2,educacion2013,educacion_tributaria,O,es.0), although this does not cover the themes of financial and business education.

[20] See http://www.urf.gov.co/urf/ShowProperty?nodeId=/OCS/P_MHCP_WCC-078854/

[21] See http://www.anif.co/publicaciones/publicaciones-microsectoriales-y-pyme/gran-encuesta-pyme.

[22] See https://www.bcra.gob.ar/BCRAyVos/Habilidades-financieras-sobre-el-progrma.asp.

[23] Approved on 9 May 2018.

[24] See http://www.mineducacion.gov.co/1621/articles-40033_archivo_pdf_Orientaciones_Edu_economica_financiera.pdf.

[25] In January 2018, an amendment to the general education law was approved by the Chamber of Deputies to include financial education issues as part of the compulsory secondary education curriculum.

[26] For example, see the results of the two pilot tests of the "Learning to Save" programme http://www.bcra.gob.ar/BCRAyVos/aprendiendo_a_ahorrar.asp.

[27] See https://www.iadb.org/en/research-and-data/publication-details-working-papers?pub_id=IDB-WP-871 for more information.

[28] See http://www.banrep.gov.co/es/node/27951 for more information.

[29] In the case of Argentina, there are registers for each province and the Autonomous City of Buenos Aires, which are being consolidated into a single register under Law 24.522.

[30] See https://www.chileatiende.gob.cl/fichas/31769-asesorias-economicas-de-insolvencia for more information.

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Chapter 7. SME development services and public procurement (Dimension 4)

This chapter focuses on some of the most important policy tools used by LA7 countries to provide direct support to SMEs and entrepreneurs through business development services (BDS). It also analyses the extent to which public procurement systems facilitate the participation of SMEs in this important market.

The analysis notes that SMEs and entrepreneurs in LA7 countries generally have access to a rich market of BDS through government and private sector providers across national territories. It also notes that a few countries use BDS as important tools to achieve broader economic and social goals. However, the chapter highlights the need for some countries to provide more consolidated and structured sources of information (for example, through online tools) on the myriad of BDS schemes available for SMEs and entrepreneurs.

The chapter also notes that LA7 countries have in place relatively advanced e-procurement systems as well as registries of suppliers, which facilitate the participation of SMEs in public procurement. However, not all of the e-procurement platforms handle the whole procurement process (publication of opportunities, bidding, information on contracts awarded, deserted offers, payments, etc.). Furthermore, only a few countries have in place direct support programmes to help SMEs in taking advantage of public procurement opportunities.

Introduction

This chapter analyses three important elements for entrepreneurship and SME growth: policies to promote business development services for SMEs, entrepreneurial development services, and access to public procurement.

Given their small resource base, SMEs and entrepreneurs rely more than larger firms do on services supplied by external providers. These services include supporting day-to-day business functions such as accounting services, legal services, human resource management, and information systems. They also include longer-term and strategic advice such as management counsel, development of human resources, access to technology, and access to markets. The diversity and accessibility of these business development services (BDS) help SME managers and entrepreneurs to achieve various goals, from focusing their attention and resources on their core businesses and strategies to attaining growth and greater productivity through training and advisory programmes.

The rationale for a government to play a role in the direct or indirect provision of BDS may not seem as straightforward. Why, one might ask, should public resources be used to provide direct support for private ventures? Indeed, government-sponsored BDS programmes (i.e. BDS subsidised by governments or provided by government agencies directly) are tools often used by authorities to try to reach policy objectives such as promoting self-employment, stimulating local economies, increasing SME productivity and supporting the development of specific economic activities. What is less clear is the "additionality" or effectiveness of those interventions – in other words, whether BDS directly provided or indirectly supported by governments make an actual difference in SME and entrepreneurship performance, or whether SMEs and entrepreneurs would have sought and obtained assistance directly from the market anyway.

The first two sections of this chapter focus on policies to promote business development services (BDS) for SMEs and entrepreneurs. In this context, BDS comprise temporary support provided by private firms, non-government agencies, public agencies or donor agencies to SMEs and entrepreneurs.

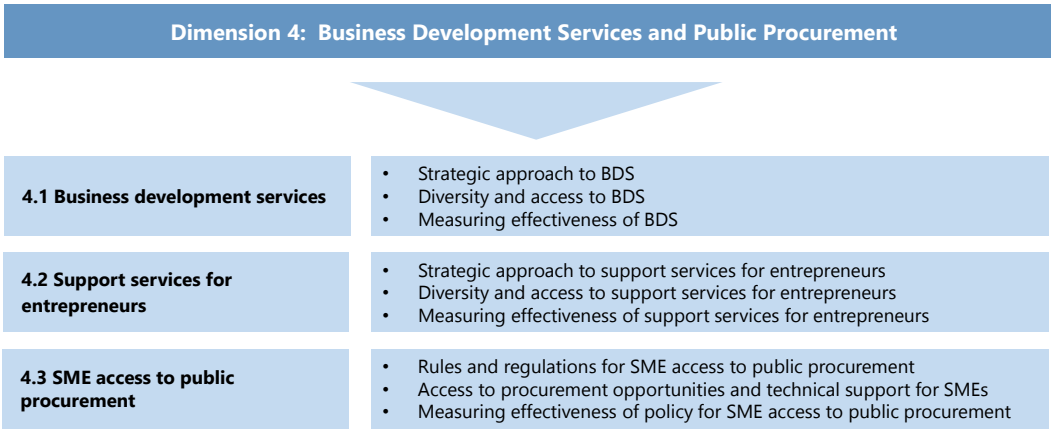
The third section of the chapter analyses measures to facilitate SME participation in public procurement, which refers to the purchase by governments and state-owned enterprises of goods, services and works. In Latin America and the Caribbean as a whole, public procurement accounted for 7.7% of gross domestic product (GDP) on average and more than 20% of government expenditure in 2014 (OECD, 2016[1]). This compares to 12% of GDP and almost a third of government expenditure in OECD countries (OECD, 2018[2]). The size of this market, and the public sector's direct role in shaping it, provide an important tool for governments to advance SME and procurement priorities – by providing a fair playing field for SME participation in public procurement but also by helping small firms to increase quality or raise productivity. Indeed, while the primary objective of public procurement is to deliver the goods and services necessary for the public sector to accomplish its objectives, countries around the world also use this tool to advance other policy objectives, including social, economic and environmental goals.

The analysis in this chapter focuses on public procurement and SME policy from two angles. First, it looks at ease of access to public procurement through better information and processes, such as e-procurement. Second, it considers programmes designed to help SMEs participate in public procurement – by, for example, training SME managers on how to use e-procurement platforms or helping SMEs to form consortia for joint bidding.

Assessment framework

The assessment framework for Dimension 4 consists of three sub-dimensions covering BDS in general, BDS designed to support start-ups and entrepreneurs, and measures aimed at easing SME access to public procurement (Figure 7.1). The weights of each sub-dimension within the overall policy dimension are 40%, 35% and 25%, respectively. These weights are the result of discussions with national co-ordinators. Sub-dimensions 4.1 and 4.2 have a greater weight in the overall policy dimension given their wide scope and diversity of programmes. Sub-dimension 4.3 received a lower weight as it represents a relatively smaller area within the overall SME policy spectrum.

Figure 7.1. SME PI LA7 framework for assessing Dimension 4

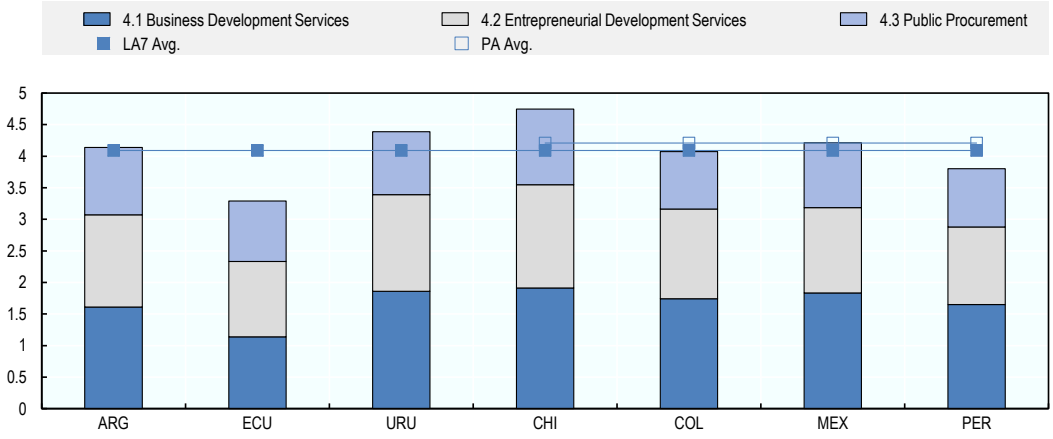


Each sub-dimension has in turn three policy blocks – planning and design, implementation, and monitoring and evaluation – that are weighted 35%, 45% and 20%, respectively, of the total sub-dimension.[1]

Analysis

The regional average for this dimension is 4.09, which suggests that LA7 countries have in general well-developed markets for BDS for SMEs and entrepreneurs and a number of measures to facilitate their participation in public procurement (see Figure 7.2). The relatively high scores of some countries, however, should be read with some caution. For example, although in most cases BDS are important tools in national economic or development agendas, there are very few specifics in terms of goals and expected impact of BDS programmes (at most, the national agendas include targets in terms of number of beneficiaries, but not in terms of results of programmes). It is also important to note the different levels of policy implementation among LA7 countries. For example, Chile and Mexico concluded in 2018 the implementation of their national agendas whereas other countries are midway or starting their implementation.

Figure 7.2. Weighted scores for Dimension 4: SME Development Services and Public Procurement



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Sub-dimension 4.1. Business development services (BDS)

Although there is no universally agreed definition of business development services or enterprise support services, one can broadly distinguish between the types of services, their delivery mechanisms/institutions and their beneficiaries.

In terms of service types, it is important to consider the ***two broad objectives*** that SMEs seek through BDS:

1) To focus on their core competences and externally contract functions that the firm has no capacity or strategic wish to perform. These services can include accounting, legal, regulatory, logistics, warehousing, and information and communications technology (ICT).

2) To build new competencies and achieve longer-term objectives such as increased sales, productivity, reaching new markets, and/or developing new products, services or processes. BDS in this area include sales and marketing, streamlining production, accessing new markets, and developing or adopting new technologies.

BDS are one of the main tools for providing *targeted or direct* policy support to SMEs, as opposed to indirect support measures such as improving business regulations, licensing processes or tax compliance. This direct policy support mostly focuses on helping SMEs to achieve the second broad objective stated above. Indeed, SME policy may be less concerned with creating a competitive market of operational or functional services and more focused towards helping SMEs and entrepreneurs expand their capacities and long-term prospects.

In terms of the ***broad categories or types of BDS***, three emerge as the most prevalent:

1. **Counselling and consulting**: This category consists in giving businesses expert advice designed to help them improve one or more of their functions – such as sales and marketing, production, human resources, financial management, and risk management. These types of BDS can also help firms develop new functions, achieve concrete goals or improve their overall business strategies. It is important

to distinguish counselling from consulting services. *Counselling* is closer to the concept of mentoring, which involves a learning and close collaboration process between service provider and the client. *Consulting* is more akin to working for a client, where the outcome can be a formal report or new system designed by the consultant (OECD/UNIDO, 2004[3]).

2. **Training**: This refers to BDS for the development of knowledge and skills, also in one or more of the firm's business functions, in new functions or the overall business strategy. Training BDS are formal; that is, they occur in an organised and structured environment (e.g. in an education or training centre or on the job) as opposed to informal learning resulting from daily activities related to work. A report on SME training found the following types of skills relevant to small businesses (OECD, 2013[4]):
    a. Generic skills, such as IT skills, oral and written communication, and numeracy and literacy.
    b. Routine skills, including repetitive and low-knowledge-intensive skills.
    c. Technical/advanced skills, such as those required for problem solving, design, operation, rethinking and maintenance of machinery or technological structures; IT professional skills.
    d. Management skills, including skills related to business planning, complying with regulations and quality control, human resources planning (recruitment, training and skills development), and allocation of resources.
    e. Social skills, including customer handling, appreciation of networks and value-chain partners, and an appreciation of (and desire to develop) people's characteristics in relation to individual and teamwork.
    f. Language and cultural skills, including the ability to communicate in more than one language, and an appreciation of the cultural characteristics of different ethnic groups.
    g. Entrepreneurial skills – specific skills for start-up companies, such as risk acceptance/management, strategic thinking, self-confidence, the ability to make the best of personal networks, and the ability to deal with a variety of challenges and requirements.
3. **Information and advice**: Mechanisms for the dissemination of information relevant to SMEs are important given their relative resource constraints. Information can cover matters related to the business environment, including regulations, licenses, taxes, labour, and environmental protection. It can also refer to access to knowledge regarding technology, markets and socioeconomic trends; or to the wide availability of different types of BDS provided by various actors (public agencies, business associations, private sector providers, donors, NGOs, etc.). The channels available to disseminate information to SMEs are many and include web portals, printed materials and awareness-raising campaigns. They also include more direct action such as funding for attendance at trade fairs and exhibitions (OECD/UNIDO, 2004[3]; ESCAP, 2012[5]).

Those broad classes of BDS can help to categorise the large number of specific BDS programmes, including those covered in other policy dimensions of this report such as innovation, productive transformation and access to international markets. For example, a

BDS programme supporting the internationalisation of SMEs can combine information on foreign markets, assistance with developing an export action plan, and the training needed to implement the plan.

Another important element concerns the ***delivery mechanisms and institutions*** supplying those services to SMEs and entrepreneurs. The main BDS providers are private ventures, consultants, business associations and government agencies. In some countries, donor agencies and NGOs are also important players. This chapter focuses on BDS provided by government agencies at the central level (e.g. national SME agencies) through sub-national delivery mechanisms (e.g. business development centres, support for incubators, technology parks). The analysis also includes BDS provided by private actors with government support in the form of partial or total subsidies or any other mechanisms of public support.

Finally, the ***beneficiaries of BDS*** can be as broad as the different categories of SMEs and entrepreneurs, from traditional artisans and retailers with few or no paid employees, to mid-sized manufacturing firms and high-growth firms offering innovative goods, services or business models.

The LA7 countries generally perform well in providing BDS for SMEs, as seen in Table 7.1. Although no country has an explicit SME strategy, almost all of them implement economic transformation, competitiveness or similar strategies or plans that comprise BDS actions. Most of the countries have diversified markets for BDS, although the level of monitoring and evaluation (M&E) of the effectiveness of those measures is more diverse.

Table 7.1. Sub-dimension 4.1 scores: Business development services

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	3.00	3.00	4.50	4.50	4.75	4.50	4.00	*4.04*	*0.69*
Implementation	5.00	2.67	5.00	5.00	4.33	4.67	4.33	*4.43*	*0.77*
Monitoring & Evaluation	3.67	3.00	4.11	4.78	3.67	4.56	3.89	*3.95*	*0.55*
Total sub-dimension score	**4.03**	**2.85**	**4.65**	**4.78**	**4.35**	**4.59**	**4.13**	**4.20**	***0.61***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design: Most countries identify specific priorities for BDS in their development/economic/competitiveness agendas; nonetheless, those priorities are rarely translated into concrete actions/programmes

This block measures the degree to which the overall government policy or strategy towards SMEs includes the provision of BDS. An important consideration here is the degree of detail contained in the actions aimed at fostering BDS for SMEs – including the existence of action plans, specific objectives, and programme implementation timetables. The block also looks into the existence of specialised agencies in charge of the provision of BDS.

As noted in Chapter 4, sub-dimension 1.2 (Strategic planning, design and co-ordination of policies), none of the LA7 countries is implementing an explicit strategy for SME development.[2] However, most of them include SME policy elements, including BDS, in their national development/economic/competitiveness strategies or plans[3] (see Table 7.2).

Table 7.2. Business development services: planning and design[1]

Country	Government strategies referring to enterprise development	BDS priorities in strategic documents	Level of detail on actions / programmes	Key gov't agencies in charge of BDS policy	Key message
Argentina	*Plan Argentina Emprende* (under elaboration)	No priority identified yet; the document is at the draft stage.	None	SEPYME	Adopt a coherent approach to BDS.
Chile	Productivity, Innovation and Growth Agenda 2014-18	Financing and support for SME management and for boosting entrepreneurship and innovation.	Actions identified but no details on expected impact, objectives, targets, etc.	SERCOTEC, CORFO	Very rich BDS market, but strategy refers only to very few services.
Colombia	National Development Plan 2014-18 and CONPES Document 3866 of 2016	Innovation, technology, human capital, linkages and internationalisation.	High level of detail on actions, responsibilities and targets, but no details on impact.	MINCIT, SENA, DNP and others	Detailed planning but missing information on expected impact.
Ecuador	Industrial Policy 2016-2025 & National Strategy for Economic Change (ENCMP)	No concrete actions on BDS.	None	MIPRO	Adopt a coherent approach to BDS.
Mexico	National Development Plan 2013-18 & Innovative Development Programme (PRODEINN)	Incubators, accelerators, and skills and others.	Actions identified but no details on expected impact, objectives, targets, etc.	INADEM	Little detail on priority BDS, no measurable targets or impact.
Peru	National Development Plan to 2021 and Strategic Multiannual Sectorial Plan 2017-2021 (PESEM)	References to "increasing the competitiveness of economic actors" and "strengthening business development among SMEs", but no explicit mention of any BDS programme.	None	Ministry of Production (*Produce*)	Adopt a coherent approach to BDS. The strategic documents exist, but make no explicit reference to BDS.
Uruguay	First National Plan for Productive Transformation and Competitiveness 2017-2021.	Expanding the reach of BDS across the country and easing access to information on BDS.	Actions identified and some details on targets/ objectives, but no reference to impact.	Transforma Uruguay, MIEM/DINAPYME, ANDE, ANII, INEFOP, Uruguay XXI	Clear policy direction (i.e. expanding the reach of BDS) but little details on expected impact and objectives.

1. See the list of acronyms at the beginning of the report for the full name of the government agencies in charge of BDS policy.

It is well beyond the scope of this report to assess the extent to which planned BDS actions truly correspond to the social and economic needs of a given country. This report looks instead at the link between the overall strategies and the use of BDS as a tool for achieving stated objectives (e.g. increasing productivity, economic diversification, inclusion). In general, this assessment finds that link rather weak. None of the LA7 countries has explicit details on the *impact* that their planned BDS actions will have in terms of productivity, economic sophistication and diversification, which are the main policy objectives prioritised across the region.

Of all the countries, only Colombia has explicit BDS targets under its Productive Development Policy for 2016-2025 (CONPES Document 3866 of 2016). However, those targets are indicated only in terms of the *number of beneficiaries* of BDS programmes, and not in terms of their results (e.g. productivity of beneficiary firms versus non-beneficiary ones; or growth in sales and employment). Furthermore, the rest of the LA7 countries lack any indication of specific targets for programmes, and in some cases there are no explicit details of programmes of any kind. This suggests there is plenty to do in the region to be more categorical in the use of BDS for SMEs as a strategic tool.

In terms of diagnostic studies for the strategic design of BDS programmes, only one of the LA7 countries – Colombia – has undertaken an in-depth study of the supply and demand of these services (Propaís, 2012[6]). Nonetheless, all countries undertake SME and entrepreneurship surveys or censuses that provide information on the needs and characteristics of these segments of the private sector.

All LA7 countries have an institution or institutions responsible for the design and implementation of BDS. In most cases, the institution responsible for SME policy is also responsible for BDS. In the cases of Chile and Uruguay, for example, different agencies specialise in different types of SMEs ("traditional", innovative, international, etc.).

Implementation: There is a rich offer of BDS across the region; some countries have established business development centres to facilitate access to that offer

This analytical block measures the extent to which governments carry out specific BDS programmes that respond to the various characteristics and needs of SMEs. It also looks into the availability and perceived adequacy of budgets for this purpose and into the existence of BDS supporting the long-term strategic development of the company and its short-term operational needs. Finally, it analyses government support for the provision of BDS through the private sector.

It is difficult to benchmark the levels of implementation of BDS programmes as, clearly, countries have different approaches to providing BDS. For example, as seen above, Argentina, Ecuador, Mexico and Peru have a lead agency in charge of the co-ordination (though not necessarily the direct implementation) of BDS, whereas Chile, Colombia and Peru rely on agencies specialising in different types of SMEs and entrepreneurs (see the fifth column in Table 7.2). Furthermore, most countries perform rather well in all indicators measured in this block. The only exception is Ecuador, which lacks evidence on the current provision of various types BDS.

The perceptions revealed in survey responses for this assessment (of the adequacy of budgets to finance BDS support) also explain the differences in scores in this block: only a few countries say that budgets are sufficient to cover all planned BDS actions, whereas others do not respond or say that the budgets are insufficient.

LA7 countries that have BDS elements in the strategic plans or documents mentioned in the previous section are at different stages of implementation of those programmes. This is because some plans are more recent than others are, because of delays in implementation or because the BDS elements are simply not operational.

Table 7.3 provides a few examples of BDS provision in the region through business development centres and other mechanisms. Business development centres are a useful platform for expanding the territorial reach of BDS and forming partnerships with local authorities, universities, private service providers, business associations and others. Some LA7 countries already operate this type of centre, whereas others are introducing them.

Box 7.1 includes an example of international practice in the provision of BDS through this type of centre.

Table 7.3. BDS delivery in the LA7 countries[1]

Country	Delivery mechanisms	Types of BDS	Key message
Argentina	*Casas de la Producción* and other programmes (e.g. "SME Experts", Entrepreneurs' Clubs).	Advice, training and financing for all types of SMEs and entrepreneurs.	Rich diversity of BDS for SMEs through a variety of channels (e.g. SEPYME, local governments, volunteers, private providers).
Chile	Network of business development centres managed through SERCOTEC.	All programmes, including in partnership with other specialised agencies (e.g. PYMEXPORTA, for exporting SMEs in partnership with Pro Chile).	Rich diversity of BDS for SMEs through specialised agencies (SERCOTEC, CORFO, Start Up Chile, Pro Chile).
Colombia	Network of business development centres managed by MINCIT.	Support for innovation, management, administrative advice, access to finance, business linkages, access to new markets, etc.	Rich diversity of BDS for SMEs through a variety of agencies (MINCIT/INNpulsa, SENA, Propaís, etc.) but no clarity of division of responsibilities between agencies. No evidence of support schemes for private provision of BDS.
Ecuador	Network of business development centres under MIPRO.	No concrete information on the types of support.	Scarce availability of BDS programmes.
Mexico	INADEM through the National Entrepreneurship Fund (FNE) and the National Network for the Support of the Entrepreneur (RAE).	Strategic sectors and regional development; entrepreneurship development; access to finance and generic support.	Rich diversity of BDS for SMEs through a variety of channels and a main agency (INADEM). Budget sufficient only to cover main BDS policy goals.
Peru	Network of business development centres under *Produce*.	Workshops for entrepreneurs, business planning, access to finance, IT management, etc.	Rich diversity of BDS for SMEs through a variety of channels and a main agency (*Produce*). Insufficient budget for BDS provision identified as an issue.
Uruguay	Network of Enterprise Competitiveness Centres, co-ordinated by *Transforma Uruguay*	All services provided by different agencies (MIEM-DINAPYME, ANDE, INEFOP, ANII, etc.).	Rich diversity of BDS for SMEs through specialised agencies, co-ordinated by inter-institutional platform *Transforma Uruguay*.

1. See the list of acronyms at the beginning of the report for the full name of the government agencies in charge of BDS policy.

Box 7.1. International practice on business development centres: The Maof centres in Israel

SMEs in Israel have access to a wide array of BDS. This includes a network of small business development centres (Maof centres) that has expanded from 26 in 2014 to 40 in 2018.

Following a model that is prevalent in Israel, the Maof centres are funded by the public resources of the Small and Medium Business Administration (SMBA) but managed by private firms, which have to participate in a tender process to be able to operate these centres.

The Maof centres offer a wide array of BDS at subsidised prices and through a vast network of specialised consultants that provide personalised support. The Maof centres receive funding according to the levels of satisfaction of their clients. This is assessed through surveys, some of them using control groups to better measure performance – although, according to government sources, it is often difficult to find the right firms for the control groups. The network of Maof centres also acts as a one-stop shop for other government agencies, hence maximising their impact and value for money.

Source: (OECD/EU/ETF, 2018[7]), *SME Policy Index: The Mediterranean Middle East and North Africa: Interim Assessment of Key SME Reforms*, OECD Publishing, Paris.

Monitoring and evaluation: The public availability and depth of information on the results of BDS programmes is, in most cases, limited

This block looks at the extent to which governments assess the effectiveness of policies and programmes for BDS. This includes the collection and publication of statistics on beneficiaries, the impact of the programmes and the level of detail of the M&E systems.

Regional performance is more dissimilar in this aspect and, logically, is very correlated with the M&E levels in SME and entrepreneurship support programmes in general. All countries have mechanisms to assess the performance of their BDS programmes, either at the individual level or as a group of programmes. However, only Chile and Mexico collect and publish information on the results of their BDS. Of the other LA7 countries, some collect information but do not publish it, while others collect little evidence.

Sub-dimension 4.2. Support services for entrepreneurs

Support services for entrepreneurs are a category of BDS that aims to foster an entrepreneurial culture while helping business people to launch and grow new ventures. BDS and support services for entrepreneurs are closely related; they are often supported by the same agencies and can both be categorised into training, advice and access to information. Support services for entrepreneurs also include specialised support mechanisms such as business incubators, accelerators, and collaborative workspaces. All of those mechanisms involve, to different degrees, the provision of a temporary working space, access to specialised facilities (high-speed internet, video conferencing, meeting rooms, etc.), access to specialised business advice and mentoring, networking, financial support, and so on. As in the case of BDS in general, support services for entrepreneurs can also target specific categories of beneficiaries such as young entrepreneurs, women

entrepreneurs, high-impact or high-potential entrepreneurs, and social entrepreneurship and innovative entrepreneurship, to mention a few categories.

At the request of the countries participating in this assessment, different sub-dimensions analyse BDS and support services for entrepreneurs. The rationale for this is that SME and entrepreneurship policy merit differentiated scrutiny. However, the results of the analysis show that all LA7 countries deliver both types of services often using the same institutions and programmes, and therefore there is a very high correlation between sub-dimensions 4.1 and 4.2. This is reflected in similar scores for this sub-dimension (Table 7.4).

Table 7.4. Sub-dimension 4.2 scores: Support services for entrepreneurs

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	3.40	3.40	4.20	4.20	4.20	4.20	3.40	*3.86*	*0.40*
Implementation	5.00	4.09	4.82	5.00	4.45	4.27	4.09	*4.53*	*0.37*
Monitoring & Evaluation	3.67	1.89	3.67	4.78	3.00	2.33	2.33	*3.10*	*0.93*
Total sub-dimension score	**4.17**	**3.41**	**4.37**	**4.68**	**4.07**	**3.86**	**3.50**	***4.01***	***0.42***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design: The development/economic/competitiveness agendas in LA7 countries say, in general, very little about the promotion and support of entrepreneurship through specialised services

This block looks at the extent to which support services for entrepreneurs are an explicit part of the wider economic strategies in the region, the existence of studies or analyses on the entrepreneurial skills of entrepreneurs, and diagnostics of the supply and demand of these services. The sub-dimension also looks into the existence of agencies that support these services.

Overall, in strategic documents across the LA7 countries, references to support services specifically addressed at entrepreneurs are less common than references to BDS in general (see Table 7.5). The economic strategies or plans in Chile, Colombia, Mexico and Uruguay do cite actions to help entrepreneurs by assisting (usually through financial support) incubators, accelerators and co-working spaces, apart from direct government support to individual and groups of entrepreneurs. However, little to no detail is provided in terms of specific actions – for example, how many incubators will receive support under which programmes and how many entrepreneurs those incubators will serve. Furthermore, as with general BDS, the documents provide no details in terms of impact – for example, how the entrepreneurs will contribute to creating new jobs, innovation or greater economic activity. This shows, once more, that the development of explicit SME and entrepreneurship strategies with horizontal elements, such as improving the business environment, and targeted components, such as the provision of BDS for SMEs and entrepreneurs, could provide a multi-year and multi-stakeholder framework for SME and entrepreneurship support.

All LA7 countries undertake studies on entrepreneurial characteristics and skills. Some of those studies explicitly focus on the entrepreneurial ecosystem and the characteristics of entrepreneurs, while others are generic SME or enterprise surveys. It is beyond the reach of this report to assess the comprehensiveness of these surveys and studies.

Table 7.5. Support services for entrepreneurs: Planning and design[1]

Country	Strategies and details on services for entrepreneurs	Studies on entrepreneurial skills and services	Key message
Argentina	*Plan Argentina Emprende* (under elaboration) includes no details yet.	In-depth diagnostic of entrepreneurial and SME characteristics (June 2017).	Adopt a strategic approach for the support entrepreneurs.
Chile	Productivity, Innovation and Growth Agenda 2014-18 includes a pillar on Boosting Entrepreneurship and Innovation with *a few* actions to expand programmes in CORFO, Start Up Chile. No details on concrete targets and expected impact.	Regular micro entrepreneurship survey (EME).	Adopt an explicit strategy for SMEs and entrepreneurship. For example, the Agenda does not include any reference to business incubators, accelerators, or fostering an entrepreneurial culture.
Colombia	CONPES Document 3866 of 2016 includes actions to support incubators and accelerators, a programme to Develop Entrepreneurship Capacities and other actions.	Three studies undertaken by "*Emprendedores en Crecimiento*" on the entrepreneurship ecosystem, human capital and access to finance	Adopt an explicit strategy for SMEs and entrepreneurship. CONPES Document 3866 mentions a number of actions to promote entrepreneurship, but it has no details on expected impact (e.g. number of start-ups, women-led start-ups).
Ecuador	The National Strategy for Economic Change (ENCMP) mentions support for business accelerators, business planning, incubators, etc., but gives no details on the specific types of support.	Studies focused on agroindustry and industrial sectors.	Adopt a strategic approach for the support of entrepreneurs.
Mexico	The Innovative Development Programme 2013-2018 (PRODEINN) cites actions to improve business and entrepreneurial skills, promote incubators and accelerators, foster an entrepreneurial culture, and support youth entrepreneurs. However, it lacks details on specific actions.	Various studies, statistics and research related to entrepreneurship. The National Entrepreneurship Observatory (ONE) disseminates this information.	Adopt an explicit strategy for SMEs and entrepreneurship. The PRODEINN is said to be framed by the National Development plan and to guide the yearly programme of the National Entrepreneurship Fund. However, the PRODEINN provides no details on concrete actions to support incubators, accelerators, entrepreneurs, etc.
Peru	The Multiannual Sectoral and Strategic Plan (PESEM) has no mention of support services for entrepreneurs.	A 2015 study "SMEs in Figures" includes details, but they are focused on SMEs (sales, employment, sectors of activity), not on entrepreneurship.	Adopt a strategic approach for the support of entrepreneurs.
Uruguay	The BDS actions under the First National Plan for Productive Transformation and Competitiveness 2017-2021 are very relevant to entrepreneurs, since they aim to increase service coverage and to ease access to information (*Portal Emprendedor*).	The National SME Survey (2017) includes details on entrepreneurs (gender, age, education, etc.).	Adopt an explicit strategy to support SMEs and entrepreneurship. The First National Plan for Productive Transformation and Competitiveness 2017-2021 focuses on increasing the reach of existing services but makes no mention of the quality/adequacy of the services.

1. See the list of acronyms at the beginning of the report for the full name of the government agencies in charge of BDS policy.

Implementation: A variety of support services exist for entrepreneurs across the region; some countries could create web portals so entrepreneurs can more easily access information on those services

This block looks at the extent to which governments carry out specific programmes of support services for entrepreneurs, including through private sector and non-governmental agencies. This comprises their coverage, ease of access to information on those services, budget availability and types of services provided (e.g. support for start-ups, young entrepreneurs and business incubators).

As in the analysis of sub-dimension 4.1 on BDS, it is difficult to benchmark the levels of implementation of support services for entrepreneurs across the LA7 countries. This is because of the diversity of support mechanisms and the combination of direct support versus support through private sector providers (incubators, accelerators, co-work spaces and other actors of the "entrepreneurial ecosystem"). The coverage of the services is national in all cases, and all LA7 countries consider their funding sufficient for the programmes to cover at least their main actions.

The main difference among countries is that not all of them provide a consolidated source of information on the different support schemes and on the different licences, procedures, regulations and other matters needed to create and run a business (see Table 7.6). Of the LA7 countries, only Mexico and Uruguay have in place web portals providing information on support services available from various actors as well as information on government procedures related to businesses. Argentina also operates an online registry of support programmes, but has no consolidated details on procedures. Chile provides information on procedures and on a few BDS programmes by some agencies, while Peru provides BDS information from *Produce* (the Ministry of Production) but no details on procedures. This suggests in general that the region has plenty of scope to disseminate more and wider information on the availability of different support mechanisms, not only from government sources but also from private and other providers.

Monitoring and evaluation: The public availability and depth of information on the results of programmes is, in most cases, limited

This block analyses the existence of mechanisms to evaluate the effectiveness of support services for entrepreneurs, the availability of reports on this matter, and the possibility for entrepreneurs to provide feedback on the quality of support.

The M&E of BDS and of entrepreneur support programmes is highly correlated since these programmes are very often bundled together, are provided by the same agency and/or are part of the same support scheme. As seen in the BDS sub-section, Chile has a well-functioning mechanism for programme M&E, notably the publication of detailed information by DIPRES, the Budget Directorate, which is the body in charge of measuring the effectiveness of government programmes at different levels. Mexico is another country with a functioning M&E system, publishing reports on the results of individual programmes and the overall National Entrepreneur Fund (FNE); the country has a low score in this area, however, due to the lack of responses and information for this block. As for the rest of the countries – as is the case for BDS – some of them collect information but do not publish it, while others collect little evidence.

Table 7.6. Availability of information of support services for entrepreneurs[1]

Country	Key agencies and type of beneficiaries	Dissemination of information	Key message
Argentina	SEPYME: All entrepreneurs	Registry of Subsidies and Incentives (RSI) on the website of the Ministry of Production and Labour: http://rsi.produccion.gob.ar	Very complete database of 157 support programmes offered by various government agencies; contains information on eligibility, type of support, etc.
Chile	- SERCOTEC: "Traditional entrepreneurs" - CORFO: Innovative entrepreneurs - Pro Chile: International business - Start-Up Chile: International entrepreneurs with high potential	*Escritorio Empresa* provides information on *a few* support services and government procedures. www.escritorioempresa.cl	Develop a more comprehensive source of information. *Escritorio Empresa* lists only ten services.
Colombia	MINCIT/INNpulsa, SENA, DNP, and others. There is no clear distinction of targeted beneficiaries among these agencies.	Information available on the websites of the various agencies; the information is often limited (little online information of the benefits of programmes and how to apply) and outdated.	Establish a consolidated and complete source of information on the various types of services available according to the different profiles of entrepreneurs.
Ecuador	MIPRO, National Financial Corporation and National Institute for the Popular and Solidary Economy. There is no clear distinction of targeted beneficiaries among these agencies.	Very scarce information available on support programmes.	Establish a consolidated and complete source of information on the various types of services available according to the different profiles of entrepreneurs.
Mexico	INADEM: All entrepreneurs	- *Sistema Emprendedor* is an electronic platform for application to INADEM programmes: www.sistemaemprendedor.gob.mx - *Portal Vitrina* provides information on support by INADEM and relevant government procedures: https://vitrinatic.inadem.gob.mx/vitrinatic - *Red de Apoyo al Emprendedor* (RAE) gives consolidated information on support services from public and private actors across the country. www.inadem.gob.mx/puntos-de-la-red-buscador - *Observatorio Nacional del Emprendedor* (ONE) publishes research, statistics and other information relevant to actors in the entrepreneurial ecosystem: http://www.one.inadem.gob.mx	Rich online information on different support programmes and government procedures relevant to entrepreneurs.
Peru	*Produce*: All entrepreneurs	The portal *Emprendedor Peruano* provides information on online and physical training available through *Produce*. The online material is based on videos and electronic material used in physical training courses. There is no information on services provided by other actors (public and private) or on business procedures: www.emprendedorperuano.pe	The portal provides useful information. It could be complemented with information on services provided outside *Produce* and with information on business-related procedures and regulations.

Country	Key agencies and type of beneficiaries	Dissemination of information	Key message
Uruguay	- MIEM/DINAPYME: All entrepreneurs - ANDE: All entrepreneurs - ANII: Innovative entrepreneurs - INEFOP: Skills development	The creation of the portal *Uruguay Emprendedor* was mandated by the First National Plan for Productive Transformation. The portal includes information on various types of services according to the profile of the entrepreneur. It also includes information on government procedures for businesses. The *Transforma Uruguay* website also includes a tool to search support programmes. https://uruguayemprendedor.uy/ and www.transformauruguay.gub.uy/es/politicas-de-apoyo	Rich online information on different support programmes and government procedures relevant to entrepreneurs.

1. See the list of acronyms at the beginning of the report for the full name of the government agencies in charge of BDS policy.

Sub-dimension 4.3. SME access to public procurement

Facilitating SME participation in public procurement can be an important policy tool for promoting SME growth, given the importance of this market. Small firms can face many barriers when seeking contracts in public markets – including large contract sizes and the fact that public administrations may bundle contracts to reduce administrative costs. Other barriers may include difficulties in accessing information on procurement opportunities, complicated procedures for participating in public markets, demanding qualification requirements, the need to provide guarantees to participate in tenders, and the lack of technical and quality standards from SMEs to compete in this market, to mention a few. In addition, SMEs may be at a disadvantage even when they have already won a contract; for example, late payments by buyers can be a significant source of financial stress for small firms.

The LA7 countries generally perform worse in this sub-dimension than in the other two sub-dimensions in this chapter. This is because most of them have yet to incorporate SME participation into their procurement laws and regulations, but also due to the lack of BDS programmes (training courses, information, suppliers' development programmes, etc.) available to help SMEs take advantage of public procurement opportunities.

Table 7.7. Sub-dimension 4.3 scores: Public Procurement

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	4.80	2.80	4.00	4.40	3.00	3.60	4.60	*3.89*	*0.72*
Implementation	4.43	5.00	4.43	5.00	4.43	5.00	3.29	*4.51*	*0.57*
Monitoring & Evaluation	3.00	3.00	3.00	5.00	3.00	3.00	3.00	*3.29*	*0.70*
Total sub-dimension score	**4.27**	**3.83**	**3.99**	**4.79**	**3.64**	**4.11**	**3.69**	***4.05***	***0.37***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design: all LA7 countries have in place legal precepts to facilitate the participation of SMEs in public procurement

This section analyses the existence of laws and regulations facilitating the participation or preventing the exclusion of SMEs from public procurement opportunities, including dividing tenders into lots and the possibility to perform joint bids. It is important to note

that explicit public procurement measures for the support of SMEs, such as those analysed in this chapter, need to take into account their potential impact on efficiency and competition. For example, arguments against dividing contracts into lots include concerns over the potential adverse effects on transparency. If lots are defined too narrowly, that may open the door to direct awards, which often lack transparency and thus damage value. It is also relevant to note that the most widely adopted approaches across the OECD in this area involve ensuring that SMEs are aware of tender opportunities and that competent SMEs have a fair chance of competing for government contracts (OECD, 2018[2]).

The results of the assessment show that all LA7 countries have in place laws and regulations designed to facilitate SME access to public procurement, although they cover different elements measured in this report (see Table 7.8). For example, all countries except Chile and Mexico require, or least allow, contracting authorities to split tenders into lots, so that smaller bidders can participate. All countries allow for the formation of consortia to participate in joint bids. The majority set deadlines for the payment of invoices. In addition, all countries have in place other articles or decrees that make it easier for SMEs to participate in this important market.

Table 7.8. Facilitating SME participation in public procurement

Country	Legal framework	Requirement or possibility of splitting tenders into lots	Bidders allowed to form consortia / do joint bids	Regulation and penalties for late payments	Other
Argentina	Law 25.300 of 2000 (SME Law) and Law 25.551 of 2001 ("Buy Argentine Work")	Yes	Yes	Up to 30 days	Preference given to SMEs in case of bid tie.
Chile	Law 19.886	No	No	Up to 30 days	Lower guarantees for small tenders.
Colombia	Law 1150 of 2007 and Decrees 4170 and 1510 of 2011 and 2013	Yes (under framework agreements)	Yes	No	Proportionality for qualification.
Ecuador	Organic Law of the National Public Procurement System	Yes	Yes	No	Preferential mechanisms for SMEs.
Mexico	Law of Acquisitions, Leases and Services of the Public Sector	No	Yes	Up to 20 days	Law states that the Ministry of Economy will determine rules to be observed to comply with SME participation in public procurement.
Peru	Law 30.225 of 2016	Yes (under framework agreements)	Yes	Up to 15 days	Preference given to micro and small firms in case of bid tie.
Uruguay	Programme of Public Procurement for Development, under Law 18.362 of 2008	Yes	Yes	No	Programmes for public contracting of SMEs, small agricultural producers and scientific and technological contracting.

Implementation: The use of e-procurement mechanisms and help desks to facilitate SME participation in public procurement is widespread

This block looks at SMEs' ease of access to information on public procurement opportunities and the existence of e-procurement mechanisms that can facilitate

procurement procedures; the availability of electronic registries of suppliers; and the existence of training programmes and help desks enabling SMEs to take advantage of public procurement opportunities.

In general, the LA7 countries have in place relatively advanced e-procurement systems as well as registries of suppliers (see Table 7.9), although in Peru and Uruguay e-procurement can be further developed. There is further scope for progress in terms of providing help desks and support services for SMEs to participate in public procurement opportunities.

Monitoring and evaluation

This block looks at the existence of an independent body overseeing public procurement's fairness and transparency; and the collection of information on the timeliness of payments. In this area, all LA7 countries have independent bodies supervising public procurement. However, only Chile has a system in place to track delays in contract payments.

Table 7.9. Use of e-procurement and programmes to support SMEs[1]

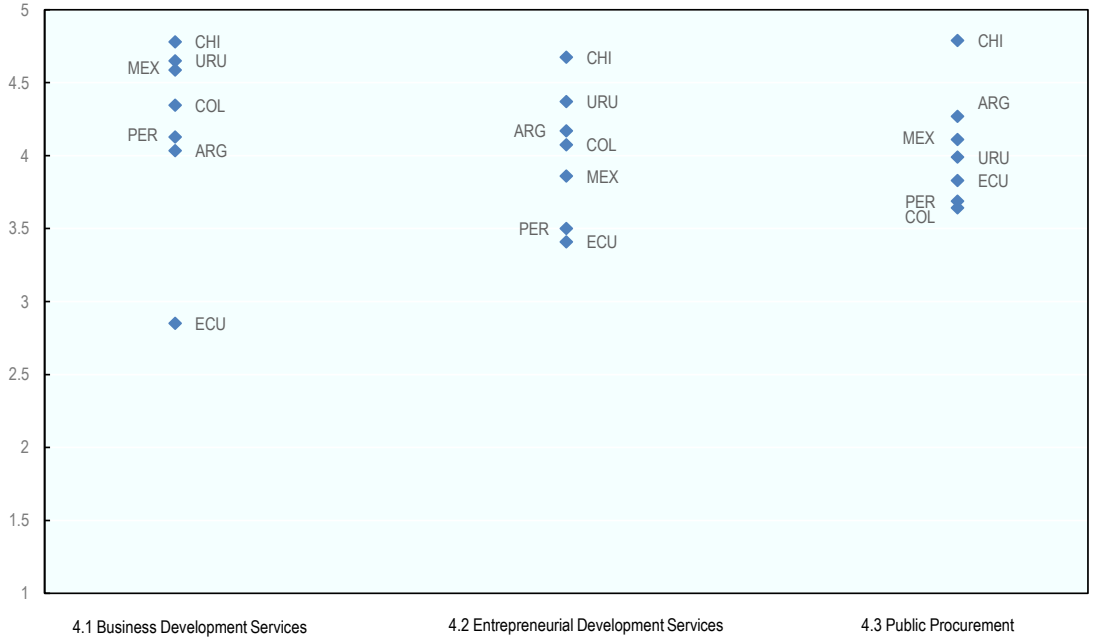
Country	E-procurement system	Registry of suppliers	Help desks and training for SMEs	Key message
Argentina	Comprar.gob.ar for goods and services and Contratar.gob.ar for public works	System of Suppliers of the State	Electronic information on how to use the platforms	Develop BDS programmes to help SMEs to take advantage of the procurement system.
Chile	*Mercado Público*, under *Chile Compra*	*Chile Proveedores*	Virtual and physical training for buyers and suppliers	Fully developed system for the participation of SMEs.
Colombia	SECOP, under *Colombia Compra Eficiente*	Single Register of Suppliers (RUP), managed by chambers of commerce	Three informative tools on how to participate in public procurement, but no training.	Develop BDS programmes to help SMEs to take advantage of the procurement system.
Ecuador	SOCE, under SERCOP	Unified Registry of Suppliers (RUP)	Training for suppliers and electronic material only for buyers.	Fully developed system for the participation of SMEs.
Mexico	CompraNet, under Ministry of Public Administration	Unified Registry of Suppliers (RUPC)	Online and physical training on how to use the e-procurement platform.	Fully developed system for the participation of SMEs.
Peru	SEACE, under *Perú Compras*, which handles almost all procurement phases electronically	National Registry of Suppliers (RNP)	No help desks or programmes.	Develop a full e-procurement system and implement BDS to help SMEs to take advantage of it.
Uruguay	Website of the ACCE	Single Register of Suppliers of the State (RUPE)	Virtual and physical training for buyers and suppliers.	Develop a full e-procurement system.

1. See the list of acronyms at the beginning of the report for the full name of the government agencies in charge of public procurement.

The way forward

In general, the LA7 countries have an established system of BDS for SMEs and entrepreneurs (see Figure 7.3 for a breakdown of performance by country and sub-dimension). There is a rich variety of programmes available for different types of entrepreneurs, in some cases provided through specialised agencies supporting specific beneficiaries. What is still missing, however – and we reiterate this in various chapters of this report – is a more coherent, *strategic* approach to targeted SME programmes, in this case BDS. This is important given (a) the diversity of SMEs and entrepreneurs; (b) the variety of support programmes and support agencies; and (c) the array of government priorities identified in national development plans or economic agendas, which range from the general (e.g. economic diversification and increasing productivity) to the relatively specific (e.g. increasing exports, business linkages, innovation in firms).

Figure 7.3. Weighted scores for Dimension 4 by sub-dimension



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Evidently, this message is not limited to BDS. It can, for example, also apply to specific support programmes on access to finance – such as micro credit for the smallest businesses, credit guarantee schemes for all types of firms, or venture capital and business angel funding for innovative and high potential SMEs. In brief, well-designed and -implemented SME strategies can provide invaluable guidance to SME policy makers and support agencies in the governmental and non-governmental sectors. They help to direct existing efforts towards strategic priorities and to identify and fill policy gaps.

Certainly, although none of the LA7 countries implements an explicit SME strategy, most of them include SME and entrepreneurship promotion elements in their national economic or competitiveness agendas. Chile, Colombia, Mexico and Uruguay include, to varying degrees, explicit actions to promote BDS for SMEs and entrepreneurs. These actions, however, often refer to a small segment of the general BDS offer. This does not contradict

the spirit of the national economic or competitiveness agendas, which are designed to address policy objectives beyond the realm of SME and entrepreneurship promotion, and which therefore include other aspects such as infrastructure development, attracting investment and improving the overall regulatory environment, to mention a few. Nonetheless, in all cases, there is a weak link between the use of BDS as a policy tool and the overall objectives of the strategies.[4] Notably, none of the LA7 countries has explicit details on the impact their planned BDS actions will have in terms of productivity, economic sophistication, diversification or other strategic objectives stated in their economic and competitiveness plans (as noted in the tables in sub-dimensions 4.1 and 4.2, some countries do not identify any concrete BDS actions for SMEs and entrepreneurs).

As discussed in the public procurement section (sub-dimension 4.3), all the LA7 countries have laws and regulations that facilitate the participation of SMEs in this important market. With variations from country to country, those include dividing tenders into smaller lots, allowing the formation of consortia for joint bids, and regulations to ensure that payments are made in time. All countries also have e-procurement systems and electronic registries of suppliers. However, not all of the e-procurement platforms handle the entire procurement process (publication of opportunities, bidding, information on contracts awarded, deserted offers, payments, etc.). Furthermore, only a few countries have in place direct support programmes to help SMEs take advantage of public procurement opportunities.

Table 7.10 summarises key actions going forward.

Table 7.10. Dimension 4: Policy recommendations

Policy Area	Challenges/Opportunities	Policy recommendations
Business development services for SMEs and entrepreneurs	There is in general a rich offer of BDS for SMEs and entrepreneurs across the LA 7 countries; however, information on BDS is in many cases limited and fragmented. In addition, there is ample scope to make better strategic use of the rich BDS market to achieve national economic and social objectives.	• **The LA7 countries could include more complete and concrete BDS actions in their national economic agendas or strategies.** By complete we mean the countries should first assess the variety of BDS already existing through different suppliers, and then introduce services for which there is demand and no supply. By concrete we mean the description of specific actions (e.g. types of BDS), responsible parties (i.e. public or private actors), resources available (human, financial and technical), targets (e.g. number of beneficiaries of BDS) and expected impact (e.g. increased employment, sales, productivity). • **As an alternative to the previous point, the LA7 countries could develop (a) explicit SME strategies with horizontal actions to improve the business environment and (b) targeted programmes to provide direct support to specific SMEs and entrepreneurs.** Those strategies could be connected to the national economic plans. The design of those strategies should be informed by detailed diagnostics of the needs of SMEs and entrepreneurs (which already exist in most LA7 countries) and by analyses of the current supply of BDS (which exists only in Colombia).

Policy Area	Challenges/Opportunities	Policy recommendations
		• **Developing and implementing a strategic document governing the provision of BDS (and SME policy in general) would also help improve assessments of programme effectiveness.** Currently, most countries monitor and evaluate their BDS programmes at the individual or bundle level. However, they are not evaluated at the wider policy level. Such an evaluation might assess, for example, the effectiveness of support given to actors in the entrepreneurial ecosystem in actually increasing the number of dynamic and innovative projects, and the extent to which "graduation" from the incubator or accelerator stage occurs and contributes to higher productivity in the economy. • **The LA7 countries could also increase their efforts to facilitate access to information on the various BDS programmes available to SMEs and entrepreneurs.** The creation of online information platforms such as those operating in Mexico and Uruguay – and to a lesser extent in Argentina, Chile and Peru – could be of inspiration.
Public procurement	Facilitate SME access to public procurement while keeping the efficiency and competition of public markets.	• **Develop e-procurement systems and implement virtual and physical training to teach suppliers how to take advantage of those systems.** • **Introduce specialised BDS to encourage SMEs to participate in public procurement.** Those could include supplier development programmes, initiatives to help SMEs to form consortia, training in selling to the State, and others.

Notes

[1] See Chapter 2 for more details on the SME PI methodology, including the policy dimensions, sub-dimensions, policy blocks and weighting criteria.

[2] SME strategies help to define national policy priorities, goals and responsibilities among different actors. They are important to direct SME policy objectives towards wider national objectives such as promoting employment, territorial development, increasing productivity or enhancing international competitiveness, to mention a few. SME strategies reflect the wider priorities and approaches in each country. For example, "*laissez faire*-minded" governments could prioritise the removal of barriers to doing business; whereas other governments could focus on providing direct incentives to enterprises in certain economic activities deemed as a priority (OECD/EU/ETF, 2018[7]).

[3] National development strategies or plans cover a wide range of issues, including education, health, infrastructure, the economy, etc. Productive transformation strategies or similar documents are more focused on economic diversification, competitiveness, productivity and other areas related to private sector development.

[4] It is evidently beyond the scope of this assessment to analyse the link between the objectives of the economic or competitiveness agendas and policy areas outside the SME and BDS realms.

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Chapter 8. Innovation and technology (Dimension 5)

Promoting innovative SMEs and entrepreneurship is a priority for all countries in the region and an important step to increase productivity and competitiveness. This chapter focuses on the existence of national policies, programmes and institutions to help SMEs and entrepreneurs to conceive and implement innovative business ideas.

The analysis notes that the productive transformation and development agendas implemented in some countries include innovation as an important policy element among other areas (e.g. fostering investment, improving the business and regulatory environment, and strengthening institutions). It also notes that other countries are in the process of developing national innovation strategies (i.e. strategic plans whose focus is the promotion of innovation in a wider context, not only in the private sector).

In terms of the implementation of innovation support programmes, the analysis points to a very extensive offer of services covering, with variations, all programmes assessed in this report (support for incubators, accelerators, technology transfer offices, access to finance for innovative ventures, R&D incentives, etc.). Yet, the availability and accessibility of information on these schemes is often very scattered and at times limited. Furthermore, in several cases it was not possible to verify unambiguously the levels of implementation of the actions put forward in the productive transformation and development agendas.

Introduction

Innovation is a broad concept referring to the generation or introduction of ideas to address challenges of different types (societal, environmental, scientific, etc.) and at different levels (firms, industries, communities and cities, national and global). Although innovation has been traditionally linked to the concept of research and development, there is growing recognition that it also encompasses other activities such as organisational changes, training, testing, marketing and design (OECD, 2015[1]). The latest edition of the *Oslo Manual*, a widely used guide to collecting data on innovation (OECD and Eurostat, 2005[2]), defines *innovation* as the implementation of a new or significantly improved product (good or service) or process; a new marketing method; or a new organisational method in business practices, workplace organisation or external relations.

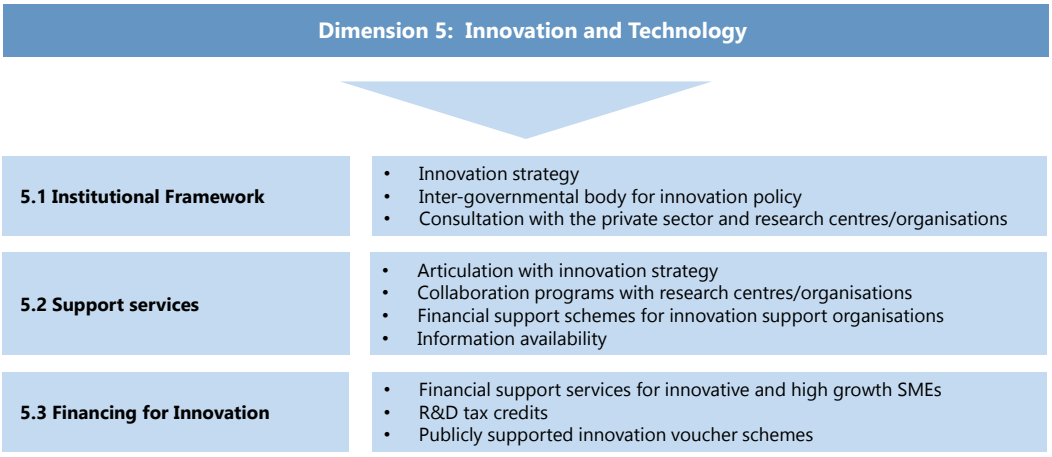
Looking more closely at the concept of innovation in firms, the *Oslo Manual* also distinguishes three types of novelty: an innovation can be new to the firm, new to the market or new to the world. The first concept covers the diffusion of an existing innovation to a firm (the innovation may have already been implemented by other firms, but it is new to the firm). Innovations are new to the market when the firm is the first to introduce the innovation in its market. An innovation is new to the world when the firm is the first to introduce the innovation for all markets and industries.

Promoting innovation, especially among SMEs, is particularly important in Latin America. As noted throughout this report, the national development or productive transformation plans across the LA7 countries generally identify low productivity, lack of economic diversification, and low economic sophistication (i.e. reliance in low-value-added sectors) as the main challenges to greater competitiveness and prosperity. Fostering innovation, including in the private sector, will be essential to addressing these challenges. For example, the value added per person employed in Mexican manufacturing firms of 1-9 employees is just 11.4% of the value added per person in firms that employ 250 persons or more. This compares to 42% in the United States and 58.5% in the United Kingdom (OECD, 2017[3]) (see Chapter 1 for a more detailed discussion of the productivity gaps between small and large firms in the region). Low levels of productivity can be traced to many causes, including high informality, low skill levels, low levels of technology usage (including widely available technology such as ICT) and little innovative activity.

Assessment framework

This chapter focuses on policies to promote innovation in general and specific policies and programmes for SME innovation in particular. It has three parts or sub-dimensions: the overall institutional framework for innovation policy; support services for innovation in firms; and financing for innovation (see Figure 8.1). Each sub-dimension weighs one-third of the total policy dimension, as agreed with the national co-ordinators.

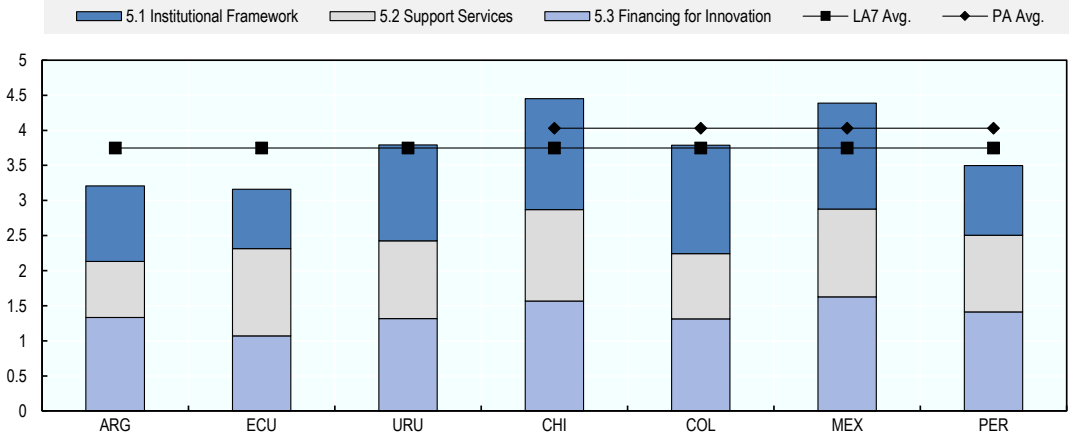
Figure 8.1. SME PI LA7 framework for assessing Dimension 5



Analysis

Average performance in this policy dimension is 3.75, which reflects the importance that LA7 countries give to the promotion of innovation among SMEs and entrepreneurs. Although no LA7 country implements a wide innovation agenda yet (i.e. one comprising all aspects of innovation, beyond its promotion in the private sector and including, for example, support to basic research), those that have productive transformation plans include innovation elements in those strategic documents. Furthermore, all the LA7 countries have agencies responsible for promoting innovation in SMEs and start-ups and most have a wide array of support services for innovation, including financial support schemes.

Figure 8.2. Weighted scores for Dimension 5: Innovation and Technology



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Sub-dimension 5.1. Institutional framework for innovation policy

Innovation is largely a horizontal and multidisciplinary policy area involving multiple actors from the public, private, education and research sectors. Many countries across the LA7 region and beyond have established institutional frameworks to coordinate efforts to foster innovation at several levels, including:

- The *leadership* level, providing strategic direction to the overall innovation policy. This often includes the head of government and ministers with innovation policy portfolios such as education, economy, finance, environment and others, depending on the country. Some countries have specialised ministries for science, technology and innovation.
- The *policy implementation or technical* level, including ministries, government agencies, higher education institutions, research centres, foundations and others. Many countries have specialised science and technology councils whose role is to facilitate coordination at the technical level and to promote the innovation agenda through scholarships, special awards, support programmes for researchers and innovation in firms, etc.
- *Other support and implementation mechanisms* such as thematic coordination committees on innovation in SMEs, innovation in specific economic sectors, or social innovation. These mechanisms can also include sub-national authorities and actors and can focus on specific matters such as basic and applied research or the patent and intellectual property system.

These coordination structures, or innovation systems, evidently differ from one place to the other, depending on the institutional environment. However, what does not vary is the intent to provide a coherent and strategic framework for the design and execution of innovation policies and their many components Multi-year, multipartite innovation strategies often provide guidance and lend coherence to these innovation systems.

The analysis of this sub-dimension shows that the LA7 countries in general have operational innovation systems and innovation elements in their development or economic agendas, although they do not implement wide-ranging innovation strategies (Table 8.1). The analysis also shows that the levels of implementation of the innovation chapters or pillars in the development or economic agendas is very diverse, with four countries – Chile, Colombia Mexico and Uruguay – performing better than the rest.

Table 8.1. Sub-dimension 5.1 scores: Institutional framework for innovation policy

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	2.79	1.88	4.14	4.66	4.89	4.03	3.13	*3.64*	*1.01*
Implementation	3.67	3.44	4.56	5.00	4.56	5.00	3.44	*4.24*	*0.65*
Monitoring & Evaluation	3.00	1.67	3.00	4.33	4.33	4.33	1.67	*3.19*	*1.11*
Total sub-dimension score	**3.23**	**2.54**	**4.10**	**4.75**	**4.63**	**4.53**	**2.98**	***3.82***	***0.89***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design: The LA7 countries run at different speeds in their institutional arrangements for innovation policy; a few countries need to establish effective innovation systems

This block focuses on the existence of innovation strategies that emphasize SMEs and the levels of precision of these strategies, identifying concrete actions for SMEs and measurable targets/impact of these actions. It also analyses the levels of coordination of innovation policy for SMEs and the consultation mechanisms with the private sector and other stakeholders.

The LA7 countries are at different stages of institutional development of innovation policies for SMEs and entrepreneurs. Chile, Colombia, Mexico and Uruguay register scores above 4 due to their well-established innovation systems and innovation agendas, which include elements for the promotion of innovative SMEs and entrepreneurs. For example, in Colombia, National Council of Economic and Social Policy (CONPES) Document 3866 identifies a number of concrete actions to support innovative SMEs and start-ups, including financing innovative activities (through partial subsidies and equity instruments) and business development services (BDS) for innovation (innovation management, open innovation, etc.). In Chile and Uruguay, the productivity agendas also identify a number of concrete actions on innovation for SMEs and start-ups, whereas in Mexico the *Programa de Desarrollo Innovador* 2013-2018 (PRODEINN) puts forward a set of priorities, although it is less clear in terms of specific actions (i.e. there are no concrete programmes identified – see Table 8.2).

Argentina, Ecuador and Peru, on the other hand, are still working on the development and approval of wider innovation strategies. In Peru the productivity plan, the *Plan Estratégico Sectorial Multianual de Salud* (PESEM) has no specific focus on innovation policy, whereas Argentina has yet to develop an agenda for private sector development. Ecuador is also working on a proposal for an innovation agenda.

A similar picture appears when looking at national innovation systems (i.e. the institutional coordination and policy execution frameworks) across the LA7 countries (see Table 8.2). Indeed, Chile, Colombia and Mexico have operational innovation systems that include political leadership at the highest level as well as technical coordination and policy execution. Uruguay does not have such a wide-ranging system, although *Transforma Uruguay*, the governance platform in charge of the productive transformation plan, acts as a coordinating body for all areas covered – including innovation policy, which is a pillar under the plan. Importantly, although Argentina does not yet have a national innovation plan or a productive agenda, it does have a national innovation system. It is worth mentioning that no specific coordination committees for SME and entrepreneurship innovation exist in the region.

Table 8.2. Overview of the institutional framework for innovation policy[1]

Country	Innovation strategy & SME elements	National innovation system	Key message
Argentina	- Innovative Argentina 2030. - No details on SME innovation. - The existing document covers a past period (2012-2015).	- High level Science and Technology Cabinet. - Technical and sub national committees (CICYT & COFECYT). - No SME-specific committee / body.	The innovation agenda originally had a horizon of 2020; this was extended to 2030 but the agenda has not been updated since 2015. An SME innovation committee could be established to work on this.
Chile	- Two key documents: Productivity, Growth and Innovation Agenda 2014-2018 and National Innovation Plan 2014-2018. - Focus on innovative entrepreneurship and technological dissemination.	- High-level National Council of Innovation for Development (CNID). - Executive Secretariat of CNID. - Innovation Division within Ministry of Economy. - Innovation agencies (CORFO and CONICYT) that work on SME innovation.	The two key documents include actions for SME innovation but, although they cover the same period, they do not seem fully aligned. The authorities are working on an innovation agenda for the coming years.
Colombia	- National Policy for Productive Development 2016-25 (CONPES Document 3866). - Several programmes on innovation, entrepreneurship, and financing innovation in SMEs.	- High-level council (led by President). - Executive Committee formed by ministries and private sector. - Sub-national and thematic commissions. - Various agencies with SME innovation programmes (*Colciencias*, SENA, INNpulsa, etc.).	CONPES Document 3866 has details on actions for innovation in SMEs and there is a functioning national innovation system (SNCCTI).
Ecuador	- National Strategy for Economic Change (ENCMP) and Industrial Policy 2016-2025. - A few actions on innovation in the private sector.	- No evidence of an innovation system.	Identify a concrete set of actions for innovation in SMEs in the strategic or economic plans. Establish a national innovation system.
Mexico	- Innovation Development Programme 2013-2018 (PRODEINN). - Identifies priorities for SME innovation but not details of programmes.	- High-level Council for Research, Technology and Innovation (led by President). - Executive Secretariat to the council, which includes private sector, universities and research centres.	Develop a more comprehensive innovation strategy (PRODEINN has no specific actions in this area) and reactivate the Inter-Sectoral Committee for Innovation.
Peru	- National Development Plan and a draft innovation strategy (Special Programme to Strengthen Innovation and Competitiveness).	- No evidence of an innovation system.	Identify a concrete set of actions for innovation in SMEs in the strategic or economic plans. Establish a national innovation system.
Uruguay	- National Strategic Plan for Science, Technology and Innovation (PENCTI) and First National Plan for Productive Transformation and Competitiveness 2017-2021. - Various actions for innovation in the private sector.	– *Transforma Uruguay*, the inter-institutional platform executing the First National Plan for Productive Transformation, provides a mechanism, although its focus is not exclusively on innovation.	*Transforma Uruguay* does not have an innovation committee per se (the only consultative committee is that of Enterprise Development, which includes an innovation sub-group). Uruguay could establish a national innovation system.

1. See the list of acronyms at the beginning of the report for the full name of the government agencies in charge of innovation policy.

Implementation: Although all the LA7 countries have in place agencies for the implementation of innovation policies for SMEs, not all agencies are guided by a strategic plan

This section analyses the levels of implementation of the actions for SME innovation included in the strategies or agendas, the existence of an agency for SME innovation, and the degree to which the academic and private sectors are part of the decision making in this area.

Naturally, performance in terms of implementation largely reflects performance in planning and design in this area. Chile, Colombia, Mexico and Uruguay perform well above the rest of the region given their functioning institutional systems for innovation policy and the existence of strategic documents guiding innovation policy for SMEs and start-ups. All the LA7 countries also have agencies responsible for promoting innovation in SMEs and start-ups, as follows:

- SEPYME in Argentina, although this agency does not focus exclusively in innovation but in SME policy in general;
- The Production Development Corporation (CORFO) in Chile;
- *Colciencias*, SENA, INNpulsa, *Bancóldex*, the DNP and other actors in Colombia;
- The new Directorate for Entrepreneurship and Enterprise Innovation at the Ministry of Production in Ecuador;
- INADEM and CONACYT in Mexico;
- *Innóvate Perú* under the Ministry of Production; and
- The National Agency for Research and Innovation (ANII) in Uruguay.

According to the survey for this assessment, the academic and private sectors participate in the work of these agencies through consultation mechanisms and through representation in the governance boards of these agencies.

The score differences for this block stem largely from the varying levels of implementation of the innovation elements in the LA7 countries' strategic plans. Those countries that have an innovation plan or innovation pillar in their productive strategies are implementing most or all of the actions foreseen under these pillars. The degree of achievement, of course, depends on when each country began implementing its strategy. For example, Chile and Mexico completed their plans in 2018, whereas Uruguay started its plan in 2017 and Colombia's time horizon extends through 2025. The lack of plans, or lack of innovation specifics in plans, for Argentina, Ecuador and Peru drags down their performance in this regard.

Monitoring and evaluation: There are no concrete indicators to measure the performance of policies for SME innovation

This section looks at the existence of indicators on the performance of SME innovation policies and whether these indicators are measured regularly. It also analyses whether the private sector provides feedback on policy effectiveness and how these consultations are performed. Finally, it examines whether reports on innovation policy for SMEs are published regularly.

This is an area where there are significant differences among the LA7 countries and where scores tend to be lower compared to other thematic blocks. This is because only three countries have developed relatively effective M&E systems for their policies: Chile, Colombia and Mexico.

No country in the region has established specific performance indicators to measure the effectiveness of SME innovation policies. For example, the action plan in Colombia's CONPES Document 3866 contains detailed indicators in terms of targets for beneficiaries of its programmes, including those in innovation. However, these targets do not provide evidence for the effectiveness of innovation policies. Similarly, Mexico publishes yearly reports on the achievements of PRODEINN. However, these reports refer mostly to numbers of beneficiaries, events, take up of schemes and other indicators, rather than measuring actual policy performance. All countries undertake innovation surveys that include indicators on innovation in the private sector. These surveys, however, measure the innovative characteristics and performance of firms, including SMEs; they do not directly measure the performance of policies to support innovation in SMEs.

Finally, Chile, Colombia and Mexico undertake regular consultations on innovation policy with the private sector, and the innovation-related agencies in all the LA7 countries publish annual reports.

Sub-dimension 5.2. Support services for SME innovation

As with "generic" BDS for SMEs and entrepreneurs, *innovation support services* comprise a very wide category of support covering counselling and consulting, training and information and advice for innovation. These services are also closely linked to the hosting and advice support provided by incubators and accelerators. In addition, innovation support services comprise specific categories such as technology transfer, research commercialisation (e.g. through linkages between research centres and enterprises or by supporting spin offs from research centres), and support for managing intangible and intellectual assets, to cite a few. Innovation support programmes can also take the form of direct service provision through government agencies, vouchers to finance innovative activities, and government support for independent service providers (incubators, universities, etc.).

This sub-dimension attempts to compare the scope of the provision of support services among LA7 countries by focusing on a few elements of the policy offer and the ease of access to related information.

The results for this sub-dimension show that all LA7 countries undertake innovation surveys or studies to assess the needs of SMEs in this area; they also implement, to different extents, a number of innovation support programmes. However, M&E is weak in some cases (Table 8.3).

Table 8.3. Sub-dimension 5.2 scores: Support services for SME innovation

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	3.00	3.00	3.00	3.00	3.00	3.00	3.00	*3.00*	*0.00*
Implementation	3.32	4.65	3.97	4.52	2.87	4.47	3.45	*3.89*	*0.64*
Monitoring & Evaluation	1.00	3.67	3.67	5.00	4.33	4.33	5.00	*3.86*	*1.27*
Total sub-dimension score	**2.39**	**3.73**	**3.32**	**3.91**	**2.79**	**3.75**	**3.27**	***3.31***	***0.55***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design: No LA7 country undertakes "market studies" when designing innovation support programmes, but all of them consult with the private sector

The planning and design of support services for SME innovation was explored earlier in sub-dimension 5.1, which focuses on the institutional framework for policies in this area. This block focuses on two very specific indicators: (a) whether there has been specific market research carried out to determine the innovation support measures that are needed in each country, and (b) whether the private sector is consulted before the design of support services.

All countries perform at the same level in this area. Indeed, although no country undertakes "market research" per se (i.e. an analysis of the supply of innovation support services available in a country and SME demand for these services), all of them undertake some form of diagnostics when designing their innovation support programmes (innovation surveys, studies by research institutions or consulting firms, etc.). In addition, all countries claim to undertake formal and informal consultation processes when designing their programmes. The nature of the questionnaire used for this assessment does not yet allow us to distinguish nuances between these diagnostic methods.

Implementation: Although LA7 countries administer numerous programmes to foster innovation among SMEs and entrepreneurs, online access to that information is often fragmented and limited

This block looks at the diversity of innovation support services for SMEs, in particular:

- The scope of institutional support services – including incubators for innovative start-ups, technology transfer offices, innovation centres, science and technology parks, and accelerators;
- The existence of innovation awareness raising events; and
- The availability of online information on these schemes.

All countries provide support to business incubators and accelerators and two of them (i.e. Chile and Mexico) have created a national incubator programme or network with guidelines that the beneficiaries must follow to receive government support, mostly under the form of subsidies that cover a percentage of their operation costs. Furthermore, in an effort to boost innovative entrepreneurship, including by attracting foreign entrepreneurs to set up their business in the country, Chile created Start-Up Chile, a ground-breaking business accelerator that provides grants, training and networking services. Ecuador, in turn, implements a flagship innovation programme called *Banco de Ideas*, which supports innovative ideas from entrepreneurs with up to USD 50 000 in grants.

Innovation centres and technology transfer offices are also widely available in the region. For example, in Chile CORFO administers a network of Technological Extension Centres, which are akin to the concept of business development centres but focused on promoting innovation through units operated by universities, institutes and business associations. CORFO offers co-financing of up to 80% of the cost of a project, with a cap of about USD 1.3 million. Argentina, to cite another example, implements a similar programme through its National Agency of Scientific and Technological Promotion. A network of 264 *Unidades de Vinculación Tecnológica* (roughly, Technology Linking Units, or UVTs) operating under the *Fondo Tecnológico Argentino* (FONTAR), offer a platform for enterprises seeking the support of science and technology institutions (e.g. universities or

research centres) to develop and implement innovation and technology projects. In Uruguay, the Industrial Extension Centres (CEI) provide technology advice and support to firms in food, metal, plastic, chemicals and wood industries; at the same time, under *Transforma Uruguay*, a SME technology programme helps those firms with advisory and financial support to adopt technology.

Programmes to raise awareness of innovation among SMEs and entrepreneurs are widespread. For instance, Colombia implements Innovation Alliances, which consist of programmes to encourage business managers to promote innovation. The Innovation Alliances are implemented at the regional level through business associations and consist of three stages: innovation mentality or attitudes, training, and implementation. Through *Innóvate Perú*, the authorities of that country also provide co-financing to organisers of events and workshops aimed to raise awareness on innovative entrepreneurship.

Information on the various programmes available to SMEs and entrepreneurs is often fragmented and limited. Nonetheless, there are a few examples of web portals that consolidate relevant information. The Argentine Innovation Market (*Mercado de Innovación Argentina*, or MIA) is one of these examples. MIA publishes information on projects, opportunities for innovation partnerships, innovation contests, and so on. The portals *Uruguay Emprendedor* and Mexico's *Red de Apoyo al Emprendedor* are similar, though they are not exclusively focused on innovation schemes. It is beyond the scope of this report, however, to assess the extent to which these web portals include complete information on the offer available.

Monitoring and evaluation: all LA7 countries undertake some level of M&E in their innovation programmes, tracking at a minimum the number of beneficiaries, resources disbursed and other indicators

This block looks at the extent to which governments assess the effectiveness of policies and programmes for innovation support to SMEs and entrepreneurs. This includes the collection and publication of statistics on beneficiaries, the impact of the programmes and the level of detail of the M&E systems.

Similar to the findings discussed in Chapter 7 (on BDS) and other chapters dealing with targeted policy support, the assessment finds that all countries undertake some level of M&E in their innovation programmes, tracking at a minimum the number of beneficiaries, resources disbursed and other indicators. These programmes are also assessed at the individual level (i.e. programme or group of programmes), as opposed to the policy level (e.g. the overall results of schemes supporting the adoption of technological innovation).

Sub-dimension 5.3. Financing for innovation

Developing or implementing innovation in business entails a significant level of risk that large firms are naturally better positioned to take compared to smaller ones. For example, large companies can afford to run research and development (R&D) departments, acquire technologies, buy other firms and protect their intellectual property. Small firms, and especially entrepreneurs and start-ups, face much greater difficulties and risks in developing innovative ideas – despite the fact that some of these ideas can revolutionise businesses, industries, economies and the world. These difficulties derive from the uncertainties of new products, services and business models; the lack of tangible and especially immovable assets to pledge as loan collateral; and the absence of markets for private equity, business angels, venture capital and other types of equity investments.

To address these market failures, governments can establish a set of tools to encourage entrepreneurs and start-ups to move on with their ideas and to motivate investors to inject funds into these ideas. These tools can include granting seed capital, providing tax incentives, or encouraging the development of alternative sources of finance (business angels, private equity, crowdfunding, etc.).

This sub-dimension focuses on measures LA7 countries have taken to promote financing for innovative SMEs, start-ups and entrepreneurs. The analysis notes that financing for innovation is a key instrument for countries with productivity agendas and that all LA7 countries have in place tax incentives for R&D activities and financial support for innovative activities. However, M&E of these programmes is in some cases weak.

Table 8.4. Sub-dimension 5.3 scores: financing for innovation

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	4.33	3.00	4.67	5.00	4.67	4.67	4.33	*4.38*	*0.60*
Implementation	4.00	4.00	4.00	4.50	4.50	5.00	4.00	*4.29*	*0.36*
Monitoring & Evaluation	3.40	1.80	2.60	4.60	1.40	5.00	4.60	*3.34*	*1.34*
Total sub-dimension score	**4.00**	**3.21**	**3.95**	**4.70**	**3.94**	**4.88**	**4.24**	***4.13***	***0.55***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design: financing for innovation is a key instrument for LA 7 countries with productivity agendas

This segment looks at the degree to which LA7 countries include elements to foster financing for innovation in SMEs in their national innovation strategies; whether the financing support schemes require co-financing by the beneficiary (i.e. they are not a total subsidy); and whether there are tax incentives for R&D, among other matters.

The analysis finds that regional performance in this area is high. Financing innovation is indeed one of the main tools used by those countries that have in place productivity agendas (Chile, Colombia and Uruguay) or an innovation plan (Mexico). Furthermore, apart from the agendas, all LA 7 countries have in place tax incentives for R&D activities (albeit those tend to have a greater uptake from larger companies, which are the ones more actively engaged in R&D).

Implementation: programmes for financing for innovation seem well funded and operational

This block looks into the availability of adequate budgets to implement programmes for financing for innovation, whether those programmes are actually operational and the levels of uptake of R&D support by SMEs.

The analysis also finds high performance in this area as all countries mobilise government budgets to fund their financing for innovation programmes. The budgets are estimated to be sufficient, at least to cover the main goals of those programmes. All countries express that both SMEs and large firms take advantage of tax incentives for R&D; however, there is no clear indication of the share of SMEs that actually use those incentives.

Monitoring and evaluation: More could be done to improve the M&E of programmes for financing for innovation

This section looks into the level of monitoring of the effectiveness of programmes for financing for innovation, and whether the private sector is regularly consulted in this regard.

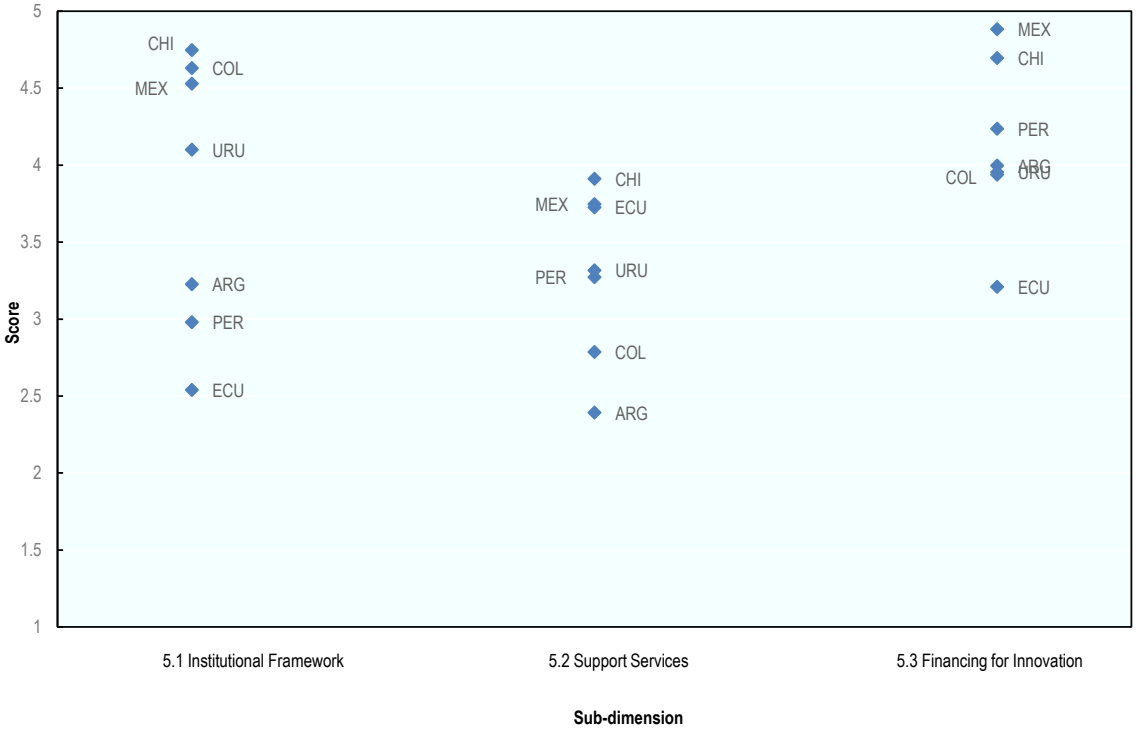
Consistent with other M&E sections in this report, the analysis finds that performance is generally lower in this area, except for those countries that collect and publish information on public support (in innovation and other policy areas). The responses to the survey for this report also indicate that the views of the private sector in this area are not collected regularly, except for a few cases.

The way forward

Promoting innovative SMEs and entrepreneurship is a priority for all countries in the region and an important step to increase productivity and competitiveness. This chapter focused on the innovation components of the national productivity and economic agendas, which provide the main guidance for enterprise development policy in most LA7 countries – and which, therefore, are the object of analysis throughout this report. The analysis notes that the productive transformation and development agendas of Chile, Colombia and Uruguay put forward a number of initiatives designed to foster innovation in the private sector, including SMEs and start-ups. These initiatives are part of a wider set of policy priorities that include fostering investment, improving the business and regulatory environment, and strengthening institutions. In the case of Mexico, fostering private sector innovation is the main goal of the PRODEINN, which is actually the core SME and entrepreneurship guiding strategy. The analysis also notes that the Ecuadorean Industrial Policy and the National Strategy for Economic Change (*Estrategia Nacional para el Cambio de la Matriz Productiva*, or ENCMP) mention innovation as a priority area for economic diversification and competitiveness. Nonetheless, these documents do not put forward specific actions or programmes to support innovative SMEs and entrepreneurs. Finally, Argentina and Peru are in the process of developing national innovation strategies (i.e. strategic plans whose focus is the promotion of innovation in a wider context, not only in the private sector). Figure 8.3 displays the performance of LA7 countries in all three sub-dimensions analysed in this chapter.

The chapter also finds that a number of national innovation systems are in place in all countries except in Ecuador and Peru. These national innovation systems' mission is to provide strategic direction to innovation policy design and execution. Nonetheless, there is no concrete evidence that the systems include elements specific to the promotion of innovation in SMEs and start-ups; there are no specific SME and entrepreneurship committees focusing on this important policy area.

Figure 8.3. Weighted scores for Dimension 5 by sub-dimension



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

In terms of the implementation of innovation support programmes, the analysis points to a very extensive offer of services covering, with variations, all programmes assessed in this report (support for incubators, accelerators, technology transfer offices, access to finance for innovative ventures, R&D incentives, etc.). Yet, the availability and accessibility of information on these schemes is often very scattered and at times limited. Furthermore, in several cases it was not possible to verify unambiguously the levels of implementation of the actions put forward in the productive transformation and development agendas. For example, Chile, Colombia and Mexico have indeed M&E systems where it is possible to monitor the progress of implementation of the agendas or individual programmes. However, when a search for specific programmes mentioned in the agendas is undertaken in the M&E systems, it rarely yields concrete results.

Building on current efforts, LA7 policy makers could prioritise the steps shown in Table 8.5 going forward.

Table 8.5. Dimension 5: Policy recommendations

Policy Area	Challenges/Opportunities	Policy recommendations
Institutional framework for innovation policy	Some countries *are implementing* productive transformation and development agendas that include innovation as an important policy element. Other countries *are developing* national innovation strategies.	• **Develop new strategic plans for innovation policy for SMEs and entrepreneurs** in those countries that have finished implementing their multiyear agendas in 2018. • **Establish innovation components in economic agendas or pass the draft innovation agendas in countries that do not yet have a strategy in this area.** • **Consider whether the level of detail in the innovation pillars and actions identified in the agendas is sufficient.** This assessment does not aim to determine how appropriate and complete the innovation actions in the agendas are. However, in some cases the diagnostics sections of the innovation performance of the private sector appear as too narrow. More importantly, there appears to be no straightforward link between the diagnostics and the actions. In some other cases, the diagnostics sections are more detailed, but there is also an apparent absence of a link between diagnostic and priority actions. • **Develop or strengthen national innovation systems,** including by specifying explicit roles and coordination mechanisms among actors. Include SME innovation committees in those systems to facilitate a strategic approach in this area.
Support services and financing for innovation	Most countries implement a wide variety of support programmes for innovation, including financing for innovation. However, information for entrepreneurs on those programmes is often disperse. Furthermore, evidence on M&E results is often absent.	• **Promote a more structured approach to disseminating information on innovation support programmes, including through online platforms.** • **Better track and publish information on the impact of innovation support, both at the programmatic and policy levels.**

References

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Chapter 9. Productive transformation (Dimension 6)

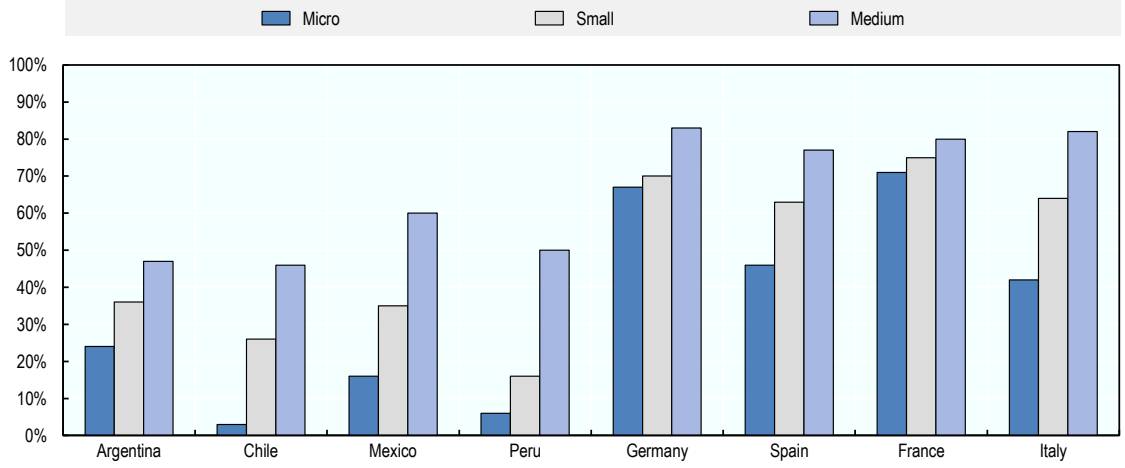
The framework used to assess the level of development of policies to harness SMEs as agents of productive transformation in the LA7 region covers the strategic level, examining policy frameworks to enhance productivity and whether these frameworks harness the role of SMEs, as well as the programmatic level, examining specific programmes that encourage SMEs to associate via productive agglomerations, such as clusters, and integrate into regional and global value chains.

The LA7 countries as a whole are relatively well advanced in the areas covered by this dimension, with all obtaining results above a level 3. However, the pilot or relatively new nature of many of the current LA7 programmes in this area underscores the importance of M&E systems; while the results demonstrate a solid level of policy implementation, the actual impact of these programmatic efforts remains to be seen. In addition, establishing priority sectors for productive transformation at a strategic level along with corresponding action plans, even while maintaining flexibility for future adjustments, could help policymakers to more clearly separate between general SME development measures relevant for the entire SME population and more specific interventions in priority sectors related to the process of productive transformation.

Introduction

As noted in Chapter 1, while the ability of firms to increase productivity is regarded as an important determinant of competitiveness, the Latin America and the Caribbean (LAC) region in particular faces structural challenges related to low productivity and high levels of inequality, which are mutually reinforcing (OECD, IDB, 2016[1]; ECLAC, 2017[2]; CAF, 2013[3]). In the LAC region, SMEs produce approximately 30% of GDP. This contrasts with the much higher contribution of SMEs to GDP in OECD countries, which reaches 60% (OECD, UN ECLAC, 2012[4]). While it is normal for larger companies to be more productive than microenterprises, the productivity gap in the LAC region is much wider than that observed in OECD countries. For example, in Figure 9.1, the national productivity levels of microenterprises in the Latin American countries (Argentina, Chile, Mexico, Peru) range from 3% to 24% of the national productivity levels of large companies; these rates increase to 16% to 36% for small firms. In contrast, micro and small companies in Germany, Spain, France and Italy have national productivity levels that range from 42-71% and 63-75%, respectively, of those of large firms (OECD, UN ECLAC, 2012[4]).

Figure 9.1. SME productivity relative to large enterprises (selected Latin American and OECD countries)



Note: Average productivity levels for micro, small and medium enterprises are expressed as a percentage of that of large enterprises, with average large enterprise productivity totalling 100%.
Source: (OECD, UN ECLAC, 2012[4])

This lower-than-average performance by LAC SMEs is reinforced by the structure of the region's economy and its sectoral distribution of employment (OECD, UN ECLAC, 2012[4]).[1] While progress was made in the first decade of the 21st century,[2] in 2013, employment in low-productivity sectors – encompassing microenterprises (establishments employing up to five people), unskilled self-employed workers (own-account workers and unpaid family workers without vocational or technical qualifications), and domestic employees – accounted for 49.3% of all workers in the LAC region (ECLAC, 2016[5]). These employment patterns lead to a vicious cycle, as large productivity gaps reinforce inequality in other areas (skills, access to networks, adoption of technical developments, etc.) (OECD, UN ECLAC, 2012[4]). For example, various country profiles included in this study demonstrate that a high wage gap exists between SMEs and large firms (see Table 9.1), with employees of microenterprises in these countries earning salaries that amount to only 8-21% of those received by employees of large firms.[3] The gap is less severe

for small firms, though still substantial, with small-firm employees earning 39-66% of the wages of employees of large firms.

Table 9.1. Average salary per worker, selected LA7 countries (as % of large firms)

Size	Argentina (2005)	Colombia (2015)	Mexico (2013)	Peru (2007)	Uruguay (2001)
Micro	12%	-	12%	8%	21%
Small	39%	58%	45%	66%	41%
Medium	55-68%	74%	65%	92%	100%

Note: For **Argentina** data, "micro" corresponds to firms with 0-5 employees, and "small" to firms with 6-10 employees. Data includes two categories for medium enterprises ("Medium 1" = 11-50 employees, "Medium 2" = 51-100 employees), whose workers receive average salaries of 55% and 68% of those of large firms, respectively. Data for **Colombia** corresponds only to the manufacturing sector, and does not include firms with less than nine employees. "Small" corresponds to firms with 10-49 employees, and "medium" to firms with 50-199 employees. For **Peru** data, "micro" corresponds to firms with 1-10 employees; "small" to firms with 11-50 employees, and "medium" to firms with 51-200 employees. For **Uruguay** data, "micro" corresponds to firms with less than five employees; "small" to firms with 5-49 employees, and "medium" to firms with more than 49 employees. Size categories do not correspond with the official SME definition due to lack of data. The sampling framework was built on administrative records. For **Mexico**, data corresponds to the official SME definition.
Source: (INEGI, 2015[6]; INDEC, 2017[7]; DANE, 2016[8]; INEI, 2008[9]; INE, 2001[10]).

Finally, as noted in Chapter 1, while these comparisons of SME productivity levels in the LAC region are revealing, they underestimate the magnitude of the productivity problem, as most are based on formal enterprises. Since the informal and self-employed sector can be expected to have productivity levels that are even lower than those captured by these measurements, the gaps between large firms and the rest of the region's business universe summarized so far are an underestimation of the real existing gaps.

Productive agglomerations and cluster enhancement

In general, SMEs face particular barriers related to productivity growth that are related to their size; investing in capital, technology, training, etc., is often more costly, necessitating a larger percentage of the SMEs' profits/income than that of larger firms. These size-related barriers can be confronted by engaging in associative activities, such as clusters, and interaction/integration with industrial and/or science parks.

Clusters are geographically close groups of interconnected companies and associated institutions in a particular field, linked by common technologies and skills; companies within a cluster compete, but also co-operate. They normally exist within a geographic area where ease of communication, logistics and personal interaction is possible (Porter, 2003[11]). Clusters enable productivity growth through increases in efficiency and in the quality and differentiation of goods and services, thanks to the provision of a favourable environment for innovation and entrepreneurship (OECD, 2009[12]). While many of the benefits of clusters occur naturally, OECD research has found that public policy can play an important role, in both the emergence and development of existing clusters, via brokering of networks and research collaboration, provision of infrastructure, funding of education and training, and vision mobilisation and coordination (OECD, 2009[12]). Furthermore, the weak involvement of small firms in cluster projects is considered as one of the main barriers hindering cluster development. Clusters do not usually integrate small enterprises in traditional sectors into their core research, development and innovation

activities; however, innovation in these firms could be boosted by closer participation in cluster activities (OECD, 2009[12]).

Overall, the OECD has identified collaboration between research organisations, universities and enterprises; critical human capital mass and skills enhancement; public-public and public-private partnerships to ensure co-ordinated policy strategies; strong public sector commitment; and social capital, via creation and strengthening of networks of trust and exchange, to be key factors for successful cluster development, among others. By contrast, in addition to the weak involvement of small firms, weak entrepreneurial clusters and research incentives; lack of seed capital; shortages of qualified labour; poor policy co-ordination; and social divisions serve as important barriers to successful clusters (OECD, 2009[12]).

Integration into regional and global value chains

The globalisation of value chains is central to today's discussions on trade. It is linked to the growth of global production networks in which multinational companies play an important role and has resulted in the physical fragmentation of production into optimal locations for each of the various stages. As a result, finished products are now less important in trade flows, opening up new possibilities for developing and emerging economies to engage in areas of production that were not previously feasible, and to industrialise more rapidly. Without these chains, economies would have to master entire production processes in order to compete on the world market.

This phenomenon has further opened up the possibility of SMEs participating in international trade, as well as regional value chains, as suppliers of goods and services to larger enterprises. Indeed, previous OECD work has concluded that the establishment of sustainable linkages between SMEs and multinational enterprises (MNEs) is one of the most effective ways to integrate domestic suppliers into global value chains, or GVCs (OECD, 2008[13]; OECD, 2018[14]). The fragmentation of production also opens up opportunities for SMEs in niche products and services.

While integration into regional and global value chains is a way for SMEs to internationalise their activity, whether directly or indirectly, it also has important implications for productivity levels. In order to qualify as quality suppliers to multinational enterprises, SMEs must acquire various technical and quality standards, whether they be official product certifications or technological capacities (such as adoption of e-commerce). For this reason, SMEs that are integrated into regional or global value chains are often more productive than their non-integrated peers (OECD, 2018[14]; OECD, 2015[15]). Overall, participation in GVCs can offer potential improvements in efficiency or productivity in the following categories: upgrading production process efficiency; product upgrading; functional upgrading, which involves adding new functions with a greater added value to the chain; and inter-sectoral upgrading, which involves expanding clusters into new production activities (OECD, WTO, World Bank Group, 2014[16]). As an OECD study on barriers to SME access to international markets states, "…there are strong links between innovation, internationalisation and productivity growth. Internationalisation allows access to new markets, allows the absorption of excess production capacity or output, and improves resource utilisation and productivity. It exposes the SME to international best practice, knowledge, and technology through greater experience of the competitive pressures of the international trading environment" (OECD, 2008[17]).

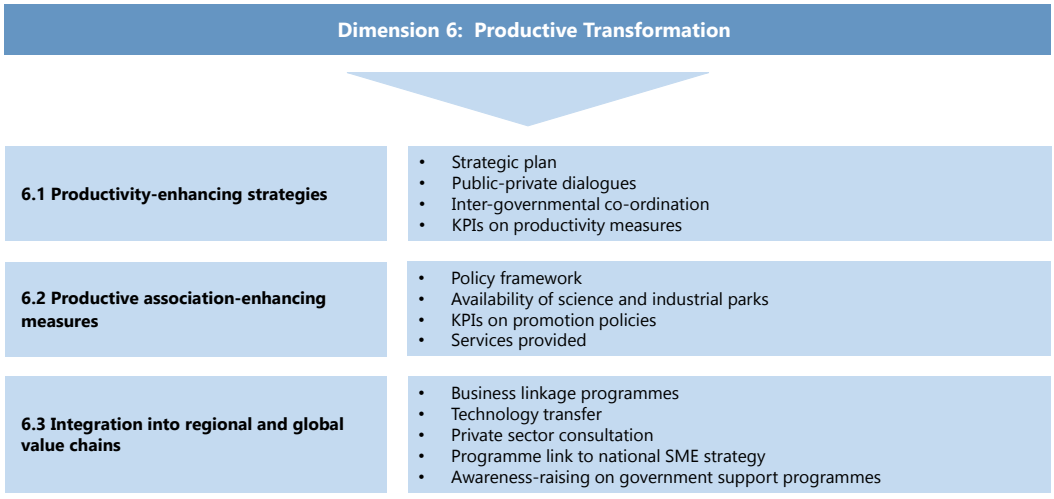
Public policy can play a key role on a variety of fronts in overcoming SME barriers to integrate in regional and global value chains, including general goods and services trade

policies, harmonisation of regulatory standards, access to finance, trade facilitation, overcoming information barriers, and support to technological and skills upgrading (OECD, 2018[14]).[4]

Assessment Framework

The framework used to assess the level of development of policies to harness SMEs as agents of productive transformation[5] in the LA7 region covers three sub-dimensions. The first sub-dimension (6.1) focuses on the strategic level, examining policy frameworks to enhance productivity and whether these frameworks harness the role of SMEs. The latter two sub-dimensions focus on the programmatic level, examining specific programmes that encourage SMEs to associate via productive agglomerations, such as clusters (sub-dimension 6.2), and integrate into regional and global value chains (sub-dimension 6.3). The sub-dimensions and their key components are presented in Figure 9.2.

Figure 9.2. SME PI LA7 framework for assessing Dimension 6



The three sub-dimensions were weighted on the basis of expert opinion and the result of discussions with national co-ordinators, with each sub-dimension assigned an equal weight of 33.33%. As sub-dimension 6.1 is focused at the strategic level, while the latter sub-dimensions are focused on the programmatic level, the implication of this weighting is that the overall dimension scores are tilted in favour of active programmes to support associativity and integration, even in the absence of strategic frameworks.

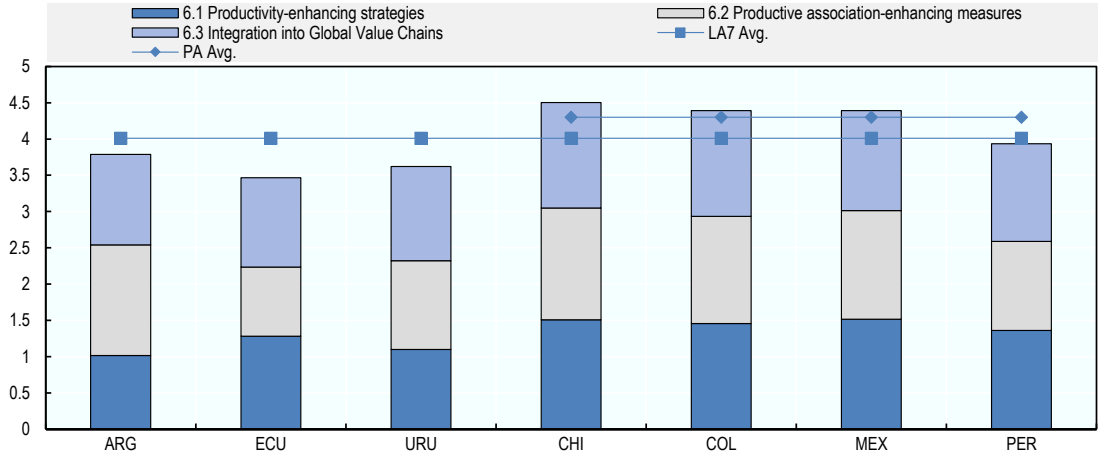
Each of the sub-dimensions consists of three thematic blocks that are weighted as follows: (a) planning and design, 35%; (b) implementation, 45%; and (c) monitoring and evaluation (M&E), 20%. This follows the standard weighting model utilised throughout this study.[6]

Analysis

The LA7 countries as a whole are relatively well advanced in the areas covered by this dimension, with dimension scores assigned above a level 3 for each LA7 country (see Figure 9.3), demonstrating a solid level of policy implementation. One can typically find operational strategies for productive transformation, which target SMEs via measures to encourage associativity and facilitate inclusion in value chains. However, the robustness of

LA7 productive transformation strategies – in terms of their design, monitoring, and evaluation – varies, leaving room for the construction of more rigorous and time-bound action plans, which should be used to expand existing monitoring of key performance indicators (KPIs). Using the results of these M&E efforts to inform future policy-making cycles will be essential to effectively evaluate the performance of existing LA7 strategic and programmatic efforts in harnessing SMEs to contribute to productive transformation.

Figure 9.3. Weighted scores for Dimension 6: Productive transformation



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Sub-dimension 6.1: Productivity-enhancing strategies

The indicators covered in this sub-dimension examine existing strategic frameworks for productivity enhancement to assess whether these frameworks harness the role of SMEs. They examine each strategy's robustness; private sector, civil society and inter-ministerial involvement; and monitoring and evaluation (M&E) efforts.

Table 9.2. Sub-dimension 6.1 scores: Productivity-enhancing strategies

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg*	*StD*
Planning & Design	2.57	3.93	4.14	4.29	4.36	4.36	4.71	*4.05*	*0.64*
Implementation	3.40	3.40	3.00	5.00	4.60	5.00	4.20	*4.09*	*0.76*
Monitoring & Evaluation	3.10	4.71	2.43	3.86	3.86	3.86	2.71	*3.50*	*0.74*
Total sub-dimension score	**3.05**	**3.85**	**3.29**	**4.52**	**4.37**	**4.55**	**4.08**	***3.96***	***0.55***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

The scores (Table 9.2) suggest that the LA7 as a whole are moderately well advanced in terms of productivity-enhancing strategies. In most countries, broad strategies that incorporate SME measures are operational (see Table 9.3). However, the robustness of these strategies – in terms of their design, monitoring and evaluation – varies, leaving room for the construction of more rigorous and time-bound action plans.

Planning and design: Broad strategies exist, but lack robust mechanisms for implementation and monitoring

It is interesting to note here that there is a strong alignment between the scores of this sub-dimension and those shown in sub-dimension 1.2 on "Strategic Planning, Policy Design and Coordination" related to countries' institutional frameworks for SME development. This is due to the fact that, as explained already in Chapter 4, LA7 countries do not have explicit SME development strategies, but rather generally incorporate their strategies for SME development into wider productive transformation policy agendas. Table 9.3 displays the various policies examined within both sub-dimensions 1.2 and 6.1.

Table 9.3. Comparison of LA7 Strategic Frameworks for SME Development and Productive Transformation

Country	Productive Transformation Strategy	SME Development Strategy	Observations
Argentina	Various actions at the programmatic level (sectoral working groups, productive transformation subsidies and financing programme, etc.), but no overarching strategy.[7]	Various actions at the programmatic level led by the Secretariat of Entrepreneurs and SMEs (SEPyME), but no overarching strategy.	-
Chile	Productivity, Innovation and Growth Agenda 2014-18	Productivity, Innovation and Growth Agenda 2014-18: "Support to SMEs" component	-
Colombia	CONPES Document 3866 of 2016 – Productive Development Policy 2016-2025	The policy includes various references to SMEs throughout, in both the diagnostic and lines of action, but no dedicated strategic component.	-
Ecuador	Industrial Policy 2016-2025	The policy includes various references to SMEs throughout, in both the diagnostic and lines of action, but no dedicated strategic component.	-
Mexico	National Development Plan 2013-18: Programme to Democratise Productivity (federal government) Innovative Development Programme 2013-18 (Secretary of Economy)	Programme to Democratise Productivity: SME Strategy Component (Strategy #2.3); Innovative Development Programme 2013-18: SME Strategy Component (Sectoral Objective #3)	-
Peru	Competitiveness Agenda 2014-18 (federal government, led by the Ministry of Economy and Finance); National Productive Diversification Programme 2016-2024 (Ministry of Production)	Multiannual Strategic Sectorial Plan 2017-2021, or PESEM (Ministry of Production)	The Competitiveness Agenda includes various SME-related strategic goals linked to a previous "Strategic Diversification Plan 2014-16" implemented by the Ministry of Production. The National Productive Diversification Programme 2016-2024 shifts its focus to infrastructure. The PESEM is separate from the above two strategies, and sets specific actions and quantitative objectives for the whole productive sector and the SME sub-sector.

Country	Productive Transformation Strategy	SME Development Strategy	Observations
Uruguay	*Transforma Uruguay*	Various actions at programmatic level led by the National Directorate of Handicrafts, Small and Medium Enterprises (DINAPYME), but no overarching strategy.	*Transforma Uruguay* includes various SME-targeted projects, but no dedicated SME component.

While strategic frameworks are in place for all LA7 countries, these strategies generally lack robust action plans and quantifiable time-bound targets (with the exceptions of Colombia and Peru), often not going beyond a collection of project fiches and/or listing of lines of action. All strategies are inter-ministerial in nature, with corresponding coordination bodies that meet regularly, and incorporate at least some private sector and civil society (research/academia) feedback into the policy design process.

Implementation: LA7 strategies are operational and incorporate public-private dialogue

All of the strategies included in Table 9.3 are operational. Four of the countries report that their implementation budgets are sufficient, but only to meet the strategies' central goals. The exceptions are Chile and Mexico, which report they are well funded to implement all included measures; and Ecuador, which reports an insufficient budget.

The implementation of each of these strategies has also been accompanied by public-private dialogue on productivity (see Table 9.4). Indeed, during the period of time under assessment, Argentina's efforts focused on this type of dialogue, instating a programme of "Executive Roundtables for Productive Transformation" to meet with representatives of priority sectors and corresponding researchers and academics to define a collective work plan, via a formal agreement, to increase the sector's productivity and competitiveness. Peru launched a similar effort in May 2017, focusing on three priority sectors,[8] as well as the transversal themes of public procurement and administrative simplification. The other countries in this study have implemented "consultative committees" on productivity (see Table 9.4 for more detail). In all cases, these committees were created in alignment with the design of the country's productive transformation strategy, and often have the mandate to review and report on the strategy's implementation.

Table 9.4. Public-Private Dialogues on Productivity in LA7 Countries

Country	Consultative Committee Name	Private Sector Participation	Mandate/Observations
Argentina	N.a. – instead, implements a series of "Executive Roundtables for Productive Transformation" for various priority sectors	Ad hoc: sectoral representatives and corresponding researchers and academics	Define a collective work plan, via a formal agreement, to increase the sector's productivity and competitiveness. These sectoral agreements generally contain specific, measurable and time-bound objectives, and divide responsibilities between public and private actors; however, there is no consolidated information available, and detailed information on implementation and follow-up remains internal.
Chile	National Productivity Commission	Board of directors is composed of eight academics and professionals, appointed by the President for a period of three years.	Rather than monitoring and reporting on the advancement of the Productivity, Innovation and Growth Agenda 2014-18 point by point, the Commission produces an annual report

Country	Consultative Committee Name	Private Sector Participation	Mandate/Observations
			on key performance indicators (KPIs) related to productivity growth, and is tasked by the President to undertake studies on various other specific issues.
Colombia	National System of Competitiveness and Innovation – includes regional commissions and technical committees	The "Mixed Committee on Productive Development" includes the "Private Council on Competitiveness", which is composed of representatives of more than 30 business – active in various sectors and regions – as well as four universities and the Colombian Federation of Chambers of Commerce (*Confecámaras*).	The Technical/Mixed Committees meet at least once a month.
Ecuador	Productive and Tax Consultative Council	Includes six private sector representatives, alongside various ministers. All are selected by the President.	Established in June 2017 by the new administration of President Lenín Moreno, after the Industrial Policy 2016-2025 was already in place. Launched a three-month long dialogue process, culminating in a document with 139 recommendations for the President.
Mexico	National Productivity Committee	Composed of various public, private and academic representatives intended to represent priority sectors.[9]	Meets 2-3 times per year, with public summary records. Meetings often also result in recommendations directed towards a specific sector.
Peru	National Competitiveness and Formalization Council	Board of directors includes two regional representatives (Huánuco and Paracán), as well as the President of the National Confederation of Private Business Institutions.	Responsible for monitoring and publicly reporting on the advancement of the 2014-2018 Competitiveness Agenda each semester.[10] Other active public-private dialogue: "Executive Roundtables to Elevate Productive Competitiveness" – with the forestry and aquaculture, agro-exports, and tourism sectors.
Uruguay	Consultative Councils – *Transforma Uruguay*	Public, private and academic members as well as representatives of local governments and financial institutions. However, the names of the specific institutions/organisations and/or persons present are not made public.	Under construction at the time of the assessment – first Council (Business Development) established and meeting held in May 2018. Subsequently, three sub-committees formed on the topics of financing, innovation and the social economy.

Monitoring and evaluation: Key performance indicators (KPIs) on productive transformation exist, but usually lack a connection to SMEs

While action plans with time-bound goals and indicators are lacking, most LA7 countries have established more macro-level KPIs to measure and analyse the productive transformation process. In Ecuador, Mexico and Peru, these KPIs include specific performance-related measurements of the SME sector (see Table 9.5). In support of these M&E efforts, Chile's National Productivity Commission publicly publishes all of its studies on its website, and Uruguay is developing a "Productive Observatory" within its *Transforma Uruguay* strategy.

All LA7 countries issued regular public reports on their strategies' implementation. These usually took the form of written reports, though Chile maintained a dedicated monitoring website for its Competitiveness Agenda, with regular updates on each project, and Colombia uses a web-based public monitoring system related to the "action and follow-up plan" established for each public policy.[11] However, detailed public information on the

beneficiaries of the actions within each strategy is lacking; Mexico's National Entrepreneur Institute (INADEM) is a good example of the publishing of general public information on its "Open Data" website,[12] as is Argentina at the programmatic level, with its various SME support programme-related datasets.[13]

Table 9.5. Monitoring of Productivity KPIs in LA7 Countries

Country	Monitoring of KPIs related to Productive Transformation	Monitoring of KPIs related to SMEs' Productive Transformation
Argentina	Business-related indicators, including export levels by size and high-growth enterprises, measured by the Ministry of Modernization, but not in relation to any particular public strategy.	
Chile	National Productivity Commission's annual "Index of Productivity"	n.a.
Colombia	Seven "results indicators" set for CONPES 3866, related to the number of businesses helped/certified, export values, financing mobilised and employment rates.	The "Action and Follow-up Plan" for CONPES 3866 assigns a number of actions as the responsibility of the Ministry of Commerce, Industry and Tourism (MINCIT)'s SME Division – KPIs related to the number of business helped are generally assigned.
Ecuador	Trimestral monitoring of various KPIs, including the average labour productivity of industrial SMEs, related to the five thematic categories of the Industrial Policy 2016-2025.	
Mexico	Overall KPIs established in relation to both the National Development Plan 2013-18: Programme to Democratize Productivity (Federal Government) and Innovative Development Programme 2013-18 (Secretary of Economy), such as rate of informal labour, index of labour productivity, and national investment in science, technology and innovation.	Three KPIs established to measure the impact of SME-related actions within the Innovative Development Programme 2013-18: growth rate of SME's gross production, participation of women, and number of days required to register a new business.
Peru	Quantitative indicators established for each action within both the Competitiveness Agenda 2014-18 and the National Productive Diversification Programme 2016-2024, such as "design and execute ten competitiveness plans for clusters", "increase by 120% the number of accredited laboratories" and "double the number of businesses with certified management systems".	Various actions within the Competitiveness Agenda 2014-18 are SME-related and have corresponding action-oriented indicators, such as "increase by 20% the sales of SMEs that participated in the Provider Development Programme".
Uruguay	"Productive Observatory" under development within its *Transforma Uruguay* strategy.	

The private sector has sometimes been consulted regarding the implementation of these strategies. Colombia depends on its regional competitiveness commissions (see Table 9.4) for this feedback, and Chile has a consultative committee specifically for SMEs that meets at least twice each year. Ecuador's Ministry of Industry and Productivity conducts an online public survey each year, responding publicly to the questions and comments received regarding its work. However, with the exception of Ecuador, the LA7 countries were not able to cite specific instances in which this feedback resulted in implementation adjustments. Overall, Uruguay's M&E efforts related to productive transformation are foreseen within *Transforma Uruguay*, but are still under development, thus resulting in a lower score for the country within this thematic block.

Sub-dimension 6.2: Productive association-enhancing measures

The indicators covered in this sub-dimension explore support programmes designed to enhance associativity via the formation and strengthening of clusters and the establishment of industrial and scientific parks. It assesses whether these programmes are used for SME development, as well as M&E efforts.

Table 9.6. Sub-dimension 6.2 scores: Productivity-enhancing strategies

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg*	*StD*
Planning & Design	5.00	4.56	5.00	5.00	4.56	5.00	3.22	*4.62*	*0.60*
Implementation	4.33	2.20	2.73	4.60	4.60	4.60	4.33	*3.91*	*0.93*
Monitoring & Evaluation	4.33	1.33	3.50	4.00	3.83	3.33	3.00	*3.33*	*0.91*
Total sub-dimension score	**4.57**	**2.85**	**3.68**	**4.62**	**4.43**	**4.49**	**3.68**	***4.04***	***0.61***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

The scores (Table 9.6) suggest that the LA7 countries as a whole range from moderately advanced to well advanced in terms of association-enhancing support programmes. All countries have active support programmes for industrial cluster formation and strengthening, and SMEs are given preferential treatment in most cases. Furthermore, the development of industrial parks is increasingly linked to broader productive network and SME development efforts. However, M&E efforts are mixed: while some programmes (Argentina, Chile) have excellent systems, including external impact evaluation, other programmes are in pilot phase and are still developing follow-up measures.

Planning and design: Active support programmes for industrial cluster formation and strengthening are present in all LA7 countries

The LA7 countries generally score quite high within this thematic block, as their support programmes were designed in alignment with the productive transformation strategies assessed in sub-dimension 6.1, give preference to SMEs for support,[14] consulted the private sector during their design, and were designed on the basis of background studies of existing business networks and agglomerations. Peru scores slightly lower in this thematic block, as it is the only country to lack private sector feedback and background studies in its programme design.

Implementation: Various longstanding and pilot mechanisms exist to strengthen both industrial clusters and industrial parks

Table 9.7 summarises the support programmes active in the LA7 countries in terms of both industrial clusters and parks. Most of these programmes (Chile – CORFO; Colombia, Mexico, Peru, Uruguay) are implemented with government funds and take the form of a call for proposals, in which an already established cluster must present an improvement plan for co-financing. Programmes in Chile (Strategic Programmes), Colombia (Competitive Routes) and Ecuador give a more active role to the government to actively form or strengthen clusters within priority sectors. Various programmes (Chile, Peru, Uruguay) were in a pilot implementation phase at the time of this assessment. Most countries report adequate funding, suitable for the realization of central goals, with only Argentina reporting fully satisfactory funding; Ecuador, on the other hand, is the only country to report insufficient funds.

Regarding industrial parks, various LA7 countries (Colombia, Ecuador, Peru, Uruguay) have recently updated, or are still updating, legal frameworks governing industrial parks, with the objective of promoting their development and creating more incentives for public-private-academic collaboration. Mexico is the only country to currently have in place a national association of industrial parks, as well as a network of scientific and technology parks. In the cases of Argentina and Chile (Strategic Programmes), existing industrial parks are regularly incorporated into the industrial cluster development support programmes;

furthermore, Argentina and Peru have additional support programmes specifically focused on industrial park development.

Table 9.7. Comparison of Active LA7 Cluster and Industrial Park Support Programmes

Country	Cluster Support Programme(s)	Method of Programme Delivery	Funding	Industrial Park Support Programme(s)
Argentina	Local Productive Systems	Passive: Call for Proposals – co-financing support for both new clusters and the strengthening of existing clusters.	United Nations Development Programme (UNDP)	Local Productive Systems includes financing for the installation of new centres. Industrial parks are also integrated into the cluster support plans. National Industrial Park Programme (est. 2015) – creating a registry of national industrial parks, and co-financing relevant studies and collective infrastructure.
	Competitiveness Support Programme – Conglomerates	Passive: Call for Proposals – co-financing support for the strengthening of existing clusters to achieve various strategic goals (incorporation of innovative technology, amplification of export markets, etc.).	Inter-American Development Bank (IDB)	
Chile	Strategic Programmes Of Intelligent Specialisation (Production Development Corporation (CORFO))	Active government intervention to make roadmaps for the establishment of new/strengthening of existing clusters in priority sectors.	Government budget	n.a.
	Reactivation Support Programme; Associative Development Projects; Competitive Nodes (CORFO)	Passive/Call for Proposals - co-financing of training and technical assistance- related costs to groups of SMEs working collectively.		
	"Juntos"- Fund for Associative Businesses (Technical Co-operation Service (SERCOTEC))	Passive: Call for Proposals - financing of an external consultant to conduct an associativity assessment and create a roadmap, and then co-financing of specific related initiatives.		
Colombia	Competitive Routes	Active government intervention to make roadmaps for the establishment of new/strengthening of existing clusters in priority sectors.	Government budget – INNpulsa (MINCIT)	MINCIT is currently working to develop norms for the recognition and regulation of scientific/technology/innovation parks. This is in alignment with a 2016 tax reform (Law 1819), which incentivizes investment in these parks.
	"REDCluster"	Mapping of existing clusters and database for information on relevant public support programmes.		
	"InnovaCluster"	Passive: Call for Proposals – co-financing support for the strengthening of existing clusters that have already participated in "Competitive Routes" to achieve various strategic goals (incorporation of innovative technology, amplification of export markets, better governance).		
Ecuador	"Development Pole Strategies" for Priority Sectors	Active support from the Ministry of Industry and Productivity (MIPRO) to establish norms, management	Government budget + private investment	Special Economic Development Zones (ZEDEs) – overseen by MIPRO, but financed by private investment.

Country	Cluster Support Programme(s)	Method of Programme Delivery	Funding	Industrial Park Support Programme(s)
		systems, zoning, and attract investment for the cluster. Projects currently underway for Petrochemical and Forestry sectors.		Four were established during 2013-2017 in areas of industry, technology and logistics.
Mexico	Call for Proposals: Development of Networks and Global Value Chains: Clusters	Passive: Call for Proposals - co-financing of training and technical assistance- related costs to groups of SMEs working collectively.	Government budget – INADEM	Mexican Network of Scientific and Technology Parks (PACYTEC, est. 2013)
	Call for Proposals: Regional Development/Special Economic Zones			Mexican Association of Private Industrial Parks (AMPIP)
Peru	Cluster Support Programme	Passive: Call for Proposals - financing of an external consultant to create a roadmap, and then co-financing of specific related initiatives.	Government budget	National Industrial Park System (est. 2015) – intended to encourage the development of industrial parks, as well as public-private partnerships. National Productive Diversification Programme 2016-2024 (est. 2016, Ministry of Production) – aligned with the above, undertaking diagnostics of and providing technical assistance to various industrial parks/productive /infrastructure projects.
Uruguay	Productive Articulation and Competitiveness Programme	Currently working with one specific regional tourism cluster; involves the financing of an external consultant to create an improvement roadmap, and then a call for proposals to co-finance specific related initiatives.	Government budget	Project No. 2 of *Transforma Uruguay* – update the legislation governing Industrial Parks, in order to incentivize (a) associativity and development of common infrastructure and services and (b) the development of scientific/technology parks, with inclusion of research centres. Normative update began in December 2017.
	Public Goods Programme	Passive: Call for Proposals – co-financing of a public good to fix market/coordination/or information failures for an entire sector. Both programmes implemented by the National Development Agency (ANDE)		

Monitoring and evaluation: Robust mechanisms exist in a few cases

Some of the LA7 cluster support programmes have excellent M&E systems. For example, Argentina's "Competitiveness Support Programme – Conglomerates", which is mostly financed by the Inter-American Development Bank (IDB), includes biannual, public IDB monitoring reports,[15] with KPIs focused on both outcomes and impact. A control group is also used to more clearly measure the programme's impact on companies selected for support.

However, excellent M&E systems are not limited to support programmes with external funding. Chile's "Strategic Programmes", which support cluster formation within priority sectors, included a public tender for an independent baseline report on the status of each cluster selected for support. The extensive report[16] gives a full description of the

programme, in terms of its objectives, financing, governance and foreseen evaluation mechanisms, and interviews the private sector participants in order to make a preliminary assessment of the impact generated by the cluster and roadmap-formation stage of the project. The report will determine a baseline to be used for comparison as the implementation of the "improvement roadmaps" for each cluster proceeds. Chile's additional longstanding cluster-support programmes, which are implemented by CORFO via co-financed calls for proposals, are also regularly externally reviewed by the Ministry of Finance's Budget Division (*Dirección de Presupuestos,* or DIPRES), which undertakes periodic reviews of all government programmes, ministries and agencies.

Pilot programmes in Peru and Uruguay are still developing and/or in the first stages of implementing their M&E schemes, while Ecuador's monitoring of its "Special Economic Development Zones" (*Zonas Especiales de Desarrollo Económico*, or ZEDEs) focuses more on legal compliance than performance. Beyond these efforts, no information is yet available on the impact of the normative updates regarding industrial/scientific parks in Colombia, Peru and Uruguay, as these reforms are still underway; impact indicators are already established, though, in the case of Peru, within its National Productive Diversification Programme 2016-2024.

Sub-dimension 6.3: Integration into regional and global value chains

The indicators covered in this sub-dimension explore support programmes focused on facilitating SMEs' inclusion in global and regional value chains. It assesses the components of these programmes – such as identification of niche markets, technology transfer, and the establishment of linkages between small and large firms – as well as monitoring and evaluation (M&E) efforts.

The scores shown in Table 9.8 suggest that the LA7 region as a whole is moderately to well advanced in terms of value-chain support programmes that target SMEs. All countries have active support programmes that target SME inclusion in regional value chains, and many of these programmes also facilitate connections with foreign or multinational enterprises (MNEs). Most of these programmes were only recently established (between 2014-2017) and thus lack full M&E efforts at this stage. Chile's, however, is well-established, having been established in 1998, and its M&E system provides an example of good practice for the region.

Table 9.8. Sub-dimension 6.3 scores: Integration into global value chains

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg*	*StD*
Planning & Design	4.75	4.75	4.63	4.75	4.75	4.50	4.63	*4.68*	*0.09*
Implementation	4.17	3.50	4.00	4.17	5.00	4.50	4.50	*4.26*	*0.44*
Monitoring & Evaluation	1.00	2.33	2.33	4.17	2.33	2.67	2.00	*2.40*	*0.87*
Total sub-dimension score	**3.74**	**3.70**	**3.89**	**4.37**	**4.38**	**4.13**	**4.04**	***4.04***	***0.26***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design: Active support programmes to facilitate SMEs' inclusion in value chains are present in all LA7 countries

The LA7 countries generally score quite high within this thematic block, as their support programmes were designed in alignment with the productive transformation strategies assessed in sub-dimension 6.1; give preference to SMEs for support; consulted the private

sector during their design; and were designed on the basis of background studies of existing and potential strategic value chains, as well as SME access barriers.

The slight variation in scores is due to variation on whether the support programmes go beyond solely regional value chains to facilitate SME-MNE linkages, and whether specific mechanisms for technology transfer are included. Technology transfer is less common, with specific facilitation mechanisms present only in Argentina, Chile and Mexico. These countries have integrated this component into their programming in various ways: in the case of Mexico, "technology transfer" is a suggested and financeable proposal component; in Argentina, public-private sectoral meetings result in an action plan, in which "technology transfer for supplier development" is an often-cited component; and in Chile, the country has joined the "Eureka" inter-governmental innovation network,[17] with CORFO co-financing projects that include Chilean companies.

Implementation: Supplier development programmes are a common LA7 support mechanism

Most of the LA7 countries (Argentina, Chile, Colombia, Mexico, Peru and Uruguay) have developed a similar type of supplier development programme to facilitate SMEs' inclusion in value chains. These programmes take the form of a call for proposals, with co-financing for proposal implementation offered by the government. In the cases of Chile, Colombia, Peru and Uruguay, this call for proposals is directed to large companies, which must submit a proposal for the development of their suppliers. Colombia and Peru's programmes are also open to receiving proposals from chambers of commerce, unions, and cooperatives. Alternatively, in the cases of Argentina and Mexico, the call for proposals is targeted directly to the providers themselves, which must submit proposals for their own development. Argentina, through its "SME Ecosystem" programme, also works directly with various large enterprises to establish public-private agreements for supplier development.

These supplier development programmes generally co-finance similar types of measures. These include technical assistance; measures to strengthen the linkages between large companies and their suppliers; and measures to increase supplier quality (such as undergoing quality certification procedures), production processes/productivity, and marketing. Investments in productive infrastructure and/or technology transfer are also eligible for programme support in some cases. Sectoral targeting is the most explicit in Colombia, whose "Agro-Export" supplier development programme is limited to the agro-industrial sector. The Argentine case focuses on a range of priority industrial sub-sectors.[18] Other LA7 programmes lack any definition of priority sectors (Chile and Peru), or are open to a wider range of priority sectors – such as Uruguay, whose programme is open to all applicants in the industrial, agricultural and services sectors; or Mexico, which uses a range of strategic sectors established at regional level by INADEM.[19]

Ecuador's support programme has been constructed in a different manner. Its *Encadena Ecuador* programme, in place since 2014, consists of various components, including an update of the industrial cadastre; the creation of an information and support platform for Ecuadorean industry, which would also integrate all relevant parts of the government and serve as both a networking platform and public-private support database (still under construction); a diagnostic studies of high-priority value chains to establish a baseline and define a support roadmap; and assistance to large companies for the development of their suppliers. Various partnerships have resulted from this programme, including support from the European Union (EU) to Ecuadorean SMEs that are interested in partnerships with EU

firms or exporting to EU markets, and the ongoing development of a supplier development programme with UNDP.

The majority of these programmes report adequate funding to achieve central goals, but monitoring records often show that high-quality proposals are routinely not selected due to lack of funds. All programmes have a record of successful linkages, with the exception of Uruguay, whose pilot supplier development call for proposals was issued at the time of the assessment.

Beyond these financial and linkage strengthening support programmes, Chile's General Directorate of International Economic Relations (DIRECON) decided to create a division dedicated to global value chains in mid-2016. At the time of this assessment, this unit was engaging mostly in research activities – including a diagnostic study of the nation's involvement in GVCs, conducted by the OECD,[20] directed towards the development of a future action plan. Argentina has made recent efforts to institutionalise regional co-operation on GVCs, via its free trade agreement with Chile and a joint statement of interest with Brazil. The former includes a chapter dedicated to SMEs, which establishes a joint SME Committee – though at the time of this assessment, a first meeting of this committee had not yet taken place. The latter created a commission that unites both countries' Ministries of Production and export and investment promotion agencies every two to three months, to discuss opportunities for collaboration and GVC development.

Monitoring and evaluation: Robust mechanisms exist in select cases

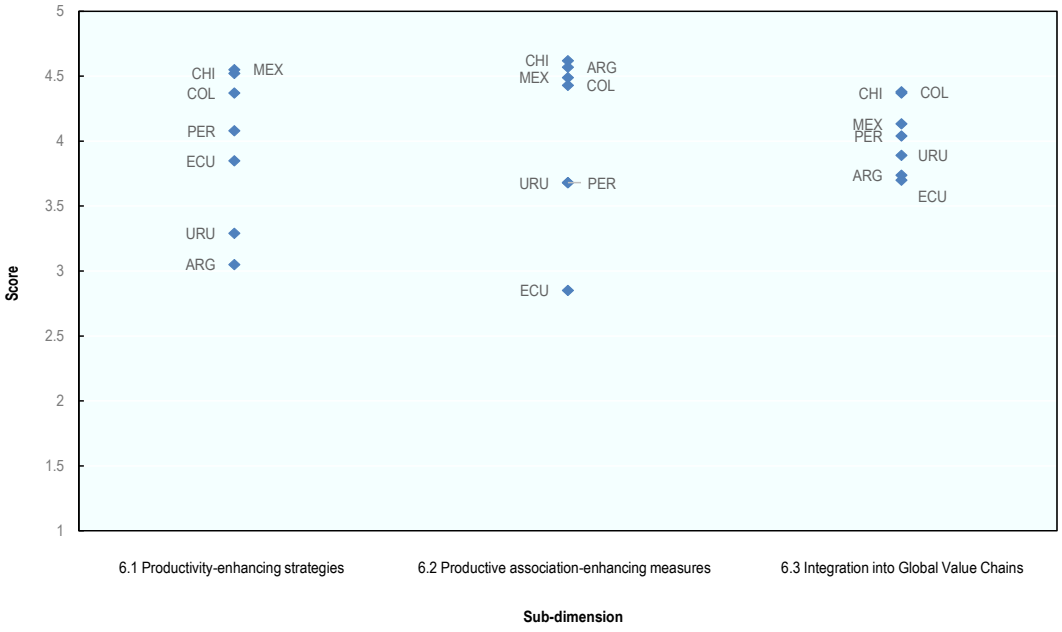
Begun in 1998, Chile's supplier development programme is the most longstanding of the LA7 and also has the most developed M&E system, which serves as an example of good practice for its peers. The programme is reviewed every few years by DIPRES; its evaluations range from monitoring reports, which measure select user satisfaction indicators, to full impact evaluations. In the case of the latter, while DIPRES notes difficulty in establishing a control group for this programme, it attempts to artificially create one by measuring beneficiaries' status prior to receiving programme support against their current post-support status. The impact evaluation results in a series of recommendations, on which the implementing agency (CORFO, in this case) must formally report its progress within a set period of time. In this case, recommendations included lengthening the project implementation period and imposing more demanding proposal-review standards for the primary sector, in which existing impact was found to be lower. All steps in the process (monitoring and impact evaluation reports, recommendations, follow-up) are publicly available.

Other LA7 countries' M&E systems are substantially less developed. Ecuador's *Encadena Ecuador* programme is updated each month by the government's "Management for Results" (GPR) system; however, in this case, the monitoring is generally qualitative and descriptive and, although outcome and impact indicators have been established, they have not been updated. GPR reports are not available to the public, and the programme has no dedicated public website providing implementation information. Formal private sector feedback and impact indicators are also lacking in the case of Colombia, though public monitoring and information on beneficiaries is available via the programme website. Mexico and Peru's M&E indicators go a step further to demonstrate beneficiary satisfaction or impact. Uruguay's programme, established in mid-2017, is the most recent in the LA7 region and has not yet reached the M&E stage; however, an M&E system has been pre-developed and incorporated into the existing calls for proposals.

The way forward

The LA7 governments have clearly invested significant efforts to facilitate productive transformation by identifying barriers to competitiveness, growth, and access to information, and by putting in place corresponding policy and programmatic measures. During the past five years, these efforts have included an increasing amount of targeted measures focused on various segments of the SME population; this is reflected by the relatively high Index scores for this dimension, which are above 3.0 for all countries at both dimension and sub-dimension level (see Figure 9.3 earlier in this chapter, and Figure 9.4 below). This demonstrates policymakers' understanding that trade and investment liberalisation efforts alone are not sufficient; rather, policies to promote economic diversification, build productive capacities and develop new comparative advantages in the manufacturing and service sectors are necessary to broaden and deepen trade flows and enable a more active role for SMEs.

Figure 9.4. Weighted scores for Dimension 6 by sub-dimension



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

It is important to note here that the process of productive transformation requires prioritisation and informed selection. Using SME development as an industrial policy tool requires a selection of and focus on the segment of the SME population that is most able to contribute to and advance the productive diversification of the country, obtain efficiency gains from participation in value chains, and succeed in export activities.

It is this prioritisation that, while often present in specific programmes, is less clear at strategic level in LA7 countries. Only Ecuador has a specific section of its productive transformation strategy that establishes priority sectors and specific goals for their development; these sectoral actions are established separately from the strategy's transversal actions, which are related to topics such as quality, innovation. All other LA7 strategies lack any specific establishment of priority sectors/sectoral strategies. The

Argentine "Executive Roundtables for Productive Transformation" have resulted in various sectoral action plans, but the country lacks an overall strategic framework guiding these efforts. Various programmes in Chile, Colombia, and Mexico are open only to participants from various priority sectors; however, this sectoral targeting/prioritisation varies across programmes. For example, while Chile's "Strategic Programmes of Intelligent Specialisation" have defined priority sectors, there is no sectoral requirement within its supplier development support programming.

Establishing priority sectors for productive transformation at a strategic level along with corresponding action plans, even while maintaining flexibility for future adjustments, could help policymakers to more clearly separate between general SME development measures relevant for the entire SME population and more specific interventions in priority sectors related to the process of productive transformation. It would also help to ensure that government support, across various ministries and programmes, is directed towards the segment of the SME population most able to contribute to the transformation of the country's productive structure.

At the programmatic level, while many LA7 associativity and value chain support programmes are relatively new (having begun implementation in 2014-17), longstanding examples do exist, with correspondingly robust monitoring and evaluation mechanisms. LA7 countries can learn from these examples, in terms of both their findings and their impact-oriented design. Putting in place similar systems will be an important and necessary step for LA7 governments and stakeholders as they assess the performance of their strategies and corresponding programmatic efforts, informing future policy-making cycles. The pilot or relatively new nature of many of the current LA7 programmes underscores the importance of M&E systems; while the SME PI scores demonstrate a solid level of policy implementation, the actual impact of these programmatic efforts remains to be seen; M&E should allow for effective programmes to be expanded, and ineffective programmes to be revised or phased out.

Building on current efforts, LA7 policy makers could prioritise the steps shown in Table 9.9 going forward.

Table 9.9. Dimension 6: Policy recommendations

Policy Area	Challenges/ Opportunities	Policy recommendations
Productivity-enhancing strategies	Current strategies do not go beyond a collection of lines of action/project fiches to include a robust action plan with corresponding quantifiable, time-bound, performance-oriented targets.	• **Align productive transformation strategies with robust action plans, including measurable, time-bound indicators that go beyond the measurement of process to capture performance.** Here, Colombia's CONPES 3866 (and its corresponding action plan) and Peru's Competitiveness Agenda 2014-2018 are instructive examples, though even these could be further bolstered in terms of performance-related indicators.
	While current strategies are used to guide SME productive development efforts, they do not include targeted objectives related to the relevant SME population.	• **Incorporate targeted key performance indicators (KPIs), measuring SME performance, into strategic action plans and/or productive observatories.** Here, Peru's Competitiveness Agenda 2014-2018 is a good example of how to incorporate targeted objectives for specific programmes and/or SMEs within a wider agenda. These programmatic targets should be complemented by macro-level targets related to SME productivity in high-priority sectors.

Policy Area	Challenges/ Opportunities	Policy recommendations
	Current strategies generally lack established priority sectors; at the programmatic level, selection of priority sectors is sporadic or non-existent.	• **Establish high-priority sectors for SME productive transformation at strategic level, while maintaining flexibility for future adjustments.** This could help policymakers to more clearly distinguish between general SME development measures relevant to the entire SME population and more-specific interventions in priority sectors related to the process of productive transformation. Transversal actions (such as those related to associativity and value chains) could be targeted to these priority sectors, or specific sectoral action plans could be developed, in alignment with general transversal priorities. In either case, this would help to ensure that government support, across various ministries and programmes, is directed towards the segment of the SME population most able to contribute to the transformation of the country's productive structure.
Productive association-enhancing measures & integration into global value chains	In general, associativity and value-chain support programmes are recent or pilot in nature, and limited to the support of selected projects via calls for proposals.	• **Building on pilot programmes, which generally use passive "call for proposals" mechanisms, mobilise wider public-private partnerships and inter-ministerial government support for cluster and value-chain initiatives.** Mapping existing clusters and developing a consolidated database of existing public support mechanisms (as well as commercial intelligence on key value chains) could serve to mobilise a wider support ecosystem for the development of clusters and value chains, building on current pilot initiatives. Various LA7 cases are instructive here, such as the "Executive Roundtables for Productive Transformation" conducted by Argentina; the tripartite "public-private-academia" nature of Chile's "Strategic Programmes of Intelligent Specialisation"; and Colombia's "REDCluster" mapping and database.
	Detailed M&E efforts tend to exist only at project level, without publicly available information.	• **Set KPIs at the programme/call-for-proposals level.** While detailed evaluation of individual projects is important, it fails to capture the overall programme/call-for-proposals impact and is often too difficult/diverse to report publicly. These KPIs should go beyond measuring participation/funding, and instead seek to capture real-world impact (increase in cluster sales, etc.). They should be published as part of the programme/call for proposal information, at its time of establishment.
	M&E efforts are generally limited to reporting on out*put* indicators (number of participants, amount of funding provided) and do not provide information on out*comes* or impact	• **Incorporate outcome indicators related to satisfaction.** In some cases, this is already practiced by the LA7 countries via surveys. All LA7 countries should consider: o Incorporating a satisfaction survey requirement into their SME development support programming (digitalisation of these surveys would facilitate assessment of the results); and o Integrating the survey results into their public reporting. • **Incorporate impact assessment measures.** While satisfaction surveys can serve to capture a measure of programme outcomes, they still fall short of robust impact assessment, which is an important tool for governments to assure the efficient investment of public funds. LA7 countries could consider the following steps to incorporate impact assessment as a regular part of their programming:[21] o Retain contact with applicants that are not selected as programme beneficiaries, in order to create a control group for further impact assessment. o Budget funds for an external independent evaluation, to be conducted after a set initial evaluation period. Adjust programme implementation accordingly, based on both the independent and private sector feedback.

Notes

[1] See Chapter 1 for further information.

[2] (ECLAC, 2016[5]) finds that employment in low-productivity sectors in Latin America declined by approximately five percentage points between 2002-2013, among both men and women alike.

[3] Chile is an outlier here among the seven countries examined in this study, with employees of its microenterprises earning salaries that amount to 59% of those received by employees of large Chilean firms.

[4] Beyond the analysis included in sub-dimension 6.3 specifically on "integration in regional and global value chains", many of these topics are further touched upon within Dimension 7 (see Chapter 10).

[5] As noted in Chapter 3, overall, productive transformation aims to create jobs and foster sustainable growth through sectoral transformation from agriculture to manufacturing and service sectors; diversification into new economic activities and into increasingly complex products across sectors; and technological change within sectors. For a further explanation of this concept, see https://www.caf.com/en/topics/p/productive-transformation/; https://www.ilo.org/employment/areas/industrial-policy/lang--en/index.htm; and (UN-Habitat, 2015[18]).

[6] See Chapter 2 for more information about the assessment methodology.

[7] A more comprehensive "Eight Pillars for Productive Development" strategic framework was introduced in mid-2018; however, this falls outside of the cut-off date for consideration within this report.

[8] Forestry and Aquaculture, Agro-Exports, and Tourism.

[9] Full list available at https://www.gob.mx/productividad/articulos/comite-nacional-de-productividad-cnp

[10] This was undertaken regularly and publicly until the end of 2016, with the change of presidential administrations.

[11] In the case of Colombia, see https://sisconpes.dnp.gov.co/. In the case of Chile, the referred to website is no longer live, due to changes in government administrations since the time of the analysis.

[12] https://www.sistemaemprendedor.gob.mx/index/datosabiertos

[13] http://datos.produccion.gob.ar/datasets?categories.slug=pymes

[14] Except for in the cases of Ecuador, whose Economic Development Zones are open to all, and Colombia, whose cluster support programmes are also open to all.

[15] Available at https://www.iadb.org/es/project/AR-L1145

[16] See http://www.economia.gob.cl/wp-content/uploads/2018/05/PSE-Informe-Final-16-02-18-v3.0-2.pdf for the full report.

[17] For more information, see http://www.eurekanetwork.org/about-eureka

[18] See https://www.argentina.gob.ar/acceder-al-programa-de-desarrollo-de-proveedores for more information.

[19] See https://www.inadem.gob.mx/sectores-estrategicos/ for more information.

[20] Available at https://www.oecd.org/chile/diagnostic-chile-gvc-2015.pdf

[21] The IDB's M&E scheme for Argentina's "Competitiveness Support Programme – Conglomerates" and Chile's "Strategic Programmes of Intelligent Specialisation" are high-quality examples from the region in this regard.

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Chapter 10. Access to market and internationalisation (Dimension 7)

The framework used to assess the level of development of policies to promote and foster SME internationalisation examines policies and programmes to support SMEs to internationalise their operations, both directly and indirectly; facilitate trade; engage in e-commerce; meet quality standards; and benefit from Latin American integration efforts.

Overall, the LA7 countries are relatively well advanced in the areas covered by this dimension, demonstrating a solid level of policy implementation, though somewhat less so in terms of regional integration. However, they still tend to fall short when it comes to the monitoring and evaluation (M&E) of these efforts, and should prioritise the creation of, or strengthening of existing, M&E systems in order to effectively measure these policies' impact and ensure the effective use of public funds in supporting SMEs' international market access.

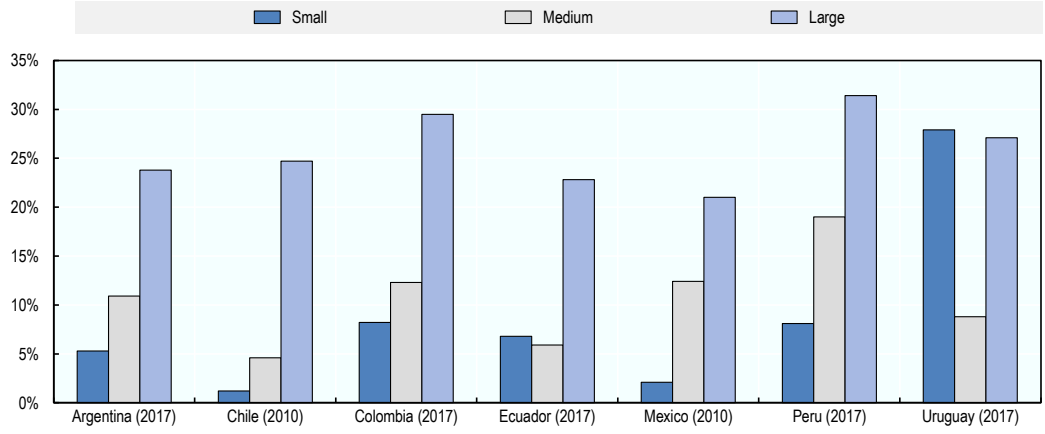
Introduction

As noted in the introduction to the previous chapter, there are strong links between innovation, internationalisation and productivity growth. Internationalisation can deliver many benefits, such as access to new markets, which SMEs can harness as a tool for growth while achieving economies of scale that would be impossible in the domestic market alone; improved resource utilisation and productivity; and exposure to international best practice, knowledge, and technology (OECD, 2008[1]).

Despite these benefits, SMEs are generally less likely than larger firms to internationalise. The channel consisting of direct export activities requires a set of skills and resources that only the most productive and well-managed SMEs are able to muster, much less micro-enterprises. SMEs often seek to access foreign markets through indirect exports, or by selling to firms in the domestic territory that then export. These relationships can take different forms, such as partnership schemes, consortia, sales groups, market operators, and sub-contracting – as well as participation in global value chains (GVCs) by entering into joint venture agreements, licencing and technological transfer agreements, commercial co-operation or franchising agreements. Finally, SMEs can also internationalise through imports, as having access to more competitively priced imported intermediate goods and services helps SMEs increase their productivity even if they do not export.

As demonstrated in Figure 10.1, generally 2-8% of small enterprises in the seven Latin American countries covered in this study (LA7) engage in direct or indirect exporting, rising somewhat to 4.6-19% of medium-sized enterprises. Large companies are more likely to engage in these activities, with between one-quarter and one-third of large companies in each LA7 country either directly or indirectly exporting.

Figure 10.1. Direct or indirect exporters (at least 10% of sales) by size and country - LA7



Note: "Small" corresponds to firms with 5-19 employees; "medium" to firms with 20-99 employees; and "large" to firms with 100 or more employees.
Source: (World Bank, 2017[2])

In most countries, the bulk of international transactions (in value) are concentrated among firms with more than 250 employees. In the United States, for example, firms with more than 250 employees account for 72% of exports, and in a further ten countries – ranging from smaller economies such as Finland and Sweden to other large economies such as Canada, France, Germany and the United Kingdom – more than two-thirds of exports are

accounted for by large firms (OECD, 2016[3]). However, this pattern is more acute in Latin America, where the first percentile of exporting firms accounts for more than 70% of total exported value in all of the countries covered in this study, with the exception of Uruguay (ECLAC, 2014[4]). Some of these large firms are state-owned enterprises (SOEs) in the extractive sectors – including Pemex, Ecopetrol, and Codelco, which rank 2nd, 5th and 6th, respectively, among the largest 20 exporting firms in Latin America. Others include regional multinational enterprises (MNEs), often referred to as the "Multilatinas group" (Cemex, Femsa, Groupo Alfa, Escondida, Grupo Mexico, Bimbo and Peñoles) and MNEs based in Latin American countries (such as Volkswagen Mexico and Chrysler Mexico) (AméricaEconomía, 2013[5]). In contrast, and as already noted in Chapter 1, exporting Latin American SMEs represent only 5% of the value of external sales and 25% of the labour force involved in exporting activities. In developed regions, SME sales represent more than 40% of total exports, eight times more than the LAC average (Urmeneta, 2016[6]).

One-half of Latin American exporters[1] export only a single product to a single destination (Urmeneta, 2016[6]). These exporters contribute relatively little to export values (from less than 1% to 5%) and have little ability to weather negative shocks or competitive pressures. This could explain the high rates of Latin American SMEs that abandon exporting each year, reaching almost 38%. In contrast, only 14.4% of large Latin American exporting firms stop exporting each year, and 12.4% of these large exporters export more than 10 products to more than 10 different destinations, with only 7.6% exporting a single product to a single destination (Urmeneta, 2016[6]; IDB, 2014[7]).

Policy interventions designed to increase SME internationalisation thus aim to target the informational, technical and administrative barriers that SMEs face due to their limited size and resources. They often focus on export financing facilities, training programmes and portals for international marketing and e-commerce, "business matchmaking" activities between SMEs and multinational enterprises (MNEs), support to acquire internationally recognised product-quality certification, support for attending international trade fairs, and the creation of targeted SME e-commerce platforms. General trade facilitation measures are also important, as reduction in trade costs and customs clearance times has also been found to increase SMEs' likelihood of exporting relatively more than that of larger enterprises (Duval and Utoktham, 2014[8]).

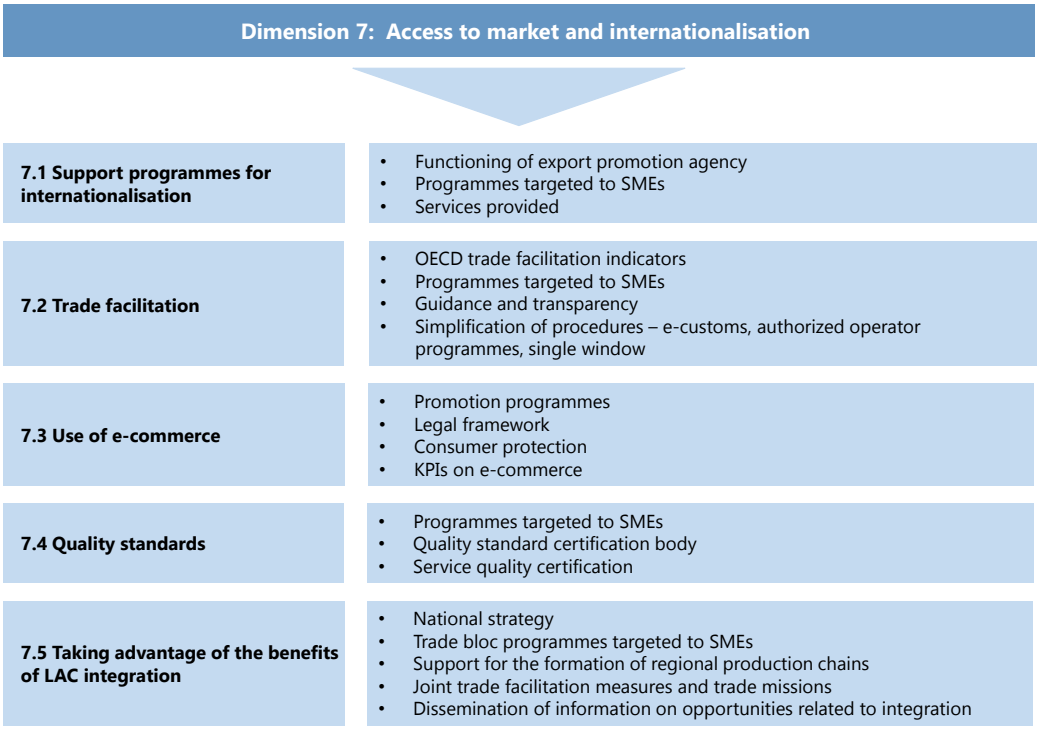
Assessment framework

The framework used to assess the level of development of policies to promote and foster SME internationalisation covers five sub-dimensions, which look at policies and programmes to support SMEs to internationalise their operations, both directly and indirectly (7.1); facilitate trade (7.2); engage in e-commerce (7.3); meet quality standards (7.4); and benefit from Latin American integration efforts (7.5). The sub-dimensions and their key components are presented in Figure 10.2.

The five sub-dimensions were weighted based on expert opinion and the result of discussions with national co-ordinators. Sub-dimension 7.1 was assigned a weight of 40%, as it encompasses a wide possible range of support provided by export promotion agencies (EPAs) to SMEs. The remaining four sub-dimensions were assigned smaller but equal weights (15% each) as they each focus on more specific services, all of which play an important role in allowing SMEs to successfully engage in international activity. These weights do not imply that policy makers should prioritise export promotion, for instance, above other measures related to "access to market". Priorities should be decided on a case-

by-case basis, following a clear articulation of policy objectives as well as an analysis of firm-level dynamics in each country.

Figure 10.2. SME PI LA7 framework for assessing Dimension 7

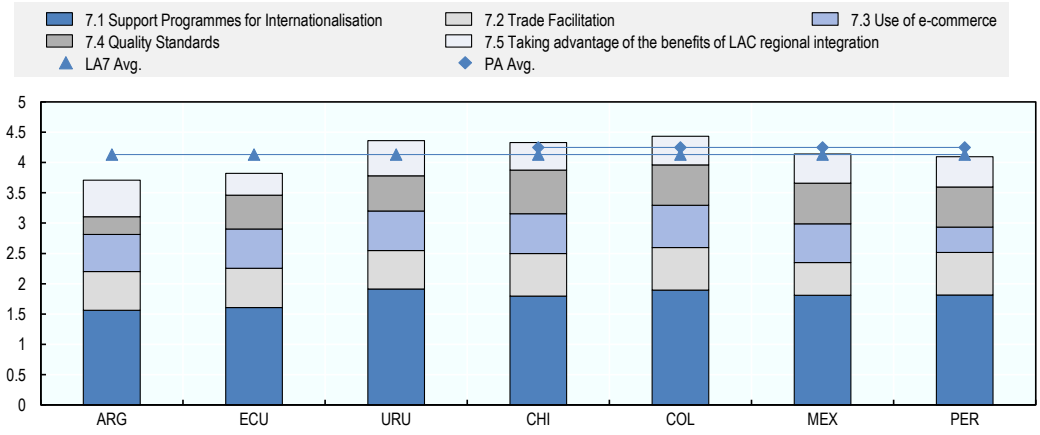


Four of the five sub-dimensions (7.1, 7.3, 7.4, 7.5) consist of three thematic blocks that are weighted as follows, in keeping with the standard block-weighting model used throughout this study: (a) planning and design, 35%; (b) implementation, 45%; and (c) monitoring and evaluation (M&E), 20%. The exception is sub-dimension 7.2 (trade facilitation), which consists of four thematic blocks that have each been assigned a weight of 25%.[2]

Analysis

Overall, the LA7 countries are relatively well advanced in the areas covered by this dimension, though somewhat less so in terms of regional integration (Sub-dimension 7.5). One can typically find robust policy support for export promotion, which is targeted at SMEs via training and, to a lesser extent, subsidised financing support; a solid trade facilitation infrastructure in place, with specific programmes to lessen the burden on small exporters; targeted support for SMEs to incorporate e-commerce in their operations and adhere to quality standards; and SME development agendas that are aligned to regional integration efforts. It is for this reason, as demonstrated in Figure 10.3. , that all LA7 scores are clustered within the 3.5-4.5 range. However, as will be evidenced throughout this chapter, the LA7 countries still tend to fall short when it comes to the M&E of these efforts, and should prioritise the creation of, or strengthening of existing, M&E systems to effectively measure these policies' impact and ensure the effective use of public funds in supporting SMEs' international market access.

Figure 10.3. Weighted scores for Dimension 7: Access to Market and Internationalisation



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Sub-dimension 7.1: Support programmes for internationalisation

The indicators covered in this sub-dimension explore efforts, mainly by export promotion agencies, to support SME exporters. These efforts include targeted training programmes, support for attendance at major trade fairs, SME promotion events, and support for compliance with free trade agreement (FTA) rulings and quality certification.

Table 10.1. Sub-dimension 7.1 scores: Support Programmes for Internationalisation

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD.*
Planning & Design	3.60	5.00	5.00	4.20	4.80	4.20	5.00	*4.54*	*0.51*
Implementation	4.84	3.49	4.63	4.71	4.92	4.92	4.43	*4.56*	*0.47*
Monitoring & Evaluation	2.38	3.50	4.75	4.50	4.25	4.25	4.00	*3.95*	*0.74*
Total sub-dimension score	**3.91**	**4.02**	**4.78**	**4.49**	**4.74**	**4.53**	**4.54**	***4.43***	***0.31***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

The scores suggest that the LA7 as a whole are relatively well advanced in terms of the development and implementation of programmes to support SMEs in the exporting process, with more room for improvement in M&E efforts; however, in comparison to other areas of this assessment, M&E is already relatively well advanced in some cases. Given the well-developed nature of public efforts to support SME exporters, M&E results will be essential going forward to measure programme impact and ensure that these efforts are effectively helping SMEs to enhance their international presence.

Planning and design: Export promotion includes targeted SME support, and is integrated into broader strategic goals

The majority of LA7 countries score well in this thematic block, with three countries receiving full marks. All LA7 countries have an export promotion agency (EPA) in place, which is usually an autonomous agency under the supervision of the Ministry of Economy or a related ministry. Furthermore, each of these EPAs has developed specific programmes

to promote SME internationalisation that are related to the countries' overall SME and/or productive transformation strategies.[3]

The slight variation in country performance here is related to EPAs' consultation with the private sector. This is because some LA7 countries (Argentina, Colombia) lack formal private sector consultation mechanisms/bodies, and instead engage informally with various chambers of commerce and trade unions (though this reportedly occurs on a regular, at least annual, basis). There is also some variation regarding whether or not EPAs specifically target the promotion of linkages between SMEs and MNEs in their support programmes. There is a correlation here with sub-dimension 6.3 (in Chapter 9) on integration into global value chains, as the majority of the LA7 countries' supplier development programmes are targeted at large companies, whether national or foreign, with the exception of Mexico.

Implementation: Most countries offer SMEs an array of export support

The findings suggest that all LA7 countries have relatively well-advanced policies and programmes in place to promote SME exports. These programmes appear to be fully operational and well-funded, with the exception of Ecuador regarding the latter. They tend to offer SMEs support across a wide range of areas, from trade policy information and market intelligence to facilitating SME participation at major trade fairs and marketing and product development support.

Countries' support programmes can be divided into three general categories, depending on whether the support provided includes a financing component, and whether the beneficiary identification mechanism is proactive or reactive. Various countries have multiple support programmes for SME exporters, and thus fall in more than one of these categories.

The first category of support programmes identified in this study correspond to training programmes, which are open to the entire SME population after the SME undertakes an export diagnostic, which is available on the website of the export promotion agency. The EPAs of Chile, Ecuador and Peru all have programmes that follow this type of model[4]; the diagnostic serves to place each SME in a category (beginner/intermediate/advanced), which then corresponds to a training programme that covers various subjects (e.g. quality standards, trade facilitation, marketing) and activities (e.g. participation in trade fairs, which is intended to help the SME either beginning to export or expand its existing export operations). Each of these countries also benefits from a network of regional or meso-regional export promotion offices, which are used in training delivery. These programmes therefore provide training to a potentially wide range of SME exporters, but do not go so far as to include financial support. However, the reach of these programmes still varies widely: for example, in 2017, Colombia's "Programas de Formación Exportadora" and "Programa de Adecuación Exportadora" reached close to 40 000 participants, while ProEcuador's "RutaExportadora" reached 1 344 SMEs, PromPerú's "RutaExportadora" 1 140 SMEs, and Chile's "SME Export Centres" 1 155 SMEs.

A second category of support programmes corresponds to the provision of both training and financial support, via a "convocatoria" (call for proposals/applications). The EPAs of all LA7 countries, with the exceptions of Mexico (see next category below) and Ecuador,[5] have programmes that follow this type of model. All of these programmes operate in a similar way: they generally first finance an external consultant to undertake a diagnostic of the selected SME and formulate an internationalisation plan. Some of the programmes (Chile – Concursos ProChile; Uruguay – ProExport+; Ecuador – ExportDes; Perú – Programa de Apoyo a la Internacionalización) then take a next step, providing co-financing of various activities related to the internationalisation plan (obtainment of quality

certifications, product design, marketing, IT training, etc.). It is interesting to note that, in the case of the Argentine and Chilean programmes, the call for proposals is directed at *groups* of SMEs, which must apply for collective support, thus encouraging both associativity and internationalisation.

As each call for proposals has a limited amount of resources available for allocation, these programmes thus provide support to a more limited range of SME exporters, though the support provided goes beyond solely training, as in the first category. Comparable data on programme budgets and numbers of beneficiaries is difficult to obtain, but the available data seem to indicate that these types of programmes generally benefit between 150 and 200 SMEs each year, with ProChile's concursos a bit above this average, at 400 yearly beneficiaries.

A final category of support programmes corresponds to the "Red de Exportación - REDEX" (Export Network) programme of Mexico's EPA, ProMéxico, which provides both training and financial support, through a *proactive* selection process, undertaken by ProMéxico staff. Through this programme, ProMéxico seeks out potential and existing SME exporters and forms them into networks, developing a collective export plan that receives financing support for its implementation. This approach thus also promotes both associativity and internationalisation, as was the case for Argentina and Chile above.

In addition to the above, most LA7 countries also provide clear information, available online, regarding compliance with rules of origin under the terms of active free trade agreements (FTAs); some countries also provide information on self-certification opportunities, though this information is less readily available. This provision of information is generally not targeted to SMEs, though the EPAs of Chile, Colombia, Ecuador and Peru noted that training on these topics is integrated into their "Ruta Exportadora" / "PYMEExporta" / "Programas de Formación Exportadora" SME support programming (first category of support above).

Monitoring and evaluation: Because targeted support for SMEs is relatively new for most LA7 countries, robust M&E results are lacking at this stage

The scoring mechanism for the previous block (implementation) does not rank any of the aforementioned categories of support programme over the other per se, focusing instead on the range of services provided (information and intelligence, financial support, marketing and product development training, facilitation for compliance with rules of origin, etc.) and whether programmes are operational and well-funded. In order to assess the impact of these various types of programmes, monitoring and evaluation (M&E) schemes are necessary.

In Chile, Peru and Uruguay, the EPA appears to have concrete M&E mechanisms in place both in general, and for the targeted SME support programmes. Argentina lags behind here, as its EPA is the only one of the LA7 to have been established within the past five years (2016) and, as a result, has yet to release public M&E results, though detailed efforts on specific support programmes are underway. In the cases of Chile, Colombia, Ecuador and Mexico, while their EPAs are well-established and generally have overall institutional monitoring and evaluation indicators related to SMEs (generally related to number of participants in seminars/trade missions/fairs, or the number of SMEs helped to export for the first time), the targeted SME export support programmes "PymeExporta"(Chile), "Comex" (Colombia), "Export Des" (Ecuador), and "REDEX" (Mexico) are relatively new, having only been established between 2015 and 2017 in all cases. At this time, only monitoring information is available (with the exception of "Export Des"), related to the number and sectoral breakdown of SMEs selected for programme support, as well as

information related to the amount of exports realized by these SMEs, including first exports.

The SME training (no financing) programmes active in Chile, Colombia, Ecuador and Peru tend to measure outcomes via number of participants, generally setting a goal to be realized each year. Peru goes farther here, utilizing an "Index of Exporting Potential" to set a baseline for a company's performance when it enters the programme, and then to measure the impact after the company has engaged in "RutaExportadora" training and activities. This system allows the EPA to evaluate whether the SME's exporting potential has increased, stayed the same, or decreased following the training. ProChile is currently working to employ a similar system.

Sub-dimension 7.2: Trade facilitation

The indicators covered in this sub-dimension examine public programmes to support SME compliance with customs procedures. Specifically, they look at the existence of tools to bridge information gaps – for instance, manuals or other guidelines, support centres, and/or a trade portal. They also look at progress in simplifying customs procedures, for instance via the creation of an e-customs platform, an Authorised Economic Operator (AEO) programme[6] and/or a National Single Window for trade procedures. They look at whether these programmes and facilities include specific criteria for SMEs and whether support programmes are in place. Finally, this sub-dimension also integrates the 2017 OECD Trade Facilitation Indicators (TFIs).

The scores suggest that the LA7 as a whole are relatively well advanced in terms of trade facilitation measures, though specific programmes to support SMEs in the use of general tools (AEO programmes, single windows) are generally lacking.

Table 10.2. Sub-dimension 7.2 scores: Trade Facilitation

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Trade Facilitation Indicators	4.00	3.33	4.00	4.67	4.67	4.33	4.67	*4.24*	*0.46*
Planning & Design	4.00	5.00	4.00	5.00	5.00	1.00	5.00	*4.14*	*1.36*
Transparency and Predictability	5.00	5.00	5.00	5.00	5.00	5.00	5.00	*5.00*	*0.00*
Simplification of Procedures	4.00	4.00	4.00	4.00	4.00	4.00	4.00	*4.00*	*0.00*
Total sub-dimension score	**4.25**	**4.33**	**4.25**	**4.67**	**4.67**	**3.58**	**4.67**	***4.35***	***0.36***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

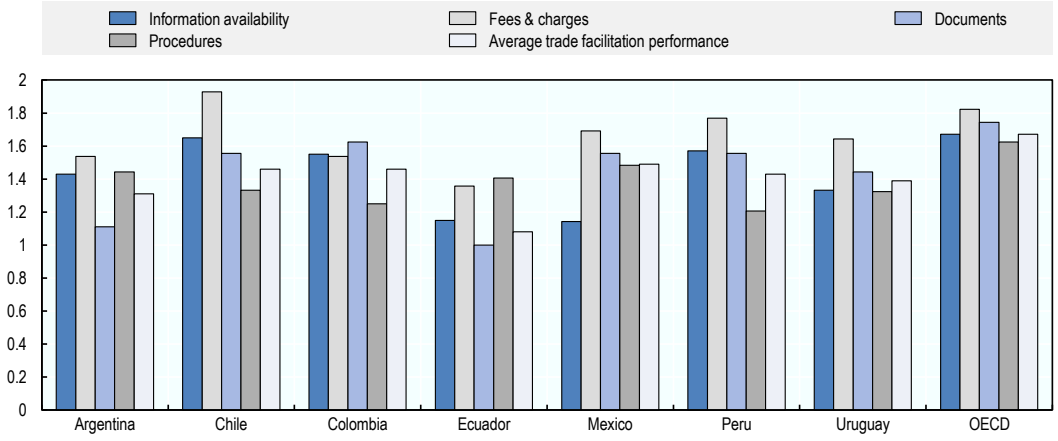
OECD Trade Facilitation Indicators: Indicators rate most LA7 countries as advanced in trade facilitation

The 2017 OECD TFIs were used to help assess trade facilitation measures in the LA7. These indicators measure not only the extent to which countries have introduced and implemented trade facilitation measures in absolute terms, but also their performance relative to others. Four sets of these indicators are included in this assessment: (a) information availability; (b) fees and charges; (c) formalities-documents; and (d) formalities-procedures (see Figure 10.4).

The average LA7 score for each of these selected indicators is generally in the second-highest score quadrant, at between 1-1.5 (on a scale of 0 to 2, with 2 being the highest), with the exception of fees and charges, where the average LA7 score is in the top score quadrant (above 1.5). The average LA7 TFI performance, across all TFI indicators, is also

located in the 1-1.5 range (1.37), with Mexico receiving the highest overall score (1.49). This demonstrates that a generally favourable trade facilitation environment exists in the LA7 countries. Yet, room for improvement in comparison with OECD countries remains, as the LA7 average overall TFI performance of 1.37 lags behind the OECD average of 1.67. Furthermore, the OECD still marks the four indicators used in this assessment as areas in which future improvements should be prioritised in LA7 countries – in order both to increase the amount of information available to stakeholders and to further reduce the time and expense required for export procedures.

Figure 10.4. LA7 vs. OECD Performance - Selected TFIs (2017)



Note: Scores are on a scale of 0 to 2, with 2 being the highest. For the purpose of this assessment, only four of the eleven total TFIs were selected.
Source: (OECD, 2017[9])

Planning and Design: all LA7 countries have or are in the process of developing simplified export processes for SMEs

LA7 scores are relatively homogenous in this area, as all countries except for Mexico have developed "Easy Export" (*Exporta Fácil*) programmes, to provide a simplified avenue for SME exports. These programmes all function as a partnership with the national postal service, and expedite light-weight, low-cost exports,[7] thus serving as a way for SMEs to easily begin export operations and gain international clients. In order to qualify for these programmes, SMEs must be formally registered with the government, and often registered with the EPA as an exporter as well. Most of the programme websites also integrate more general information and guides related to the exporting process, as well as training and other available support programmes, thus helping to inform small SME exporters about the wider ecosystem of exporting support available.

Mexico is currently developing an "Exporta Fácil" programme, in co-operation with and building on the experiences of its fellow Pacific Alliance member countries.

Transparency and Predictability: easily accessible online guidance is available, but could be better targeted to SMEs

All LA7 countries receive full marks within this block, as they all provide user manuals or procedural guidance on trade facilitation; however, this guidance, which is publicly available, is generally not specific to SMEs. All LA7 countries provide a "Step by Step"

export guide via their EPAs, as well as more complex information related to various customs regimes on the customs agency websites. The former information is generally embedded in an easy-to-navigate web portal targeted to exporters, alongside various other tools and/or information of use to potential and existing exporters.

Notwithstanding this general good performance, a notable initiative to highlight, which is more targeted to the SME population, is the Peruvian Integrated Foreign Trade Information System (*Sistema Integrado de Información de Comercio Exterior*, or SIICEX). SIICEX serves as a one-stop portal for SMEs to navigate import and export procedures, learn about government support programmes, access commercial and trade intelligence, and access electronic commerce platforms. Thus, beyond simply providing information to exporters in general, SIICEX brings this information to the specific SME context, creating a comprehensive platform that is both a general exporting knowledge base and an SME support system.

Simplification of Procedures: all LA7 countries perform well regarding general implementation, but could further develop related targeted SME support services

All LA7 countries have the same performance within this block: all countries have e-customs, AEO, and single window programmes operational, but lack targeted support services for SMEs related to AEO certification and document preparation.

Most LA7 countries' single windows were launched relatively recently, between 2011 and 2014, with the exceptions of Argentina (2016) and Colombia (2005). Free training is generally offered by the operator, and advertised on the corresponding website, to all interested businesses. It should also be noted that the SME training (no financing) programmes covered under sub-dimension 7.1 also provide more targeted training to SMEs on e-customs and single-window trade platforms.

AEO programmes are also relatively new in LA7 countries, with Peru's (since 2010) the most longstanding, and Argentina and Chile's programmes only operational since December 2017/January 2018. In all LA7 AEO programmes, volume traded is not a criterion for the AEO qualification, opening the door to SMEs. However, no programme has a specific quota or other mechanism designed to specifically foster SME certification. The results to date show that opening the door to SMEs is not enough to facilitate their certification, as only Colombia has SMEs with AEO certification; all other LA7 countries generally have 40-50 large enterprises with this certification.[8]

Sub-dimension 7.3: Use of electronic commerce

The use of electronic commerce (e-commerce) is expanding rapidly worldwide. This opens up important new opportunities for SMEs both domestically and internationally, as they can use e-commerce to access non-traditional markets while bypassing some common size-related constraints (Lopez-Gonzalez and Ferencz, 2018[10]; OECD, 2017[11]; OECD, 2018[12]).[9] E-commerce is also becoming increasingly important in Latin America; the region is currently the world leader in e-commerce growth, with online sales expected to grow 19% in the next five years, above the global average of 11% (FocusEconomics, 2018[13]). Furthermore, two of the three fastest-growing e-commerce markets in the world are located in Latin America and covered in this study: Argentina and Colombia (FocusEconomics, 2018[13]).

Focusing on the policy environment for increasing SMEs' use of e-commerce, this sub-dimension looks at the availability of e-trading platforms (such as e-payment and logistic

facilities and online marketplaces), at government programmes to facilitate SME access to these platforms and/or use of e-commerce in other ways, and at the sophistication of the legal and regulatory frameworks governing e-commerce activities.

The scores for this sub-dimension (Table 10.3) suggest that the LA7 countries as a whole are relatively well advanced in terms of programmes to support SME access and use of e-commerce – though these efforts are relatively recent and, as a result, M&E is not as prevalent. Government e-commerce promotion strategies, availability of e-trading platforms, and corresponding legal and regulatory frameworks governing issues such as e-payments and consumer protection exist in all almost all LA7 countries. The exception is Peru, where a comprehensive law to govern e-commerce and government strategy to promote e-commerce are still in development, accounting for the larger variation within "Planning & Design".

Table 10.3. Sub-dimension 7.3 scores: Use of e-Commerce

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	4.00	5.00	5.00	5.00	5.00	4.00	2.50	*4.36*	*0.87*
Implementation	5.00	4.20	4.20	4.60	5.00	5.00	3.80	*4.54*	*0.45*
Monitoring & Evaluation	2.14	3.29	3.43	2.86	3.29	3.00	1.00	*2.71*	*0.80*
Total sub-dimension score	**4.08**	**4.30**	**4.33**	**4.39**	**4.66**	**4.25**	**2.79**	***4.11***	***0.57***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design: Legal frameworks for e-commerce are in place, or in development, in all LA7 countries

All LA7 countries reported the existence of legal frameworks governing e-payments and consumer protection (World Bank, 2018[14]; UNCTAD, 2018[15]).[10] The majority of LA7 governments also have specific strategies to promote e-commerce. In each case, strategic goals and lines of action on e-commerce are embedded into a wider digital transformation strategy. It is also interesting to note that, in each case, the e-commerce goals and lines of action are directly related to SMEs, demonstrating that LA7 governments view e-commerce as a strategic priority related to SME development. Argentina and Peru are the only two LA7 countries to lack both specific e-commerce and wider digital strategies, although, at the time of data collection, a Peruvian strategy was under development for the period 2018-2021, and Argentina was running a pilot test on a digital transformation strategy.

Implementation: Targeted e-commerce programmes for SMEs are active in all LA7 countries

The findings suggest that most LA7 countries have relatively well-advanced public programmes in place to promote SME use of e-commerce. These programmes appear to be fully operational and well-funded, with the exception of Chile, Ecuador and Uruguay regarding funding; in both Chile and Uruguay, at the time of data collection, the SME e-commerce programmes were relatively new, related to recent government digital transformation strategies, and without a fully mobilised budget.

Similarly to sub-dimension 7.1, LA7 countries' support programmes can be divided into three general categories, depending on whether the support provided includes a financing component, focuses on training only, or focuses on the construction of public e-commerce platforms and/or modernisation of e-commerce systems/legislation. Various countries have

multiple targeted SME support programmes for e-commerce, and thus fall in more than one of these categories.

The most prevalent category of SME e-commerce support programmes identified in this study corresponds to training programmes. These either take the form of a series of physical workshops/virtual training courses (Chile, Colombia, Peru, Uruguay – targeted to SME exporters in the case of Chile) or specific "information and communication technology (ICT)" centres (Ecuador, Colombia, Peru), which deliver a more continuous agenda of training and personalised support to SMEs seeking to incorporate e-commerce into their operations. The reach and ambition of these programmes varies: for example, in 2017, Colombia's "MiPyme Digital" training activities reached close to 40,000 SMEs and has the ambitious goal that 70% of all Colombian SMEs utilise digital technology by 2018. The first year of Chile's "Exporta Digital" programme had a more limited reach, with 643 SMEs receiving e-commerce training, and an additional 350 supported to register on e-commerce platforms, such as Alibaba or Etsy.

A second, and equally prevalent, category of support programmes corresponds to the construction of public e-commerce platforms and/or modernisation of e-commerce systems/legislation. In terms of e-commerce platforms, the government of Ecuador has created its own e-commerce platform, "Supertienda Ecuador", where Ecuadorean SMEs can register without cost to sell both goods and services in the national market. Argentina's EPA has elected to focus on Alibaba, initiating a pilot project in 2017 to integrate Argentine wine and fresh food products for international sale on the platform. In the case of Chile, the government has created a public-private platform, "EspacioPyme", which serves as a virtual store for SMEs to buy digital applications, tools, software and services to integrate e-commerce in their business model. Mexico and Uruguay have focused on modernising e-commerce related legislation. In the case of Uruguay, this has resulted in a "Financial Inclusion Programme" which, among other areas, aims to modernise the country's payments system, via value-added tax (VAT) reductions for e-payments and subsidies for the installation of point-of-sale (POS) systems.

Support programmes that provide financing to SMEs are less common, active only in Colombia and Mexico among the LA7. In the case of Colombia, its "INNpulsa" programme, which focuses on promoting and supporting innovative and productive SMEs and entrepreneurs, has conducted various calls for proposals that provide co-financing for SMEs to connect to the internet and engage in e-commerce. Together with "MiPyme Digital", it assisted 8 000 SMEs with e-commerce projects in 2017. MiPyme Digital has also worked with large enterprises to improve the digital operations of their SME providers. These projects were co-financed by the large enterprises and Ministry of Information Technologies and Communications of Colombia. Mexico, which issued repeated calls for proposals during 2013-2017 via its National Entrepreneurship Fund, has supported close to 200 SME e-commerce projects and integrated ICT into the operations of more than 76,000 SMEs. Indeed, ICT has been a consistent priority of the Fund over this period, with all calls for proposals under this category benefitting more than 133,000 SMEs, thanks to more than EUR 100 million in funding provided.

Monitoring and evaluation: Because targeted e-commerce support for SMEs is relatively new to most LA7 countries, robust M&E results are lacking at this stage

The scoring mechanism for the previous block (implementation) does not rank any of the aforementioned categories of support programme over the other per se, focusing instead on

whether programmes are operational, well-funded, and specifically linked to e-commerce. In order to assess the impact of these various programmes, M&E schemes are necessary.

As many of the targeted SME programmes are relatively recent, robust M&E results are lacking and, if existent, generally only report outcomes via number of participants trained/funded and budget amount spent. In addition, Colombia and Ecuador also monitor macro-indicators regarding use of ICT by the general population, to measure the success of their training programmes and centres. Chile, Mexico and Uruguay provide examples of good practice for the region in terms of transparent monitoring of their digital transformation strategies. All of these strategies have dedicated websites that report on the overall implementation level of the strategy as well as the status of implementation of each project/line of action. This gives citizens a clear tool for understanding their government's actions and ensuring that their government is delivering in accordance with the strategy. Colombia and Ecuador have public reports by their ministries in charge of ICT, though the link between the content of the report and the actions set out in the digital transformation strategies is not clear in the case of Ecuador; in the case of Colombia, there is a specific report following the structure of the strategy.

Colombia and Ecuador are the only LA7 countries to have developed public ICT observatories. In the case of Ecuador, the observatory provides detailed information on the "Info-Centres" that deliver SME e-commerce training, as well as overall indicators on use of ICT by Ecuadorian businesses. Colombia's public-private e-commerce observatory was established in 2017, and indicators for regular monitoring are still being selected via a consultative process.

Sub-dimension 7.4: Quality standards

Quality assurance is an important condition for SMEs seeking to internationalise their operations. Compliance with commonly recognised standards can send an important signal to customers that an SME's products and services conform to a certain level of quality. Indeed, IDB research on the necessary conditions to join an international value chain finds that "obtaining some form of certification as evidence of proficiency" is a nearly universal pre-condition. The same study concluded that many firms regard their certifications as similar to business cards, using them as an introduction to global buyers (Blyde, 2014[16]).

SMEs face particular challenges, however, including a lack of awareness, complicated requirements and/or high upfront costs. The IDB finds that provision of information to SMEs is particularly important here, as potential exporters are often not fully aware of all the steps needed to obtain certain standards or certifications, or may not be convinced that these certifications are worth the cost. Furthermore, the OECD recommends that governments ensure that national certification systems do not impose an excessive burden on small firms and encourages SME participation in the standard-setting process in order to ensure this happens (Blyde, 2014[16]; OECD, 2008[17]).

The indicators included in this sub-dimension look at public support schemes to obtain quality certification – including private sector consultation, the presence of adequate funding, coverage of service quality certification, and comprehensive monitoring mechanisms.

The scores for this sub-dimension (Table 10.4) suggest that the LA7 region as a whole is relatively well advanced in terms of programmes that support SME quality certification – with the exception of Argentina, which, at the time of data collection, was developing a programme to help finance SMEs obtain quality standard certifications, for implementation

in 2018. Because these regional efforts are relatively recent in most cases, M&E is not as prevalent.

Table 10.4. Sub-dimension 7.4 scores: Quality Standards

	ARG	ECU	URU	CHI	COL	MEX	PER	*Avg.*	*StD*
Planning & Design	1.00	5.00	3.50	5.00	5.00	4.50	5.00	*4.14*	*1.38*
Implementation	2.60	3.40	4.60	4.60	4.60	5.00	4.20	*4.14*	*0.78*
Monitoring & Evaluation	2.14	2.14	2.86	4.86	3.00	3.29	3.86	*3.16*	*0.89*
Total sub-dimension score	**1.95**	**3.71**	**3.87**	**4.79**	**4.42**	**4.48**	**4.41**	***3.95***	***0.89***

Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.

Planning and design and Implementation: Targeted quality standards programmes for SMEs are operational or in development in all LA7 countries

All the LA7 countries have operational quality standards systems. They consist of public quality standards agencies that issue and review product and service regulations and accredit third-party organisations to assign quality standard certifications. All LA7 countries provided evidence of the participative nature of their processes of reviewing and issuing product norms and regulations, generally consisting of both online public consultations and physical focus groups/technical committees. However, the scores for this sub-dimension focus on specific public programmes to help SMEs overcome barriers to obtaining quality standard certifications, rather than the general quality-standard ecosystem in each country. In this sense, Argentina is the only LA7 country to lack such a programme at the time of data collection – though, as noted earlier, it is in development.

While some LA7 countries have specific SME quality-standard support programmes, which function as calls for proposals that then provide co-financing to selected applicants to obtain quality standards (Chile, Colombia, Peru, Uruguay), others are integrated into wider SME support programmes (Ecuador, Mexico, Uruguay). For example, in the case of Mexico, "quality certifications" is an approved spending category of almost every call for proposal funded by the National Entrepreneur Fund, and Uruguay includes quality standard certification as an approved spending category under its ProExport+ programme (see sub-dimension 7.1). It should also be noted that the SME training (no financing) programmes covered under sub-dimension 7.1 also provide targeted training to SMEs on quality standards and certifications.

Beyond this general model, Chilean and Uruguayan quality standards agencies related to the food and beverage sector also provide SME support. In Chile, the *Agencia Chilena para la Calidad e Inocuidad Alimentaria* (ACHIPIA) helps SMEs create and revise their quality standards, then subsidises the implementation of the new/revised norms, lowering SMEs' certification costs. In Uruguay, the *Laboratorio Tecnológico del Uruguay* (LATU) provides free certification of various products, for all Uruguayan companies.

Finally, various LA7 governments also support SMEs in the certification of their management systems. Peru has invested efforts in this area, incorporating courses on specific quality standards for the manufacturing, services, and food and beverages sectors into their "Ruta Exportadora" SME export training programme. Peru's quality standard agency, INACAL, is also undertaking a pilot programme with 20 SMEs to assist them in implementing a specific management system certification developed for SMEs. Uruguay's (INACAL) and Ecuador's (INEN) quality standard agencies have also develop specific

management system certifications for SMEs; in both countries SMEs can self-certify, either by filling out an online self-assessment questionnaire (INACAL) or by taking a one-week virtual course (INEN). At the time of data collection, ACHIPIA was also working to develop a management system certification for the food and beverage sector in Chile.

Monitoring and evaluation: Basic monitoring results available to measure outputs

As many of the targeted SME programmes referred to above are relatively recent, robust M&E results are lacking and, if existent, generally only indicate outputs in terms of the number of participants trained/funded and budget amount spent. Indicators measuring outcomes and impact are generally lacking, as are public reports covering the SME-specific programmes. Chile and Uruguay are the exceptions here, performing well thanks to regular monitoring systems and public reporting on activities.

Sub-dimension 7.5: Taking advantage of the benefits of LAC regional integration

Regional integration has made significant progress in Latin America over the past decade, with the creation of the Pacific Alliance (PA) in 2011 and a PA-MERCOSUR action plan, designed to eventually culminate in a free trade agreement (FTA), agreed in July 2018. However, the regional integration landscape remains complex. A variety of blocs exist at sub-regional level – the PA, the Southern Common Market (MERCOSUR), the Andean Community (CAN), the Central American Integration System (SICA), the Caribbean Community, etc. – whose memberships at times overlap; in the cases of Colombia and Peru in this study, both countries are members of both the Pacific Alliance and the Andean Community.

Furthermore, the benefits of regional integration are not yet highly evident in Latin America. Intra-regional exports are an important component of total trade globally, accounting for approximately 45% of total trade between 1990 and 2014. However, this masks important differences across regions. For example, regions such as the European Union and East Asia and the Pacific have levels of intra-regional exports that reach 50-60%, while South Asia, Sub-Saharan Africa and the Middle East and North Africa stand at the other extreme, with intraregional exports accounting for only 10-15% of total trade. The LAC region fairs only somewhat better, with intra-regional exports stagnating at 20% of total trade over the past decades, despite the increase in formal trade integration agreements in the region since the 1990s (Bown, Chad P., Daniel Lederman, Samuel Pienknagura, 2017[18]). Research has suggested that these relatively low levels of intra-regional trade stem from factors that hamper trade in the region, especially between more distant trading partners – factors such as inadequate infrastructure, inefficient customs, and challenging topography (Bown, Chad P., Daniel Lederman, Samuel Pienknagura, 2017[18]).

As noted in the introduction to the previous chapter, participation in regional value chains, which are facilitated by regional integration, has important implications and opportunities for SME internationalisation, productivity growth and innovation. The indicators included in this sub-dimension examine whether the LA7 countries are leveraging their regional integration agendas to further support SME development – including the development of regional value chains, joint trade facilitation measures, joint business development programmes and joint export promotion mechanisms.

The scores for this sub-dimension (Table 10.5) suggest that the LA7 as a whole are moderately advanced in terms of integrating support for SME development within their regional integration efforts. All LA7 countries' main trade blocs include specific working

groups on SME development and/or productive integration, which have facilitated SME development and inclusion in regional value chains through trade facilitation, export promotion and other measures. However, quantitative M&E, as well as securing funding for developing and implementing multi-annual strategies, is not common, underscoring the nascent and potentially insecure nature of these existing efforts.

Table 10.5. Sub-dimension 7.5 scores: Taking advantage of LAC regional integration

	ARG	ECU	URU	CHI	COL	MEX	PER	Avg.	StD
Planning & Design	3.75	2.00	3.75	2.88	3.69	3.38	4.19	*3.38*	*0.67*
Implementation	4.50	3.00	4.17	3.33	3.33	3.33	3.33	*3.57*	*0.50*
Monitoring & Evaluation	3.40	1.80	3.40	2.60	1.80	2.60	1.80	*2.49*	*0.67*
Total sub-dimension score	**4.02**	**2.41**	**3.87**	**3.03**	**3.15**	**3.20**	**3.33**	***3.29***	***0.50***

1. Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 for further information on the methodology.
2. The indicators for this sub-dimension are directed towards efforts by both national governments and regional trade blocs, accounting for the differences in scores between members of the same bloc. Regarding trade blocs, Argentina and Uruguay are scored according to MERCOSUR's actions, Ecuador is scored according to CAN's actions, Chile and Mexico are scored according to the PA's actions, and Colombia and Peru are scored according to both the PA's and CAN's actions.

Planning and design: LA7 countries have integrated SME development into their regional integration agendas

The indicators within this thematic bloc first assess whether each LA7 country has a national strategy for conducting and maximizing the benefits of its regional integration agenda. Performance is mixed: Ecuador, Mexico, Peru and Uruguay have explicit sections on LAC regional integration within their respective strategies. Chile and Colombia lack national strategies, but have specific divisions tasked with Pacific Alliance (PA) and regional integration within their Ministry of Foreign Affairs (DIRECON) and Ministry of Commerce, Industry and Tourism (MINCIT), respectively. Argentina's national strategic efforts are focused on expanding MERCOSUR's external relations, primarily via a free trade agreement (FTA) with the European Union (EU).

This sub-dimension assesses the actions of three regional trade blocs to support SME development: the PA (members: Chile, Colombia, Mexico, Peru), MERCOSUR (members included in this study: Argentina and Uruguay) and CAN (members included in this study: Colombia and Peru). All three blocs have developed specific programmes to support SME development, and these programmes are linked to a productive integration and structural convergence strategies in the case of MERCOSUR, and the yearly presidential mandates delivered to the technical working groups of the PA, including its working group on SMEs. While CAN's SME working group (CAMIPYME) designed a strategy spanning 2012-2017, it now functions on the basis of annual pro-tempore presidencies, which propose projects during their mandate. Thus, MERCOSUR is currently the only bloc to have a multiannual strategy (in place since 2008) oriented to SME development. It is also the only group whose SME development programmes specifically focus on support for regional value chains.

Implementation: Targeted efforts are underway regarding regional value chains, trade facilitation, export promotion and business development

As noted in the previous section, both the PA and CAN have specific SME working groups operating on annual mandates. From these mandates, a collection of support programmes

has emerged, including an entrepreneurship capital fund and network of business development centres in the case of the PA. Both blocs have invested in research – in CAN's case with CEPAL, to explore regional value chain development; and in PA's case with CAF, to compare the existing national business development centres and services in each country, then move towards creating a trade bloc network. Both blocs have also invested in specific trade facilitation measures for SMEs, such as the creation of "Exporta Fácil" programmes in their member states, and annual promotion and networking events for entrepreneurs, jointly organised by member states' EPAs. At the time of this assessment, a business development programme was being developed by CAMIPYME, in co-operation with the International Labour Organisation (ILO), with objectives similar to those of the PA business development centre network: conducting an assessment of each member country's existing services, creating a network/platform for sharing best practices, and implementing the ILO's "Start and Improve your Business" programme.

MERCOSUR stands out as the bloc that has most oriented its SME development efforts towards integration in and strengthening of regional value chains. To this end, the bloc's "Productive Integration Programme", established in 2008, has seven lines of action, including human resources development, trade facilitation, financing and investment in research, development, and technology transfer. The bloc's structural convergence fund, FOCEM, set up in 2004, has been used to support these goals through programmes such as the *Proyecto de Internacionalización de la Especialización Productiva* (PIEP), which serves as a both a business development and regional value-chain support programme – in order to be selected for project financing, SMEs must come from a priority value chain, incorporate innovative technology, and demonstrate the export potential of their product intra-regionally.

Lastly, at the national level, the LA7 countries generally lack online information about the benefits of regional integration, including business opportunities linked to FTAs. Colombia and Peru are the exceptions in this regard, and provide a good example for the region. Colombia's MINCIT has a specific centre tasked with researching these opportunities, and has published studies detailing opportunities and challenges at the sub-regional level. In addition, ProColombia maintains an online "map of opportunities", which details commercial intelligence, and corresponding legal framework, at the country level. Peru runs a similar website, in which all the FTAs that the country has signed are explained, including the corresponding business opportunities.

Monitoring and evaluation: Quantitative monitoring at strategic level is lacking

Monitoring of the aforementioned efforts is conducted via the meetings of each bloc's working group on SME development.[11] Each group meets periodically (at least twice a year) in order to further the implementation of activities related to annual mandates/strategies and review progress. However, even in the case of MERCOSUR, where a multi-annual strategy with objectives and lines of action is in place, public reporting based on quantitative indicators to measure outcomes and impact is not available at the strategic level, though internal M&E activities do take place. At the programmatic level, information on FOCEM projects is available online by both country and thematic area,[12] and a 2016 report summarises the first ten years of the fund's existence, including specific programmatic achievements.[13] However, this information is not provided in relation to any specific pre-set KPIs, and serves more as a communication device of the fund's successes rather than a public evaluation of the fund's operations; furthermore, while FOCEM's Rules of Operations stipulate that all fund-supported projects must provide biannual updates (subject to both internal and external audit) on their

implementation, none of this information is publicly available, and was also not eligible to be shared with the OECD in the context of this assessment. Outside of MERCOSUR, both the PA and CAN are in the process of constructing SME observatories, which could help to fill this quantitative information gap.

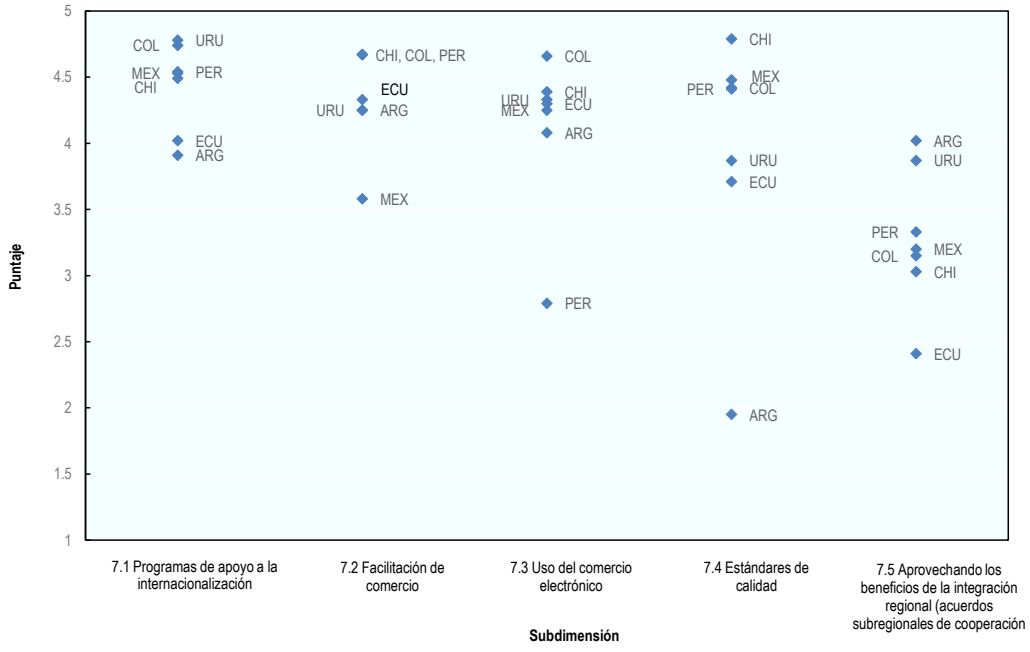
The PA and MERCOSUR have made institutionalised efforts to incorporate private sector feedback regarding their SME support activities. Meetings of MERCOSUR's "Productive Integration Group" (GIP) allow the invitation of private sector representatives, and regular (generally annual) meetings on productive integration are held with private sector representatives of priority sectors, in order to review current support programmes and plan next steps.[14] The PA's Business Council meets in advance of and delivers recommendations to the Alliance's annual Presidential Summit, including on SME issues. The PA's SME Working Group also received a mandate in 2016 to facilitate the participation of private sector SME and trade union representatives, and subsequently conducted a consultation workshop in May 2017, oriented to developing a joint strategy for collective action looking towards 2020.[15] Of the three groups, it is thus only the PA that includes private sector feedback during the planning and design phase, as opposed to only M&E.

The way forward

As evidenced throughout this chapter, LA7 countries as a whole are relatively well advanced in the areas covered by this dimension, with each country receiving a score above 3.5 (see Figure 10.3), demonstrating a solid level of policy implementation. Only Argentina and Ecuador's dimension scores fall below 4.0, indicating moderately advanced policy development. Argentina's scores for this dimension are pulled downwards by its lack of support for SMEs in the area of quality standards, though, as noted previously, a support programme was being designed by Argentina's EPA for implementation beginning in 2018. Argentina's scores are also lower throughout the dimension due to a lack of robust strategic frameworks to guide government action in the areas of internationalisation and e-commerce. Ecuador scores at or above a 3.5 for all sub-dimensions (see Figure 10.5) except 7.5, in which its score is lower due to CAN's relatively less-developed targeted actions to support SME development.

The rest of the LA7 countries generally have operational support programmes for SMEs in each of the areas covered in this dimension, and tend to fall short when it comes to the M&E of these efforts. Strengthening M&E systems going forward, and using the results of these M&E efforts to inform future policy-making cycles, will be essential to effectively evaluate the performance of existing LA7 strategic and programmatic efforts in expanding SME access to international markets.

Figure 10.5. Weighted scores for Dimension 7 by sub-dimension



Note: Scores are on a scale of 1 to 5, with 5 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

In this context, to encourage SMEs to internationalise and increase their market access, policy makers could prioritise the steps shown in Table 10.6 going forward.

Table 10.6. Dimension 7: Policy recommendations

Policy Area	Challenges/Opportunities	Policy recommendations
Dimension Level		
Monitoring and Evaluation (M&E)	Programme design process lacks attention to M&E, viewing this as a concern to be addressed after implementation begins.	• **Incorporate and publish M&E processes in programme/call-for-proposal regulations from the outset.** During the assessment process, many LA7 countries did not respond to questions related to M&E within this dimension, noting that their programmes were in the beginning phases of implementation. While some of these programmes had M&E schemes integrated into the programme design, this was not the case for the majority. The recommendations below should be incorporated from the outset, and published as part of the programme/call-for-proposal guidelines.
	M&E efforts are generally limited to reporting on out*put* indicators (number of participants, amount of funding provided) and do not provide information on out*comes* or impact	• **Incorporate outcome indicators related to satisfaction.** In some cases, this is already practiced by LA7 countries via surveys that are collected after a training course All LA7 countries should consider: ○ Incorporating a satisfaction survey requirement into their SME development support programming (digitalisation of these surveys would facilitate assessment of the results); and ○ Integrating the survey results into their public reporting.

Policy Area	Challenges/Opportunities	Policy recommendations
		• **Incorporate impact assessment measures.** While satisfaction surveys can serve to capture a measure of programme outcomes, they still fall short of robust impact assessment, which is an important tool for governments to assure the efficient investment of public funds. LA7 countries could consider the following steps to incorporate impact assessment as a regular part of their programming: o Set key performance indicators (KPIs) at the programme/call-for-proposal level. These indicators should go beyond measuring participation/funding, and instead seek to capture real world impact (number of beneficiaries that export for the first time, etc.). o Retain contact with applicants that are not selected as programme beneficiaries, in order to create a control group for further impact assessment. o Budget funds for external independent evaluation, to be conducted after a set initial evaluation period; and adjust programme implementation accordingly, based on both the independent and private sector feedback.
	Detailed M&E efforts tend to exist only at project level, without publicly available information.	• **Set KPIs at the programme/call-for-proposal level.** While detailed evaluation of individual projects is important, it fails to capture the overall programme/call-for-proposal impact and is often too difficult/diverse to report publicly.
Sub-dimension Level		
Support Programmes for Internationalisation	Support services, beyond provision of general information via a webpage, are lacking for SMEs regarding compliance with rules of origin (RoOs) and certification procedures.	• **Go beyond simply providing online information by also guiding SMEs to support services.** To make the existing support ecosystem more visible, LA7 countries should include links to the training offered by both EPAs and customs organisations on these topics from the webpages that provide information on RoOs and certification procedures. • **Consider providing further targeted support to SMEs, via the creation of trade facilitation portals/support centres.** Korea's "FTA Pass" and Malaysia's "myTRADELINK" systems are good examples in this regard, providing SME discounts and free training for first-time users while facilitating the certification of origin process (OECD/ERIA, 2018[19]). LA7 EPAs and SME export centres could consider including dedicated FTA support within their services, and raising the visibility of this support through the mechanism suggested above. The experience of Korea's FTA support and call centres is also instructive in this regard (Cheong, 2014[20]).
Trade Facilitation	"Easy Export" programmes for SMEs lack linkages to encourage scale-up/engagement with a wider range of services.	• **Encourage more institutionalised follow-up with "Easy Export" programme users, in order to bring them into the wider range of services offered by EPAs.** While most "Easy Export" programme websites provide links to more general exporting guides and, in some cases, other support programmes for exporters, a next step could be to establish regular follow-up processes. Countries' regional EPA offices could be mobilised to follow-up with new users to establish next steps towards possible scale-up. Furthermore, LA7 countries with multi-phase exporter training programmes could better integrate these users into their wider programming, by introducing the "Test Exportador" as a pre-condition or follow-up step to using "Easy Export" services.

Policy Area	Challenges/Opportunities	Policy recommendations
	While AEO programmes are open to SME participation, take-up is minimal.	• **Include authorised economic operator (AEO) training in EPA courses, and consider providing further support to SMEs,** such as expedited exam processes, more-flexible security standards, subsidised fees, customs-business partnerships, and/or quotas. These methods have proved successful in facilitating SME AEO certification in both OECD and APEC countries (APEC Policy Support Unit, 2016[21]).
Use of e-Commerce	LA7 countries have generally invested in market research on SMEs use of e-commerce, but the results are dispersed and generally only available within wider reports.	• **Develop public/public-private e-commerce observatories that are integrated with public strategies.** While Chile and Mexico have excellent and transparent qualitative monitoring of their digital strategies, these processes lack connection with KPIs at the strategic level. Conversely, Colombia and Ecuador have developed observatories, but could strengthen linkages with existing digital strategies. Overall, LA7 countries should mobilise public-private partnerships to harmonize e-commerce data collection and align it with strategic M&E processes.
Quality Standards	Support to SMEs in the area of quality standards is relatively diffused in LA7 countries, making it challenging to capture an overall picture of the extent and impact of public support.	• **Obtain private sector feedback from existing beneficiaries** of SME quality support programmes/programmes in which quality certification support is possible. Conducting a thematic, inclusive survey of existing mechanisms could serve as a baseline to better understand the strengths and gaps of existing support measures. • **Obtain further feedback from the wider SME population**, to assess their current knowledge of and potential interest in these services. Quality standard support for SMEs is generally integrated into wider internationalisation support programmes, lowering its visibility. This type of exercise could assist the public sector in better aligning its programming to demand.
Taking advantage of the benefits of LAC regional integration	Information provided by the government on FTAs is generally restricted to their existence, and the text of the agreement itself.	• **Create FTA online knowledge portals oriented towards business opportunities.** As stated in this chapter, both Colombia and Peru serve as good-practice examples for the LA7 in this regard. These portals help to bridge SMEs' knowledge gap of the benefits provided by regional integration efforts.
	SME support measures to date have not been linked to the development of priority regional value chains, with the exception of MERCOSUR.	• **Invest in intelligence gathering on regional value chains and opportunities at the trade bloc level, and develop SME support programmes on this basis.** Harnessing SME development for productive transformation necessitates an informed selection and prioritisation process, which should be aligned to the development of regional value chains.
	Countries have SME support measures in place at national level in similar policy areas (business development services, etc.), with varying methods of delivery.	• **Invest in studies to learn from fellow trade bloc members and harmonise efforts based on experiences.** While each country is unique, learning from others' good practices and experiences can accelerate programme development and lead to the identification of synergies and opportunities for collaboration. Furthermore, trade blocs could collaborate to insert jointly developed regional integration training / financing support into existing national support mechanisms.
	Monitoring of KPIs at strategic level is non-existent.	• **Develop KPIs to measure the outputs, outcomes and impact of each mandate received / strategic objective at working group level.** Even without changing the annual mandate working methods of the PA and CAN, SME working groups can strengthen the monitoring conducted within their meetings through the introduction of KPIs.

Policy Area	Challenges/Opportunities	Policy recommendations
	Public online reporting on the actions of trade-bloc's SME-related working groups is lacking.	• **Develop annual public reporting at working group level, and integrate private sector consultations in the dissemination process.** While public reporting is quite a common process at the national level for LA7 SME development activities, public information is lacking at the trade bloc level, and could be harnessed as a mechanism to encourage greater and wider private sector involvement and awareness.

Notes

[1] 2010 data are used for the following 12 countries, except where otherwise indicated: Argentina, Brazil, Chile, Colombia, Ecuador (2013), El Salvador (2013), Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela.

[2] See Chapter 2 for more information about the SME PI assessment methodology.

[3] The only exception here is Argentina, which – as detailed in Chapter 4, Assessment Dimension No. 1 – lacks both SME and productive-transformation strategies.

[4] ProColombia's "Programas de Formación Exportadora" also follow this model, though a diagnostic is not required; various training courses are open to any interested participant.

[5] In the case of Ecuador, a programme of this type is currently in the beginning stages of implementation, with support from the European Union (EU), and thus missed the cut-off date for consideration within this study.

[6] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[7] Generally, the LA7 countries' programmes allow a maximum weight of 30 kilograms, and maximum value ranging between 2 000 and 7 500 USD, with Chile and Colombia as the most restrictive at 2 000 USD and Peru the least restrictive at 7 500 USD. Argentina is an outlier here, allowing a maximum weight of 300 kilograms and maximum value of 15 000 USD, though an annual cap of 600 000 USD is in place.

[8] This is excepting Argentina and Chile, whose programmes had just begun at the time of data collection; and Ecuador, which only has four AEO-certified enterprises. No public data is available for importing/exporting companies with AEO certification in Mexico.

[9] For instance, e-commerce can lower barriers to entry by eliminating certain sunk costs such as investment in a physical retail space. It can also connect supply and demand with minimum transaction costs, helping SMEs to reach non-traditional markets. Engagement in e-commerce can lead to higher productivity, heightened competition, greater consumer choice and the creation of new jobs (Rillo and de la Cruz, 2016[8]).

[10] While, at the time of writing, Peru was developing a comprehensive legal framework to govern e-commerce, it does already have four separate laws that cover the topics of consumer protection, cybercrime, data protection and privacy, and e-signature, respectively.

[11] "Productive Integration Group" (GIP) in the case of MERCOSUR.

[12] See https://focem.mercosur.int/es/proyectos/ for more information.

[13] See https://focem.mercosur.int/docs/FOCEM_es.pdf to access the report.

[14] MERCOSUR's "Social-Economic Consultative Forum" also serves as a regular space for consultation with the private sector and civil society, and has focused on productive integration issues during past meetings.

[15] At the time of the assessment, this strategy was not publicly available.

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Part II. Findings by country

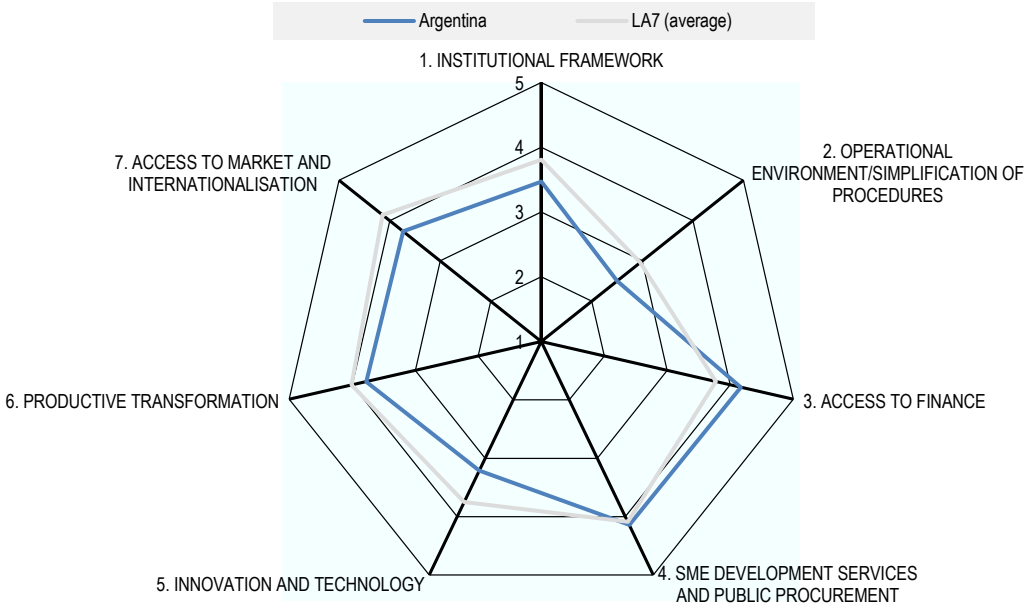
Chapter 11. Argentina

Over the past few years, Argentina has been in a process of major policy reforms aimed at stabilising the economy and laying the foundations for better living standards. Those efforts have included the upgrading of SME and entrepreneurship policy as an important mechanism for a sustainable and inclusive economy. This report notes that there is a rich offer of support schemes for SMEs and entrepreneurs. The analysis also points to the good performance in access to finance, especially in terms of the regulatory environment and the availability of alternative sources of funds.

Argentina could build on those achievements and use SME policy as a strategic tool to achieve wider national goals such as creating employment, increasing productivity and enhancing living standards. The results of this report note that Argentina could benefit from further strengthening the framework for SME policymaking, improving the business environment and strengthening innovation in SMEs.

Key Findings

Figure 11.1. 2019 SME Policy Index scores for Argentina



This first OECD SME Policy Index assessment of Argentina demonstrates that the country has a wide range of programmes and initiatives in place to support SME development, ranging across the key areas of access to finance, business development services (BDS), innovation, productive transformation, and internationalisation, among others. Indeed, the country receives the second-highest score of those participating in this assessment for the "Access to Finance" dimension (Figure 11.1). Moreover, some of the country's recent actions – such as the "Executive Roundtables for Productive Transformation" led by the Ministry of Production and Labour, or pilot efforts related to e-commerce led by the Argentine Agency of Investment and Foreign Trade (AAICI) – are innovative and/or informative for the region in terms of creating a structured, targeted and participatory approach to productive development, and demonstrate the strategic importance placed by the country on harnessing SMEs as an important actor in the country's productive transformation and progressive internationalisation process. However, this diverse set of actions at the programmatic level has not yet been formally structured in a strategic plan, as other LA7 peers do.

Ongoing efforts and pilot initiatives in Argentina, as well as nascent strategic efforts, provide a basis for defining the country's strategic objectives for the SME sector and reviewing current programmes in light of those objectives. These efforts include the draft *Argentina Emprende* ("Entrepreneurial Argentina"), which aims to cover enterprise creation, start-up support and SME development; the efforts to develop the agenda *Argentina Innovadora 2030* ("Innovative Argentina 2030"); the creation of the Ministry of Production and Labour's "Productive Transformation Secretariat," and the aforementioned AAICI. Argentina's current strategic efforts in the area of formalisation also provide a high-quality example, though so far these have focused heavily on labour informality, whereas enterprise informality has received more limited attention. Time-bound and performance-oriented monitoring and evaluation (M&E) schemes should be integrated into these strategic objectives from the onset, building on the country's recent efforts to improve the

reliability and regular collection of national statistics in areas including the business environment and SME sector.

Argentina should also continue its ongoing efforts to improve its overall business environment, in order to generate conducive conditions for SME operation and scale-up. While all LA7 countries score relatively lower on this policy area in comparison with the rest of the assessment, Argentina's performance remains below the average, as its entire regulatory reform process is in an early phase of design and implementation is still limited to few projects. Going forward, this points to the importance of completing the elaboration of a realistic agenda of regulatory reform, as well as continuing to advance the implementation of measures such as one-stop shops for company registration. In this regard, Argentina reports to be working on regulatory changes that affect all companies (e.g. SME Law, Entrepreneurs Act, Productive Simplification Law, etc.).

As previously mentioned, Argentina's current performance in the area of access to finance is promising: it received the second highest LA7 score of 4.17, mainly due to its favourable regulatory framework and a vibrant ecosystem of opportunities to access alternative sources of financing. However, there are still areas with significant room for improvement, particularly around the development of procedures to deal with insolvent or bankrupt companies and the country's legal framework for delineating the rights and prerogatives of creditors in secured transactions with collateral.

A focus on structuring and reviewing current efforts in light of cross-cutting strategic objectives will be particularly important for the optimisation of synergies among current actions. Argentina has several programmes to support SMEs, but there is still work to be done in order to structure all the policies into a strategic plan. Such an approach would also help to improve M&E of SME support and accurately assess impact at the level of individual programmes and at the policy level. The authorities note that they are undertaking efforts to digitise processes and data gathering of current programmes (e.g. number of files per procedure, processing times, etc.) in order to improve M&E.

Overview

Economic structure and development priorities

Table 11.1. Macroeconomic Indicators

Indicator Name	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth (annual %)	-0.8	8.9	10.1	6.0	-1.0	2.4	-2.5	2.7	-1.8	2.9
GDP per capita (current USD)	7 669	5 077	10276	12727	12970	12977	12245	13698	12654	14402
GDP per capita, PPP (current international USD)	11810	13818	18334	19629	19579	20161	19802	20357	20043	20787
Unemployment, total (% of total labour force)	15.0	11.5	7.7	7.2	7.2	7.1	7.3	7.2	8.7	8.5
Inflation, GDP deflator (annual %)	1.0	10.3	20.9	23.7	22.3	23.9	40.3	26.6	40.1	25.3
Exports of goods and services (% of GDP)	11.0	23.2	18.9	18.4	16.2	14.6	14.4	10.7	12.6	11.2
Imports of goods and services (% of GDP)	11.6	17.3	16.0	16.8	14.3	14.7	14.0	11.8	13.5	13.8
External balance on goods and services (% of GDP)	-0.6	5.9	2.9	1.7	1.9	-0.1	0.4	-1.1	-1.0	-2.7
Current account balance (% of GDP)	-3.2	2.7	-0.4	-1.0	-0.4	-2.4	-1.7	-3.0	-2.6	-4.8
Services, etc., value added (% of GDP)	61.9	48.5	51.5	51.8	53.7	53.9	52.9	55.8	55.9	56.9

Indicator Name	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
Foreign direct investment, net inflows (% of GDP)	3.7	2.6	2.7	2.0	2.8	1.8	1.0	2.0	0.6	1.8
Foreign direct investment, net outflows (% of GDP)	0.3	0.7	0.2	0.3	0.2	0.2	0.4	0.1	0.3	0.2
General government total expenditure (% of GDP)	26.0	24.4	33.4	34.9	36.8	37.6	38.9	41.4	41.7	41.5
General government net lending/borrowing (% of GDP)	-3.3	3.2	-1.4	-2.7	-3.0	-3.3	-4.3	-6.0	-6.6	-6.7
Domestic credit to private sector (% of GDP)	23.9	10.7	12.7	14.0	15.2	15.7	13.8	14.4	13.7	16.1

Source: (World Bank, 2018[1]; IMF, 2018[2]).

Argentina has the third largest economy and the second largest territory in Latin America, and it is one of the three regional members of the G20. With a GDP per capita close to USD 21 000 at purchasing power parity (PPP) rates, Argentina is also an upper-middle-income country. The Argentine economy benefits from a competitive agro-industrial complex located in the central region. It comprises a highly efficient agribusiness sector (cattle, soybean, corn, wheat, sunflower, etc.) and an industrial platform that processes some of those raw materials (processed foods, biofuels and sub-products). It also comprises other activities such as the production of machinery and IT services.

Argentina's Human Development Index (HDI) ranks 47th worldwide, which is the second highest in the region (behind only Chile), and inside the group of "Very High Human Development" countries: (United Nations, 2018[4]) (see Table 11.2). According to the HDI, a country whose indicators are all ranked in the top third is considered as having the highest quality of human development. Argentina scores in the top third for quality of health and quality of living standards, and its quality of education is among the middle third of performers. In particular, Argentina has a high gender development index (GDI) for the region, alongside Colombia and Ecuador, placing it inside the top group of countries with high equality in HDI achievements between women and men.[1] Argentina has made a considerable improvement since the 1990s by increasing life expectancy at birth by 5.1 years, mean years of schooling by 2.0 years and expected years of schooling by 4.2 years.

Table 11.2. Selected Human Development Index (HDI) Scores – Argentina 2018

Variable	Argentina	LA7 Average
HDI Ranking (2017)	47th	69.3
HDI[1] (scale of 0-1, with 1=best; 2017 value)	0.825	0.79
Life expectancy at birth (in years; as of 2017)	76.7	76.8
Gender Development Index Ranking[2] (scale of 0-1, with 1=best; 2017)	0.997	0.98
Quality of Health[3]		
Lost Health Expectancy[4] (2016)	11.1%	11.3%
Physicians (per 10,000 ppl.; 2007-2017)	39.1	22.2
Hospital beds (per 10,000 ppl.; 2007-2014)	47	22
Quality of Education[3]		
Pupil-teacher ratio primary school (pupils per teacher; 2012-2017)	.	20.7
Primary school teachers trained to teach (2009-2017)	.	93.5%
Proportion of schools with access to internet (2008-2013)	36%	56.3%
Math (PISA[5] score 2015)[6]	456	413.7
Reading (PISA score 2015)	475	436.2
Science (PISA score 2015)	475	431

Variable	Argentina	LA7 Average
Quality of Living Standards[3]		
Vulnerable employment (% of total employment; as of 2017)	21.4%	38.1%
Share of rural pop. with access to electricity (2016)	100%	95.9%
Share of pop. using improved drinking-water sources (2015)	99.6%	96.6%
Share of pop. using improved sanitation facilities (2015)	94.8%	89.6%

1. The HDI score is based on a set of indicators covering the dimensions of "long and healthy life", "knowledge" and "a decent standard of living". For more information, see (United Nations, 2018[4]).
2. The GDI is calculated by comparing the female and male HDI values of the country. Countries are divided into five groups by absolute deviation from gender parity in HDI values.
3. Indicators under the categories "Quality of Health", "Quality of Education" and "Quality of Living Standards" are taken from the HDI Dashboard 1 on Quality of Human Development.
4. The relative difference between life expectancy and healthy life expectancy, expressed as the percentage of life expectancy at birth.
5. The Programme for International Student Assessment (PISA) is a triennial international survey that aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. In 2015 over half a million students in 72 countries and economies took the PISA test, and were assessed in science, mathematics, reading, collaborative problem solving and financial literacy. For more information and assessment results, see http://www.oecd.org/pisa/aboutpisa/.
6. The highest average national score for Math, Reading and Science is held by Singapore with 564, 535 and 556 points, respectively.
Source: (United Nations, 2018[4]).

Reform priorities

Argentina faced the deepest economic crisis of its history in 2001-2002. A period of steep growth followed, from 2003 to 2011, interrupted only by the global crisis in 2009; GDP increased annually by an average of 6.4% during that period (see Table 11.1). This process, enabled in part by high commodity exports prices, stopped in 2011. Since then, the fall in crop prices and a set of macroeconomic imbalances – including high fiscal deficit, high inflation and capital flight – have piled up, preventing growth from occurring (MP, 2018[4]). Meanwhile, gross fixed capital formation reached a minimum during the 2002 crisis and peaked at 19.5% of GDP in 2007. It has remained in the range of 14-17% after 2012. (World Bank, 2018[1]). In this context, structural reforms are being implemented and began to take effect during 2017, raising GDP to 2.9% (see Table 11.1).

The return of growth after 2002 came with massive employment creation. Unemployment dropped from 19.6% in 2002 to 11.5% in 2005 and 7.1% in 2013 (see Table 11.1). A combination of job creation and active social policy reduced poverty from 60% in the aftermath of the 2001 crisis to 30% in 2015 (World Bank Group, 2018[6]). However, the economy has created very few new formal jobs since 2012, leading to a current unemployment rate of 8.5% (see Table 11.1).

Informality is also a pressing issue, as in other Latin American countries. Labour informality surged during the economic crisis of the early 2000s when, according to the national statistics institute's (INDEC) data, labour informality reached 49.5%. Labour informality has progressively declined until 2012, according to International Labour Organisation (ILO) data, to stabilise at over 30% of the total labour force. However, when one includes self-employed people and family members working in family-run businesses – who are not covered by social security – the labour informality rate rises to 46.8% (ILO, 2014[7]). This problem is also particularly severe for young workers, for whom informal economy participation rates rise to 49.1% (OECD/CAF/UN ECLAC, 2016[8]).

In terms of sectors, industry led the growth process, followed by services. However, the former lost dynamism at the end of the period, falling to 22% of GDP in 2017, a figure

similar to that of 17 years before. Services and agriculture represented 57% and 6% of value added in 2017, respectively, with manufacturing at 13% (World Bank, 2018[1]).

The Argentine economy also presents sharp geographical disparities. Four out of 24 provinces (Buenos Aires, Santa Fe, Ciudad Autónoma de Buenos Aires and Córdoba) concentrate 62% of the population, 72% of the enterprises and 73% of exports. Like most Latin American economies, Argentina presents a dual structure. The agro-industrial complex located in the central region is the most competitive sector of the economy and source of most of the exports. It comprises a highly efficient agribusiness sector (cattle, soybean, corn, wheat, sunflower) connected with an industrial platform that processes the raw materials (processed foods, biofuels and sub-products), but also other elements of the value chain (agriculture machinery, IT services, etc.). There is also an extensive network of productive SMEs in non-food manufacturing linked to intra-MERCOSUR trade (auto industry) and domestic markets (textiles, electronics, equipment, etc.) but also to overseas markets (chemicals). High-value-added services (IT, accounting, and cultural industries) are also a very dynamic sector with export capabilities. However, a large part of the workforce (particularly in the north of the country) is self-employed or works in low-productivity urban microenterprises in trade, construction and other services.

Public sector, money and prices

Government expenditure increased sharply during the 2000s and 2010s, jumping from 22.6% to over 40% of GDP (see Table 11.1). Revenue grew even faster in the aftermath of the 2002 crisis, yielding uncommon fiscal surpluses between 2003 and 2006. The reduction of the debt service burden after a sovereign default and restructuring helped increase fiscal space. However, a deficit reappeared with the global crisis in 2009 and dramatically increased to 5.8% of GDP in 2016.

Inflation remained in single-digit figures until 2007, but has accelerated since then. By some estimates,[2] inflation rose above 20% beginning in 2007, with peaks of 38% in 2014 and 35% in 2016 (see Table 11.1).

A new administration took office in December 2015 and introduced a set of structural reforms, making it a priority to unify the foreign currency market, reduce inflation and control the fiscal deficit. Currency controls were immediately eliminated and export taxes on agricultural products are being phased out. An agreement was reached with holdout creditors, allowing the country to improve access to international capital markets. Distortive utility subsidies are being reduced to increase the sustainability of public accounts. The central bank is following a strict anti-inflationary policy with explicit targets.

However, during the first half of 2018, the Argentine peso fell by one-fifth against the US dollar since the beginning of the year, despite central bank efforts to halt the slide. This situation was related to the strengthening US dollar and higher American interest rates; while this has affected many emerging market economies, Argentina is unusually vulnerable due to its still-relatively-high inflation rates and relatively large percentage of foreign-currency debt (40% of GDP, up from 26% in 2015), as well as its large fiscal and current-account deficits.

To address this situation, Argentina reached a USD 50 billion “stand-by” loan agreement with the International Monetary Fund (IMF) in June 2018, which guarantees that credit will be available in exchange for whatever reforms the IMF deems necessary. As part of the deal, the government agreed to accelerate plans to reduce the fiscal deficit, with a target of achieving federal government primary balance by 2020. The government will also work to

reform the central bank's charter and strengthen its independence to rebuild the credibility of the inflation-targeting framework. As part of this process, the central bank has already agreed to stop transferring money to the national treasury, which is seen as a key driver of national inflation (IMF, 2018[9]).

This situation has complicated the short-term growth picture for the country, which is now expected to face a recession in 2018-2019, down from previous expectations of above 3% for both years. Growth is expected to return, above 2%, in 2020 (OECD, 2018[10]).

External sector

Trade liberalisation began in the 1990s and continued during the first decade of the 21st century. Imports and exports peaked at 40.9% of GDP in 2007, followed by a sharp reduction (see Table 11.1). An appreciated currency and a growing aggregate demand then induced an increase in imports, and pressure on central bank reserves was exacerbated by capital outflows. The economic policy response was to increase trade barriers, yielding a fairly protected economy by 2015.

Argentina currently ranks 83rd place in MIT's Economic Complexity Index (ECI). This places it in the lower half of the LA7, where it outranks only Peru (92) and Ecuador (101). Agricultural products (mainly soybean and its derivatives) dominate the exports basket (64%) (World Trade Organization, 2016[11]). The automotive industry is also relevant at the regional level. The top export destinations are Brazil (Argentina's main MERCOSUR partner), the European Union, the United States and China. Imports are mainly manufactured goods coming from the same partners (World Trade Organization, 2016[11]).

Capital inflows remained low in the 21st century. Foreign direct investment averaged 2.1% of GDP during 2005-2015 (see Table 11.1), compared to 3.2% to LAC. Current account surpluses prevailed until 2010, when they were replaced by a deficit that reached 2.9% of GDP in 2015.

Business environment

The business environment has been deteriorating in Argentina during the 21st century, according to the World Bank's Ease of Doing Business ranking (World Bank, 2019[12]). The country fell from 93rd in 2006 to 119th in 2018,[3] which is below all LA7 countries except Ecuador; indeed, all members of the Pacific Alliance (Chile, Colombia, Mexico, Peru) receive rankings of between 54 and 68. Argentina performs particularly well in the areas of "protection of minority investors" (57th) and "getting credit" (85th). However, it receives relatively low scores in the area of "paying taxes" (169th), as the process is time consuming and the tax rates are among the highest in the region. "Dealing with construction permits" (174th) also receives a low score, as obtaining one is costlier and takes more time than in most countries of the region. The reform track record shows recent efforts by the current administration to improve tax compliance, starting a business and trade procedures; however, obtaining a construction permit has become even more difficult in recent years.

Figure 11.2. Doing Business Score Indicators 2019 - Argentina



Note: *LA7* is the simple average for the seven countries studied in this report: Argentina Chile, Colombia, Ecuador, Mexico, Peru and Uruguay. The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.
Source: (World Bank, 2019[12])

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Argentina is ranked 81st in the World Economic Forum's Global Competitiveness Index (WEF, 2018[13]), which is the 11th highest ranking in the LAC region. However, it is the lowest-ranked high-income country, lagging behind emerging economies such as Malaysia and China. Market size (10th) and human capital (represented by skills [51st] and health [53rd]) are the dimensions in which Argentina performs best. Labour (116th) and product market (120th) efficiency are the country's most relevant liabilities. The last decade has witnessed a steep deterioration of the latter and, even more intensely, the macroeconomic

environment – the country's score on this pillar (136th) was influenced by 2017 inflation rates.

In line with these findings, the International Finance Corporation's Enterprise Surveys (World Bank, 2017[14]) state that the main challenges faced by Argentina's companies are tax rates, labour regulations and political instability. The first and second of these are more pressing problems in Argentina than in the rest of Latin America, while human capital, electricity and corruption are much less relevant for the country than for the region as a whole. SMEs in Argentina are particularly restricted by high tax rates, whereas large firms see labour regulations as their main obstacle.

The US Department of State's Investment Climate Statement on Argentina (US DOS, 2018[15]) underlines the weakness of the country's judiciary, dispute settlement mechanisms and intellectual property rights scheme. On the positive side, it highlights the equal treatment of foreign and domestic capital in most dimensions, as well as recent improvements in capital mobility.

As will be evident in the later sections of this chapter, the federal administration that took office in 2015 has promoted initiatives to address some of these problems. The SME Act of 2016 reduced the tax burden, enlarged the crisis recovery programme and improved funding options for SMEs. The Entrepreneurs Capital Act of 2017 created a new legal limited-liability person type and enabled a one-day business creation process; it also set up strong tax reductions for venture capital, regulated crowdfunding and increased public venture funding options. A new, simplified administrative scheme was also put in place to ease the import process.

SME Sector

Definitions and employment

Argentina's official SME definition, as modified in 2017 and 2018 (see sub-section on "Institutional framework and SME Definition" for more information) is based primarily on the criterion of turnover, and distinguishes between micro, small and medium-sized enterprises (see Table 11.3). The medium-sized class is further sub-divided in two categories, extending the upper threshold to a significantly higher level than in previous definitions. An employment criterion and asset threshold (of ARG 100 000, approx. USD 2 700) is also given, to be utilised in specific cases when over 70% of a firm's turnover comes from sales on commission or consignment. This definition is used as the basis to determine eligibility for public SME-promotion programmes.

Article 5 of Resolution 340/2017 adds an independence criterion to this definition, setting it apart from most other LA7 definitions. The inclusion of this criterion ensures that an enterprise is not classified as a SME if it is controlled by a large company, even if the enterprise satisfies the standard criterion set in the SME definition.

Table 11.3. SME Definition - Argentina

Size	Criterion	Currency	Construction	Services	Trade	Manufacturing and mining	Agriculture
Micro	**Turnover**	ARS	5 900 000	4 600 000	15 800 000	13 400 000	3 800 000
		USD	161 218	125 696	431 738	366 157	103 836
	Employment		12	7	7	15	5
Small	**Turnover**	ARS	37 700 000	27 600 000	95 000 000	81 400 000	23 900 000
		USD	1 030 159	754 175	2 595 891	2 224 269	653 071
	Employment		45	30	35	60	10
Med-1	**Turnover**	ARS	301 900 000	230 300 000	630 000 000	661 200 000	182 400 000
		USD	8 249 468	6 292 986	17 214 855	18 067 400	4 984 110
	Employment		200	165	125	235	50
Med-2	**Turnover**	ARS	452 800 000	328 900 000	1 140 300 000	966 300 000	289 300 000
		USD	12 372 836	8 987 247	31 158 888	26 404 309	7 905 171
	Employment		590	535	345	655	215

Note: Each stated value corresponds to the upper threshold value per size and sectoral category. Exchange rate USD/ARS = 36.60 (as of 03/12/2018).
Source: (Ministerio de Justicia y Derechos Humanos de Argentina, 2018[16])

In 2017, there were 609 393 firms registered as employers in the social security system of Argentina. SMEs accounted for 99% of them and 70% of formal employment. Employment was divided in roughly equivalent shares between micro, small and medium firms. Microenterprises represented 85% of all firms and hired 11.2% of employees (see Table 11.4).

Table 11.4. Number of firms and employment by firm size – 2017

Categorisation	Firms		Formal employment	
	No. of firms	*% of total firms*	*No. of employees*	*% of total employment*
Micro	517 910	84.90%	1 263 350	11.20%
Small	72 971	11.90%	2 040 068	18.10%
Medium	14 973	2.40%	2 187 488	19.40%
Large	3 539	0.50%	5 742 002	51.11%
Total	**609 393**	**100%**	**11 232 908**	**100%**

Note: "Total firms" refers to all those registered in the social security system as employers.
Source: (MP, 2018[17])

The size of the SME sector compared to large companies increases if the population census is used as a source instead of enterprises surveys. In this case, firms with fewer than 100 workers represent 83% of employment. Microenterprises, in particular, employ almost half of the workforce.

Informality is widespread among SMEs. More than 60% of employees in firms with five workers or less make no contribution to pension funds. This figure drops to 10% for firms with more than 100 employees (see Table 11.5).

Table 11.5. Total employment and informal workers by firm size - 2010

Size	Share of total employment	% of workers with no pension contributions
1-5	48%	61%
5-25	22%	31%
26-100	13%	15%
>100	17%	10%
Total	100%	40%

Source: Population Census (INDEC, 2017[18])

Firm density varies across provinces. While the city of Buenos Aires has almost 50 firms per 1,000 inhabitants, Formosa and Santiago del Estero have only six or seven, respectively. In general, northern provinces present lower firm densities than central and southern ones.

Value-added and productivity

SMEs represent a large share of employment but a smaller share of GDP. Firms with 100 workers or less represent around half of total value added. Within this, small firms represent a sizeable 22% of total value added (see Table 11.6).

The labour productivity picture is mixed for Argentine SMEs (see Table 11.6). Labour is half as productive in microenterprises (0-5 workers) as the national average and 29% that of large firms. However, small enterprises show an average productivity level, as well as firms in the 51-100 employment range. Although the available data do not allow for differentiation between medium and large enterprises, they show that productivity is almost 40% higher in firms employing more than 100 workers than in those with a payroll between 50 and 100 employees.

Table 11.6. Employment, value added, productivity and remuneration by firm size – 2005

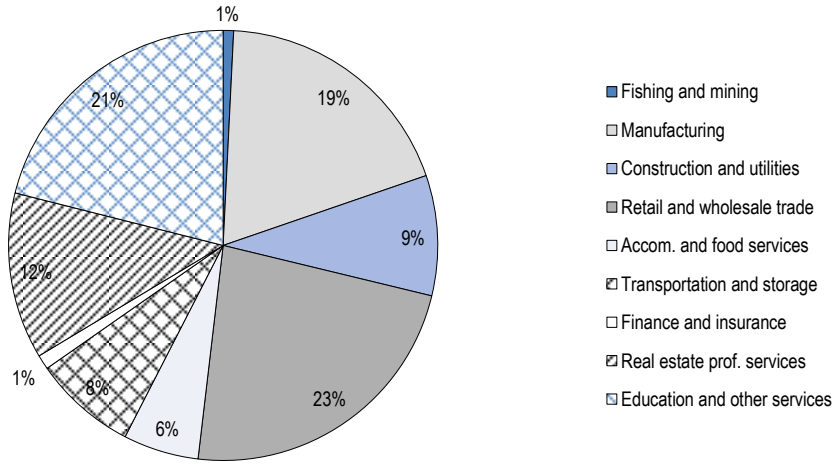
Size	Share of employment	Share of total value added	Productivity	Remuneration per worker
			As % of large firms	As % of large firms
0-5	30%	13%	29%	12%
6-10	8%	7%	54%	39%
11-50	20%	22%	72%	55%
51-100	10%	10%	72%	68%
>100	32%	48%	100%	100%
Total	100%	100%	66%	56%

Source: Economic Census 2005/05 (INDEC, 2017[18]).

Sectors of activity

In terms of sector activity, retail and wholesale trade, education and other services, and manufacturing are the largest employers in the SME sector, with 23%, 21% and 19% of formal employment, respectively (see Figure 11.3).

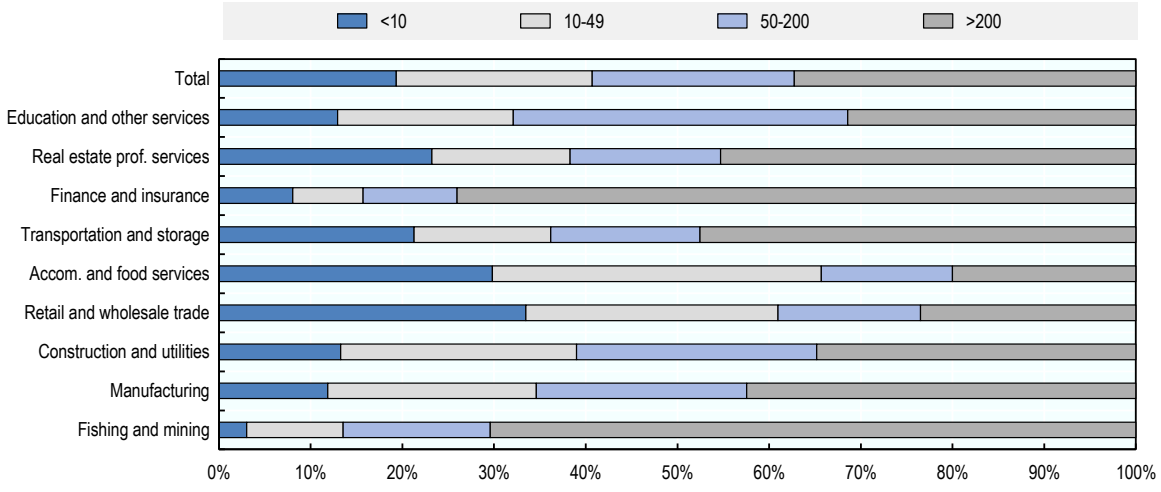
Figure 11.3. SME non-agriculture formal employment by sector - 2015



Note: Data are from social security administrative records.
Source: (MP, 2017[19]).

As shown in Figure 11.4, SMEs play an important role in activities such as accommodation and food services or trade. Large firms dominate in finance and fishing and mining. Medium-sized firms play an important role in social services like education and health.

Figure 11.4. Sectoral employment by firm size - 2015



Note: Data are from social security administrative records.
Source: (MP, 2017[19]).

Trade

While participating in export activities is challenging for SMEs in general, only 0.47% of Argentine SMEs export directly (see Table 11.7). Medium-sized firms have a better performance (around 14%). Although most exporting firms are SMEs (89.5%), they account for only 17.8% of the exported value. However, these figures underestimate the

value added by SMEs to exporting complexes where large firms are the last stage in the value chain (e.g. automotive industries).

Table 11.7. Exporting behaviour by firm size - 2017

Size	% of firms in the category that export (2016)	% of exporting firms	% of exported value
<10	0.47%	25.5%	1.9%
10 - 49	4.87%	36.6%	7.2%
50-200	13.71%	20.5%	8.7%
>200	28.87%	10.5%	82.2%
Total	1.47%	100.0%	100.0%

Note: The percentage of firms in the category that export is presented in 2016 numbers.
Source: (MP, 2018[17]).

According to the World Bank's Enterprise Surveys (World Bank, 2017[14]), 8.4% of firms directly or indirectly exported at least 10% of their sales in Argentina in 2017. That proportion falls to 5.3% for small firms, while 10.9% of medium firms and 23.8% of large firms do so. However, these figures are below the simple average for the region (11%, 16.4% and 33%, respectively).

Assessment results

Institutional framework (Dimension 1)

Argentina has received a score of 3.47 on a scale of 1-5 for this dimension, indicating that significant gaps remain in the formulation of strategic policy orientations, policy implementation and in M&E. The lowest scores have been recorded in the sub-dimensions dealing with public-private consultations (2.62) and strategic planning, policy design and co-ordination (2.98).

Argentina has put in place a vast programme of support for the SME sector, with a significant number of actions and projects targeting specific sectors or segments of the SME population. However, there is still progress to be made in structuring all those programmes into a coherent plan that would allow the optimisation of synergies and spill over effects among different actions. Such an approach would also help to improve M&E of SME support and accurately assess impact at the level of individual programmes and at the policy level. The authorities note that they are undertaking efforts to digitise processes and data gathering of current programmes (e.g. number of files per procedure, processing times, etc.) in order to improve M&E.

Institutional framework and SME definition

In Argentina, the SME policy mandate is assigned to the Ministry of Production and Labour, which is divided into seven Secretariats (*Secretarías*). The SME and Entrepreneurs Secretariat (*Secretaría de Emprendedores y PyMEs*, or SEPyME) is directly in charge of elaborating and implementing programmes in support of entrepreneurship and SMEs, but other Secretariats – such those focused on productive integration, productive simplification, industry, and productive transformation – also operate in areas highly relevant for SME policy.

SEPyME has recently been restructured. Its SME Sub-Secretariat, which was directly in charge of SME policy, was dissolved in early 2018 as part of a cross-government initiative to reduce the fiscal cost of the federal administration structure; nonetheless, SME policy continues to be a strategic pillar under the Ministry of Production and Labour. SEPyME is now organised into four national directorates covering a wide range of functions, from the development of entrepreneurship (including start-up support programmes) to business development services and subsidy support for SMEs, competitiveness and financing assistance, and promotion of knowledge-based services. The Secretariat, which includes also a Centre for the Economic Development of Women (*Centro para el Desarrollo Económico de la Mujer*), had a total staff of 390 at the end of September 2017.

SEPyME undertakes all policy cycle functions, being in charge of policy elaboration, implementation, and monitoring and evaluation (M&E). It also operates a number of *casas de la producción* (roughly, "production houses") across the country, which disseminate information about available SME training and financing support and offer various training and advisory services.

The country's initial SME definition, established in 2001, was recently modified by Law 27.264 of 2016 and Resolution 340 of 2017, as well as the subsequent amendments contained in Resolutions 154 and 215 of 2018. The current definition is based primarily on the criterion of turnover,[5] and includes a segmentation between micro, small and medium-sized enterprises (see Table 11.3). The medium-sized class is further subdivided into two categories, extending the upper threshold to a significantly higher level than in the previous definition. Enterprises belonging to the higher medium-size category have access to financing support and selected tax incentives, but not to other public SME support services. Specific turnover thresholds are set across all size categories for the service, trade, industrial and mining, construction, and agricultural sectors. Use of the definition is mandatory across the entire public administration.

Enterprises must register annually with the Ministry of Production and Labour to ensure the Ministry continues to officially recognise them as SMEs; this allows them to continue to access the ministry's services and facilities. Currently, approximately 56% of the total SMEs estimated to be operating in the country regularly complete this registration process; around 80% of all these registrations concern micro-enterprises, which is in line with the overall presence of microenterprises in the national economy (about 83% of all firms). Turnover data is cross-checked with information provided by the tax authorities to limit potential abuses. Although the annual registration obligation may add an additional layer to the administrative burden of SMEs, it also allows for the development of a fairly comprehensive database that could help inform future policy making and be very useful in M&E processes.

Argentina regularly collects official SME statistics, including aggregated data on enterprise employment and turnover by size, sector and location.[6] Further data, including data on value added, are collected through firm surveys and through the SME registration process with the Ministry of Production and Labour, but these are not publicly available.

Strategic planning, policy design and co-ordination

Argentina has yet to elaborate a full set of strategic SME policy guidelines. Moreover, like several other LA7 countries, it has also not yet fully developed a strategy/agenda for productive transformation, including SME policy (see the section on "Productive Transformation" for more information).

In December 2016, the Ministry of Production and Labour presented a draft of the aforementioned *Argentina Emprende,* a strategic plan covering enterprise creation, start-up support and SME development; however, the plan has not been formally approved.[7] As part of the Ministry's 2017 budget approval process, the then SME Sub-Secretariat issued a short document outlining general policy directions and ministerial priorities. The document outlined the several key areas for policy actions, including the improvement of the business environment, the promotion of enterprise creation, the provision of diagnostic services for productivity enhancement, the promotion of SME competitiveness (through technical assistance programmes aimed at facilitating the adoption of management and technical standards), the development of productive systems at the local level, and actions to promote SME integration into global value chains and international co-operation.

SME policy in Argentina thus currently consists of a set of various programmes, actions and facilities that have been introduced and developed over time, but neither integrated under a single medium-term strategy nor co-ordinated under a comprehensive action plan.

However, the 2014-2019 programme of Support to SME Competitiveness, jointly financed by the Argentine government and the Inter-American Development Bank (IDB), provides budgetary and technical assistance support on a multi-year basis.[8] The programme, known as PAC (*Programa de Apoyo a la Competitividad para MIPYMES*), is supported by an IDB loan of USD 50 million and a USD 30 million contribution from the Argentine government, while the implementing authority is the Ministry of Production and Labour. The programme includes three main components relating to technical assistance to SMEs – productive articulation, territorial competitiveness (including cluster development),[9] and support for new enterprises – in addition to support for the project co-ordination unit. At the end of 2017, according to the IDB Operational Report, 53% of the loan had been disbursed, with the technical assistance component recording the highest disbursement rate.

Because an overarching SME development strategy is not in place, M&E is conducted mainly at project/programme level. The Ministry of Production and Labour reports annually on its activities and the use of budget funds, the results of which are publicly available online.[10] The activity reporting utilises pre-defined annual goals by activity. However, these indicators are generally process- rather than performance-oriented (i.e. "numbers of assisted enterprises" rather than their pre- and post-programme performance).

Traditionally, SME policy has been conducted by the Ministry of Production and Labour in relative isolation, with limited interaction with other ministries. In Argentina, there is no inter-ministerial committee on SME or private-sector development policy; likewise, there is no SME/entrepreneurship development fund administered by a board comprising relevant ministries and institutions, as exists in other LA7 countries such as Colombia and Mexico.

Following the recent merger of the Ministry of Production with the Ministry of Labour, a higher level of co-ordination is expected, particularly in the area of informality reduction. The Ministry is currently establishing an electronic platform to facilitate the exchange of information and policy inputs with other ministries.

Public-private consultations

Argentina has a long practice of consultations with the private sector, and these are currently being formalised with regard to both SME development and the productive transformation of key sectors (see the "Productive Transformation" section of this chapter for more information). The Ministry of Production and Labour in late 2018 established a

Council of Monitoring and Competitiveness for SMEs *(Consejo de Monitoreo y Competitividad para las Micro, Pequeñas y Medianas Empresas)*, which met for the first time in September 2018, while a federal council (*Consejo Federal PyME*) is already in place to co-ordinate activities at the central and local levels in the SME policy area.

Public-private consultations (PPCs) have so far been fairly informal, with the government inviting the main organisations representing the private sector to discuss specific issues. However, the results of these consultations are not made public.

Beginning in 2017, the Ministry of Production and Labour has organised tripartite consultations called "Executive Roundtables for Productive Transformation" *(Mesas Ejecutivas para la Transformación Productiva)*, including representatives of the main sectoral organisations and trade unions, to promote the elaboration of sectoral development plans (with no specific SME focus). These sectoral agreements now exist for close to thirty sectors (see section on "Productive Transformation" for more information).

Measures to address the informal economy

The informal sector plays a significant role in the Argentine economy, and the reduction of both informal labour and enterprise informality are key policy priorities. Labour informality surged during the economic crisis of the early 2000s when, according to the national statistics institute's (INDEC) data, labour informality reached 49.5%. Labour informality has progressively declined until 2012, according to ILO data, to stabilise at over 30% of the total labour force. However, if self-employed people and family members working in family-run businesses (who are not covered by social security) are included, the labour informality rate rises to 46.8% (ILO, 2014[7]). Labour informality is the highest among young workers, women and the less educated, and it is more frequent in the construction, agricultural and traditional service (retail, hospitality, transport) sectors.

Argentina has a relatively good database on labour informality. It is based on data collected through regular household and market surveys conducted by INDEC and through ad hoc social security surveys *(Encuesta Nacional de Protección y Seguridad Social*, or ENAPROSS) conducted by the Ministry of Labour (now part of the Ministry of Production and Labour). The data availability has allowed for the creation of a series of detailed studies on the trends and causes of informality (World Bank, 2008[20]; Figueras et al., 2017[21]). However, most of the available information focuses on labour informality, while enterprise informality has received limited attention.

The government's approach to informality reduction has taken two main directions. In 2003, it launched a National Plan for Labour Regularisation *(Plan Nacional de Regularización del Trabajo*, or PNRT*)*,[11] which includes a simplification of the regularisation procedures, awareness-raising actions conducted in co-operation with local authorities, and a strengthening of inspection and enforcement measures. In parallel, the government introduced measures to simplify labour registration and tax payments. On the fiscal side, the most important measure has been the introduction in 1998 of the Monotributo, which combines several taxes and social contributions into a single monthly payment, greatly simplifying tax and social contribution compliance. The area of application of the Monotributo has been tailored to cover most of the activities with the highest informality rate. In 2016, the Macri administration introduced a law[12] to address money laundering, with the goal of formally incorporating undeclared goods into the economy, with low tax rates and lack of penalties as the key incentives. This law has greatly increased the amount of assets and real estate that are recognised and taxed in Argentina.

A committee monitors the implementation of the PNRT, and the National Directorate for Labour Regularisation produces monthly reports on new labour registration data. Administrative data is also crossed-checked with INDEC data from labour market and household surveys.

Operational environment and simplification of procedures (Dimension 2)

While all LA7 countries score lower on this dimension than in the rest of the assessment, Argentina's performance remains relatively poor, with an overall score of 2.50 against the LA7 average score of 2.96 on a scale of 1-5.

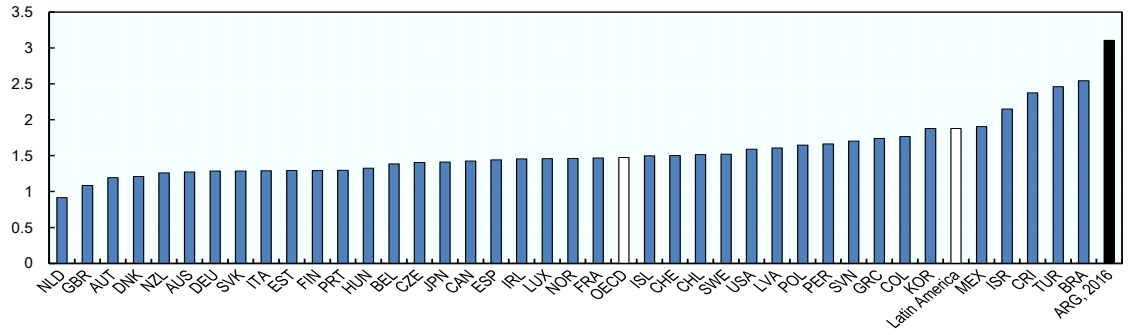
Argentina's performance is particularly low (1.63) for the sub-dimension focusing on regulatory simplification and the application of Regulatory Impact Analysis (RIA), as the entire regulatory reform process is in an early phase of design and implementation remains limited to few projects. The country's performance is around the dimension average for company registration and ease of tax filing, while it is relatively high for the e-government sub-dimension, reflecting recent government actions in this area.

In 2018, Argentina established a Secretariat for Productive Simplification (*Secretaría para la Simplificación Productiva*) with the aim to digitalise procedures and facilitate administrative simplification through process redesign, system interoperability and legal modifications.

Legislative simplification and Regulatory Impact Analysis

Poorly designed and highly restrictive regulations impose a heavy administrative burden on Argentine enterprises and constrain their growth potential. A recent update of the Product Market Regulation indicators, or PMRs (conducted by the OECD jointly with the World Bank), which measure the restrictiveness of a country's regulations affecting the functioning of competitive markets, shows that Argentina's PMR index is significantly higher than the average index for OECD countries, but also higher than the average index for Latin America, indicating a high level of regulative restrictiveness (OECD, 2017[22])(see Figure 11.5). Results from the World Bank's *Doing Business 2019* report confirm this diagnosis: overall, Argentina ranks 119th out of 190 economies and receives a "distance to frontier/ease of doing business"[13] ranking (which measures an economy's distance from the best performing economy across the 10 indicators of the *Doing Business* report) of 58.80 out of 100. Furthermore, Argentina records only a marginal improvement over the 2018 report result (+0.87), a poor placement for an upper-middle-income country.

Figure 11.5. Relative performance of Argentina - OECD PMR Indicators



Note: The OECD's Product Market Regulation (PMR) indicators are synthetic indicators that summarise a wide array of different regulatory provisions on product markets across countries, with a focus on the degree to which these regulations restrict competition. They are expressed on a scale from 0 (least restrictive) to 6 (most restrictive). Data are for 2013 or last available year. Data for Argentina are preliminary and refer to 2016, based on an update undertaken jointly with the World Bank.
Source: (OECD, 2017[22]). See also:
https://www.oecd.org/economy/growth/indicatorsofproductmarketregulationhomepage.htm.

Regulatory reform figures as one of the top priorities of the Argentine government. In 2017, the government approved a comprehensive tax reform, which entered into force from 1 January 2018; the reform amended the Company Law *(Ley de Sociedades* – Law 26.994*)*, the "Law No. 27349 of Support for Entrepreneurial Capital" *(Ley de Apoyo al Capital Emprendedor)* and the country's national guarantees fund. In January 2018, the Ministry of Production and Labour also established a "Productive Simplification Secretariat" (*Secretaría para la Simplificación Productiva)*, while in February 2018 the government approved a decree aimed at starting a process of systematic regulatory reform. Although regulatory reform is still at a very early phase, the government is stepping up efforts in this area with around 300 programmes of administrative simplification launched by different public institutions. In addition, according to Ministerial Resolution 229/18, any regulatory norm that may generate an administrative burden must include an analysis of simplification alternatives.

Less than 25% of legislative and normative acts affecting enterprise operations have been reviewed so far, and the application of RIA is at a very early phase. Decree 891 of November 2017 identified good practices in the area of regulatory reform and set the basis for introducing RIA for ex-ante cost-benefit analysis; however, at the time of this assessment, no RIA guidelines had yet been developed, nor had any RIA project been launched. The government has instead started to elaborate simplified ex-ante evaluation of administrative barriers related to the introduction of new regulations. Between June and November 2018, 38 projects were examined.

Given the early stage of the country's regulatory reform efforts, a monitoring system has not yet been put in place. However, the aforementioned Productive Simplification Secretariat is developing indicators for tracking regulatory reform implementation.[14] Furthermore, a Regulatory Policy Group was created in November 2018 with the objective of introducing good regulatory practices.

Company registration

This sub-dimension combines a number of indicators related to the institutional framework for company registration, including the presence of one-stop shops, the use of a single

company-identification number and the availability of online registration facilities, with indicators on performance of company registration and procedures for starting a business based on the results of the World Bank's *Doing Business 2019* report (World Bank Group, 2018[23]).

In Argentina, although it is not particularly costly to register a limited liability company and start a business, these are complex processes in terms of both time and number of procedures required. This is due to a complex notification phase and to the absence of one-stop shops.

Companies in Argentina have two identification numbers, the *Clave Única de Identificación Tributaria* (CUIT), issued by the Federal Administration of Public Income (AFIP) and the *Número de Inscripción en el Registro Público,* issued by the Public Registry of Commerce. The CUIT is the key company identification number used across the public administration. The number can be obtained for free in one day from AFIP once the company has obtained its registration certificate from the Public Registry of Commerce.

In Argentina, there is no widespread single-window or one-stop-shop system, but there are cases where all the public institutions involved in the process are grouped in a single location. This is important as, otherwise, the new entrepreneur has to visit each institution separately – including the tax office, VAT administration, municipal tax office, social security register, labour risk insurance, and Production and Labour Ministry office (to legalise the employment registration book). A pilot one-stop-shop project is under implementation at the Register of Commerce in Buenos Aires.

Online registration is not currently available throughout the country, but pilot projects have been implemented for the creation of Simplified Stock Companies *(Sociedad por Acciones Simplificada – SAS)* covering the provinces of Caba, Buenos Aires, Córdoba, and Tierra del Fuego.[15]

In terms of performance, Argentina ranks 128th out of 190 economies in the *Doing Business 2019* ranking for the "starting a business" indicator – which, while a significant improvement over the 2018 ranking (157th), still places Argentina well below Uruguay, Chile, Mexico and Colombia. Argentina also significantly reduced the gap between it and the best-performing country in this area: its "distance to frontier/ease of doing business"[16] ranking in 2019 was 81.99, against 73.55 in 2018 (out of 100[17]).

The most significant progress was made in cutting the number of procedures (from 13 to 11) and the time needed to complete the procedures (from 24 to 11 days). Fees are among the lowest in Latin America. The introduction of one-stop shops across the country could substantially reduce both the time companies spend in the notification phase and the complexity of the procedures for starting a business.

The monitoring system is still in an early phase of development. Company registration will be included in the set of implementation indicators developed by the Ministry of Production and Labour's new Productive Simplification Secretariat.

Ease of filing taxes

The assessment for this sub-dimension is based exclusively on a set of indicators drawing from the "paying taxes" section of the World Bank's *Doing Business 2019* report. These indicators measure the number of annual tax payments required; the time required to perform those payments; and the post-tax-filing index, which takes into consideration the

time required for an enterprise to apply for and obtain a VAT refund and complete an income tax correction.

Argentina performs relatively poorly in this area compared with OECD countries, but is generally aligned with the performance of the other LA7 countries. The most critical areas are the time required to perform the tax payments (311.5 hours compared with an average of 159.4 in the OECD area) and the post-tax-filing index (47.94 out of 100, against an average of 84.4 in the OECD area). There has been no change in performance over the last year. The indicators cover the standard procedures only and do not take into account the availability of online facilities for filing and paying taxes.

E-government services

This sub-dimension covers the efforts made by the government to implement an e-government strategy/action plan, the availability and operability of a range of e-government services, and the ability to perform automatic exchanges of information across public sector databases ("inter-operability").

Argentina is performing relatively well in this sub-dimension. In 2015, the Macri administration established the Ministry of Modernisation *(Ministerio de Modernización)* to promote the public administration reform, transparency in public governance, and the digitalisation of the public administration at all levels. It also launched the *País Digital* ("Digital Country") programme to support public-private sector initiatives in the ICT area, create a culture of change, and support investment in ICT infrastructure. The *País Digital* programme has led to tangible advancements such as the launch of more than 300 digital centres across the country, and the multiplication of public administration websites designed to guide citizens and enterprises in performing administrative acts; as of 2017, over 1 000 administrative processes could be found online (Centre for Public Impact, 2017[24]).

Several e-government services are therefore available online, including tax filing (through the AFIP electronic platform) and social security payments. The use of electronic signatures has been operational since 2015, while the government's "Electronic Document Management" system (GDE) allows for a good level of interoperability across the public administration.[18]

Access to finance (Dimension 3)

Argentina has the second highest score (4.17) in the LA7 region in the dimension of access to finance for SMEs. This is due mainly to its favourable regulatory environment (Sub-dimension 3.1), where it receives 4.60 points; and a dynamic ecosystem of opportunities for access to alternative sources of finance (Sub-dimension 3.2), for which it is assigned 4.91 points. However, there is still significant room for improvement, particularly in terms of developing procedures for dealing with insolvent or bankrupt enterprises (Sub-dimension 3.4; 3.05 points).

Legal, regulatory and institutional framework for access to finance

Argentina receives a relatively high score on this sub-dimension (4.60 points) because it has a favourable framework for commercial lending. For example, regarding access to information, Argentina has a unified system, free of charge and updated monthly, to provide credit information for financial entities. This includes information from multiple

financial and non-financial institutions attesting to the ability of natural and legal persons to pay.

Another enabler for companies' ability to use assets as collateral is that Argentina has an active and freely accessible online cadastre system, although these data are made available to each of the provincial directorates instead of residing in a unified system that maintains all the registries at the national level. In addition to this registry of land and real estate, Argentina has a registry of other "pledged assets" that can be used as collateral; this is managed by the National Directorate of National Registries of Motor Vehicle Ownership and Pledged Credits *(Dirección Nacional de los Registros Nacionales de la Propiedad del Automotor y de Créditos Prendarios)* and is also freely available electronically.[19]

With regard to the collateral required by banks, the experience of Argentina also highlights that some financial institutions require assets with valuations lower than the amounts of loans granted for some of the financial instruments used by the sector – as with the discounting of cheques, for example.[20]

These relative advantages over access to formal credit contrast with the low score that Argentina receives for its legal framework's failure to delineate the rights and prerogatives of creditors in secured transactions with collateral (2 points). While there is no plan to reform the regulatory framework in this regard, some of the areas considered include the possibility of granting collateral without a specific description, giving priority for payment to secured creditors, and ensuring the existence of a collateral registry with modern characteristics.

Other initiatives positively valued by this sub-dimension are the existence of a deep securities market, which also includes an information platform for SMEs[21]; and the Argentine Securities Market (*Mercado Argentino de Valores*, or MAV), a segment of the market specialized in non-standardized debt products used by SMEs.[22]

Diversified funding sources

Argentina achieves the highest LA7 score (4.91 points) in the indicator for alternative sources of financing. This is due to the extensive range of financial products available to SMEs in the country. Among this offer, there are products designed to support SME internationalization initiatives, such as export credits from the Investment and Foreign Trade Bank (*Banco de Inversión y Comercio Exterior*, or BICE); credit guarantees, such as those given by public funds (e.g. FOGABA[23] and FOGAR); reciprocal-guarantee societies (e.g. *Garantizar*[24] and *Acindar PYMEs*); and other schemes that include specific commercial and technical advisory services for SMEs.

In addition, SMEs have a full range of financing options, including asset-based financing (e.g. factoring or leasing), equity collective investment mechanisms, and other instruments for which there is a specific regulatory framework. An example of the effort to modernize the legal framework for financial instruments was the designation of collective financing mechanisms under Entrepreneurial Capital Law No. 27,349 of September 2017.[25] The applicable regulator, the National Securities Commission, issued relevant regulations in January 2018.[26]

Financial education

Argentina also achieved the second highest score in this section (4.10 points) for its financial education initiatives. Even if the national strategy for financial education is being developed, different branches of the Argentinean Government have initiatives devoted to

improving financial literacy. These include training and accompaniment programmes, given both in person and online, on various topics relevant to financial and business decision making. An outstanding example is the informative materials and courses produced by Buenos Aires City Bank *(Banco Ciudad de Buenos Aires)* through its SME Institute,[27] which are specially designed to serve this business segment. Other entities, such as the Mayor's Office of Buenos Aires and the Ministry of Production and Labour, also have similar programmes that seek to empower the population and small entrepreneurs to make appropriate financial decisions. Importantly, the Argentine government has established guidelines under the Productive Financing Law (No. 27,440) to ensure the monitoring of performance indicators to inform changes to the national strategy, but these are yet to be implemented. These are expected to be collected periodically based on objective indicators, as well as the end-user's subjective views around the implementation of different initiatives. Argentina, through the Central Bank of Argentina (*Banco Central de la República Argentina*, or BCRA), has made efforts to measure the financial literacy of its population, for example conducting a Financial Capacity Survey in 2017 with support from CAF[28] and also evaluating the impact of some of its pilot tests through randomised control trials[29].

With respect to the inclusion of financial subjects in schools, in 2017 BCRA, together with the Ministry of Education, initiated a pilot project called "Financial Skills for Life" (*Habilidades Financieras para la Vida*)[30] that sought to include these topics in the secondary curriculum in the provinces of Córdoba and Neuquén. Since 2018, Argentina's government has redoubled its efforts in this regard by including financial education issues as a mandatory part of the curriculum in secondary schools, in accordance with the aforementioned Law.

Efficient procedures for dealing with bankruptcy

The main area to be developed by Argentina to improve access to finance for SMEs is to modernize some of its procedures for dealing with insolvency situations, since it is the sub-dimension where it receives the poorest score (3.05 points). The regulatory framework for these procedures is contained in Law 24.522 of 1995 on Bankruptcy,[31] which regulates preventive and bankruptcy processes at the national level for natural persons, legal entities and State entities. Although this law suggests creating a registry, the relevant information is currently maintained in a decentralized manner by the competent courts of each province and is only accessible to the public through specific requests to these entities. However, a programme to unify these registries is being developed[32]. As this effort progresses, it is recommended that the government consider automatically removing the records of individuals who have incurred bankruptcy after a prudential period has elapsed since the lifting of the financial restrictions imposed by the bankruptcy.

Other recommended areas of development for Argentina include strengthening secured-transactions legislation to give priority to creditors when seizing assets pledged as collateral in the event of bankruptcy and business reorganization; exploring the development of support programs for entrepreneurs seeking to start a new business following a previous insolvency; and simplifying insolvency procedures to reduce their duration and costs and increase recovery rates.

SME development services and public procurement (Dimension 4)

As noted under "Strategic planning, policy design and co-ordination" earlier in this chapter, Argentina needs to adopt a strategic or comprehensive approach to SME policy. Like the

rest of countries covered in this report, Argentina has yet to develop an explicit SME strategy with a specific component on business development services (BDS) for SMEs and entrepreneurs or with BDS elements across thematic components (e.g. promoting entrepreneurship, innovation, skills). Furthermore, =Argentina's national development plan (the National Productive Plan[33]) makes no explicit reference to the development of programmes for BDS as means to foster SME development. In fact, the plan seemingly serves as more of a public communication tool than a strategy, as it is a three-page document that does not go into detail (action plan, objectives/targets, KPIs) beyond the establishment of its eight pillars. Furthermore, unlike most countries in the region, Argentina does not yet provide BDS and other direct support to SMEs on public procurement opportunities such as training, programmes for joint bidding, subcontracting, or incentives to participate (e.g. advance payments).

Argentina's overall score of 4.14 for this dimension reflects this state of affairs, and points to possibilities for a more coherent and cohesive BDS strategy – one that builds on the rich diversity of BDS for SMEs and entrepreneurs already implemented at the programmatic level across the country.

Business development services for SMEs and entrepreneurs

In terms of the strategic framework for BDS provision, in December 2015 the government of Argentina launched an ambitious effort to modernise the national administration. This process required the various public entities to develop long-term strategic plans, including the identification of objectives and priority initiatives to promote social, human and economic development. As previously mentioned in this chapter (see subsection on "Strategic planning, policy design and co-ordination"), those government objectives included *a draft* of the *Argentina Emprende* strategic plan,[34] which aims to foster the creation of new enterprises and to provide tools for their stability, profitability and productivity. Because the plan has not yet been adopted, however, it is not publicly available. Furthermore, although the December 2016 draft of the plan includes a diagnostics section and an inventory of existing SME and entrepreneurship support programmes, it does not yet provide any details of new actions or programmes foreseen in the future (although it vaguely mentions goals for 2019 for each of the existing programmes).

Despite the lack of a strategic framework for SME policy, Argentina implements a rich diversity of BDS for SMEs and entrepreneurs across its territory. The main government agency in charge of BDS policy implementation at the central level is the Entrepreneurs and SMEs Secretariat (*Secretaría de Emprendedores y PyMEs*, or SEPyME) under the Ministry of Production and Labour. SEPyME provides extensive support in all three broad categories of BDS: counselling, training and information. For example, the website of the Ministry of Production and Labour provides information on how to create an enterprise, obtain tax advantages and register trademarks and patents.[35] It also provides an interactive Entrepreneurs' Map with information on where to obtain support across the territory (incubators, accelerators, co-work spaces and other schemes). Furthermore, through the website '*Soy Emprendedor*',[36] the government provides some useful information for entrepreneurs on various business regulations, licenses and other services. However, the website does not provide a complete and structured catalogue of BDS.

SEPyME also provides personalised and collective counselling and training through a number of flagship programmes (see Table 11.8 for a few examples). For example, the Mentors Network (*Red de Mentores*) programme provides personalised counselling across

the country for start-ups and "consolidated" (maturing) enterprises, the SME Experts (*Expertos PYME*) programme supports start-ups through subsidised access to privately provided BDS, and the Entrepreneurs' Clubs (*Clubes de Emprendedores*) initiative provides collective services to various SMEs through co-working spaces and advice. Other programmes help SMEs organise training courses for their employees, including in partnership with universities. When combined with several other SEPYME initiatives (*Casas de la Producción*, *Expansión*, *Seed and Acceleration Funds*), these programmes point to the vast BDS offer in Argentina, but also to a dispersed market.

Table 11.8. Examples of BDS for entrepreneurs and SMEs in Argentina

Programme	Beneficiary	Type of BDS	Notes
PAC Emprendedores	Innovative start-ups[1]	Subsidies of up to 85% of BDS	Through incubators
Seed capital fund *(Fondo semilla)*	Innovative start-ups and projects with a social impact[2]	Counselling and training	Through incubators registered in the National Network '*Incubar*.'
Entrepreneurs' Clubs (*Clubes de Emprendedores*)	Groups of entrepreneurs	Training, technical assistance, and others.	In collaboration with local communities
Mentors Network (*Red de Mentores*)	All entrepreneurs and SME managers	Counselling and training	Free BDS provided by volunteering mentors
SME Experts (*Expertos PYME*)	SMEs with growth potential	Subsidies for counselling and training	BDS provided by private firms/individuals

[1] Less than two years of operation.
[2] Less than one year for start-ups and four years for projects with a social impact.
Source: Ministerio de Producción (2016), *Argentina Emprende*, and website of Ministerio de Producción.

It is important here to once again highlight the 2014-2019 contractual framework for a loan with the IDB, known as PAC (*Programa de Apoyo a la Competitividad para MIPYMES*), which aims to support SME competitiveness. The USD 80 million contract (USD 50 million of which comes from the loan, the rest being contributed by the government) aims to increase SME investment in BDS by supporting firms at the individual and collective (e.g. SME consortia) levels. The contractual framework also aims to improve the supply of those services.[37] The agreement does not, however, explain the whole policy on BDS; rather, it covers only some of the services provided by the State through SEPyME and by other actors.

In terms of the dissemination of information on BDS programmes for SMEs and entrepreneurs, the website of the Ministry of Production and Labour includes a search engine for all types of programmes at the central level.[38] This Registry of Subsidies and Incentives (RSI) covers 157 active programmes for enterprise support, 81 of them provided by the Ministry of Production and Labour, 33 by the Ministry of Science and Technology (MINCYT – see the next section on "Innovation and technology" in this chapter), 18 by the Ministry of Agroindustry, and 11 by the Ministry of Tourism, among others. About 60% of all BDS programmes are horizontal, whereas the rest target one or more economic sectors. The RSI provides useful information for users of individual programmes, including their objectives, target beneficiaries, eligibility criteria, and details of the application submission; however, information on the impact and outcomes of BDS programmes is largely lacking. Among the few programmes subject to monitoring and evaluation (M&E) are those under the PAC framework with the IDB, which requires Argentina to produce regular project monitoring reports.[39] The report for the year 2017 (the latest at the time of writing) includes details on "outputs", or the number and types of beneficiaries reached by

each of the components of the programme. It shows, for example, that about one-third of the targeted 1 500 SMEs have already received technical support from PAC. The report also includes indicators on expected impact of PAC – for example, increases of 3% in the yearly productivity of beneficiary SMEs versus non-beneficiary ones, and increases of 2% in employment and 5% in sales. The impact results, however, are not yet available.

The completion and adoption of the *Argentina Emprende* strategic plan could represent an important step in the implementation of a more coherent and cohesive BDS strategy.[40] However, the latest version of the document is a draft dating from December 2016 and does not yet include any future strategic actions beyond the existing BDS available. The lack of a coordinated policy in this area therefore suggests that (a) Argentina could be doing more to channel BDS resources to strategic priorities (jobs, development of specific sectors, territorial development, etc.); and (b) the results of BDS could be better measured if their impact was not assessed at the level of individual programmes but rather at meso and macro levels.

Public procurement

Argentina has a number of laws and regulations designed to facilitate the participation of SMEs in public procurement. Those laws and regulations address different aspects measured in this assessment (splitting tenders into lots, allowing the formation of consortia of SMEs to participate in joint bids, reserving quotas for SME participation), albeit in a rather fragmented manner (see Box 11.1).

Box 11.1. Legal and regulatory framework for SME participation in public procurement in Argentina

There are a few laws framing public procurement for SMEs in Argentina. First, Law 25.300 (SME Development Law of 2000) includes a specific section on public procurement. It notes that public entities should give a right of preference of 5% to SMEs (including consortia and temporary partnerships between enterprises and cooperatives) to equal the best offer in public contracts. The Law also sets aside a 10% quota for SMEs and states that tenders should be issued in comprehensible terms to facilitate the participation of SMEs. Law 25.300 also calls on the executive branch of government to establish a procurement regime that allows public entities *to consider* bids for partial volumes and invites sub-national authorities to adopt similar measures.

Second, Law 27.437 of 2018, titled *Compre Argentino y Desarrollo de Proveedores* ("Buy Argentine Goods and Supplier Development"), in Article 2 gives a margin of preference of 15% to Argentine products and services provided by SMEs and cooperatives.

In addition, Law 13.064 of 1947 on Public Works and its Decree 1030/2016 (art. 91) establish the payment conditions for all contracts of the National Public Administration, including a deadline of payment of up to 30 days (unless otherwise stated in a contract).

Finally, the new Law 27.437 applies to the entire public sector, including the judiciary and the legislative branch. It provides the possibility of favouring SMEs in bids under ARS 20 million (around USD 530 000).

In terms of the ease of access to information on public procurement opportunities, the Ministry of National Modernisation in 2017 launched two platforms to publish information on public purchases and tenders by central authorities: comprar.gob.ar (for the purchase of goods and services) and contratar.gob.ar (for public works). According to the government, as of August 2017 there were 40 agencies using the platforms, 92 000 suppliers registered,

and over 2 500 contract processed. According to the same source, the average time required to process a contract fell from 300 to 72 days.[41]

According to the information gathered for this assessment, comprar.gob.ar supports all stages of the procurement process, including dissemination and storing of information, the electronic submission of bids and invoices, and other functions of an e-procurement platform. Furthermore, the platform allows its users to register with the central government's register of suppliers, consult framework agreements,[42] and consult and follow the payment of invoices. The platform also includes a series of electronic manuals for suppliers and buying agencies explaining how to use the portal.

Unfortunately, despite the existence of a comprehensive e-procurement system and a legal framework to facilitate the participation of SMEs in public procurement, Argentina does not yet track the benefits of those initiatives on SMEs. There are no figures on the uptake and impact of public procurement of SMEs, including information such as the shares and volumes of contracts held by SMEs. Furthermore, unlike most countries in the region, Argentina does not yet provide BDS and other direct support to SMEs on public procurement opportunities such as training, programmes for joint bidding, subcontracting, incentives to participate (e.g. advance payments) and other measures. Hence, there is plenty of scope for SEPyME or other agencies to introduce such programmes.

Innovation and technology (Dimension 5)

As in the case of BDS in general, Argentina has an important number of support schemes for innovation in firms, including SMEs. The support provided to scientific and technological innovation in the private sector is well structured under the Argentine Technology Fund (FONTAR), which finances innovative projects in all sectors of activity; and the Fiduciary Fund for the Development of Entrepreneurial Capital (FONDCE), which finances projects through accelerators and funds of Entrepreneurial Capital. As previously noted, the SEPyME and others also provide support to innovative activities beyond those of scientific or technological character. However, as with BDS, Argentina does not yet have a strategic framework for innovation in SMEs. The strategic orientations for support for innovation are defined at the institutional level (e.g. ANPCYT or SEPYME) or even programme level (e.g. FONTAR or PAC) rather than at the national level.

Argentina's overall score of 3.21 for this dimension reflects this state of affairs, signalling room for improvement across the areas of planning and design, implementation and M&E. Going forward, Argentina could therefore take advantage of its relatively well-established institutional framework for innovation policy and its unfinished work towards the establishment of "Innovative Argentina 2030" (see the next section for more detail on this policy platform). Adopting such a comprehensive approach to innovation policy could also help to better assess the impact of the myriad schemes supporting the innovative performance of SMEs and entrepreneurs.

Institutional framework for innovation policy

The latest OECD Economic Survey of Argentina (2017) points to the relatively low performance of the country on innovation policy. For example, the report notes that spending on research and innovation is just 0.6% of GDP, about half of Brazil's and well below the OECD average of 2.4%. Furthermore, business research and development (R&D) is just 0.1% of GDP, compared to 0.5% in Brazil and 1.2% in the OECD. However, the survey notes, the authorities aim at increasing R&D spending to 1.5 % of GDP, with a strong emphasis on raising business investment (OECD, 2017[22]).

Argentina Innovadora 2030 ("Innovative Argentina 2030") – a policy platform comprising an Advisory Commission, a "Plan" and an "Agenda for 2016-2020" – intends to guide the overall innovation policy.[43] Its main objective is to boost productive innovation to increase the competitiveness of the economy and to improve the quality of life in a sustainable way. However, the information available on the platform is rather broad and lacks specifics in terms of goals, activities, milestones, responsibilities, budgets and other elements. Furthermore, it outlines two strategies – one to develop the National System of Science, Technology and Innovation (SNCTI), including by improving the articulation and coordination of all actors; and another to "focalise" efforts to transform economic sectors so they contribute to competitiveness and innovation. However, there is no evidence of the existence of detailed documents outlining those strategies, their concrete actions, responsible parties, resources available or evaluation mechanisms. The only relevant policy documents available with some level of detail are those related to the Strategic Guidelines of Innovative Argentina 2020 (the predecessor to Innovative Argentina 2030) for 2012-2015.[44]

According to the information provided by Argentina for this assessment, the National Productive Plan incorporates Innovative Argentina 2030. Yet, as previously stated, the Plan is limited to an outline of three pages and eight pillars, of which the full text of the innovation and technology pillar reads "to increase the investment on R&D to 1.5% of GDP, increasing private investment in particular and translating scientific research into production to create more and better jobs."[45] Argentina is nonetheless working to develop the specific objectives and activities of Innovative Argentina 2030. This is being done in particular through the organisation of 16 working groups covering the institutional development of the SNCTI, resources for innovation, financing and others.

Argentina does have inter-institutional coordination mechanisms for innovation policy. Those mechanisms offer a structured and multilevel platform for coordinating relevant actors, as follows:

1. At the *leadership* level, the Science and Technology Cabinet (GACTEC), which is presided over by the Minister of Science, Technology and Productive Innovation, and which is in charge of the inter-ministerial and interdisciplinary coordination of innovation, science and technology policy.
2. At the *national* level, the Federal Council of Science and Technology (COFECYT), which is also presided over by the same Minister and which is formed by relevant sub-national authorities from the Argentine provinces and the Autonomous City of Buenos Aires. The COFECYT also implements a number of programmes and financing lines to promote innovation at the federal level. For example, through the fund ASETUR, the Council finances projects in the tourism industry.
3. At the *technical* level, the Inter-institutional Council of Science and Technology (CICYT), which is presided over by the Secretary of Scientific-Technologic Articulation and which aims to improve coordination between the institutions involved in science and technology promotion. One of the missions of the Secretariat of Scientific-Technologic Articulation is to support the SNCTI, which is a wide network of organisations promoting basic and applied research and scientific and technological development.[46]
4. At the *planning* level, the Advisory Commission for the National Plan for Science, Technology and Innovation (CAPLANCYT), which was launched in December 2017 to help the GACTEC and the Ministry of Science, Technology and Innovation

(MINCYT) to propose the National Plan and its programmes, to follow-up on the implementation of the Plan and to propose modifications as needed. Notable personalities and representatives of the SNCTI form the CAPLANCYT.

Those councils and commissions have various oversight and coordination roles over a number of institutions under the MINCYT – including the National Agency of Scientific and Technologic Promotion (ANPCYT), which is in charge of implementing innovation policy, in particular the promotion of innovation in the private sector with SEPyME.

Support services and financing for innovation in SMEs

The ANPCYT is in charge of four funds financed by public resources, international credit and international co-operation. Those funds support a diverse variety of innovative, scientific and technological projects from individuals, academics, entrepreneurs, universities and other actors. Two of those funds are directly relevant for SMEs and entrepreneurs and comprise specific BDS and support for innovation, as follows:[47]

- *FONTAR,* the widest scheme for supporting innovation in private companies in Argentina, finances projects aimed at improving the productivity of the private sector. It does this through an important number of instruments, including subsidies (*aportes no reembolsables*) for research and development, patents, technological development, technology incubators, development of suppliers, etc. FONTAR also manages programmes linking research institutions and private enterprises in order to generate and disseminate innovation and technology. A network of 264 *unidades de vinculación tecnológica* (roughly, "technology linking units", or UVTs) operating under FONTAR offer a platform that allows enterprises to seek the support of science and technology institutions (e.g. universities or research centres) in developing and implementing innovation and technology projects.
- *FONSOFT* supports new firms and SMEs producing goods and services related to information and communication technologies, among other objectives. FONSOFT mostly provides subsidies for quality certifications, the development of new processes, products or services, research and development, etc.

The Registry of Subsidies and Incentives (RSI) database of the Ministry of Production and Labour lists ten programmes under FONTAR and four under FONSOFT. These programmes have a wide array of objectives including training, financing the development of technology, and R&D activities. Table 11.9 includes a summary of those programmes, which consist of subsidies in most cases.

In addition, the ANPCYT implements a Sectorial Argentine Fund (FONARSEC), which aims to link the scientific and technological sector with the productive sector in specific areas, including healthcare, energy, agroindustry, social development, information and communication technologies, nanotechnology, biotechnology and environment. This fund includes a number of subsidies supporting specific activities such as R&D, projects with high risk or apparent low productivity but high potential economic/social impact, etc. The RSI database does not, however, list any SME programmes under the FONARSEC.

According to 2017 figures, FONTAR supported 660 projects worth a total of ARG 1.477 billion (around USD 92 million in that year), while FONSOFT financed 570 projects worth ARG 196 million (about USD 100 000 in that year) and FONARSEC financed 37 projects for ARG 328 million.[48] The information published by the ANPCYT on the funds, however, does not allow to breakdown beneficiaries by size/class, nor does it include detailed evidence on the impact of the programmes (number of patents obtained by SMEs, increased

spending in R&D, increased productivity, etc.). Furthermore, at the time of writing this report, the funds were temporarily suspended for redefinition.

Table 11.9. SME innovation programmes

Fund	Programme	Type	Objective
FONTAR	Technological development (ANR PDT)	Subsidies	Training and product development.
	International (ANR INT)	Subsidies	Multinational cooperation and financing of innovative companies in the area of goods and services.
	Research and development (ANR R&D)	Subsidies	Strengthening of an R+D unit in companies through the incorporation of researchers and research equipment.
	Subsidy (ANR Patents)	Subsidies	It promotes the protection of innovative results from research and development (R&D) activities.
	Subsidy - Cleaner production (ANR P+L)	Subsidies	Partially finances projects that aim to improve the environmental performance of SMEs through the application of a preventive or clean production approach.
	Subsidy for the provision and consolidation of Technology Services (ARSET)	Credit Line	Creation, expansion or improvement of infrastructure, equipment and training of human resources, among others.
	Tax Credit	Tax Benefits	Funding of Research Projects.
	Credits to Companies *(CAE)*	Credit Line	Technological modernization of products or processes.
	Strengthening technological innovation in productive clusters (FIT AP) - ex PITEC	Credit Line, Technical Assistance and Subsidies	It seeks to increase investment and strengthen associative innovation processes in which both companies and scientific and technological institutions should participate.
	Strengthening Technological Innovation in Supplier Development Projects (VP) - (FIT - PDP)	Credit Line, Technical Assistance and Subsidies	It will support the strengthening of chains of suppliers or distributors from a Tractor Company or Leader.
FONSOFT	ANR Training	Subsidies	Offers innovative, relevant, quality and open training to the community of Software and Computer Services.
	ANR International window	Subsidies	It finances projects whose goal is to improve the productive structure and innovative capacity of SMEs producing goods and services in the area of Software and Computer Services.
	Subsidy	Subsidies	It aims to improve the quality of the software products that are developed and the processes of creation, design, development and maintenance of software.
	Export Credit	Credit Line	The export credits are intended to provide financing through credits for the initiation or consolidation of the export activity of SMEs engaged in the production of software.

Source: (Ministerio de la Producción, 2018[25]).

Apart from the ANPCYT, the Ministry of Production and Labour and the SEPyME also have in place a number of programmes to support innovative activities in SMEs, although their definition of "innovation" is broader than that of the MINCYT and does not focus only on science and technology. For example, the RSI database includes information on BDS for social innovation and entrepreneurship (i.e. projects in the popular economy), the integration of practices on design in SMEs (*Plan Nacional de Diseño*), services under *PAC emprendedores*, and the programme *Potenciar* (roughly, "Enhance"), which aims to support innovative firms with exporting capacity. SEPyME also implements the FONDCE, which has three programmes to finance innovation: a seed fund for entrepreneurs, an acceleration fund supporting business accelerators, and an expansion fund to co-invest in innovative projects.

Lastly, Argentina has multiple mechanisms for (a) disseminating information on support schemes for innovation and technology for enterprises and (b) linking various actors of the innovation community such as researchers, institutes, and support organisations. These mechanisms include the Argentine Innovation Market (MIA), under MINCYT, which publishes information on projects, opportunities for innovation partnerships, innovation contests, etc.; and the Argentine Science and Technology Information System (SICYTAR), also under MINCYT, and which also includes information on projects, researchers and publications.

Productive transformation (Dimension 6)

Argentina has recently made considerable policy efforts to help SMEs in priority sectors contribute to the country's productive transformation. The implementation of various programmes created by the Macri administration since 2016 is underway, but the main challenge remains the creation of robust strategic frameworks, and corresponding monitoring and evaluation (M&E) schemes. Yet, Argentina's association-enhancing support programmes are an exception regarding lack of M&E, and contribute to the country's overall dimension score of 3.78.

Now that pilot programmes have been established, unifying existing efforts under a common, inter-ministerial strategy, with public, time-bound, and measurable M&E efforts, will be an important next step to ensure the efficient investment of public funds and increase citizens' knowledge of government efforts and available support.

Productivity-enhancing strategies

Since the beginning of the Macri administration in late 2015, a number of strategic initiatives have been put in place to support the country's productive transformation efforts. As already noted, in September 2016 the government presented an outline of a "National Productive Plan", comprising eight pillars,[49] designed to facilitate coordination between Economic Cabinet members.[50] However, the Plan does not go into more detail (e.g. action plan, objectives/targets, KPIs) beyond the establishment of its eight pillars, seemingly serving as more of a public communication tool rather than a robust strategy.

A public report[51] was released in mid-2018 with a qualitative description of the advancement status of each pillar. This report summarises various notable achievements, including the advancement of the government's infrastructure and energy plan; increases in export levels since 2015 and various new trade agreements; advances in e-government services; and the introduction of various fiscal reforms, including the 2016 "SME Law" (*Ley Pyme* 27.264) and the 2017 fiscal reform, which lowers tax rates for innovative, high-growth enterprises, as well as internal taxes on electronic products.

The Ministry of Production and Labour's "Productive Transformation Secretariat" has also implemented a number of measures, including the "National Programme for Productive Transformation", which offers subsidies, credit with discounted-interest rates, and technical assistance to SMEs to implement productivity-enhancing projects. The Secretariat is also in charge of the "Executive Roundtables for Productive Transformation", which were launched in 2017 in various priority sectors. During the roundtables, various government ministries meet with sectoral representatives and corresponding researchers and academics and define a collective work plan, via a formal agreement, to increase the sector's productivity and competitiveness. These sectoral agreements, which now exist in close to thirty sectors, generally contain specific, measurable and time-bound objectives, and divide responsibilities between public and private actors. Public-private dialogue is further stimulated by the National Production Council, which consists of 11 private sector members that conduct research and advise the Ministry of Production on the implementation of the above strategies.

While clear efforts are thus ongoing, the lack of robust strategic frameworks results in a corresponding lack of public M&E results. The Ministry of Production and Labour provides some publicly accessible information on various sectoral agreements established via the executive roundtables,[52] yet there is no consolidated information available, and detailed information on implementation and follow-up remains internal. Business-related indicators, including export levels by enterprise size and monitoring of high-growth enterprises, are published on the data portal of the Ministry of Modernisation,[53] but not in relation to any particular public strategy.

Productive association-enhancing measures

Argentina receives a high Index score (4.57) for this sub-dimension, thanks to two initiatives: (a) longstanding cluster-support programmes (Local Productive Systems, or SPL), implemented in collaboration with the United Nations Development Programme (UNDP); and (b) the aforementioned IDB PAC (*Programa de Apoyo a la Competitividad para MIPYMES*) programme, which includes a specific component dedicated to conglomerates (PACC). Both programmes are implemented via calls for proposals, which offer co-financing to either establish new clusters/associations or strengthen existing groups to achieve various strategic goals (incorporation of innovative technology, amplification of export markets, etc.). SPL has been in place since 2012, with a total budget of approximately USD 24 million, and has approved over 270 projects. PAC, which also began implementation in 2012, has an operating budget of 80 million USD and has financed more than 20 projects to date. Both programmes are expected to finish at the end of 2019.

Both SPL and PAC are also making significant efforts to monitor and evaluate impact. IDB publishes biannual, public monitoring reports on PAC[54] that contain KPIs focused on both outcomes and impact. A control group is also used to more clearly measure the programme's impact on companies selected for support. The impact results, however, are not yet available. In terms of outcomes, the programme aims to increase SMEs' investments in BDS, including collective investments; SMEs' survival rates; and specifically support female-owned businesses and enterprises located in the north of the country (Norte Grande region).

Regarding SPL, the programme's implementation unit, located in the Ministry of Production and Labour, must regularly complete an annual report detailing its completion of pre-set, measurable objectives as well as lessons learned. SPL also benefits from reports on the implementation of its previous stages: the programme first ran from 2006 to 2009,

then from 2012 to 2016, and was then extended through 2019. In particular, these reports note the beneficial but complex nature of setting up truly associative projects, and the corresponding necessity of offering continuous technical assistance to approved projects, including during implementation, to improve the sustainability of the cluster/association and strengthen its capacity for collective action, especially in terms of communication and decision-making. The reports also note the importance of publishing public reports on the benefits of associativity in general, and of the various supported projects specifically, in order to generate further buy-in from local actors.

Argentina is also working to strengthen its industrial parks and their role in SME development. A 2016 survey of Argentine industrial parks found that while over 400 exist, quality is a serious issue, with most parks lacking stable access to water, internet, gas and complete infrastructure. The National Industrial Parks Programme is working to create a national register of industrial parks (RENPI) and to provide corresponding financing support (up to USD 3 million) to registered parks for the undertaking of studies and installation of productive infrastructure. SMEs within registered parks are also eligible for discounted loan rates. Registration within the RENPI began during 2017, and 79 investment projects have been financed since 2015, totalling USD 215 million.

Integration into regional and global value chains

The current administration has also developed various efforts to facilitate SMEs' inclusion in value chains. Argentina's support programmes take a different form from the *convocatoria* (call for proposals) model that is common among the rest of the LA7. Rather, since 2016 the Ministry of Production and Labour has worked directly with various large enterprises to establish public-private agreements for supplier development through their "SME Ecosystem" *(Ecosistema PyME)* programme. Large companies such as Aluar (aluminium), Arcor (confectionaries), Dow (chemicals), Molinos (food products), Quilmes (beer), Techint (steel), Telecom (telephone services) and PAE (oil and natural gas) are currently part of this programme, which has supported close to 1 500 SME suppliers via financing, training and technical assistance. A supplier development programme *(Programa de Desarrollo de Proveedores)* was also established in 2016 and aimed at suppliers in various key sectors; it offers technical assistance, subsidised credit from the Investment and Foreign Trade Bank (BICE), and the opportunity to apply for co-financing for investment projects. Suppliers must register with the Ministry of Production and Labour in order to be eligible for programme benefits.

Supplier development and the role of SMEs in value chains is thus a subject of recent prioritisation by the government, resulting in the corresponding need to develop public M&E schemes. There is currently no dedicated webpage for the "SME Ecosystem" programme, and no public information on the suppliers that have registered and/or received support via the supplier development programme.

Access to market and internationalisation of SMEs (Dimension 7)

Argentina has also recently invested in public support for SME internationalisation. In 2016, it established an investment and export promotion agency (EPA), the Argentine Agency of Investment and Foreign Trade (AAICI), with a dedicated mandate on SME development. Similarly to the previous dimension, while implementation of various SME-targeted programmes are underway, covering the specific areas of trade facilitation, e-commerce, quality certification and regional integration, the main challenge remains the

creation of robust strategic frameworks, and corresponding monitoring and evaluation (M&E) schemes.

Argentina's overall dimension score of 3.71 reflects this state of affairs. Now that various programmes have been established, further strengthening the co-ordination of existing efforts under a common, inter-ministerial strategy – with public, time-bound, and measurable M&E efforts – is an important next step to measure and communicate impact and ensure the efficient investment of public funds.

Support programmes for internationalisation

As noted in Chapter 10, all LA7 countries, including Argentina, have relatively well-advanced policies and programmes in place to promote SME exports. However, Argentina is somewhat unique in comparison to its peers. First, its establishment of the aforementioned AAICI in 2016 was far more recent than is the case for most LA7 EPAs.[55] Second, AAICI's mandate focuses specifically on SMEs, with the overall institutional objective of assisting Argentine SMEs with their international integration (though the agency does not limit itself to assisting only SMEs). The agency notes that Argentine exports fell by 28% over 2011-2016, and that the number of Argentine SMEs exporting goods has fallen by over 5 000 over the last decade. It has set corresponding institutional goals to increase the value of SME exports within its selected 34 high-priority sub-sectors to USD 30 million by 2019 (from a USD 28 million baseline in 2017), and the number of exporting SMEs by 1 000, from the 2017 baseline of approximately 7 300.

Argentina's score for this sub-dimension trails behind its LA7 peers, except for in the area of implementation, as AAICI is still developing an overall institutional and strategic framework for its programme delivery. With regard to planning and design, a fully-fledged inter-ministerial strategic framework to guide SME internationalisation efforts is lacking. At the time of writing, and as with the National Productive Plan outlined in the previous dimension on Productive Transformation, a framework was put into place, entitled *Argentina Exporta*, which fosters co-ordination between AAICI, the Ministry of External Relations, the Ministry of Production and Labour, the Agroindustrial Secretariat, and provincial organisations. Within the framework of the *Argentina Exporta* web portal,[56] countries can receive support with quality certifications; logistics, such as shipments; tax benefits; and information on trade fairs, events and training courses, among other benefits. Although at the time of this assessment, public information did not extend beyond this web portal (which is hosted outside of AAICI's main website), a programmatic document[57] was developed at the end of 2018 that examines the challenges facing Argentine exports and exporters, outlines overall strategic objectives for 2030, and sets out corresponding axes and lines of action. While some of these overall objectives are specific and measurable, the document is short on implementation details; for example, there is no detailed action plan assigning responsibilities, resources, specific objectives/targets, and KPIs. Rather, it seemingly serves as more of a public communication tool than a robust strategy.

AAICI also participates, along with various other parts of the government, in the "Executive Roundtables for Productive Transformation" (see previous section on "Productive Transformation" for more information) and receives specific mandates in the corresponding sectoral action plans. This engagement is reflected in the aforementioned *Argentina Exporta* programmatic document, which also includes sectoral strategic approaches drawn from the conclusions of these roundtables.

With regard to M&E, detailed monitoring efforts on specific support programmes are underway within AAICI, but have yet to be released publicly in any form; these efforts

include plans for an annual report on the agency's activities. No reporting on the objectives or lines of action mentioned in the *Argentina Exporta* document exists to date, as it was only established at the end of 2018.

In any case, programmatic efforts are clearly underway to support SMEs in the areas of training, commercial intelligence, quality certifications, financing, marketing and promotion, and logistics. AAICI is developing an SME export training programme, linked to an export diagnostic and similar to the *Ruta Exportadora* model already active in Chile, Ecuador and Peru;[58] the programme's goal is to reach 700 selected SMEs within its 34 priority sub-sectors (ranging across industry, agro-industry, services and the creative arts) by the end of 2019. AAICI has also developed an online library of commercial intelligence featuring monthly investment and export trend reports as well as related mapping tools to help identify business opportunities; this is further extended by the "Argentina Trade Net" web portal, which is accessible for registered users.[59] The *Argentina Exporta* portal's tax benefits section is also linked to information regarding the benefits of existing free trade agreements (FTAs), though this could be further developed in terms of a more general overall mapping.

Beyond training and access to commercial information, AAICI also provides various financing opportunities, including specific programmes related to quality certification and e-commerce that will be analysed in subsequent sub-sections of this chapter. For example, Argentina's "Exporter Management" *(Gerenciamiento Exportador)* programme is similar to many LA7 programmes in that it provides both training and financial support, via a call for proposals, in which co-financing (50%) is provided to hire an external consultant to undertake a diagnostic and formulate an internationalisation plan. This programme then provides further financing to implement the internationalisation plan over a two-year period, covering all costs in the first year and 75% in the second year. It is interesting to note that this programme is one of the only LA7 cases, along with Chile, in which the call for proposals is directed to groups of SMEs, which must apply for collective support, thus encouraging both associativity and internationalisation. This programme aimed to support 20 groups of SME exporters in 2017-18.

Overall, Argentina's overall score of 3.91 for this sub-dimension is bolstered by the strong implementation efforts AAICI has made in only three years of existence, and could be expected to improve as the agency matures and fully deploys its overall M&E apparatus. M&E results will also be an important indicator of the performance of these initial implementation efforts in improving Argentina's export environment and SME export performance.

Trade facilitation

Argentina, like its LA7 peers, scores relatively well here (4.25 vs. LA7 average of 4.35), as it has a solid performance on the OECD Trade Facilitation Indicators (TFIs); an "Easy Export" *(Exporta Simple)* programme to facilitate small-scale SME exports through the postal system, provides exporting guides and inquiry points, and has established both a single window for trade procedures and an Authorised Economic Operator (AEO) programme.[60] However, despite the existence of these latter two programmes, Argentina, like its LA7 peers, lacks targeted support services for SMEs related to AEO certification and document preparation.

Where Argentina differs from its LA7 peers is in the recent establishment of many of its programmes. While most LA7 countries' single windows were launched between 2011 and 2014, Argentina's was established in 2016. Furthermore, its AEO programme is also the

most recent, along with Chile's, having been established during December 2017. Argentina's "Easy Export" programme was established at the same time – and has quickly moved into implementation mode. In its first six months it completed more than 100 export operations (totalling USD 4.5 million) involving close to 300 companies, and it has continuously expanded since this time.

Argentina also benefits from its membership in the IDB's Inter-American Network of International Trade Single Windows (RedVUCE), which provides a forum for the exchange of best practices and support for regional integration. The OECD's TFIs, which cover selected RedVUCE members, currently rank Argentina as a mid-range RedVUCE performer. While Argentina generally matches or exceeds its RedVUCE peers in matters related to legal framework (privacy, confidentiality, data protection and dispute resolution) and technological architecture (usability and capability for future developments), it lags behind in data content and structure (minimising repetition and costs) and interoperability (OECD, 2018[26]).

As demonstrated in Figure 10.4, Argentina falls in the middle-range of its LA7 peers regarding the four TFI categories included in this assessment (information availability, fees and charges, documents, and procedures), though it outperforms all of its LA7 peers, with the exception of Mexico, in the area of procedures. Yet, its average performance across all TFI indicators lags behind the OECD average (1.31 vs. 1.67, respectively, best=2), as well as falling slightly below the LA7 average of 1.37. The OECD notes that Argentina matches or exceeds the average performance of upper-middle-income countries in all TFI areas except for advance rulings, and that its performance has improved between 2015 and 2017 in the areas of involvement of the trade community, advance rulings, fees and charges, documents, procedures, and governance and impartiality (OECD, 2017[27]). However, the Organisation notes that further reforms in the areas of fee and charges, documents, and procedures, among others, should be prioritised to increase the amount of information available to stakeholders and reduce the amount of fees and time required for export procedures.

Use of e-commerce

Argentina, alongside the majority of its LA7 peers, is relatively well advanced in terms of programmes that support SME access and the use of e-commerce. Because these efforts are relatively recent, however, M&E is not fully developed. As explained in Chapter 10, the LA7 countries' support programmes in this area can be divided into three categories: training programmes, construction of public e-commerce platforms and/or modernisation of e-commerce systems/legislation, and provision of co-financing.

Argentina is currently implementing pilot projects in the "e-commerce platforms" category. In 2017, AAICI elected to focus on Alibaba, initiating a pilot project to integrate Argentine wine and fresh food for sale on the platform. Building on these pilot efforts, during 2018 AAICI planned to (a) provide co-financing support to 150 Argentine businesses that would like to obtain an Alibaba membership and (b) launch a free-trade-zone warehouse service, in co-operation with the Chinese government, to facilitate the export of Argentine projects by lowering logistics costs for SMEs. The latter programme aims to assist 200 SMEs during 2018, as well as eventually expand via further agreements in the Middle East, Europe, and with the United States of America.

Although the Secretariat of Information Technology and Communications at the Ministry of Modernization monitors a set of basic ICT indicators,[61] no e-commerce indicators are included. This leaves Argentina and Peru as the only LA7 countries that do not have a

specific e-commerce strategy, including as a component of a wider digital transformation strategy. However, at the time of writing, Argentina was running a pilot test on a digital transformation strategy that, if successful, will guide actions on e-commerce in the context of facilitating changes in production and management processes through technology to improve the competitiveness of SMEs.

Quality standards

Argentina has a fully developed quality standards system comprising a normalization and certification institute (IRAM) and accreditation organisation (OAA), which offer sectoral training, and the certification of management systems, products and services. Targeted support for SMEs, however, is lacking. That said, relevant pilot efforts are underway by AAICI, which has included certification as one of its overall priority action areas. At the time of this assessment, AAICI was developing a financing programme to support SMEs in priority sectors to gain certifications that will facilitate export procedures. As this pilot programme was still being designed at the time of the assessment, Argentina receives a lower score of 1.95 for this sub-dimension, but could expect to improve as the programme matures.

Taking advantage of the benefits of LAC regional integration

As a member of MERCOSUR, Argentina has made concrete, longstanding efforts to support SME development within regional integration efforts. Within MERCOSUR, this is the responsibility of the bloc's "Productive Integration Group" (GIP), whose "Productive Integration Programme" *(Programa de Integración Productiva*, or PIP*)*, established in 2008, comprises seven lines of action covering topics such as human resources development, trade facilitation, financing, and investment in research, development, and technology transfer.[62] The bloc's structural convergence fund (FOCEM), set up in 2004 and operational since 2006, has been utilised to support these goals. A wide range of projects are financed through the fund, with information available online by both country and thematic area.[63] During its first ten years of existence, the fund supported 43 projects and provided more than USD 1 billion in financing. While the fund is not specifically set up for SME development, specific projects are often targeted at the SME sector, within the fund's overall goals of lessening intra-regional asymmetries and strengthening integration processes. Projects must fit into one of the fund's four overall programmes, which focus on structural convergence, development of competitiveness, social cohesion and strengthening of institutions and integration.

Indeed, within the LA7, MERCOSUR stands out as the bloc that has oriented its SME development efforts more towards integration in and strengthening of regional value chains. MERCOSUR is also currently the only bloc to have a multiannual strategy oriented toward SME development; however, the M&E situation of this strategy is not easy to evaluate because, as with many LA7 strategies, the 2008 PIP does not go beyond a collection of lines of action to state specific key performance indicators at strategic level. According to the authorities, regular and extensive M&E activities take place at the programmatic level, and, at strategic level, an assessment is necessary in order to obtain continued funding. This is supported by the FOCEM Rules of Operation, which stipulate that all fund-supported projects must provide biannual updates on their implementation, and are subject to both internal and external audit.

However, none of this resulting information is publicly available, and was also not eligible to share with the OECD in the context of this assessment. This results in an important

knowledge gap between implementation agents and stakeholders in understanding the impact of these interventions, and learning from both good practices and areas where adjustments could be made. A report was released in 2016 summarising the first ten years of the fund's existence, which ameliorates some of this gap, as it does provide information on specific programmatic achievements.[64] However, this information is not provided in relation to any specific pre-set KPIs, and the report serves more to communicate the fund's successes than to publicly evaluate the fund's operations.

At the national level, Argentina has integrated information about the benefits of regional integration, with a focus on business opportunities linked to FTAs, in its "Argentina Trade Net" web portal, which is accessible for registered users.[65]

The way forward

Institutional framework

The fiscal cuts foreseen as part of the IMF's stabilisation programme for the Argentine economy are likely to significantly reduce the availability of funds to support policy action. Under these conditions, the government could consider:

- **Defining its strategic objectives for the SME sector and reviewing the current programme in light of those objectives**. Argentina needs to reorganise its various SME support programmes around a set of strategic objectives in line with the country's medium-term development plans. It also needs to reduce programme overlap, promote synergies among the various programmes and build up a partnership with the private sector. The elaboration of a SME development strategy, supported by a sound diagnostic and informed by a process of wide consultation, could significantly improve the quality and effectiveness of the country's SME policy.
- **Focusing on the improvement of the business climate.** The level of regulatory restrictiveness in Argentina, which is significantly higher than in most of the LA7, reduces enterprise competitiveness. The proposed SME strategy should include a set of horizontal policies designed to improve the business climate.

Operational environment and simplification of procedures

While all LA7 countries score relatively lower on this dimension, in comparison with the rest of the assessment, Argentina's performance remains relatively poor because its entire regulatory reform process is in an early phase of design. Going forward, the government could consider:

- **Completing its elaboration of an agenda of regulatory reform**, with a specific focus on the impact on the productive sector, and introducing a related set of performance indicators, intermediary and final targets;
- **Conducting widespread consultations involving private sector organisations** and collecting data and information through company surveys and focus groups on the most relevant administrative barriers and administrative burdens;
- **Putting in place a strategy for the systematic application of RIA to the set of legislative and normative acts most relevant to the productive sector**, elaborating RIA guidelines, identifying the institution(s) in charge of

conducting/coordinating RIA applications and organising the training of civil servants;

- **Continuing introducing one-stop shops for company registration across the country**, after the experience of the one-stop pilot project underway in Buenos Aires, Cordoba and Tierra del Fuego;
- **Transforming the CUIT into a single enterprise-registration number**; and
- **Reducing the time required to perform tax payments**, by further improving online tax filing and payment services and working on the improvement of VAT reimbursement procedures.

Access to finance

Argentina achieves the second highest score in the dimension of access to finance due to its efforts to provide a favourable framework to reduce information asymmetries, regulate the various types of transactions and reduce the population's deficit of financial knowledge. However, Argentina should consider:

- **Strengthening the regulatory framework for collateralized operations.** This reform should seek to align local legislation with international best practices for secured transactions. Some of the topics to be included are (a) allowing the granting of goods as collateral without a specific description and (b) giving priority of payment to secured creditors, particularly in case of liquidation of an insolvent company.
- **Modernizing real estate and movable records**. The Argentine government should work to unify regional registries into a centralized national registry. This registry should allow free online access, allowing interested entities to easily register, modify and eliminate information regarding goods that are pledged as collateral.
- **Completing the unified register of insolvent companies**. The Argentine government is already working to create such a registry. As it does so, there is an opportunity to both (a) guarantee free access to this information and (b) incorporate the automatic removal of those debtors who have been exonerated of their debts after the judicial liquidation process has been completed.

Business development services for SMEs and public procurement

Argentine entrepreneurs and SMEs have at their disposal a diverse offer of BDS, mostly through SEPyME, under the Ministry of Production and Labour. A number of organisations – including incubators, business associations and government offices – provide these services across the territory. Furthermore, SME managers and entrepreneurs have relatively easy access to BDS information, including through the website *Soy Emprendedor* and the website of the Ministry of Production and Labour. Hence, to further advance in this area, Argentina could:

- **Complete the development and endorsement of the *Argentina Emprende* strategic plan**, which at the time of writing was still a very initial draft with no detailed actions on BDS (or on SME support in general); and
- **Adopt a full M&E system of support measures, building on the aforementioned plan.** To date, the assessment of the impact of programmes is not

common, except for those programmes carried out under loan agreements with the IDB.

On public procurement, Argentina does have an e-procurement system, which facilitates the participation of SMEs in this important market. Furthermore, the legal framework for public procurement includes several provisions for SMEs. To build on this, Argentina could:

- **Track how many, as well as how, SMEs are benefiting from public procurement and include a public procurement section in an SME strategy.** To address this, the authorities could develop systems for the automated collection of data on SMEs in comprar.gob, for example by asking users to declare whether they are an SME. This is an area where Argentina declares to be making progress and expects to have a report on SME participation in public procurement in 2019.
- **Consider consolidating the SME provisions for public procurement into a single law**, given that they are currently present in at least two laws.

Innovation and technology

Argentina has a number of innovation funds and programmes, and a comprehensive framework for inter-institutional coordination mechanisms for innovation policy. It also has multiple mechanisms to disseminate information on support schemes for innovation and technology for enterprises and to link various actors of the innovation community, including researchers, institutes, and support organisations. However, Argentina does not yet have a strategic framework for innovation policy, either in the form of a national innovation strategy or under innovation elements in an SME strategy. Hence, the authorities could:

- **Complete and implement the *Argentina Innovadora 2030* strategy and its two areas of focus** – namely, improving the articulation and coordination of all actors, and the "focalisation" of efforts to transform economic sectors so that they contribute to competitiveness and innovation.

Productive transformation

As noted above, Argentina has recently made considerable efforts to develop a set of policies to support SMEs and various priority sectors in driving the country's productive transformation. To further build on these pilot efforts, which are generally focused at programmatic level, Argentina could pursue the following actions:

- **Tie in pilot programmes to a robust strategic framework, with corresponding M&E measures.** Argentina has developed solid productivity-enhancing pilot programmes, especially at sectoral level and in relation to SME integration in value chains. However, the country lacks an overarching strategic framework linked to these programmes, and even at programmatic level public M&E of time-bound, measurable indicators is lacking, with the exception of the externally funded association-enhancing programmes. Argentina could invest in the creation of an overall strategic framework to guide its productive transformation efforts across the government, with a corresponding action plan, clear objectives, and time-bound, measurable indicators. In doing so, Argentina can learn from various high-quality examples from its LA7 peers, such as Colombia's CONPES 3866 Action Plan, and the clear objectives set in Peru's Competitiveness Agenda 2014-18.

- **Increase the availability of information regarding ongoing implementation efforts.** Although Argentina has multiple productivity-enhancing policies and support programmes, the lack of consolidated, accessible information makes it difficult for external stakeholders, including SMEs, to understand and engage with existing government support. Building on the recent digitalisation of many government registration and application procedures, Argentina could provide further information on programme implementation – such as beneficiaries selected, project results, and annual programme reports – on these existing webpages. Similarly, information on existing sectoral agreements could be consolidated on the "Executive Roundtables for Productive Transformation" webpage. The Ministry of Production and Labour could also consider publishing a public annual report summarising its activities, and/or developing a public monitoring website in line with an overarching strategy; it could take inspiration from high-quality LA7 examples, such as Mexico and Chile's Digital Agenda websites.[66]

Access to market and internationalisation of SMEs

As noted above, Argentina has made considerable recent efforts to support SME internationalisation, including the establishment of a dedicated EPA in 2016. To further support the development of this agency, Argentina could pursue the following actions:

- **Connect existing programmes to a robust strategic framework, with corresponding M&E measures.** Argentina has or is in the process of developing solid programmes to support SME internationalisation, including in the specific areas of trade facilitation, e-commerce and quality certification. While the "Argentina Exporta" overarching strategic framework has been developed since the time of this assessment, it still lacks various elements of a robust strategy, including a corresponding action plan with time-bound, measurable indicators. It is not too late to strengthen the "Argentina Exporta" framework in this regard; in doing so, Argentina can learn from various high-quality examples from its LA7 peers. A specific digital transformation strategy, building on the pilot currently being tested, and corresponding observatory to facilitate M&E efforts, could also be considered.

- **Expand AAICI's regional presence by establishing regional offices to facilitate greater SME training availability.** The "Ruta Exportadora" training programmes currently active in Chile, Ecuador and Peru all benefit from a network of regional or meso-regional export promotion offices, which are used during training delivery to expand programme reach and impact. AAICI's developing "Federal Network" could also be mobilised in support of these efforts.

- **Include AEO training in AAICI training courses, and consider providing further support to SMEs, such as expedited exam processes, more flexible security standards, subsidised fees, customs-business partnerships, and/or quotas.** These methods have proved successful in facilitating SME AEO certification in both OECD and APEC countries (APEC Policy Support Unit, 2016[28]).

- **Raise the visibility of public sector support for quality certifications, building on existing and pilot efforts.** In alignment with the pilot implementation of its quality standards financing programme, AAICI could consider creating a dedicated webpage on quality standards, bringing together information on existing training and financing support across the government. A survey could also be of use, in

order to assess SMEs' satisfaction with existing, disperse initiatives related to quality certifications (Executive Roundtables for Productive transformation, AAICI, IRAM); and AAICI could develop a more integrated and visible SME strategy and action plan in this area.

Argentina is also part of a strong set of efforts at MERCOSUR level to support SME development in the framework of regional integration efforts. Building on the bloc's more than a decade of experience in this area, it is suggested to:

- **Undertake an assessment of the last decade of PIP implementation, and use the results to establish a robust MERCOSUR strategy, with quantitative indicators for measuring outcomes and impact.** MERCOSUR's PIP programme, established in 2008, completed a decade of implementation in 2018, marking a prime opportunity both to assess the impact of existing efforts against the programme's set objectives and to strengthen the oversight of future strategic efforts. The results of this evaluation should be made publicly available.
- **Increase the transparency of M&E activities undertaken by the bloc's structural convergence fund (FOCEM).** While not all M&E activities necessarily need to be public, some transparency is important to facilitate learning from both good practices and areas where adjustments could be made. As a first step, performance-oriented KPIs could be established for each approved project, and published on FOCEM's website. Regular (every 1-2 years) FOCEM activity reports could then provide updates based on these KPIs, and provide context in terms of corresponding achievements and lessons learned.

Notes

[1] **Group 1** comprises countries with high equality in HDI achievements between women and men (absolute deviation of less than 2.5 percent), **group 2** comprises countries with medium to high equality in HDI achievements between women and men (absolute deviation of 2.5– 5 percent), **group 3** comprises countries with medium equality in HDI achievements between women and men (absolute deviation of 5–7.5 percent), **group 4** comprises countries with medium to low equality in HDI achievements between women and men (absolute deviation of 7.5–10 percent), and **group 5** comprises countries with low equality in HDI achievements between women and men (absolute deviation from gender parity of more than 10 percent)

[2] Official inflation figures are heavily contested for the period 2007-2016. The estimates presented here are taken from (Cavallo and Bertolotto, 2016[29]).

[3] The number of economies included in the reports was 175 and 190, respectively.

[4] The number of economies included in the reports was 175 and 190, respectively.

[5] As stated earlier in this chapter, an employment criterion and asset threshold (ARG 100 000, approx. USD 2 700) is also given, to be used in specific cases when over 70% of a firm's turnover comes from sales on commission or consignment.

[6] See https://datos.gob.ar/dataset?groups=econ&organization=produccion.

[7] See the "Business development services for SMEs and entrepreneurs" sub-section of this chapter for more information.

[8] http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=39169669.

[9] See section on "Productive Transformation" for more information on this component.

[10] See https://www.economia.gob.ar/hacienda/cgn/cuenta/2017/tomoii/jur51.html.

[11] Available at https://www.argentina.gob.ar/trabajo/fiscalizacion/pnrt.

[12] See http://servicios.infoleg.gob.ar/infolegInternet/anexos/260000-264999/263691/norma.htm.

[13] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[14] It is doing so in line with guidelines set in Resolution 229 of May 2018 of the Ministry of Production and Labour.

[15] See http://www.afip.gob.ar/sas/ for more information.

[16] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[17] This represents the best performance observed on each Doing Business topic across all economies and years included since 2005.

[18] See https://www.argentina.gob.ar/modernizacion/administrativa/gde for more information.

[19] http://www.dnrpa.gov.ar/portal_dnrpa/radicacion2.php.

[20] http://www.bcra.gov.ar/Pdfs/Texord/t-garant.pdf.

[21] http://www.bcba.sba.com.ar/capacitacion/financiarse/pymes/

[22] http://www.mav-sa.com.ar/productos/que-es-el-mav.

[23] http://www.fogaba.com.ar.

[24] http://garantizar.com.ar/espanol.

[25] http://servicios.infoleg.gob.ar/infolegInternet/anexos/270000-274999/273567/norma.htm.

[26] http://www.cnv.gob.ar/leyesyreg/CNV/esp/RGCRGN717-17.htm.

[27] http://www.institutopyme.com.ar.

[28] http://www.bcra.gob.ar/BCRAyVos/encuesta_caf.asp.

[29] For example, see the results of the two pilot tests of the "Learning to Save" programme ("Aprendiendo a Ahorrar"): http://www.bcra.gob.ar/BCRAyVos/aprendiendo_a_ahorrar.asp.

[30] https://www.bcra.gob.ar/BCRAyVos/Habilidades-financieras-sobre-el-progrma.asp.

[31] http://servicios.infoleg.gob.ar/infolegInternet/anexos/25000-29999/25379/texact.htm.

[32] See https://www.justicia2020.gob.ar/eje-gestion/implementacion-del-registro-nacional-sociedades-rns/ for more information.

[33] See https://cartajefatura.atavist.com/ocho-pilares-para-el-desarrollo.

[34] Government Objective no. 20 refers to the promotion of innovation and entrepreneurship. It says that the Argentinian State has to ease and simplify the creation of new formal enterprises and the growth of the most dynamic firms, removing the barriers to entrepreneurship and innovation. This is to be achieved through support programmes for entrepreneurs and business accelerators (and a law being ratified by Congress) in order to boost the entrepreneurial culture and to direct research towards the most dynamic sectors and those with greater capacity to generate formal employment.

[35] https://www.argentina.gob.ar/produccion.

[36] https://www.argentina.gob.ar/tema/emprender/soy-emprendedor.

[37] The PAC framework is the third phase of a longer-term co-operation in this area between the IDB and Argentina. The first contract, known as PRE (Programme for Enterprise Restructuring) covered 1999-2007; the second programme, known as PACC1 (Programme for Access to Credit and Competitiveness) covered 2008-2013. During the PRE and PACC there were no mechanisms to measure the development of the BDS market; the PAC now reportedly foresees to assess the levels of investment on BDS by SMEs in the whole country.

[38] http://rsi.produccion.gob.ar.

[39] https://www.iadb.org/en/project/AR-L1145.

[40] It is worth noting that the December 2016 draft of the *Argentina Emprende* strategic plan focuses on BDS and other measures of direct support, such as access to finance. The document excludes measures to improve regulations, licenses or the business environment more generally.

[41] https://www.argentina.gob.ar/noticias/transparentamos-las-contrataciones-y-compras-del-estado

[42] *Acuerdo marco* or *convenio marco*, depending on the country.

[43] https://www.argentina.gob.ar/ciencia/argentina-innovadora-2030

[44] Several websites related to Argentina's innovation, science and technology policy refer to a *Plan Nacional Plurianual de Ciencia y Tecnología*, for which there is no evidence other than the 2012-2015 guidelines for Argentina Innovadora 2020.

[45] The pillars of the National Productive Plan are: 1) Reduce the cost of credit; 2) improve human capital and labour productivity; 3) infrastructure and energy plan to a) facilitate sub-regional integration; b) reduce logistics costs; and c) assure accessible energy for all businesses; 4) innovation and technology; 5) efficient and equitable fiscal measures; 6) defending competitiveness; 7) intelligent international integration; and 8) simplification and de-bureaucratisation.

[46] https://www.argentina.gob.ar/sistema-nacional-de-ciencia-tecnologia-e-innovacion-argentino

[47] The FONCYT, or Fund for Scientific and Technological Research focuses on the generation of new scientific and technological knowledge in non-for profit public and private institutions.

[48] www.agencia.mincyt.gob.ar/archivo/2578/presidencia/informe-de-gestion-anpcyt2017201806

[49] The pillars are as follows: 1) reduce the cost of credit; 2) improve human capital and labour productivity; 3) develop an infrastructure and energy plan to a) facilitate sub-regional integration, b) reduce logistics costs and c) assure accessible energy for all businesses; 4) innovation and technology; 5) efficient and equitable fiscal measures; 6) defending competitiveness; 7) intelligent international integration; and 8) simplification and de-bureaucratisation.

[50] Argentina's "Economic Cabinet" brings together its ministers of the Treasury, Finance, Production, Agriculture, Energy, as well as the President of the Central Bank.

[51] See https://cartajefatura.atavist.com/ocho-pilares-para-el-desarrollo.

[52] An example of this type of agreement and process, for the automotive sector, is available here: https://www.produccion.gob.ar/comunicados/2017/03/14/acuerdoautomotriz-60629

[53] See https://datos.gob.ar/dataset/siep-gps-empresas.

[54] Available at https://www.iadb.org/es/project/AR-L1145.

[55] It should be noted, however, that an export-oriented foundation (*Fundación Exportar para la promoción de exportaciones)* was operational in Argentina since 1993. In March of 2016, Resolution 83/2016 changed the name of this foundation to the *Agencia Argentina de Inversiones y Comercio Internacional* (AAICI). See http://servicios.infoleg.gob.ar/infolegInternet/verVinculos.do?modo=2&id=31021 for more information.

[56] See https://www.argentina.gob.ar/argentinaexporta/.

[57] See https://www.argentina.gob.ar/sites/default/files/4._libro_final_argentina_exporta.pdf for more information.

[58] See the section on this sub-dimension in Chapter 10 for more information.

[59] See https://exportaciones.cancilleria.gob.ar/sitios/registrar for more information.

[60] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[61] See https://www.argentina.gob.ar/setic/indicadores-tics to access the available indicators.

[62] See http://www.gipmercosur.org/programa/programa-de-inversion-productiva-pip.

[63] See https://focem.mercosur.int/es/proyectos/ for more information.

[64] See https://focem.mercosur.int/docs/FOCEM_es.pdf to access the report.

[65] See https://exportaciones.cancilleria.gob.ar/sitios/registrar for more information.

[66] See http://www.agendadigital.gob.cl/#/seguimiento and https://www.gob.mx/mexicodigital/ for more information.

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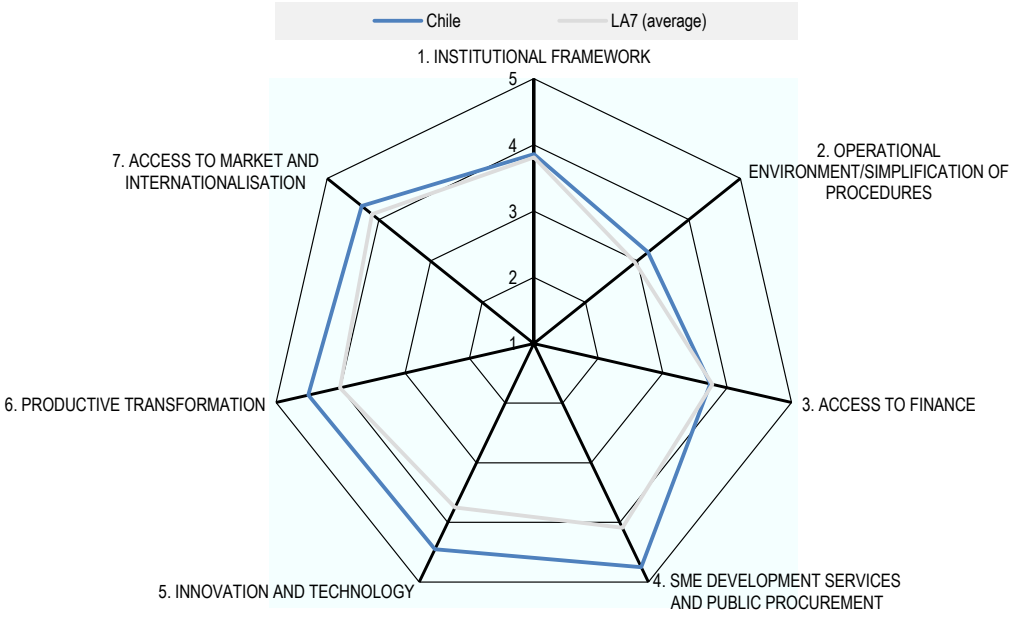
Chapter 12. Chile

Chile places SME and entrepreneurship support as an important element of its economic policy agenda and its efforts to achieve a more diversified and competitive economy. It has in place a number of good international practices in terms of business development services, supporting SME innovation and productive transformation. This is reflected in a policy performance consistently above the regional average.

As it moves from a productive transformation-oriented approach to a more horizontal approach aimed at improving the general business environment and reducing barriers to enterprise entry and competition, Chile could benefit from a number of initiatives. It could consider integrating closer dialogue with the private sector to identify and address the main barriers to SME development. It could also develop more detailed and integrated strategic frameworks on business and entrepreneurial development services and on innovation. Chile could also improve the legal and regulatory framework for access to finance and increase public knowledge about the benefits of regional integration connected to existing FTAs and corresponding business opportunities.

Key findings

Figure 12.1. 2019 SME Policy Index scores for Chile



Chile has a good performance in this first SME Policy Index assessment focusing on Latin America, performing above the LA7 average across all of the assessment dimensions except for Dimension 3, Access to Finance (Figure 12.1). Furthermore, it is the top LA7 performer in the areas of SME Development Services and Public Procurement (Dimension 4), Innovation and Technology (Dimension 5), and Productive Transformation (Dimension 6). This is due to the large offer of SME support services currently available in Chile across these dimensions; their delivery by specialised agencies to various sectors of the SME population, such as exporters, start-ups and those with high-growth potential; and targeted programmatic efforts within its Productivity, Innovation and Growth Agenda 2014-18 (*Agenda de Productividad, Innovación y Crecimiento*).

However, improvements related to planning and design and monitoring and evaluation (M&E) could be prioritised going forward. SME strategic orientations for the period covered by this assessment were defined in the framework of the country's wider economic strategy: the Productivity, Innovation and Growth Agenda 2014-18. While the Agenda did include measures specifically directed at supporting SMEs, and integrated a notable public monitoring system (via a dedicated website that consistently reported on the state of implementation of each of its measures), it did not go so far as to set related quantitative objectives and/or indicators, either at strategic or project levels, to evaluate performance.

These gaps extend to other key policy documents relevant for SME development, such as the National Innovation Plan 2014-18, and limit the optimisation of synergies and spillover among current actions. Yet, the country does have a quality basis of M&E resources and examples to draw from for the future, including the systematic M&E reports conducted by the government's central Budget Directorate (*Dirección de Presupuestos*, or DIPRES) of government entities and programmes (but not strategies), and existing impact evaluations at programmatic level, especially related to productive transformation.

Going forward, and as will be further detailed throughout this chapter, Chile could consider integrating closer dialogue with the private sector; developing more detailed and integrated strategic frameworks on business and entrepreneurial development services, as well as on innovation and technology; better publicising in an integrated manner the existing SME development support offer; setting KPIs for SME development at the strategic level; and further institutionalising long-term financing for strategic investments to harness SMEs as an actor in the country's productive transformation, among other actions. In the area of access to finance, which is the only area where Chile lags behind its LA7 peers, Chile could consider expanding the regulatory framework for secured transactions with collateral, developing the legal framework for alternative financing mechanisms and fintech companies, and including SMEs as one of the objective groups of its financial education strategy.

Overall, the new administration, which began its mandate in 2018, directly following the close of this assessment, has an ample basis on which to continue and strengthen the country's strategic SME development efforts.

Overview

Economy and development priorities

Table 12.1. Macroeconomic Indicators

Indicator	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth (annual %)	5.3	5.7	5.8	6.1	5.3	4.0	1.8	2.3	1.3	1.5
GDP per capita (current US$)	5 101	7 615	12 860	14 705	15 431	15 941	14 794	13 736	13 960	15 346
GDP per capita, PPP (current international $)	9 572	12 774	18 265	20 437	21 620	22 578	22 978	22 785	23 476	24 635
Unemployment, total (% of total labour force)	9.2	8.0	8.4	7.3	6.7	6.2	6.7	6.5	6.7	7.0
Inflation, GDP deflator (annual %)	4.3	7.6	9.0	3.1	1.1	2.0	5.9	5.0	4.7	4.7
Exports of goods and services (% of GDP)	30.5	40.2	37.7	37.8	34.1	32.2	33.1	29.4	28.2	28.7
Imports of goods and services (% of GDP)	28.8	31.5	31.3	34.4	34.1	32.8	32.2	29.6	27.3	27.0
External balance on goods and services (% of GDP)	1.7	8.7	6.4	3.3	0.0	-0.6	0.9	-0.2	0.9	1.7
Current account balance (% of GDP)	-1.2	1.5	1.4	-1.6	-3.9	-4.0	-1.6	-2.3	-1.4	-1.5
Services, etc., value added (% of GDP)	54.1	50.5	52.8	53.5	55.6	56.9	56.7	57.9	58.5	57.6
Foreign direct investment, net inflows (% of GDP)	6.2	6.1	7.3	9.6	11.3	7.5	9.1	8.6	4.9	2.3
Foreign direct investment, net outflows (% of GDP)	5.1	1.8	4.3	8.0	7.7	3.6	4.9	6.6	3.0	1.7
General government total expenditure (% of GDP)	23.0	20.1	23.3	22.8	23.1	23.1	23.8	24.9	25.3	25.4
General government net lending/borrowing (% of GDP)	-0.7	4.5	-0.4	1.4	0.7	-0.5	-1.5	-2.1	-2.7	-2.6
Domestic credit to private sector (% of GDP)	63.7	77.2	99.0	101.3	104.3	105.7	108.6	109.2	110.8	112.5

Source: (World Bank Group, 2018[1]; IMF, 2018[2]).

Activity, labour markets and economic structure

Chile has benefitted from steady and relatively high economic growth rates over the past decades. Its GDP growth rate averaged 3.9% between 2005 and 2015, compared to 3.1% for the LAC region. Furthermore, from 2010 to 2014, the economy of Chile grew more than double the OECD average (OECD, 2018[3]). The global commodity boom supported this process, with copper prices increasing by a factor of 5 after 2003 and only declining since 2014; following this decline, sound macroeconomic management and a flexible exchange rate secured resilient economic growth, albeit it at lesser rates (1.3-2.3%). However, in the first half of 2017, growth decelerated further as a long-lasting strike in the country's largest copper mine weighed on exports and economic activity. Growth is expected to return to close to 3% in 2018 and 2019, underpinned by improving export markets, a rebound in copper prices, strengthening demand, good financing conditions and recent policy measures to support exports, productivity and the reinvigoration of business investment. However, Chile still faces several medium-term challenges, such as the evolution of commodity prices, the need to diversify the economy towards non-resource activities, and the need for continued fiscal consolidation (OECD, 2018[3]).

After a sharp increase during the developing markets crises of 1999, unemployment has gradually decreased, with the average over the last decade of 7.3% falling slightly below the regional average (8.3%) (World Bank Group, 2018[1]). Wages have risen at a firm pace, allowing for a drastic decrease in poverty levels (ECLAC, 2016[4]). However, inequality remains an important challenge for development that generates increasing demands on the authorities; the country has a Gini coefficient of 0.454, as compared to the OECD average of 0.311 (OECD, 2018[3]). Furthermore, Chile has sharp interregional disparities. It shares with Mexico the position of the OECD country with the highest gap in GDP per capita between its poorest and richest regions: Antofagasta has a GDP per capita 7.6 times higher than Araucanía (OECD, 2016[5]). On the other hand, metropolitan Santiago concentrates 40% of the country's population and 50% of its GDP.

While informality levels in Chile are lower in comparison to the rest of the LAC region, the country still records a relatively high level of informality in relation to its income per capita and level of economic development. According to ILO data, informal workers account for 40.5% of the total working population. Most of those workers are employed by informal, non-registered enterprises or are self-employed (32.2%), while 6.3% are employed in formal enterprises and 2% are non-registered household workers (ILO, 2018[6]). Data from the 2017 Microenterprise Survey (*Encuesta de Micro Emprendimiento*, or EME) shows that 66.5% of the employees working in microenterprises do have formalised labour contracts, but work on verbal agreements. Many of those workers are family members working for family-run enterprises. Using a different criterion for informality than the ILO, i.e. the lack of social security protection, the INE data shows that at the end of 2017, informal labour accounted for approximately 30% of total employment, corresponding to more than 2.5 million employees, with informality particularly high among the self-employed (INE, 2017[7]).

In terms of sectoral structure, services play a somewhat less important role than the regional average (58% of GDP compared to 62%), while industry is more relevant (38% vs. 32%). The latter is to a large extent explained by mining (12% of GDP), and by copper mining in particular (11%) (BCC, 2017[8]). Manufacturing plays a less important role.

Chile has one of the most developed financial markets of the region. Domestic credit to the private sector (112.5% of GDP; see Table 12.1 on previous page) is more than double the Latin American average (49.2%). This has contributed to a sustained level of fixed capital

formation over the past decade. However, structural reforms (some of which are already under way) are needed to strengthen total factor productivity (OECD, 2017[9]).

Chile is included within the group of countries considered as having "Very High Human Development", as measured by the Human Development Index (HDI) Report of the United Nations (UN), and enjoys the highest rank (44th out of 189 countries) of the LA7 (United Nations, 2018[10]) (Table 12.2). The HDI considers that a country whose indicators are all ranked in the top third can be considered as a country with the highest quality of human development. Chile scores in the top third for quality of living standards, but the majority of its indicators related to quality of education and of health rank within the middle third of performers. Chile has made a considerable improvement since 1990s by increasing average life expectancy by six years, the mean years of schooling by 2.2 years and expected years of schooling by 3.5 years.

Table 12.2. Selected Human Development Index (HDI) Scores - Chile 2018

Variable	Chile	LA7 Average
HDI Ranking (2017)	44th	69.3
HDI[1] (scale of 0-1, with 1=best; 2017 value)	0.84	0.79
Life expectancy at birth (in years; as of 2017)	79.7	76.8
Gender Development Index Ranking[2] (scale of 0-1, with 1=best; 2017)	0.96	0.98
Quality of Health[3]		
Lost Health Expectancy[4] (2016)	12.3%	11.3%
Physicians (per 10,000 ppl.; 2007-2017)	10.3	22.2
Hospital beds (per 10,000 ppl.; 2007-2014)	21	22
Quality of Education[3]		
Pupil-teacher ratio primary school (pupils per teacher; 2012-2017)	18	20.7
Primary school teachers trained to teach (2009-2017)	.	93.5%
Proportion of schools with access to internet (2008-2013)	78%	56.3%
Math (PISA[5] score 2015)[6]	423	413.7
Reading (PISA score 2015)	459	436.2
Science (PISA score 2015)	447	431
Quality of Living Standards[3]		
Vulnerable employment (% of total employment; as of 2017)	23.9%	38.1%
Share of rural pop. with access to electricity (2016)	100%	95.9%
Share of pop. using improved drinking-water sources (2015)	100%	96.6%
Share of pop. using improved sanitation facilities (2015)	99.9%	89.6%

1. The HDI score is based on a set of indicators covering the dimensions of "long and healthy life", "knowledge" and "a decent standard of living". For more information, see (United Nations, 2018[10]).
2. The GDI is calculated by comparing the females and male HDI values of the country. Countries are divided into five groups by absolute deviation from gender parity in HDI values.
3. Indicators under the categories "Quality of Health", "Quality of Education" and "Quality of Living Standards" are taken from the HDI Dashboard 1 on Quality of Human Development.
4. The relative difference between life expectancy and healthy life expectancy, expressed as the percentage of life expectancy at birth.
5. The Programme for International Student Assessment (PISA) is a triennial international survey that aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. In 2015 over half a million students in 72 countries and economies took the PISA test, and were assessed in science, mathematics, reading, collaborative problem solving and financial literacy. For more information and assessment results, see http://www.oecd.org/pisa/aboutpisa/.
6. The highest average national score for Math, Reading and Science is held by Singapore with 564, 535 and 556 points, respectively.
Source: (United Nations, 2018[10])

Public sector, money and prices

Contrary to many other countries in the region, fiscal policy has a strong counter-cyclical stance in Chile. Since 2001, the country has adopted a structural balance fiscal rule guided by the international price of copper and the position of the economy in the economic cycle. This has led to an average fiscal surplus of 1.6% of GDP during the past decade, while the LAC region as a whole marked a 4.2% deficit. Surpluses were transferred to a sovereign fund that helped avoid abrupt spending cuts when external demand waned in 2009 and when copper prices declined in recent years. However, Chile's account balance has been in deficit since 2011 due to the aforementioned commodity price shock and growth slowdown, though the country's fiscal rule has been effective at smoothing public expenditures and maintaining a moderate level of public debt (OECD, 2018[3]).

Overall government expenditure (23.83% of GDP, 10-year average – see Table 12.1) is low compared to the region (approximately 32%) and advanced economies (approximately 40%) (OECD, 2018[11]; IMF, 2018[2]).

Monetary policy makers have adopted a strict inflation-targeting strategy. Inflation rates have been kept close to the 2-4% range for most of the past six years (see Table 12.1).

External sector

Chile is one of the most open economies in the LAC region. Exports and imports of goods total 55.7% of GDP, as compared to the regional average of 46%. The country has signed 26 free trade agreements (FTAs) with 65 economies around the world, most of which went into effect in the 21st century.

As Chile is the premier global producer of copper, mining naturally plays a significant role in its export basket (54%). Agricultural products (fruits) and manufactures (fish fillets, wine) complete the picture. Manufactures represent 13.7% of external sales. Services trade represented on average 11% of GDP (2005-2015), compared to 6.2% for LAC region (World Bank Group, 2018[1]). The country ranks 64th in the MIT Economic Complexity Index, giving it the middle position in the LA7, whose scores range from 21st (Mexico) to 101st (Ecuador). Chile's top export destinations are China, the United States, Japan, South Korea and Brazil. (MIT, 2018[12]).

China is Chile's primary trading partner, representing a large and growing share of exports (26%) and imports (24%). The European Union (EU) and the United States are virtually tied for second place, being the destination of 13% of exports each. Imports come mainly from the same three partners. Regional trade blocs play a less important role. In the Pacific Alliance (PA), Mexico is the main destination of exports (2.2%) and origin of imports (3.5%), followed by Peru. The bloc accounts for 6.4% of Chile's exports and 8.4% of its imports (European Comission, 2017[13]).

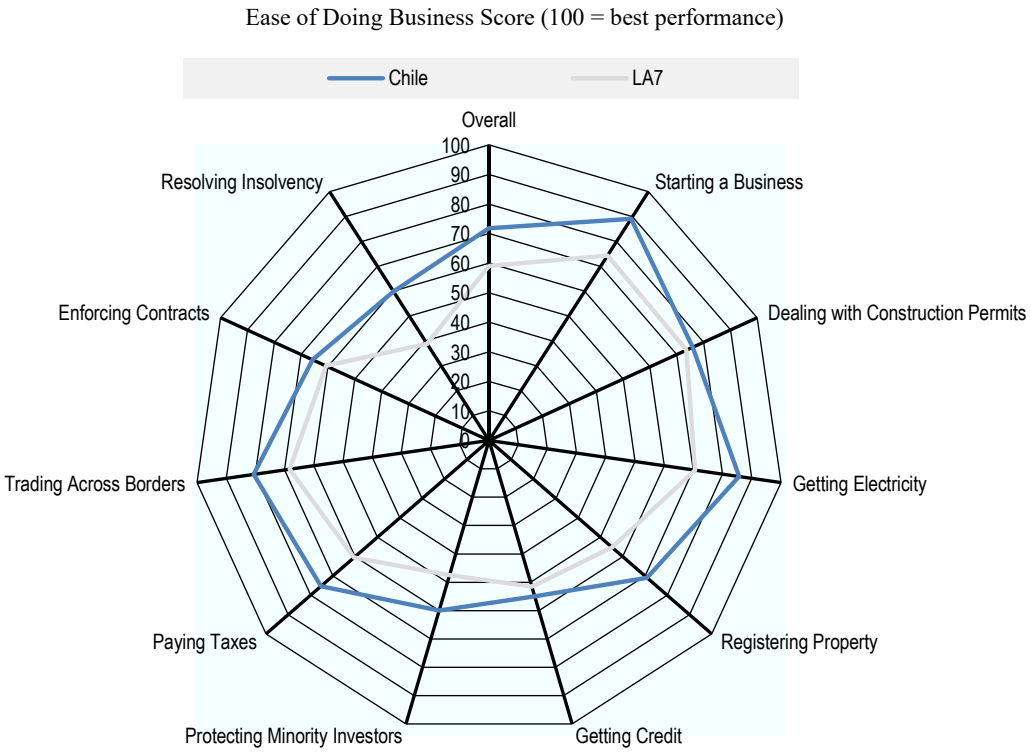
Capital inflows are strong. Foreign direct investment (FDI) averaged 7.7% of GDP over the last 10 years, more than double the regional rate (see Table 12.1). The OECD's FDI Regulatory Restrictiveness Index is lower for Chile (0.06) than for the average OECD country (0.07) (OECD, 2016[14]).

Business environment

Chile fell from 25th in 2006 to 56th in 2018 in the World Bank's Ease of Doing Business Ranking (World Bank Group, 2018[15]). However, this ranking is the second highest among the LA7 (just behind Mexico), and Chile outperforms the LA7 average in every *Doing*

Business topic (see Figure 12.2). "Getting credit" is the country's weakest feature (85th), followed by "paying taxes" (76th). "Resolving insolvency" was the sub-dimension in which the most progress was accomplished over the past decade; a new institutional framework was put in place, including a dedicated public agency and special courts in charge of the proceedings for insolvency. The processes for starting a business and enforcing contracts were most improved over the 2017-2018 period, with the World Bank identifying contributing ongoing reforms in both cases.

Figure 12.2. Doing Business Indicators 2019 - Chile



Note: *LA7* is the simple average for the seven countries studied in this report: Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay. The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.
Source: (World Bank, 2018[16]).

Between 2007 and 2018, Chile lost seven positions in the WEF Global Competitiveness Index, going from 26th to 33rd (WEF, 2018[17]). However, the country still outperforms every other LAC economy, including the LA7. The strength and depth of its financial markets, stable macroeconomic conditions and a relatively open product market drive this performance, corresponding to the pillars in which Chile excels. The less favourable dimensions are ICT adoption and innovation capability. In the last decade, significant improvement has been achieved in higher education and training, while labour market efficiency and business sophistication have suffered setbacks. The former is related to a dramatic increase in tertiary education enrolment. Labour markets are seen as less flexible than a decade before, as hiring and firing practices are perceived as less friendly for firms. Business sophistication was affected by a perceived reduction in the quantity of local suppliers and the state of cluster development.

According to the World Bank Group's latest Enterprise Survey (World Bank, 2017[18]), the two main problems faced by Chilean firms relate to labour regulations and an inadequately trained workforce, which are identified as major barriers more often than in any other surveyed LAC country. Access to finance constitutes the third obstacle, in line with the rest of the region. While medium and large firms share this diagnosis, small firms complain less about labour regulations than about crime and theft. Corruption is perceived as a minor problem, as compared to the rest of the LAC region, with less than 1% of firms expected to give gifts to tax officials or to secure a government contract (as opposed to an average of 6% and 12%, respectively, for LAC). The depth of the financial markets is reflected in the proportion of firms with a bank loan or credit line: 80% compared to an average of 50% for LAC.

The US Department of State's Investment Climate Statement (2018[19]) underscores the strength of Chile's FDI attraction and legal protection framework. Capital markets are well-developed and stable, and most capital control measures have been eliminated. The judicial system is transparent and independent. A new Insolvency and Re-entrepreneurship Law has enhanced "second-chance" legislation and avoids criminalisation of bankruptcy.

SME Sector

Definitions and employment

SMEs are legally defined in the 2010 Smaller-Size Firms Act (Law 20.416)[1] (Table 12.3). The Act establishes a turnover-based definition that is used for most purposes (including statistics). However, it provides a special employment-based definition for labour-related issues.[2]

Table 12.3. Official SME Definition in Chile

Criterion		Micro	Small	Medium
Turnover (upper-bound)	UF	2 400	25 000	100 000
	USD	99 120	1 032 500	4 130 000
Employment		1-9	10-49	50-199

Note: The *Unidad de Fomento* (UF) is a unit of value daily adjusted according to the variations in the Consumer Prices Index. UF value in Chilean pesos (29/11/2018): 27 518.15. Exchange rate CLP/USD (29/11/2018): 673.31. UF value in US dollars (29/11/2018): 41.11.
Source: Smaller-size firms Act (20.416).

According to the most recent data by the Internal Revenue Service, there were 917 329 firms registered in Chile, accounting for 8.3 million jobs. 98% of the firms are SMEs, and they account for 46% of employment (see Table 12.4). Three out of four firms are microenterprises. In the SME universe, small firms employ the highest number of people (22% of total employment).

Table 12.4. Chilean firms and employment by firm size - 2016

Size	No. of firms	% of total firms	Change 2007-2016 (% of total firms)	No. of employees	% of total employment	Change 2007-2016 (% of total firms)	Average number of workers
Micro	695.465	74%	-5.1%	577.698	7%	-1.0%	0.8
Small	195.028	21%	+3.9%	1.828.392	22%	-1.5%	9.4
Medium	29.660	3%	+0.5%	1.474.656	18%	-1.0%	49.7
Large	14.564	2%	+0.7%	4.516.347	54%	+4.6%	310.1
Total	934.717	100%		8.397.093	100%		9.0

Note: As these figures are extracted from tax records, no unregistered firm is represented. Thus, an under-representation of figures for microenterprises could be expected.
Source: (SII, 2018[20]).

Table 12.5. Participation in selected variables by firm size, 2017

Size	Share of total firms	Share of total turnover	Share of total employment	Share of total value added
Micro	74%	14.5%	7%	2.7%
Small	21%	12.6%	22%	12.8%
Medium	3%	18.3%	18%	10.6%
Large	2%	54.6%	54%	73.9%

Note: Size based on turnover definition. Data for the variable "Turnover" is from the year 2011.
Source: (Ministerio de Economia, Fomento y Turismo de Chile, 2017[21]), (SII, 2018[20]).

As demonstrated in Table 12.4 and Table 12.5, the turnover-based classification actually understates the importance of the SME sector when compared to the employment-based classification. For example, as the average payroll for small firms is 9.4 employees, it can be induced that many of these firms would classify as microenterprises in the employment-based scheme. The same is true for the rest of the categories. When payroll size is used as criterion, SMEs account for 66% of employment, as opposed to 46% within the turnover-based classification (see Table 12.6).

Table 12.6. Employment by firm size (employment-based definition), 2018

Size	Workers ('000s)	Employment (%)
<5	2.711.98	33.5
6-10	548.96	6.8
11-49	1.084.65	13.3
50-200	980.27	12.1
>200	2.769.63	34.2
Total	78.095.49	100

Note: As these figures come from household surveys and not from tax records, this data also includes non-registered workers and firms.
Source: (INE, 2018[22]).

As mentioned, Chile has a relatively low incidence of informal economy. However, the smaller the size of the firm, the higher the informal economy rate (Table 12.7). The proportion of employees not affiliated to a pension system is negligible for large firms but reaches 19% for microenterprises. Moreover, workers that have no written contract with their employers represent 3% for large firms, but 13% for small firms and 42% for microenterprises.

Table 12.7. Informal economy and SMEs

Size	Workers not affiliated with a pension system (2009-2010)	Workers under verbal agreement (no written contract) (2017)
Micro	18.9%	42%
Small	5.4%	13%
Medium	2.5%	5%
Large	1.3%	3%
Total	-	13%

Note: Figures are based on household surveys.
Source: (INE, 2018[22]) and (Carrasco and Vega, 2012[23]).

Firm density varies across regions. While the national average is 60 firms and 50 SMEs per 1 000 inhabitants,[3] Antofagasta (the region with the highest GDP) has the lowest firm and SME density (50 and 44, respectively), a phenomenon related to the intensity of mining activity. On the other extreme, Aysen (74 and 66) and Magallanes (72 and 62) present the highest ratios. SME employment goes from 160 workers every 1,000 inhabitants in Araucanía to 242 in O'Higgins and 247 in Metropolitan Santiago.

Productivity and value added

Even though they employ a large number of people, the relevance of SMEs in total value added is relatively low in Chile, totalling only 26.1% (see Table 12.8).

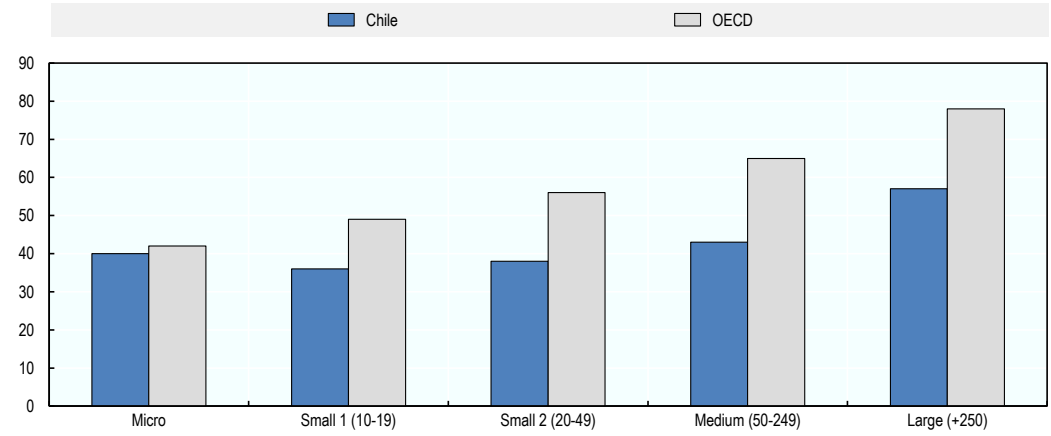
Table 12.8. Value added by firm size, 2015

Variable	Micro	Small	Medium	Large
Value added (as % of total)	2.7%	12.8%	10.6%	73.9%
Value added per worker (,000 of Chilean pesos)	15 043	21 692	39 644	86 563

Source: (Ministerio de Economia, Fomento y Turismo de Chile, 2017[21])

As a result, value added per worker is markedly lower for SMEs as compared to large firms (see Table 12.8). Medium-sized companies' value added per worker is 46% that of large firms, while microenterprises reach only 17%. In terms of output per worker (see Figure 12.3), while Chilean microenterprises have similar productivity levels as the OECD average, this gap widens as size categories increase, with OECD medium- and large-sized companies on average 51% and 40% more productive than Chilean firms of the same size, respectively.

Figure 12.3. Labour productivity by firm size, Chile vs. OECD – (,000 USD 2013)

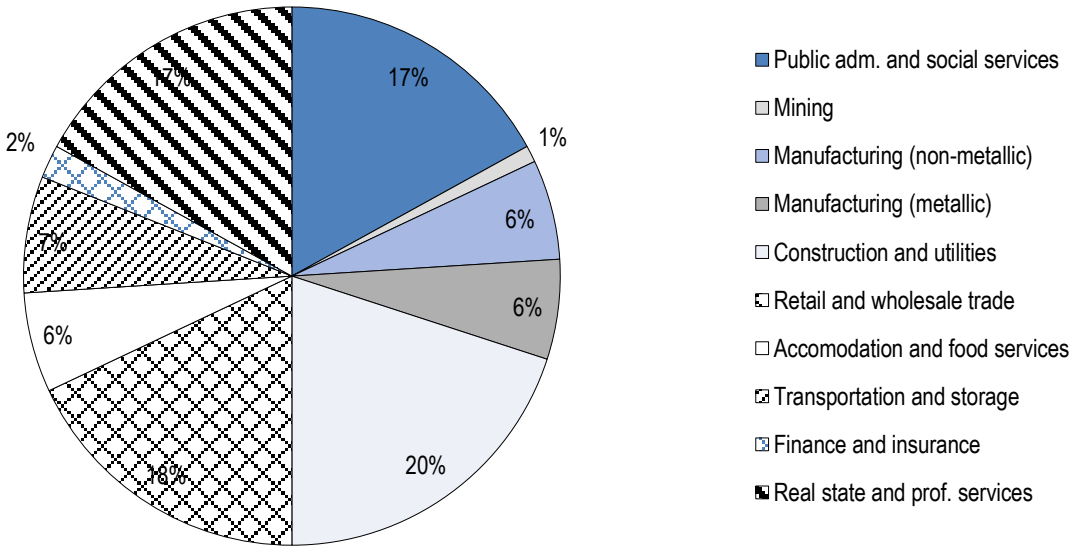


Note: Size categories are based on employment.
Source: (Ministerio de Economia, Fomento y Turismo de Chile, 2017[21]).

Sectors of activity

SME employment is equally distributed among four main sectors (all services): construction, trade, professional services and social services (see Figure 12.4). These sectors account for 72% of total SME employment (as opposed to 68% of large-firm employment).

Figure 12.4. SME employment by sector - 2015

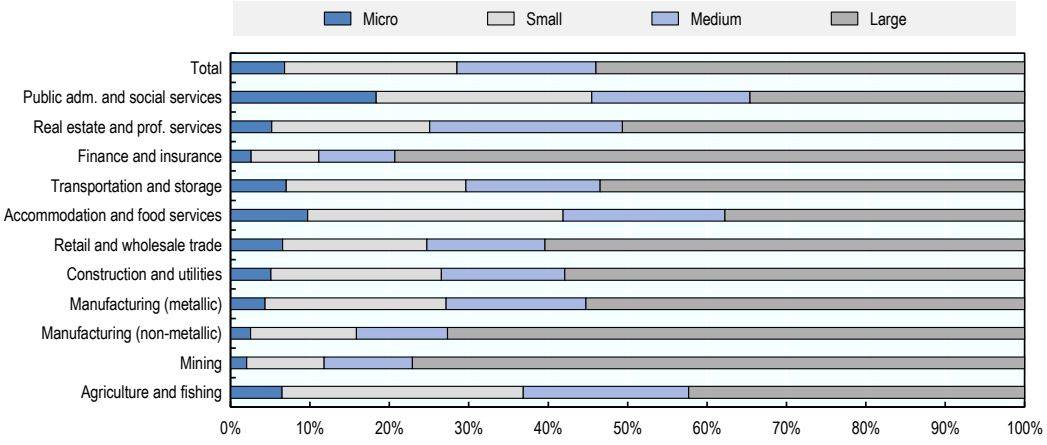


Source: (Arellano and Schuster, 2015[24]).

The activities in which SMEs are more relevant are social services and accommodation and food services, where they account for around 62% of employment (see Figure 12.5). By contrast, mining, finance and non-metallic manufacturing are dominated by large companies. Microenterprises play a substantial role in providing social services. Small firms employ large numbers of workers in most sectors, but particularly in accommodation

and food services and agriculture. Medium-sized firms are relevant in providing real estate and professional services.

Figure 12.5. Share of sectoral employment by firm size - 2015



Source: (Ministerio de Economia, Fomento y Turismo de Chile, 2017[25]).

International trade

Chilean SMEs are less active in export markets, as in other countries of the region (see Table 12.9). Only 2% of Chilean microenterprises send their products beyond national borders, as compared to 26% of large companies; small and medium-sized enterprises fare slightly better (5%).

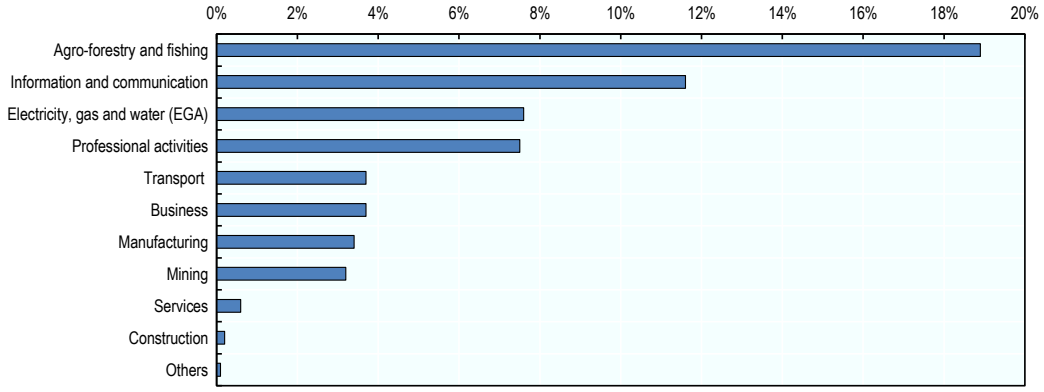
Table 12.9. Firms exporting directly and through intermediaries by size - 2017

Size	Direct exports	Export through intermediary	Total
Micro	1.30%	0.80%	2.10%
Small and medium	2.90%	2.10%	5.00%
Large	23.20%	3.00%	26.20%
Total	2.80%	1.50%	4.30%

Note: The Longitudinal Enterprise Survey (ELE) draws its sample from the Internal Revenue Service (SII) databases. Hence, non-registered enterprises are not covered
Source: (Ministerio de Economia, Fomento y Turismo de Chile, 2017[25])

The most externally active SMEs are located in the agriculture sector, followed by information and communication, and electricity, gas and water (Figure 12.6).

Figure 12.6. Exporting (directly or indirectly) SMEs by Sector - 2017



Note: The Longitudinal Enterprise Survey (ELE) draws its sample from the Internal Revenue Service (SII) databases. Hence, non-registered enterprises are not covered.
Source: (Ministerio de Economia, Fomento y Turismo de Chile, 2017[25])

Assessment results

Institutional framework (Dimension 1)

Chile's overall score for this dimension is 3.86 on a scale of 1-5, which is higher than the LA7 average score (3.81) but slightly lower than the average score for the four Pacific Alliance (PA) member countries (4.00). Chile scores relatively high on the sub-dimension related to strategic planning, policy design, and coordination (4.06), based on the strength of its implementation agencies, as well as on sub-dimension related to the reduction of informality (4.07). Its scores are lower on the sub-dimension related to public-private consultations (3.43) and that dealing with the SME definition (3.67), given the reliance on a single-criterion definition.

Chile is currently adjusting the focus of its SME policy, moving from a productive transformation-oriented approach to a more horizontal approach aimed at improving the general business environment and reducing barriers to enterprise entry and competition. It is important that the country finds the optimal policy mix between the two approaches – one that allows for providing continuous support to enterprises with high growth potential while increasing competition among innovative enterprises. A closer dialogue with the private sector would contribute to identifying the main barriers to SME development. It is therefore important that the country's SME Consultative Committee is utilised not only as an information-sharing body, but as a true consultative committee during the process of policy design and monitoring and evaluation (M&E). The Technical Co-operation Service (*Servicio de Cooperación Técnica*, or SERCOTEC) and CORFO have accumulated vast experience in managing enterprise support programmes. Their inputs would be very valuable in identifying the weak and strong points of those programmes to introduce positive adjustments.

SME definition

Chile has a well-developed institutional framework for SME policy with a clear assignment of tasks among different public institutions in relation to policy elaboration, implementation, and monitoring and evaluation (M&E). The overall mandate over SME policy is assigned to the Ministry of Economy, Development and Tourism *(Ministerio de*

Economía, Fomento y Turismo, or MEFT*)*. The Ministry is divided into three undersecretariats: Economy and SMEs, Tourism, and Fish and Agriculture.

SME policy is directly placed under the responsibility of the MEFT's SME directorate *(División de Empresas de Menor Tamaño*), which is one of four directorates under the Economy and SME Undersecretariat.[4] The directorate is in charge of policy elaboration and policy coordination, while policy implementation is mainly delegated to two executive agencies: SERCOTEC and CORFO.

The Chilean SME definition is established by law, with the current definition set by Law 20.416, which was approved in 2010. The definition has just one criterion: annual turnover, expressed in *"Unidades de Fomento" (UF)*, a unit of account introduced in Chile in 1967 and adjusted in line with the country's inflation rate. The definition includes a stratification of micro, small and medium-sized enterprises and is applied consistently throughout the public administration (see Table 12.3).

Strategic planning, policy design and coordination

As noted in Chapter 4, the case of Chile is a good example of how SME policy objectives have been developed in the context of a wider economic strategy. SME strategic orientations for the period covered by this assessment were defined in the framework of the Productivity, Innovation and Growth Agenda *(Agenda de Productividad, Innovación y Crecimiento)*, covering the period 2014-2018.

The Agenda's overarching objective is to guide the country's productive transformation and, more specifically, to promote productive diversification. In doing so, the Agenda aims to lower the dominant weight that the sectors linked to the exploitation of natural resources have in the Chilean economy; to increase productivity at firm level, particularly at the level of SMEs; and to enhance Chilean exports through a more pro-active trade policy (see Box 12.1). The underlying view is that market forces alone are not sufficient to produce the desired productive transformation. The government has therefore to intervene, in partnership with the private sector, to steer the economy in the desired direction, using a combination of financial incentives and direct support programmes.

The Agenda is structured around seven main pillars, covering themes such as infrastructure development, trade policy and market access, public services and institutional development. Two of the pillars specifically cover SME development: Pillar 3 ("financing and support for SME management") and Pillar 4 ("promote entrepreneurship and innovation"). The Agenda includes a list of 47 actions structured underneath these pillars, each related to specific objectives; but it does not include quantitative targets, either at macro or action/project level. More information on the structure and the projects covered by the Agenda is provided in this chapter's sections on "SME development services and public procurement" and "Productive transformation".

Box 12.1. Strategic Objectives: Productivity, Innovation and Growth Agenda 2014-2018

The Agenda puts forward four rather broad ***strategic objectives*** oriented to guide the country's productive transformation:

1. **Promoting productive development and diversification**, including by incentivising the development of higher value-added goods and services, and by fostering productive linkages.
2. **Boosting sectors with high growth potential** – for example, tourism and activities linked to the mining of copper, which are not yet developed in the country. In this area, the Agenda calls for the focalisation of efforts in a few strategic sectors in order to avoid the dilution of resources in too many activities.
3. **Increasing the productivity of firms**. In this objective, the Agenda is less clear and focuses more on a description of why it is important to increase productivity in firms and less on what to do about it. The only diagnostic made is the identification of inadequate access to finance and lack of support for management as hurdles for growth and productivity in the private sector.
4. **Giving a new boost to exports**, especially since the benefits for Chile of opening up to markets and trade deals have already being realised. Here, the Agenda notes the geographical remoteness of Chile from the largest global hubs and the necessity of minimising the costs of such remoteness through "gains in efficiency". It notes the importance of using technology and good practices to increase the quality of Chilean products, and the need to help small firms reach foreign markets.

More information on the structure and the projects covered by the Agenda is provided in this chapter's sections on "SME development services and public procurement" and "Productive transformation"

A new agenda, developed by the new administration installed following the country's December 2017 elections, was under construction at the time of writing. In November 2018, the government presented the new strategy under the title "National Agreement for Integral Development" *(Acuerdo Nacional por el Desarrollo Integral*).[5] The strategy is divided into nine strategic axes, including one dedicated to "supporting entrepreneurship and SMEs", which largely focuses on reducing administrative barriers and improving the investment and innovation climate and access to technology and digital services, as well as creating a new Office of Productivity and National Entrepreneurship *(Oficina de Productividad y Emprendimiento Nacional*, or OPEN*),* charged with reducing entry barriers for new enterprises through regulatory improvement measures and promoting an innovative entrepreneurial culture. Thus, going forward, this agenda indicates that more emphasis will be placed on the improvement of the business and investment climate and on other horizontal policies, rather than the past model, active during this assessment, of direct support to productive sectors.

As mentioned previously, at planning and policy elaboration level, policy co-ordination is ensured by the MEFT's SME directorate. At operational level, policy co-ordination is ensured through the presence of representatives of the economic ministries in the Directive Councils of CORFO and SERCOTEC, as well as representatives of private sector organisations. As stated in the previous sub-section, SERCOTEC and CORFO are the two main public agencies in charge of SME policy implementation. They had a combined

annual budget of approximately USD 300 million over the period 2014-2018. Both agencies report to the MEFT, but they differ in legal status and mission as follows:

- SERCOTEC is an institution governed by private law, established in 1952, with the mission of supporting Chilean entrepreneurs and micro and small enterprises. SERCOTEC's activity consists mainly of the implementation of entrepreneurial training and technical assistance programmes, with a focus on new entrepreneurs and microenterprises. The organisation has a network of regional offices covering each of Chile's 16 administrative regions. This extensive regional presence has served to mobilise a profuse network of face-to-face support services for SMEs, many of which will be covered in more detail in subsequent sections of this chapter, such as business development centres and SME export centres.
- CORFO is registered as an autonomous state institution. The Corporation was established in 1939 with a mandate to implement the country's pro-active industrial policy and promote the development of basic industries. Today, CORFO's mandate focuses on the support of innovation, strategic investments and sectors and enterprises with high growth potential. CORFO operates a guarantee fund, manages a series of investment and R&D incentives, allocates grants to support innovative investments, and played a major role in the implementation of the 2014-2018 Productivity, Innovation and Growth Agenda.

M&E activities are conducted by each of the institutions in charge of implementing the various support programmes. Both CORFO and SERCOTEC regularly publish detailed annual activity reports; CORFO also has its own programme evaluation unit. Information and data on the beneficiaries of the support programmes are regularly collected, but they are not made public. Additionally, the government's central Budget Directorate (DIPRES) is the technical body in charge of M&E of government programmes at different levels, including ensuring the consistency between the design and objectives of a programme and its impact (intermediary and final results on beneficiaries). While DIPRES does not review strategies (only government entities and programmes), implementation updates on the Agenda 2014-18 were regularly provided for each action, via a publicly available web-site. However, the Agenda did not go so far as to set related quantitative objectives and/or indicators, either at strategic or project levels, to evaluate performance. Thus, the Agenda lacks various elements of a robust strategic framework, and cannot be considered as a fully-fledged SME development strategy, as it does not include details in terms of diagnostics, concrete performance-related objectives, milestones, resources and responsible parties, among other elements.

The National Institute of Statistics (INE) regularly collects data on the SME population, which is subsequently analysed and published by the MEFT. The main source is the longitudinal enterprise surveys (ELEs), of which four have been published to date since 2010, usually every 2-3 years, with the latest survey at the time of writing published in August 2017.[6] The microenterprise sector is covered through the Microenterprise Surveys (*Encuestas de Microemprendimiento*, or EMEs*)*. To date, five synthesis reports on microenterprises have been jointly elaborated by the INE and the MEFT, with the latest published in 2017.[7] The Internal Revenue Service (*Servicio de Impuestos Internos*, or SII) is in charge of statistics on formal enterprises, drawing from two sources: the *Diario Oficial* and Registry of Companies and Societies (RES) maintained by the MEFT.

Public-private consultations

The practice of public-private consultations (PPCs) on SME policy in Chile is well established, and consultations take place through various channels and in various modalities.

In Chile, there is a general requirement to conduct open consultations before any new legislative act is finally approved. The Law on Citizen Participation (Law 20.500) stipulates that all laws must be posted for public comments before final approval on the website of the responsible ministry. The public consultation time is 45 days.

In relation to the SME policy area, Art. 4 of the Law on SMEs (Law 20.416) mandates the establishment of the National Consultative Council for Enterprises of Small Size *(Consejo Nacional Consultivo de las Empresas de Menor Tamaño*). A decree issued by the MEFT in 2010 established the composition of the council, which is chaired by the Minister of Economy, Development and Tourism and includes other MEFT representatives, CORFO, SERCOTEC and various private sector organisations. The council is due to meet at least four time a year and the private sector representatives have the right of proposition if they receive the support of at least five members, and they may call for up to three additional meetings of the council per year. Deliberations of the Council are public and are posted on the council web page.[8] CORFO also has its own SME advisory council *(Consejo Asesor Mipyme[9])*, while the Board of Directors of SERCOTEC traditionally includes two SME private sector representatives. In addition, various ad hoc consultations have been held with the SME sector on key projects related to the business environment, such as the modernization of the taxation system.

Measures to address the informal economy

As stated at the beginning of this chapter, Chile records a relatively high level of informality, in relation to its income per capita and level of economic development. By measuring those who lack social security protection, INE data shows that at the end of 2017, informal labour accounted for approximately 30% of total employment, corresponding to more than 2.5 million employees, with informality particularly high among the self-employed (INE, 2017[7]). Furthermore, data from the 2017 EME shows that 66.5% of the employees working in microenterprises do have formalised labour contracts, but work on verbal agreements. Many of those workers are family members working for family-run enterprises. Using a different criterion for informality than the INE,[10] ILO data finds that informal workers account for 40.5% of the total working population in Chile. Most of those workers are employed by informal, non-registered enterprises or are self-employed (32.2%), while 6.3% are employed in formal enterprises and 2% are non-registered household workers (ILO, 2018[6]). Regarding enterprise informality, the data are more limited, but the 2017 EME does investigate the formal/informal nature of microenterprises. It finds that the majority (52.2%) of microenterprises are not registered with the tax authorities, while 38.2% are registered as natural persons and only 9.5% as legal persons. Furthermore, it measures microenterprise informality by sector, finding that the primary (77%), construction (66.5%) and manufacturing (63.1%) sectors are those with the highest rates of informal microenterprises (INE, 2017[7]).

Chile did not have in place a strategy focusing on informality reduction at the time of this assessment, though the newly installed administration has created a formal public-private dialogue on informal and illegal commerce *(Mesa Público Privada sobre Comercio Ambulante, Informal e Ilegal),* with the aim to better understand these types of activity and design public policies to reduce the levels of informal and illegal activity in Chile.[11] At the

level of enterprise informality, the main initiative at the time of this assessment was the simplification of the enterprise registration procedures through the *"Escritorio de Empresa"* (EE) Programme.[12] The objective is to formalise the highest possible number of newly established enterprises, in order to put them on a formal path at the beginning of their activity. The EE programme counts on a network of over 200 registration points, while the country's network of regional business development centres (see sub-section on "Business development services for SMEs and entrepreneurs" for more information) provide orientation services to new entrepreneurs. The implementation of the EE programme is supported by a consultative council, including representatives of the various administrations involved in the registration process and representatives of the private sector.

Operational environment and simplification of procedures (Dimension 2)

Chile's performance for this dimension, related to the operational environment for enterprise development and regulatory simplification, is in line with that of the other members of the Pacific Alliance (PA) and slightly higher than the average of the LA7 countries. Its overall score is 3.21 against an average PA score of 3.14 and average LA7 score of 2.96, on a scale of 1-5.

Chile's performance is relatively low (2.98) for the first sub-dimension focusing on regulatory simplification, given the lack of a comprehensive regulatory reform strategy, though significant progress is being made on the systematic application of Regulatory Impact Analysis (RIA). Scores for sub-dimension 2.2 on company registration (3.13) and 2.3 on the ease of tax filing (3.22) reflect the moderate level of development in those two areas, while the score for sub-dimension 2.4 on e-government (3.63) is relatively higher due to the presence of a good range of operational electronic services for enterprises, but still lags behind the overall sub-dimension average.

Legislative simplification and regulatory impact analysis

Compared with other LA7 countries, Chile has a relatively efficient regulatory system and Chilean enterprises have to deal with relatively light regulatory burdens. This situation is the result of decades-long efforts to develop an efficient business environment and to promote a high level of enterprise competition.

The 2016 OECD Index for Product Market Regulations (PMR), a synthetic indicator measuring the level of restrictiveness of the country's regulations affecting the functioning of competitive markets, finds Chile very close to the OECD average, in line with that of the US, and substantially lower (that is to say, less restrictive) than the average index for Latin America (OECD, 2016[26]). However, when looking specifically at the barriers to entrepreneurship and the complexity of regulatory procedures Chile's performance is significantly worse than the OECD average.

This picture is broadly confirmed by the results of the World Bank's *Doing Business 2019* report (World Bank Group, 2018[27]). Chile's overall ranking is 56 out of 190 economies, the second highest among the LA7 countries (just behind Mexico), while within the "distance to frontier/ease of doing business"[13] ranking, measuring the distance from the best performing economy across the 10 indicators of the Doing Business report, it scores 71.81 (best country performer=100), approximately the same level as recorded in 2018.

Chile's performance is quite high in the areas related to the procedures for obtaining construction permits (rank 33), getting electricity (36) and enforcing contracts (49). Its

weakest areas, according to the *Doing Business* report, are getting credit (85), paying taxes (76) and starting a business (72).

Despite its relative success in introducing effective regulations in several areas, Chile has not elaborated a comprehensive regulatory reform agenda, choosing instead an approach that places more emphasis on single, specific reforms.

Chile has, however, taken steps to introduce the systematic application of RIA; a detailed presentation of these advancements is contained in a 2017 OECD report (OECD, 2017[28]). The introduction of RIA was foreseen by the 2014-2018 National Agenda for Productivity, Innovation and Growth. In March 2017, the government issued a Presidential Instructive (No. 2) obliging economic ministries to carry out an RIA focusing on productivity – called Productivity Impact Assessment (PIA) – before submitting a new bill to the Congress that may have regulatory impact. The PIA methodology is consistent with the standard RIA methodology for ex-ante evaluation. PIA is currently applied for the evaluation of some primary legislation, in preparation for the presentation of draft laws to Congress. Several PIA exercises have been conducted by the economic ministries. Furthermore, Law 20.416, approved in 2010,[14] introduced a SME Statute and a differentiated regulatory framework for SMEs. The Law also introduced the notion of cost-effective regulations for SMEs and obliged institutions issuing regulations that potentially affected SMEs to conduct an ex-ante analysis of the impact of some of those regulations on small enterprises (OECD, 2017[28]).

PIA evaluations are available on the websites of the different ministries. The MEFT, which is responsible for SME policy, also publishes the impact evaluations conducted in line with the requirements of Law 20.416 for the legislative acts that directly affect SME operations.

Company registration

This sub-dimension combines a number of indicators related to the institutional framework for company registration, including the presence of one-stop shops, the use of a single company-identification number and availability of online registration facilities, with indicators on performance of company registration and starting-a-business procedures based on the results of the World Bank's *Doing Business 2019* report.

Company registration and starting a business procedures in Chile are relatively time- and cost-efficient, positioning Chile among the LA7's best-performing countries.

Chile has introduced a single company registration number. The number is issued at the time of registration by the Unique Tax Registry (RUT). The RUT number can be utilised to perform administrative functions across the entire public administration.

Escritorio Empresa (EE) operates as an on-line platform for company registration. The platform serves as a one stop-shop that allows for the performance of all company registration procedures, including the notification phase, with the registration to the RUT, and the compliance phase with the application for the compulsory municipal business licence. The only notification function that has to be performed outside of the EE is the registration of the new enterprise with a social security insurance body, covering the risk of work accidents.

In terms of performance, Chile ranks 72nd out of 190 countries in the *Doing Business 2019* ranking for the "starting a business" indicator, while in 2018 it ranked 65th (World Bank Group, 2018[27]). The gap with the best-performing country in this area, measured by the

"distance to frontier/ease of doing business"[15] ranking, is 88.08, resulting in a lower score compared with that recorded in 2018 (89.55 out of 100[16]).[17]

Starting a business in Chile requires the completion of seven administrative steps, several of which can be completed simultaneously. The time required is six days and the cost is equal to 5.7% of the GNI per capita (most costs are related to notary fees). All of these observations are slightly higher than the OECD average. The MEFT regularly monitors the performance of the EE platform.

Ease of filing taxes

The assessment for this sub-dimension is based on a set of indicators drawn from the "paying taxes" section of the 2019 World Bank *Doing Business* report. These indicators cover the number of annual tax payments, the time required to perform those payments and the post-tax-filing index, which takes into consideration the time required for an enterprise to apply for and obtain a VAT refund and complete an income tax correction.

Chile performs relatively poorly in this area compared with OECD countries, but generally aligns with the performance of the other LA7 countries. The most critical areas are the time required to perform the tax payments (296 hours compared with 159.4 in the OECD area), while its post-tax-filing index stands at 57.03 (against 84.4 in the OECD area). The number of tax payments per year is seven, which is lower than the OECD average of 11.2 and the LA7 average of 10. The indicators are based on standard procedures only and do not take into account the availability of online tax filing and payment facilities (World Bank Group, 2018[27]).

E-government

Chile has recently started to engineer its transition toward digital government in a systematic matter. The country[18] launched a "Digital Agenda 2020" at the end of 2015, which structures 60 projects under five key themes, including one dedicated the digital government. In 2018, the newly elected administration launched the Digital Government Plan 2018-2022[19] and established the Digital Government Division under the Presidential Secretariat (SEGPRES) to coordinate the plan's implementation. The Plan is developed around three axes:

1. *Government of proximity*, focusing on how to use digital services to facilitate the access of citizens and enterprises to government services (this axis also includes the introduction of a single digital identity and the development of the platform *Chile Emprende*[20]);
2. *Open government*, dedicated to improving public access to government databases and to establishing electronic platforms for public-private consultation;
3. *Smart government*, aimed at improving the integration of public databanks (inter-operability) and designing e-government services.

A number of e-government services are already available, such as online tax filing and online payment of social security contributions. However, the introduction of electronic signature or single digital identity is still under development[21], as is public databank inter-operability. Citizens' satisfaction with e-government services is regulatory monitored and adjustments have been made to the design of those services based on the results of those surveys (i.e. in the case of the EE programme).

Access to finance (Dimension 3)

Chile achieves an average score of 3.74 points for this dimension, which places it slightly below the LA7 average (3.77). Although Chile has a competitive and well-diversified range of financial products (4.61 points), it receives a low score in financial education (2.86 points), even if efforts have been made.

Legal, regulatory and institutional framework for access to finance

Chile receives the lowest score in the region in this sub-dimension with 3.48 points, compared to the regional average of 4.2 points. This lower-than-expected performance is due in part to high collateral requirements exceeding 200% of the loan value received by SMEs and a legal framework for guaranteed operations that must be adapted to international standards. The national government has identified some shortcomings that seek to be remedied through new legislation for guaranteed operations, but this bill has not been passed at the time of writing.

Guaranteed transactions are normed under Law 20.190 of 2007[22], which sought to regularize some of the processes associated with these transactions; this included creating the Register of Non-displacement Pledges, a public, unified and accessible online repository where contract registrations and their modifications are documented. Chile also has a cadastral registration service with similar characteristics.[23] However, this registry could be based on notifications, excluding information on the underlying documents that adjudicate ownership of the assets delivered as collateral. New legislation can also strengthen creditors' prerogatives to take possession of collateral in the event of non-payment and to prioritize their claims in the event of insolvency.

This sub-dimension also values positively that Chile has a deep securities market, and that a dedicated platform for SMEs was established in 2001 as part of the Santiago Stock Exchange, although this initiative was discontinued.

Diversified funding sources

Chile's high score for this sub-dimension of access to finance is associated with the various financing opportunities available to SMEs (4.61 points). For example, CORFO's Bank Loan Coverage for Exporters programme[24] (COBEX) and the Guarantee Fund for Small Entrepreneurs (FOGAPE) are state funds that provide bank guarantees to facilitate access to credit for small businesses whose credit lines are limited or lack the collateral required by commercial banks. Entrepreneurs must pay a commission of at most 2% per year on the amount of guaranteed capital to access these services. In addition, other programmes such as *PYMEXPORTA* of the Ministry of Foreign Affairs[25] include training and support schemes for entrepreneurs seeking to introduce their products in other markets.

In addition to these initiatives to improve access to traditional banking, Chile has a microfinance system that includes institutions operating at the national level and a multiplicity of alternative sources of financing based on assets, collective financing and private capital investment tools. The main challenge in this sense is to update the legal framework in view of the constant development of alternative financing mechanisms, particularly in collective financing platforms and technological companies that offer financial solutions (fintech companies). Within the strategic guidelines of the Ministry of Finance is the intention of developing a draft law for this sector, but it has not yet been sanctioned.

Financial education

Chile obtains a relatively low score in the sub-dimension of financial education with only 2.86 points, even if efforts have been made. First, Chile has a strategy to improve the financial literacy of the population that is part of the national financial inclusion strategy, but this has been focused primarily on women and children, without a clear component designated for small entrepreneurs.[26] In addition to this financial education strategy, the Presidency of the Republic created in 2014 an Advisory Commission on Financial Inclusion to design policy guidelines for this thematic area.

This programmatic strategy has included the measurement of financial literacy in adults, through the Financial Capacity Survey conducted with the support of CAF in 2016[27]; and in youth, through the OECD's International Student Assessment Programme (PISA)[28]. Similarly, Chile took part of a pilot survey aimed at measuring the financial capacities of entrepreneurs. The full survey is expected to be launched in 2019. In addition to these measurement efforts, the Superintendence of Banks and Financial Institutions of Chile (*Superintendencia de Bancos e Instituciones Financieras de Chile*, or SBIF), in partnership with the OECD, conducted a survey in 2016 of financial education initiatives available to the population,[29] where savings and responsible borrowing programs stood out. Among these programs, for example, is the SBIF's Aprende$ program,[30] which was designed with SMEs in mind and offers a glossary of basic definitions of interest for this business segment.

Another area of development was the creation of the Financial Education School Program[31] established in line with OECD recommendations and implemented as of Law 20.555 of 2011. To this end, the National Consumer Service *(Servicio Nacional del Consumidor,* or Sernac) made available to the educational community a series of resources and pedagogical tools to incorporate these issues in the instruction of schools. More recently, at the beginning of 2018, the legislature approved the modification of the General Education Law to incorporate financial and business management issues as part of the compulsory curriculum in secondary schools.[32]

Despite these efforts in terms of financial education, Chile obtains a moderate score because it has not incorporated clear guidelines for microentrepreneurs and lacks, for the time being, an M&E structure that would allow it to identify the impact of the policies implemented, as well as to rethink those areas where the expected results have not been achieved.

Efficient procedures for dealing with bankruptcy

Chile obtains its second highest score of the LA7 in this section, with 3.99 points vs. the 3.16 LA7 average. Chile has a comprehensive insolvency management system run by the Superintendence of Insolvency and Reinsurance (*Superintendencia de Insolvencia y Reemprendimiento*, or SUPERIR),[33] whose regulations meet international standards – including a formal bankruptcy and insolvency registry freely accessible to the public[34] as well as reorganization processes that allow companies to avoid bankruptcy when a restructuring of the debtor company's assets and liabilities is approved by the competent judicial bodies.[35] In case of insolvency, SUPERIR also offers a tool called "Economic Insolvency Advice" *(Asesoría Económica de Insolvencia)* that provides an economic, financial and accounting study with recommendations for the closing or restructuring of companies. This scheme is regulated under Law 20.416[36] and supervised by SUPERIR, although the costs incurred are borne by the debtor.

One area that could be improved is secured-transactions legislation that would (a) allow creditors to have priority to take possession of assets used as collateral after reorganization proceedings or in the event of bankruptcy, as well as (b) require the consent of the creditor before approving reorganization schemes. Similarly, the procedures and costs incurred in insolvency and restructuring proceedings could be simplified in practice. For example, while the relevant legislation establishes a maximum time of four months for the sale of the debtor's assets, the *Doing Business* indicators suggest that insolvency processes take on average more than one year to materialize, also obtaining moderate recovery rates (i.e. lower than 50% of the value of the commitments acquired).

SME development services and public procurement (Dimension 4)

As noted in previous sections, the Productivity, Growth and Innovation Agenda 2014-18, which is the main document guiding economic policy, includes several priorities and actions for the support of private enterprises through business development services (BDS).[37] Indeed, Chile has one of the most advanced structures in the region for the delivery of BDS, relying on specialised agencies to target various sectors of the SME population. Its overall score for this dimension of 4.75, far out-performing the LA7 average of 4.09, reflects this well-developed state of affairs.

Chile also performs very well in all aspects of public procurement measured by this assessment. The very specific areas where more could be done to enhance SME access to this large market are allowing public organisms to split tenders into a smaller lots and creating programmes to help SMEs form consortia (see Chapter 7 for further details).

Business development services for SMEs and entrepreneurs

The aforementioned Agenda 2014-18 comprises seven strategic pillars, two of which directly address SME and entrepreneurship issues: Financing and Support for SME Management, and Boosting Entrepreneurship and Innovation.[38] These pillars provide a framework for the delivery of business development services (BDS) by a number of Chilean agencies – notably SERCOTEC, which supports SMEs in general; CORFO, which helps innovative firms and entrepreneurs; ProChile, which assists exporting firms; and Start-Up Chile, which fosters innovation with a global perspective. However, the Agenda lacks various elements of a robust strategic framework such as diagnostics, concrete performance-related objectives, milestones, resources and responsible parties, among other elements.

Despite the lack of a robust strategy, Chile has an advanced system for delivering government-sponsored BDS through a number of specialised agencies. Table 12.10 provides an overview of the main services.

First, SERCOTEC supports entrepreneurs and SMEs in general through a number of BDS. As mandated by the Agenda 2014-18, SERCOTEC created a network of 51 Business Development Centres providing diagnostic and advisory services to SMEs through specialised operators such as universities, business organisations and specialised entities.[39] The BDS provided by the Centres include technical assistance to individual SMEs and entrepreneurs, special training courses on matters of territorial and sectoral interest, advice on access to finance and market research. According to publicly available information, since the creation of the Centres in October 2015 through the end of 2017, 22 335 SMEs and entrepreneurs benefited from their services. Around 28% of them expressed positive impacts from their BDS and 22% registered increases in sales. 3 180 new jobs were created due to their services and 2 104 beneficiaries accessed public and private financing.[40] Apart

from the BDS provided through the Centres, SERCOTEC also provides support through other programmes such as "Strengthening Commercial Neighbourhoods" (*Fortalecimiento de Barrios Comerciales*), aimed at small retailers; "Seed Capital" and "Bee Capital", supporting entrepreneurs and women entrepreneurs, respectively; and the Business Development Fund *Crece*, which provides subsidies for the purchase of BDS and for investments. Furthermore, SERCOTEC also provides online training and advice though its website.

Table 12.10. Overview of BDS providers in Chile

Agency	Key programmes	Target beneficiaries	Type of BDS	Notes
SERCOTEC	- Individual technical assistance - Group training - Support for retailers, etc.	"Traditional" SMEs	Counselling and training	Provided through Business Development Centres
CORFO	- Entrepreneurship support - SME support - Innovation	Innovative and high-potential SMEs	Counselling and training	Provided by intermediaries
Pro Chile[1]	- Export promotion BDS	SMEs with export potential	Counselling and training	SME Export Centres (in co-operation with SERCOTEC)
Start-Up Chile	- Acceleration BDS	High-potential entrepreneurs, including international entrepreneurs	Counselling and training	

1. Please see the section on "Access to market and internationalisation of SMEs" in this chapter for further details on this subject.

Secondly, CORFO provides specialised BDS support to innovative SMEs and entrepreneurs. The services include the following:

- *Supporting entrepreneurship*, including by providing BDS and financing to individual entrepreneurs or through fostering the creation of entrepreneurial ecosystems. The latter comprises co-financing to support the activities of networks of mentors, the national incubators and accelerators programme, and collaborative workspaces, as well as support for early investment funds and business angel networks.
- *Supporting SMEs,* including through the co-financing of BDS aimed to improve management, productive processes, "associative actions" and productive linkages. The programmes managed by CORFO in this area are administered through a network of Intermediary Operating Agents present throughout the country. Flagship programmes include business training on enterprise development, standards and certifications, associative projects (i.e. joint projects between various companies), and suppliers' development programmes.[41] Other programmes in this area target much more specific objectives such as irrigation, productive recovery (after natural or other shocks) and the audiovisual industry.
- *Assisting innovation,* in particular financing the creation of new processes, products and services, or improving existing ones. Support includes innovation vouchers, prototyping, collaboration between firms and research institutes, etc. The sub-section "Support Services and Financing for Innovation in SMEs" includes more details about these programmes.

Going forward, the newly installed administration is leading a process of simplification and modernisation of both CORFO and SERCOTEC's programmes, oriented to increase the accessibility of their support offer. Pilot efforts to simplify application procedures, consolidate support instruments and increase the territorial reach of programmatic efforts were underway at the time of writing.

Two other important actors in the BDS scene in Chile are ProChile[42] and Start-Up Chile. Start-Up Chile provides BDS to a very targeted niche of international entrepreneurs with high-potential and innovative projects. Its objective is to attract those entrepreneurs to Chile to launch and grow their businesses there. Start-Up Chile provides subsidised co-working space and a comprehensive "acceleration" programme including training and networking with local and global investors.

In terms of the ease of access to information on BDS and other types of support for SMEs and entrepreneurs, *Escritorio Empresa* (EE) provides an integrated electronic platform to facilitate interactions between the state and the entrepreneur.[43] The platform provides information on some BDS programmes from SERCOTEC and CORFO, as well as other government organisations providing support. The information provided, however, is not extensive and gives only a very partial picture of what is available. For example, there is no reference to the services provided by the Business Development Centres across the country or the network of business incubators and accelerators.

Apart from the sophisticated division of work between agencies, and the diversity of the BDS offer, Chile has one of the most complete systems for the monitoring and evaluation (M&E) of SME support programmes in the region. DIPRES (the Budget Directorate) is the technical body in charge of M&E of government programmes at different levels, including the consistency between the design and objectives of a programme and its impact (intermediary and final results on beneficiaries). However, although the information is publicly available and relatively easy to locate, the evaluations of individual programmes do not provide a good picture of the overall effectiveness of BDS policies. For example, according to the Agenda 2014-18, the rationale for the creation of the Business Development Centres was the need to improve the quality of management and strategic planning of SMEs as a way to increase the levels of productivity of Chilean firms. Nonetheless, the individual programmes provided through the Centres are not measured against this general objective. Furthermore, there are no evaluations of the overall effectiveness of the network of Business Development Centres or the overall Agenda. According to the consultations for this assessment, although 42 of the 47 actions identified in the Agenda have been implemented, there will be no evaluation of the overall effectiveness of the Agenda.

Public procurement

Chile has a well-established public procurement system governed by Law 19.886 and administered by the Directorate of Procurement and Public Works (*Dirección de Compras y Contratación Pública* or *Chile Compra*). Law 19.886 regulates the purchase of goods and services by 850 public institutions, including all ministries, provinces (*intendencias*), municipalities, universities, armed forces and many other institutions. Each of these organisations is responsible for its own tendering processes, which must be made through the electronic platform www.mercadopublico.cl, which is in turn administered by *Chile Compra*.[44]

In 2015, the government modified Law 19.886 to make it easier for SMEs to participate in public procurement. The most important changes include:[45]

1. The relaxation of the minimum threshold required to pledge guarantees, from 1 000 UTM to 2 000 (2 000 UTM is equivalent to about USD 140 000 as of October 2018).[46] In addition, this modification also requires the relevant contracting authorities to accept different types of guarantees instead of restricting what can be pledged as a guarantee, as long as the collection of the guarantee can be done quickly and effectively.
2. The decision by *Chile Compra* to request guarantees on a case-by-case basis when the procurement is being made under framework agreements.
3. The introduction of strict deadlines for the payment of contracts to suppliers – first, by asking contracting authorities to include in the tendering process a maximum period for payment; and second, by introducing a period of up to 30 days to pay for procurement from the moment that an invoice has been duly received.
4. Allowing the formation of temporary groups of suppliers to participate in a tendering process.

Those modifications are important steps towards the facilitation of SME participation in public procurement. However, the procurement laws and regulations in Chile do not yet require authorities to split tenders above a certain value into lots.

As noted above, Chile relies on a structured public procurement system comprising four key elements. First is the agency *Chile Compra* itself, which was created in 2003 by Law 19.886 as part of the Ministry of Finance. As mentioned before, *Chile Compra* is in charge of centralising and facilitating public procurement across Chile.

Second, *Chile Compra* administers the e-procurement platform *Mercado Público*, through which the 850 public organisms procure goods, services and works from more than 125 000 companies. According to information from *Mercado Público*'s website, the platform deals with more than USD 10.2 billion in transactions annually (about 3.5% of Chilean GDP) and micro and small enterprises account for 44% of all transactions (twice their rate of participation in the national economy). In addition, two-thirds of all firms participating are micro and small firms and 90% of those firms win the tenders in which they participate.

The third element is the Official Registry of Suppliers of the State (*Chile Proveedores*), which includes nearly 70 000 electronically registered suppliers, 96% of them SMEs and 64% micro firms. *Chile Proveedores* facilitates and reduces the costs of transactions for both suppliers and buyers by providing a complete online database of suppliers and their goods and services on offer.

Finally, *Chile Compra* also provides technical support and capacity building for suppliers and buyers. Training is delivered virtually and physically through the *Chile Compra* centres across the country. The courses cover several topics including participation in framework agreements, evaluation criteria, tendering principles, and others.

Chile has also in place a system to track the effectiveness and efficiency of its procurement system. The *Chile Compra* Observatory monitors the quality and practices applied by all 850 public organisms participating in *Mercado Público*. It does so by monitoring all purchasing processes on a daily basis; by issuing recommendations to the public organisms on how to improve their procurement processes; and by assessing the levels of satisfaction of users. The Observatory also incorporates a system of complaints and denounces for users to signal situations that could jeopardise the probity, transparency and integrity of the system. Furthermore, the General Comptroller's Office has the faculty to audit procurement processes.

Innovation and technology (Dimension 5)

As for BDS in general, there is a large offer of SME support services available in Chile for innovation and technology, especially through CORFO. Chile's overall score of 4.45 for this dimension, the highest of the LA7, reflects this well-developed state of affairs.

However, improvements related to planning and design and monitoring and evaluation (M&E) could be prioritised going forward. The current National Innovation Plan of 2014-18 includes very few specific details, and is not fully aligned with the Productivity, Growth and Innovation Agenda 2014-18, which is supposed to serve as a framing device. The country's National Innovation Systems could also be strengthened in terms of effective coordination and oversight.

Institutional framework for innovation policy

As noted in the section on BDS for SMEs and entrepreneurs above, Chile places an important emphasis on fostering innovation in the private sector, particularly by stimulating innovative entrepreneurship (including by attracting high-potential entrepreneurs to the country through Start-Up Chile) and fostering higher value-added activities with internationalisation potential (for example, the programmes by CORFO and ProChile). Such an emphasis is important given the country's relative limited economic diversification and high concentration of opportunities in a few activities, firms and geographical areas (OECD/UN, 2018[29]). Furthermore, those challenges are accompanied by low levels of expenditure on R&D (less than 0.5% of GDP) and the particularly low business expenditure on R&D: 33% of all R&D expenditure is done by businesses, compared to over 50% in Mexico and 85% in Israel (OECD, 2018[30]).

On the basis of those challenges, Chile has yet to establish a coherent and full-fledged innovation strategy guiding its efforts and programmes. Indeed, the information collected for this assessment points to two different documents related to innovation policy in enterprises: the Productivity, Growth and Innovation Agenda 2014-18 and the National Innovation Plan of 2014-18. The documents are somewhat aligned; however, they both lack implementation details and action plans.

First, as noted earlier, the Productivity, Growth and Innovation Agenda 2014-18 stresses the importance of Chile increasing productivity by achieving greater economic diversification and sophistication. The Agenda notes the need to improve the functioning of Chilean firms by strengthening their management and by incorporating technology, new processes and knowledge so they are able to innovate and internationalise. The Agenda adds that the Chilean State has an important role in this regard, not only by providing incentives but also by addressing market and coordination failures that preclude the development of promising economic activities.

To achieve those objectives, the Agenda identifies seven priorities (or "axes") and a number of actions. One of those priorities is directly linked to innovation policy: Axis 4, Boosting entrepreneurship and innovation. Table 12.11 summarises the actions in this area.

Table 12.11. Innovation-related actions in the Productivity, Growth and Innovation Agenda 2014-18 of Chile

Overview of Axis 4: Boosting Entrepreneurship and Innovation

	Priority	Summary of actions[1]
1.	Supporting entrepreneurship in early stages	Increasing funding to CORFO's programmes for entrepreneurship and increase support for projects in emerging sectors and regions.
2.	Regionalisation of Start-Up Chile	Persuading at least 50% of international entrepreneurs to establish themselves in regional centres and increase the links between local and international entrepreneurs.
3.	Supporting early stage venture capital	Increasing funding for early stage venture capital.
4.	Enterprise innovation programme	Creating a programme in CORFO to fund innovations in SMEs that aim at closing the productivity gap.
5.	Technological dissemination programme	Working with groups of firms that aim to adopt technologies that already exist outside Chile.
6.	Public innovation programme	Creation of a programme to foster innovation in the public sector.
7.	Social innovation programme	Creation of a programme to foster social innovation.

[1] The summary of actions is not exhaustive. Some priorities include multiple actions.
Source: (Government of Chile, 2014[31])

The objectives, priorities and innovation-related actions identified in the Agenda have a clear link with Chile's challenges of productivity, diversification and sophistication. However, the Agenda does not include an extensive diagnostics section of those problems and does not have a logical or analytical framework directly linking priorities and actions with objectives. In other words, the Agenda lacks a level of detail sufficient to understand how its strategic priorities were identified and why the specific actions cited in the innovation section (and perhaps in other sections) will help achieve the broad objectives. The Agenda also lacks specifics in terms of targets. For example, in the first action in Table 12.11, one could ask, by how much will the funding of CORFO's programmes be increased? Or what will be the increase for early venture capital?

The second document referred to by Chile as guiding innovation policy is the MEFT's National Innovation Plan of 2014-18.[47] This document of December 2015 puts forward four key priorities and several actions that align well with the Productivity, Growth and Innovation Agenda (see Table 12.12). Like the Agenda, however, the Plan does not include any specific details. Furthermore, there is no evidence on the levels of implementation of the actions stated in the Plan.

Table 12.12. Overview of the National Innovation Plan of 2014-18

	Priorities		Summary of actions
1	Democratisation of innovation (i.e. promoting an innovative and entrepreneurial culture) by fostering innovation in firms, promoting inclusive growth through innovation, and fostering an ecosystem and culture for innovation and entrepreneurship.	a)	Increasing enterprise innovation through two programmes by CORFO: the Programme for Technological Innovation in Enterprises and the Technological Extension Centres.
		b)	Inclusive growth through innovation, in particular: Programme for Social Innovation and Policy for Public Innovation.
		c)	Developing an innovation ecosystem and culture by expanding entrepreneurship programmes (e.g. regionalisation of Start-Up Chile) and supporting growth through financing and BDS.
2	Selectivity, through an active industrial policy that aims to develop high-potential sectors.	a)	Strategic Programmes of Intelligent Specialisation, which aim to reduce technological, human capital and other gaps in key sectors.[1]
		b)	Creation of the Fund for Strategic Investments in high-potential sectors.[2]
		c)	Reinforcement of the Industrial Liaison Office of the Ministry of Economy (related to the astronomy sector).

Priorities		Summary of actions	
3	Boosting research and development (R&D) and co-operation between enterprises and universities.	a)	Increasing public funding of applied R&D (led by CORFO and CONICYT).
		b)	National plan for technology and knowledge transfer.
4	Strengthening the institutions of the National Innovation System (SNI).	a)	Establishing financial and political independence for the CNID.
		b)	Creating an information platform for the SNI providing all information and data necessary for decision-making, studies and evaluation of all support programmes.

[1] For details, see the section on "Productive transformation" (Dimension 6) in this chapter.
[2] Corresponding to action 1.1 in the Agenda, under the priority "Strategic Investments and Sectorial Development Plans."
Source: Ministry of Economy, Development and Tourism (2015), National Innovation Plan of 2014-18.

On comparing the Agenda with the Innovation Plan, it is evident that the former is a general document addressing Chile's main challenges (again, productivity, diversification and sophistication) through a number of policy areas and elevating selected priority actions. The Plan is a more focused document that also targets Chile's challenges but from an innovation policy perspective. Tables Table 12.11 and **Table 12.12** show that the Agenda and the Plan have much in common, as they contain several overlapping priorities and actions (e.g. regionalisation of Start-Up Chile or increasing venture capital for start-ups). However, surprisingly, the Agenda does not refer to the National Innovation System or important organisms within it, such as the National Council of Innovation for Development (CNID) or the National Commission for Scientific and Technological Research (CONICYT) (see Box 12.2)

Furthermore, some of the priorities of the Agenda seem narrower than priorities of the Plan. For example, the regionalisation of Start-up Chile appears as a priority for the Agenda (priority 2 on Table 12.11), whereas it is just one of the actions in the Plan, under its wider priority "democratisation of innovation" (**Table 12.12**). This could suggest that the authorities developed the documents separately and that there is no single or overarching agenda or plan to direct policies for innovation in the private sector.

This, combined with the lack of specifics (in both documents) on outcomes, outputs, objectives, actions, and other important elements of strategic policymaking, point to the need for Chile to develop a more coherent and detailed innovation policy that includes fostering innovation in the private sector as one of its central elements. To achieve this, Chile could leverage on its full-fledged National Innovation System, which comprises several relevant organs at different levels, including strategic direction, policy implementation and public-private dialogue (see Box 12.2). Unfortunately, some of the shortcomings apparent in the design of the Agenda and the Innovation Plan seem reflected in the operation of the System (or perhaps, the other way around). For example, the CNID in May 2017 published yet another document: *Science, Technology and Innovation for a New Pact for Sustainable and Inclusive Development: Strategic Orientations Facing 2030 after Ten Years of Trajectory*.[48] This document, although very extensive, does not really represent an actual innovation strategy, but rather a detailed reflection of the challenges and policies for innovation in Chile over the past ten years and their implications for the next decade.

Box 12.2. Chile's National Innovation System

Chile has a National Innovation System to coordinate the design and implementation of its innovation policies. The main actors in the system are:

- A National Council of Innovation for Development (CNID), supporting the work of the National Innovation System. Since 2005, the CNID has served as an advising organ for the Presidency of the Republic in the strategic development and implementation of policies for science, technology and innovation. The CNID is managed by an Executive Secretariat, which focuses on 1) the analysis of trends and foresight; 2) monitoring and evaluation; 3) dialogue and civil participation; and 4) experimentation. A number of representatives of the public and private sectors, academia, and ministries with innovation-related portfolios (Economy, Education, Finance and Agriculture) form the CNID. Surprisingly, however, the CNID's website mentions neither the Productivity, Growth and Innovation Agenda 2014-18 nor the National Innovation Plan 2014-18.
- The Innovation Division within the Sub-Secretariat for the Economy and Small Enterprises of the MEFT. One of the functions of the Division is to coordinate the various public institutions linked to the implementation of the Productivity, Growth and Innovation Agenda 2014-18 and to oversee the work of the National Institute of Intellectual Property (INAPI) and the National Standardisation Institute (INN). The Division also executes the Innovation Fund for Competitiveness (FIC).[49]
- A number of innovation agencies, including CORFO and the National Commission for Scientific and Technological Research (CONICYT).

Source: www.economia.gob.cl/subsecretarias/economia/innovacion/sistema-nacional-de-innovacion

The new Chilean administration has yet to develop an innovation agenda. However, according to the information gathered for this assessment, the forthcoming priorities are:

1. Developing a policy for "Future Challenges", notably with new technologies and the insertion of Chile into the "Fourth Industrial Revolution".
2. Establishing social impact "bonuses" that will raise private money and will pay investors according to the achievement of pre-defined social outcomes.
3. Modifications to fiscal incentives to promote research and development (Law 20.241), in particular through tax rebates of 35% of resources spent on R&D.

Support services and financing for innovation in SMEs

Chile has a very complete offer of support services and financial support mechanisms for innovation in SMEs and start-ups. This offer covers all types of instruments analysed in this assessment and is mostly delivered through CORFO. Table 12.13 summarises a few of the instruments available, according to their main categories.

Table 12.13. Flagship innovation programmes in Chile

Category	Programme	Description
Developing the entrepreneurial ecosystem	National Incubators Programme	Co-financing the establishment and operation of incubators and accelerators for up to CLP 150 million (USD 221 000) and up to 75% of the total cost of the project.
	Support for the operation of Collaborative Working Spaces for Entrepreneurship	Co-financing of up to CLP 40 million (USD 59 000)
Linking research centres with SMEs	Innovation Vouchers	Linking firms with knowledge generators such as universities and research centres. Covers up to 90% of the cost of the project for up to CLP 7 million (USD 10 300).
	Technology Contracts for Innovation	Linking firms with knowledge generators such as universities and research centres. Focused on projects with a high R&D component.
Other types of support	Start-Up Chile	Programmes to attract international innovative entrepreneurs to Chile. Equity investments, training, international networking, working visa and help for establishing in Chile.
	Innovation voucher - Accelerator	Linking micro and small firms with medium and large companies to develop innovations. Up to 75% of the cost of the project and up to CLP 20 million (nearly USD 30 000)
	Technological Diffusion Programme	Addressed to groups of SMEs (exceptionally including micro firms) working on technological and innovation projects. Up to CLP 90 million and 70% of co-funding.
	Technological Extension Centres	Similar to the Business Development Centres but focused on the promotion of innovation through centres operated by universities, institutes or business associations. Co-financing of up to 80% of the cost of a project and CLP 900 million (over USD 1.3 million).
Financing innovation	CORFO *Semilla* (seed)	Targets high-potential entrepreneurs whose projects could generate sales of USD 1 million or more in three years and could duplicate income every 3-4 years. Subsidy of up to 75% of the cost of the project and CLP 25 million (nearly USD 37 000).
	Supporting the creation of networks of business angels and crowdfunding organisations	Up to 70% of the cost of the project and up to CLP 100 million (USD 147 000).
	R&D Law (tax incentive)	Tax incentive of up to 35% of the funds spent by firms on research and development, either direct spending or through subcontracting specialised entities.

Source: www.corfo.cl and www.startupchile.org.

Concerning the dissemination of information on the various support mechanisms available at CORFO, the website of that institution[50] includes an online database where users can search for available support. Users can search according to their profile (individual, enterprise, institution or other), their location, the type of support sought (credit or subsidy) and one of the seven areas of work of CORFO (entrepreneurship, innovation, SME development, etc.). In addition, the website includes access to a calendar where it is possible to browse for events across the territory. The website of Start-Up Chile[51] also includes extensive information on the programmes available for international entrepreneurs.

CONICYT, part of the Ministry of Education, and whose mission is the promotion of scientific and technological development, also implements a few instruments to support innovation among SMEs and entrepreneurs. For example, through the FONDEF (Fund for

Technological and Scientific Development) CONICYT funds applied research by firms and research institutes. According to the information submitted for this assessment, CONICYT has established a database of researchers that firms can consult when they look for potential research partners.

As it is the case with BDS in general, the Budget Directorate (DIPRES) also undertakes evaluations of the innovation programmes cited here. For example, by October in 2018 DIPRES undertook the evaluation of three groups of programmes under CORFO. Detailed reports are available at the website of DIPRES.[52]

Productive transformation (Dimension 6)

Chile built on its previous record of productive transformation efforts with the establishment of the Productivity, Innovation and Growth Agenda 2014-18 under the Bachelet administration. Chile's 4.50 overall score for this dimension, the highest of the LA7, reflects the generally well-developed nature of this strategy across the policy-making cycle of planning and design, implementation, and M&E, focusing on its components related to associativity and value chains.

What sets Chile apart from the rest of the LA7 is the well-institutionalised nature of some of its support programmes in these areas, some of which have been in place for multiple decades; and the robust M&E frameworks that are both in place, and already delivering results, at programmatic level. As will be explained further in this section, these M&E systems include impact evaluation, and also have a transparent communication system that fosters accountability in terms of the adoption of recommendations resulting from M&E findings. Going forward, and as has already been stated in this report, similar improvements could be made at strategic level to go beyond monitoring and include impact-oriented evaluation mechanisms.

Productivity-enhancing strategies

As previously stated in this chapter, during the period covered by this assessment, Chile used elements of the Agenda 2014-18 to guide both their SME development and productive transformation efforts. The Agenda's overarching objective is to guide the country's productive transformation and more specifically to promote productive diversification. In doing so, the Agenda aims to lower the dominant weight that the sectors linked to the exploitation of natural resources have over the Chilean economy; to increase productivity at firm level, particularly at the level of SMEs; and to enhance Chilean exports through a more pro-active trade policy (see Box 12.1 earlier in this chapter).

The agenda is organised around the following seven thematic pillars, including two dedicated to SMEs and entrepreneurship: strategic investments, infrastructure, support for SMEs, entrepreneurship and innovation, technology and regulation, better markets, and new institutional efforts. The subsequent sub-sections within this dimension will focus on the Agenda's "strategic investments" pillar, which is particularly aligned with the Agenda's overarching objective of boosting sectors with high growth potential. In this area, the Agenda calls for the focalisation of efforts in a few strategic sectors in order to avoid the dilution of resources in too many activities. While this pillar of the Agenda is not specifically focused on SMEs, in practice, key strategic investment programmes implemented, such as the "Strategic Programmes of Intelligent Specialisation" (see next sub-section), are highly relevant for SME development as they focus on developing "triple-helix"[53] SME clusters in priority sectors.

Grouped within these seven pillars, the strategy comprises 47 specific measures intended for implementation by the end of 2018; the strategy was considered to be well-funded, with an operational budget of roughly USD 1 billion in 2017 alone. While the Agenda used a dedicated website to consistently report on the state of implementation of each of its measures, it did not go so far as to set related quantitative objectives and/or indicators.

However, Measure No. 44 of the agenda did create a National Productivity Commission (CNP), whose Board of Directors is composed of eight academics and professionals appointed by the President of Chile for a period of three years. Rather than monitoring and reporting on the advancement of the Agenda 2014-18 point by point, the Commission has produced an annual report since 2016 on KPIs related to productivity growth, and is tasked by the President to undertake studies on various other specific issues, all of which are publicly available on the Commission's website.[54] The CNP's latest (2017) productivity index report finds that the Chilean economy's total factor productivity (TFP) fell by between -0.7% and -0.1% during 2017; however, if the mining sector is excluded, TFP rose by between 0.2% and 0.9%. The report notes that the TFP growth rate has been falling since the period 2000-2005, when it equalled 1.2%, and that while the mining sector is the principal cause, decelerating TFP growth is transversal across the Chilean economy – in 2016, the report found that out of eight principal sectors,[55] TFP fell in four: mining; industry; electricity, gas and water; and commerce, hotels, and restaurants. However, the report does insert a word of caution, noting that measures to improve productive processes, such as those included in the Agenda 2014-18, should generally be analysed over longer periods of time to see results. Finally, the report underscores the productivity gap between Chilean large enterprises and SMEs, and the importance of new high- and accelerated-growth enterprises in driving increases in sales and employment (Comisión Nacional de Productividad de Chile, 2017[32]).

Chile has also engaged with the OECD on this subject via its biennial economic survey and a dedicated "Productive Transformation Policy Review" (PTPR). Both reviews focus on the country's weak and slowing productivity growth, and recognise the need for economic diversification and improvements in skills and education – both to increase the productivity of traditional industries and to foster openings in future competitiveness areas. The reviews recognise Chile's "Strategic Programmes of Intelligent Specialisation" (see next sub-section) and creation of regional SME Business and Export Development Centres as important related measures within the Agenda 2014-18. They also recommend strengthening inter-ministerial coordination on innovation and economic transformation; enabling long-term financing for strategic investment; strengthening institutional space for planning and scenario building; and continuing the country's regional development agenda, including addressing the capacity gaps of regional governments (OECD, 2018[3]; OECD/UN, 2018[29]).

Productive association-enhancing measures

Chile receives the highest score (4.62) of the LA7 for this sub-dimension, thanks to both longstanding and new efforts under the Agenda 2014-18, which include private sector feedback in both design and evaluation stages, strategic targeting of SMEs within priority sectors, and robust M&E schemes.

Within the Agenda 2014-18, Measure No. 2 facilitated the creation of "Strategic Programmes of Intelligent Specialisation", led by CORFO. Within this programme, the government first selected the priority sectors of mining, agro-food, construction, health services, tourism, creative industry, fishing and aquaculture, as well as the horizontal

focuses of logistics, solar energy and smart industries and advanced manufacturing. CORFO then facilitated multi-stakeholder consultation processes in each of these areas. This resulted in the definition of 35 different "strategic projects" (*Programas Estratégicos,* or PEs), each with a 10-15 year roadmap, which identify gaps in the areas of human capital, infrastructure, and R&D, among others, and establish measures for improvement. The programme had a budget of USD 160 million for its first three years of implementation; this was used to form each PE, which can operate at either national, meso-regional, or regional level; design its roadmap; and co-finance the roadmap's implementation. These funds come from CORFO's budget[56]; the Strategic Investments Fund (FIE), created in 2016 and administered by the MEFT; and the Fund for Innovation and Competitiveness (FIC).

While this programme was thus still in an initial implementation phase at the time of this assessment, it includes a multi-faceted M&E system, based on recommendations from the IDB concerning proper impact evaluation of cluster development programmes,[57] which cover four impact areas using defined indicators: enterprise performance; diversification and sophistication; investment; and governance and social capital. Furthermore, extensive and publicly available reviews of initial efforts have already been conducted, both internally and externally.

On the part of the Chilean government, CORFO issued a public tender for an independent baseline report on the status of each PE selected for support, to be used for comparison as the implementation of the "improvement roadmaps" for each cluster proceeds. The resulting report gives an extensive description of the programme in terms of its objectives, financing, governance and foreseen evaluation mechanisms. Its authors also interviewed private sector participants to make a preliminary assessment of the impact generated by the cluster and roadmap formation stage of the programme. The report gives a positive assessment of the programme's initial efforts, finding that achievements have already been made in the areas of reducing human capital and information gaps, facilitating social capital and multi-stakeholder governance, and providing strategic financing. The report also notes a number of areas for improvement, and underscores the risks posed by inadequate future financing and lack of continuity, related to the current limited long-term financing capacity of the FIE – which, as of the time of this assessment, had a time limit of 2018 – as well as by the change of political administrations in 2018 (Henríquez, Paulina; Villagrán, 2018[33]).

DIPRES conducted a review of the programme in 2018[58] that concurred with these findings, concluding that the programme was justified in continuing its implementation, and particularly well designed to address market failures related to coordination, lack of information and public goods. The DIPRES review also praised the programme's M&E system, including the early detection mechanisms put in place to identify poorly functioning PEs and subsequently halt or end their implementation: each PE has a board of directors, and a representative of each also forms an overall programme oversight committee (CPIE). The CPIE, as well as the CORFO Committee that assigns programme resources, have the right to shut down PEs that are not meeting their objectives, and had already shut down five PEs by the beginning of 2018, due to poor diagnostics and/or performance – each PE is reviewed every three years, and must show positive results to continue. The OECD Development Centre's 2018 PTPR of Chile also reviewed this programme, against five governance dimensions (see Table 12.14).

While the PEs thus give a more active role to government to strengthen associativity within priority sectors, Chile's additional longstanding associativity support programmes[59], which are implemented by CORFO and SERCOTEC via co-financed calls for proposals, constitute further support, and are also regularly reviewed by DIPRES. More information

about these programmes, some of which have been in place for over 15 years, can be found in Table 9.7.[60]

Table 12.14. OECD progress overview of Chile's "Strategic Programmes of Intelligent Specialisation"

Governance dimensions		
Anticipation capacity	√	Having road-maps with a long-term horizon (to 2025-30) takes Chile a step forward in line with international good practices. Aligning financing with the time-line of the road map will be an additional step forward.
Adaptation capacity	≈	In the fast changing technological environment the time for design and validating road-maps could be shortened from the current 13 months, while adaptability could be increased by introducing periodical revision of road-maps.
Learning and upgrading potential	√	The public-private consultations led to an effective identification of gaps in skills needed to compete in the future and of priority actions to bridge them. Growing cooperation between businesses, training centres and academia is a positive step. Overcoming barriers, including aligning educational accreditation processes with emerging needs, will be important to getting the right skills for tomorrow.
	≈	Setting up mechanisms to generate synergies between the different programmes and to enable learning and cross-fertilisation could align multiple-stakeholders to take actions and provide public goods which would act as competitiveness enhancers across all industries and firms, including digital infrastructure and skills. The creation of the Solar Research Institute, if endowed with a broader science base and mission could contribute to enhance learning opportunities in the whole economy.
Interconnectedness propensity	√	**Within government**. The programme benefits from multi-agency co-ordination.
	≈	**Private sector**. Businesses participated in the road-map process, but enhanced. participation of start-ups and SMEs would be needed as well as increased commitment by lead firms and investors would be needed in going forward.
	√	**Academia**. The programme benefits from commitment and co-operation mechanisms with academia and international research centres.
	√	**Civil society**. There is room to increase the participation of civil society in the process, and to identify new mechanisms to strengthen business-community relationship.
	x	**Regional.** Strengthening regional ties could help to scale up investments and reach the critical mass needed to compete effectively at the global level.
	√	**International**. Scaling up on international cooperation could help closing knowledge and technology gaps.
Embeddedness potential	≈	There is a need to clarify procedures and standards to ensure environmental and social sustainability.
	×	There is a need to increase the role of regions & territories in planning, implementation and monitoring.
	≈	Open government and effective monitoring and evaluation are needed to track progress and performance and identify areas for reform.
Future challenges		
Ensuring the long-term commitment of the private sector. Mechanisms to avoid rent seeking and capture need to be in place to ensure that publicly-financed actions benefit all stakeholders and deliver public and club goods not available otherwise		
Aligning the budget with the strategy's objectives. Chile has an initial budget of USD160 million for three years (0.1% of 2016 GDP). In comparison, the Emilia Romagna region (Italy) has a USD 700 million budget for the period 2014-2020 in the context of the European Union Smart Specialisation Strategy		
Avoiding the overlap of programmes and actions and foster synergies among the different sectoral programmes. It is important to convey resources towards economic activities that have the greatest spill-over effects for the economy and society		
Ensuring high-level political ownership. The programmes are designed, implemented and revised within the Ministry of Economy through CORFO and with the financial support of FIE and FIC. In order to scale-up and foster production transformation it will be important seek higher political commitment		

Note: √: positive progress; ≈: margin for improvement; x: reform needed.

Source: (OECD/UN, 2018[29])

Integration into regional and global value chains

While all LA7 countries have active support programmes that target SME inclusion in regional value chains, most of these are recently established (between 2014-2017), and thus lack full M&E efforts. Chile is an exception, with a well-established supplier development programme (in place since 1998), which has a corresponding M&E system that provides a

good practice example for the region. This contributes to Chile's overall 4.37 score for this sub-dimension, which is one of the highest in the region.

Chile's supplier development programme (PDP), like the majority of the LA7s', takes the form of a *convocatoria* (call for proposals), with co-financing (up to 50% of the project costs or roughly USD 90 000) for proposal implementation offered by the government. In the case of Chile, as in Colombia, Peru and Uruguay, this call for proposals is directed to large companies, which must submit a proposal for the development of their suppliers. The programme is reviewed periodically (every few years) by DIPRES – the evaluations range from monitoring reports, which measure select user satisfaction indicators, to full impact evaluations. In the latter case, while DIPRES notes difficulty in establishing a control group for this programme, it attempts to artificially create one by measuring beneficiaries' status prior to receiving support against their current post-support status. The impact evaluation results in a series of recommendations, which the implementing agency (CORFO, in this case) must formally report its progress on within a set period of time. In this case, recommendations included lengthening the project implementation period and imposing more-demanding proposal review standards for the primary sector, in which existing impact was found to be lower. All steps in the process (monitoring and impact evaluation reports, recommendations, follow-up) are publicly available.[61]

While the PDP is not open to proposals from foreign enterprises, additional targeted programmes are in place to facilitate international SME linkages as well as technology transfer. Regarding the former, CORFO's "Fit for Partnership" programme with Germany funds SMEs to undertake a month-long training and networking programme in Germany, oriented towards the creation of an international business plan and contacts network. Regarding the latter, Chile has joined the "Eureka" inter-governmental innovation network,[62] with CORFO co-financing projects that include Chilean companies.

Beyond these financial and linkage-strengthening support programmes, Chile's General Directorate of International Economic Relations (DIRECON) decided to create a division dedicated to global value chains in mid-2016. At the time of this assessment, this unit was engaging mostly in research activities, including a diagnostic study of the nation's involvement in global value chains (GVCs), conducted by the OECD,[63] directed towards the development of a future action plan.

Access to market and internationalisation of SMEs (Dimension 7)

Chile is making clear efforts to support SME internationalisation, including specific measures related to trade facilitation, e-commerce, quality standards and regional integration. Its overall score of 4.33 for this dimension, one of the top LA7 scores, reflects these generally well-developed efforts across the policy-making cycle of planning and design, implementation and M&E. Going forward, further strengthening M&E systems and utilising the results to inform future policy-making cycles will be essential to effectively evaluate ongoing efforts to improve Chile's export environment and SME export performance.

Support programmes for internationalisation

As noted in Chapter 10, all LA7 countries, including Chile, have relatively well-advanced policies and programmes in place to promote SME exports. Chile's investment and export promotion agency (EPA), ProChile, was involved in the government's Productivity, Innovation and Growth Agenda 2014-18, including a specific project (Measure No. 25) to develop regional SME Export Support Centres. This corresponds to the agency's four

strategic priorities of SMEs, associativity, regions and services. In terms of support for SMEs, the agency focuses on SMEs in the industrial, services and seafood sectors. Within the Agenda 2014-18, work on SME Export Centres *(Centros Pyme Exporta)* began in 2015, creating 16 dedicated centres within ProChile's various regional offices. The centres are co-operatively staffed by ProChile, CORFO, and SERCOTEC, and dedicated to SMEs that are not currently exporting but have export potential, offering training, commercial intelligence and promotional assistance. According to ProChile's 2017 annual report,[64] the centres served 1 155 SMEs in 2017, of which 38 successfully began to export during the same year. ProChile has also developed an exporting potential test, which is now mandatory for any SME to complete prior to engaging with any of the agency's promotional or training services, including the SME Export Centres. 3000 businesses took the test during 2017.

Chile is one of the few LA7 countries, along with Peru, to have both targeted training and financing support programmes for SME exporters. Beyond the training provided by the SME Export Centres, the agency also publishes various sectoral (industry, services, forestry and farming) *convocatorias* (calls for proposals), which function in a similar manner to other LA7 programmes: an external consultant is contracted and financed to undertake a diagnostic of the selected SME and then formulate an internationalisation plan. Co-financing (up to approximately 350 000 USD) is then provided to undertake various activities related to the plan (obtainment of quality certifications, product design, marketing, IT training, etc.). However, Chile is one of the only cases in which the call for proposals is directed to groups of SMEs, which must apply for collective support, thus encouraging both associativity and internationalisation. These programmes are funded by Chile's "Export Promotion Fund", which was established in 1987; ProChile's 2017 annual report shows that these programmes benefitted close to 400 SMEs in 2017 (which is above the average of comparable programmes in Ecuador, Peru and Uruguay) and provided close to USD 5 million in total funding.

ProChile is overseen by Chile's General Directorate of Economic Relations (DIRECON), which sets various annual strategic objectives, and corresponding measurable performance indicators, all of which are publicly available on its website. While the results of this internal system are not public, an annual report is published on DIRECON's website each year; however, as with other LA7 reports, this report tends to focus on number and location of beneficiaries, rather than programme impact, though some indicators on SMEs that successfully exported for the first time are available. A more detailed evaluation is periodically conducted by DIPRES. However, the last review of ProChile was undertaken in 2015, covering the 2011-2014 period, and thus does not include any information on either the SME Export Centres or sectoral calls for proposals that are currently functioning today. ProChile has also developed and institutionalised various private sector feedback mechanisms, including an annual satisfaction survey conducted with all users of the agency's principle services and instruments; the establishment of regional exporting councils in each of the country's 15 regions, which meet annually to discuss regional challenges and give feedback on ProChile's work; and the creation of a public-private export council in 2015, which integrates various parts of the government and private sector representatives to review and provide direction to the country's efforts to raise its international competitiveness. Information on each meeting of the council is available online.[65]

Trade facilitation

Chile, like its LA7 peers, scores relatively well here (4.67 vs. the LA7 average of 4.35), as it has a specific "Easy Export" *(Exporta Fácil)* programme to facilitate basic SME exports, provides exporting guides and inquiry points, and has established both a single window for trade procedures and an Authorised Economic Operator (AEO) programme.[66] Despite the existence of these latter two programmes, Chile, like its LA7 peers, lacks targeted support services for SMEs related to AEO certification and document preparation. However, its score is tied as one of the highest in the LA7 for this sub-dimension, due to high performance on the OECD Trade Facilitation Indicators (TFIs).

Chile's "SICEX" single window[67] was established in 2013, and has mainly registered third party agents, who facilitate import and export operations, as users. It has resulted in significant achievements, such as the domestic interoperability of eight agencies, including the National Customs Service, the Agriculture and Livestock Service, and the Institute of Public Health (APEC Policy Support Unit, 2018[34]). Chile also benefits from its membership in the IDB's Inter-American Network of International Trade Single Windows (RedVUCE), which provides a forum for the exchange of best practices and support for regional integration. The OECD's TFIs cover selected RedVUCE members, and currently rank Chile as the third-highest RedVUCE performer, behind Colombia and Mexico. While Chile outperforms its peers in matters related to data content and structure (minimising repetition and costs), it lags somewhat behind in institutional aspects and scope and interoperability (OECD, 2018[35]). Training and guidelines are clearly advertised for both potential and existing users, and focus groups with both of these groups are regularly used to inform platform improvements.

Chile's "Easy Export" programme, established in 2014, facilitates exports of up to USD 2 000 in value and 30 kilograms. The programme, which is clearly advertised on ProChile's website as one of its support tools, facilitates discounted rates for national shipments and encourages users to contact their local SME Export Centre for further information and support. Chile's AEO programme is the most recent, along with Argentina's, of the LA7, having only been established in January 2018.

As demonstrated in Figure 10.4, Chile generally exceeds or matches the average performance of its LA7 peers across all four TFI categories included in this assessment (information availability, fees & charges, documents and procedures). However, its average performance across all TFI indicators lags behind the OECD average (1.46 vs. 1.67, respectively). The OECD notes that Chile exceeds or is closest to the best performance across the sample in all TFI areas except advance rulings, appeal procedures, and internal border agency co-operation; furthermore, its performance has improved between 2015 and 2017 in the areas of fees and charges, documents, streamlining of procedures, and governance and impartiality (OECD, 2017[36]). However, the Organisation notes that further reforms in the areas of information availability, documents, and procedures, among others, should be prioritised to increase the amount of information available to stakeholders and reduce the time required for export procedures.

Use of e-commerce

Chile, alongside the majority of its LA7 peers, is relatively well advanced in terms of programmes that support SME access to and use of e-commerce. As mentioned under "E-government" earlier in this chapter, the country[68] launched a "Digital Agenda 2020" at the end of 2015, which structures 60 projects under five key themes. The "Digital Economy" pillar includes two projects dedicated to SMEs: "Exporta Digital" and "EspacioPyme".

As explained in Chapter 10, LA7 countries' support programmes in this area can be divided into three categories: 1) training programmes, 2) construction of public e-commerce platforms and/or modernisation of e-commerce systems/legislation, and 3) provision of co-financing. "Exporta Digital"[69] is a training programme, led by ProChile with the support of the Chinese e-commerce platform Alibaba, which leads training workshops on e-commerce and digital marketing for SMEs, provides e-commerce commercial intelligence, and also supports SMEs' integration into e-commerce platforms such as Alibaba and Etsy. During the programme's first year of implementation in 2016, 643 SMEs received e-commerce training, and an additional 350 were registered on e-commerce platforms.

The "EspacioPyme" project concerns the construction of public e-commerce platforms, and serves as a virtual store for SMEs to buy digital applications, tools, software and services to integrate e-commerce in their business model. A beta version of the platform was already launched at the time of the assessment.[70] The platform serves as a quality check mechanism for its SME users, as only government approved vendors can advertise their products and services. It also includes a diagnostic function to help guide users towards appropriate products, and follows-up with users for the three months following their purchase, in order to facilitate successful technology integration and adoption.

Chile, along with Mexico and Uruguay, provides a good practice example for the region in terms of transparent strategic monitoring. The Digital Agenda 2020 has a dedicated website (http://www.agendadigital.gob.cl) that provides consistently updated reporting on the implementation status of each of the agenda's 60 projects. However, the corresponding objectives for each project are generally process rather than performance-oriented (i.e. "establishment of a platform" vs. the performance of its users). Beyond this, no systematic KPI information on e-commerce is collected – though the latest version of the Ministry of Economy's Enterprise Survey[71] did include a dedicated sub-section on business use of ICT, which finds that 42.6% of businesses that use the internet conduct either sales or purchases using e-commerce; this increases to 72.8% when only large enterprises are considered, and falls to 37.6% in the case of microenterprises.

Quality standards

CORFO has a longstanding (est. 2004) dedicated support programme for SMEs related to quality standards (FOCAL), which functions as a call for proposals that then provides co-financing to selected applicants to obtain quality standards. According to CORFO's annual report, as well as DIPRES monitoring reports, the programme has consistently supported around 300 SMEs per year between 2015 and 2017, with co-financing of between USD 1.5 million and 2 million per year.

Beyond this programme, the Chilean quality standard agency related to the food and beverage sector, ACHIPIA, also helps SMEs create and revise quality standards, as well as subsidising the implementation of these new/revised norms, lowering SMEs' certification costs. At the time of this assessment, ACHIPIA was also developing a management system certification for the food and beverage sector.

Current public M&E efforts in this area by CORFO and DIPRES are limited to monitoring of beneficiaries and budget spent, with no performance or impact indicators available at this time. The latest impact evaluation of FOCAL was conducted by DIPRES in 2011, giving a "good performance" score.[72]

Taking advantage of the benefits of LAC regional integration

Chile has made concrete efforts as a member of the Pacific Alliance (PA) to support SME development within regional integration efforts. In the case of the PA, this is the responsibility of the bloc's SME Technical Working Group, one of the PA's 24 thematic working groups. The group derives its work programme from the presidential mandates delivered at the PA's annual summit; during the time of this assessment, the group was focusing on various projects related to trade facilitation, business and entrepreneurial development, and public procurement, as well as measures related to collection and monitoring of data and private sector involvement, as follows:

- *Entrepreneur Capital Fund*: A USD 80 million fund was finalised as of January 2018, with 15 initial projects selected. Funds come from the IDB, PA members, and the private sector.
- *"Easy Export" Programmes*: The Working Group has been sharing their experiences in order to inform the development of these programmes in each member state. Programmes are currently active in all members except for Mexico, whose programme was under construction at the time of this assessment.
- *Public procurement*: The Working Group is developing a roadmap to maximise the benefits for SMEs within the chapter on public procurement in the Additional Protocol of the PA.[73]
- *Network of Business Development Centres*: At the time of the assessment, and with the support of CAF, efforts were underway to construct a network between the member states' various existing business development centres. CAF was finalising a diagnostic study on the state of these centres in each member state, with recommendations on next steps in forming a network.

These efforts are further supported by the work of the PA's other dedicated technical working groups on the subjects of trade facilitation and export promotion. In contrast to MERCOSUR, the PA's work to date on SMEs has not focused on value chain creation or strengthening; however, at the time of this assessment, a new technical working group on value chains was under development. There is no dedicated PA budget for the working group, whose projects are mainly funded on an ad-hoc basis by external donors, including the IDB, CAF, and voluntary contributions from member and observer states.

The PA's current M&E efforts are limited to the regular quarterly meetings of the SME Group, and their summary records, but do not include any quantitative indicators to measure outcomes and impact. However, a PA SME Observatory was under construction at the time of the assessment. The PA does have an established "Business Council" (CEAP), which meets at least twice a year, including in advance of the annual presidential summit, and issues its own recommendations for the PA's future work. The SME Working Group is in the processing of establishing an SME Council within CEAP; in May 2017, the group also held its first formal meeting with SME representatives from each member state, to discuss proposals for the group's future work.

DIRECON has a specific PA Department responsible for coordinating the country's participation in the bloc. The Department uses the PA's 2018 "Strategic Vision to 2030" document as its guiding strategic framework. However, the strategy does not focus on the dissemination of information about the benefits of regional integration, including business opportunities linked to FTAs. Although consolidated information on Chile's FTAs is

provided online by DIRECON, this information does not go beyond the text of the agreements to explore related business opportunities.

The way forward

Institutional framework

Chile is in the process of adjusting the focus of its SME policy, moving from a productive transformation-oriented approach to a more horizontal approach aimed at improving the general business environment and reducing barriers to enterprise entry and competition. It is important that the country finds the optimal policy mix between the two approaches – one that allows for the continuous provision of support to enterprise with high growth potential while increasing the competition among innovative enterprises. Going forward, the country could consider:

- **A closer dialogue with the private sector to identify the main barriers to SME development.** It is therefore important that the EMT Consultative Council is utilised not only as an information-sharing body, but as a true consultative committee during the process of policy design and monitoring and evaluation (M&E).
- **Elaborating a comprehensive policy to reduce informality.** Labour and enterprise informality, particularly among self-entrepreneurs and microenterprises, remains too high. An approach based mainly on the simplification of registration and administrative procedures may not be sufficient to reduce enterprise informality. A more in-depth analysis of the causes of informality and a comprehensive approach that combines targeted incentives with stronger enforcement measures may be needed.

Operational environment and simplification of procedures

Company registration and starting-a-business procedures in Chile are relatively time- and cost-efficient. The country also has a good range of operational electronic services for enterprises, though the introduction of electronic signature or single digital identity is still under development, as is public databank inter-operability.

However, Chile has not elaborated a comprehensive regulatory reform agenda, instead taking an approach that places more emphasis on single, specific reforms, though it has made significant progress on the systematic application of Regulatory Impact Analysis (RIA). The ease of tax filing could also be improved, especially in relation to other OECD countries.

Overall, going forward the country could consider:

- **Elaborating a medium-term plan for regulatory reform**, focusing on the areas of relative weakness.
- **Implementing the recommendations of the 2017 OECD Evaluation Report on RIA**.
- **Extending the range of typologies of enterprise legal forms that can be registered through the *Escritorio de Empresa* platform.** Chile could also further reduce the time and costs associated with starting a business by incorporating in the platform the pre- and post- registration functions not yet included.

- **Implementing the Digital Government Plan 2018-2022**, introducing quantitative objectives and intermediary targets, as well as developing an M&E system.
- **Speeding up the introduction of the single electronic identification for enterprises**.

Access to finance

Chile achieves an intermediate score on this indicator. In order to continue promoting its initiatives to facilitate SMEs' access to financing, the Chilean government could consider:

- **Expanding the regulatory framework for collateralised operations.** One of the major shortcomings of the Chilean regulatory framework refers to the rights of creditors in secured transactions. A reform in this area should allow the use of collateral without including a specific description, require the consent of secured creditors before initiating insolvency proceedings, and guarantee priority of payment for these secured creditors in the event of liquidation.
- **Developing the legal framework for alternative financing mechanisms and fintech companies.** The Ministry of Finance has begun developing such legislation, which offers the possibility to adopt internationally accepted standards and good practices for this sector. Likewise, sound implementation of this regulation would be necessary to exploit the potential of the sector.
- **Including SMEs as one of the target groups of the financial education strategy.** Although Chile has a financial education strategy, the inclusion of lines of action targeted at small entrepreneurs could be considered. It is also crucial to include an M&E framework for these activities.

Business development services for SMEs and entrepreneurs / Public procurement

Chile has one of the most advanced structures in the region for the delivery of BDS, relying on specialised agencies: SERCOTEC, CORFO, Pro Chile and Start-Up Chile. Those agencies offer support to a diverse set of beneficiaries across the territory, ranging from "traditional" businesses to innovative entrepreneurs, including foreign ones. Building on this well-developed set-up, Chile could:

- **Make use of its diversity of BDS and include their vast coverage in a wider and more detailed development strategy.** As noted in the previous sections, the Productivity, Growth and Innovation Agenda 2014-18 was a very short document lacking specific and quantifiable objectives, which considered only a tiny share of all the BDS available in the country.
- **Use a platform such as *Escritorio Empresa* to better disseminate information on the vast BDS offer.** For example, at the time of writing, the website listed only ten BDS programmes. Such a platform could provide a structured and complete database of BDS for different profiles of SMEs and entrepreneurs.

The framework for the participation of SMEs in public procurement is also very well established. The public procurement law, the procurement administration (*Chile Compra*) and the e-procurement platform (www.mercadopublico.cl) provide all necessary elements in this area. In addition, the authorities could consider:

- **Introducing programmes to help SMEs form consortia to respond to tenders.**

- **Allowing public organisms to split tenders into smaller lots so that it is easier for SMEs to take advantage of procurement opportunities.**

Innovation and technology

As for BDS in general, there is a large offer of SME support services available in Chile for innovation and technology, especially through CORFO. Those cover all areas measured in this assessment, including incubators and accelerators, linking firms with research, and facilitating funding for innovation and technology. To increase the impact of innovation policy, Chile could consider:

- **Developing a structured and detailed innovation strategy** as part of a wider agenda (e.g. a national development strategy) or as a standalone document. The National Innovation Plan of 2014-18 included very few specific details on actions and none on outcomes, outputs, budgets or responsibilities. The Plan was not fully aligned with the Productivity, Growth and Innovation Agenda 2014-18, which was supposed to serve as a framing device. Introducing a robust action plan, as well as performance-oriented KPIs at both strategic and implementation levels would be important advance going forward.
- **Strengthening the National Innovation System,** which already includes all relevant actors but which does not seem to operate in a fully coherent manner – as evidenced by the existence of the Plan, the Agenda and a third document developed by the National Council of Innovation for Development (CNID).

Productive transformation

Chile has made considerable recent programmatic efforts within its Productivity, Innovation and Growth Agenda 2014-18 to support SMEs and various strategic sectors in driving the country's productive transformation. These include the creation of the "Strategic Programmes of Intelligent Specialisation" (led by CORFO) and the initial establishment of the Strategic Investments Fund (FIE) in 2016 by the MEFT.

Looking beyond 2018, the country could consider:

- **Setting key performance indicators (KPIs) at strategic level.** While detailed evaluation of individual projects is important, it fails to capture the overall programme/call for proposal impact and is often too difficult/diverse to report publicly. For future strategies, Chile should consider bolstering its already excellent public monitoring efforts by setting KPIs for each strategic project, line of action, or objective. These KPIs should go beyond measuring participation/funding, and instead seek to capture real-world impact (number of beneficiaries that export for the first time, etc.) and participant satisfaction.
- **Further institutionalising long-term financing for strategic investment.** While the PEs are an impressive and intensive effort, long-term programmes such as these, as well as multi-stakeholder trust and motivation, are weakened when the country lacks long-term financing options.

Access to market and internationalisation of SMEs

Chile is implementing a number of measures to support SMEs in their internationalisation efforts, including support in the specific areas of trade facilitation, e-commerce and quality certifications. To further build on existing efforts, Chile could pursue the following actions:

- **Include AEO training in the services of its SME Export Centres, and consider providing further support to SMEs, such as expedited exam processes, more flexible security standards, subsidised fees, customs-business partnerships, and/or quotas.** These methods have proved successful in facilitating SME AEO certification in both OECD and APEC countries (APEC Policy Support Unit, 2016[37]).
- **Increase public knowledge about the benefits of regional integration connected to existing FTAs and corresponding business opportunities.** Here, Colombia and Peru are good examples: Colombia's Ministry of Commerce, Industry and Tourism (MINCIT) has a specific centre *(Centro de Aprovechamiento de Acuerdos Comerciales)* tasked with researching FTA business opportunities, and has published studies detailing opportunities and challenges at the sub-regional level.[74] Peru runs a similar website on which all the FTAs that the country has signed are explained, including the corresponding business opportunities.[75]
- **Explore ways to incorporate quantitative indicators (KPIs) into various projects led by the PA's SME Technical Working Group, allowing them to measure outcomes and impact and thus inform future efforts.** These indicators should go beyond measuring participation/funding, and instead seek to capture real-world impact. Clear communication of these efforts, via mechanisms such as the Working Group's website, could also bolster its efforts to build a dialogue with the private sector.

Notes

[1] See https://www.leychile.cl/Navegar?idNorma=1010668.

[2] Unless otherwise noted, firm size categories are turnover-based in the rest of this section.

[3] Firm figures taken from (SII, 2018[20]) and population figures from (INE, 2017[38]).

[4] The other three directorates are Social Activity and Economy, Innovation, and Scientific Initiatives, the last of which includes the "Millennium" programme to promote scientific research in Chile.

[5] More information available at https://www.gob.cl/acuerdodesarrollointegral/.

[6] See http://www.economia.gob.cl/category/estudios-encuestas/encuestas-y-bases-de-datos/encuesta-longitudinal-de-empresas-ele for more information.

[7] More information available at http://www.ine.cl/estadisticas/laborales/eme.

[8] See http://www.consejoconsultivoemt.cl/.

[9] See https://www.corfo.cl/sites/cpp/consejo_de_la_sociedad_civil for more information.

[10] The ILO's definition of informal labour can be described as follows: all workers employed by informal enterprises, including auto-entrepreneurs, but excluding subsistence farmers, plus workers without contracts and social security protection employed by formal enterprises. ILO data tends to inflate informal labour figures vs. national data, as its definition criteria are more comprehensive. National data is based on country labour regulations.

[11] It is important here to differentiate between *informal* and *illegal* enterprises. The *informal sector* consists of enterprises and individuals conducting activities that are not forbidden by the law; however, in the process of conducting these activities, they are not fully compliant with existing laws and regulations (e.g. fiscal, labour, environmental, etc.). These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. The informal economy is not limited to SMEs, but can be an important factor. (https://stats.oecd.org/glossary/detail.asp?ID=1350). The *illegal sector* consists of enterprises or individuals engaging in activities explicitly forbidden by the law.

[12] See https://www.escritorioempresa.cl/web/escritorio-empresa-v2/home for more information.

[13] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[14] See https://legislacion-oficial.vlex.cl/vid/ley-fija-normas-especiales-empresas-menor-238567550.

[15] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[16] "100" represents the best performance observed on each *Doing Business* topic across all economies and years included since 2005.

[17] According to the Chilean authorities, *Doing Business* changed the type of firm taken as a reference for the assessment, which caused Chile to fall in the rankings. The 2019 report used a "closed company" (*sociedad anónima cerrada*, or SAC) as reference, whereas the previous edition used a limited liability company. The SAC was not covered by the one-stop shops across the country at the time of writing, though their inclusion is under development according to the Chilean authorities.

[18] The Agenda was developed jointly under the responsibilities of the General Secretariat of the Presidency *(Secretaría General de la Presidencia),* MEFT, and Ministry of Transport and Telecommunications *(Ministerio de Transporte y Telecomunicaciones).*

[19] See https://digital.gob.cl/plan for more information.

[20] This programme is currently under development by the newly installed Pinera administration. According to Chilean authorities, it contemplates the creation of a new platform of business procedures that streamlines the relationship between the government and SMEs, and will include a new version of the "Your Company in a Day" *(Tu Empresa en un Día)* system, a service created in 2012 that allowed the establishment of commercial companies online, facilitation of the use of electronic signature, access to bank accounts and implementation of digital commercial patents in municipalities throughout the country.

[21] At the time of writing, the newly installed administration was developing a draft law related to electronic signature. According to the Chilean authorities, the project seeks to multiply the use of electronic signature, introduced in 2002 with Law 19,799 and amended in 2007, reinforcing its legal framework and strengthening public trust related to this mechanism.

[22] https://www.leychile.cl/Navegar?idNorma=261427.

[23] Access to these registries requires paying a fee of 4.600 Chilean pesos, which equates to less than USD seven dollars at the moment of writing.

[24] https://www.corfo.cl/sites/cpp/convocatorias/cobex.

[25] https://www.prochile.gob.cl/landing/pymexporta.

[26] https://cms.hacienda.cl/inclusion/assets/documento/descargar/0eb43e1cb35a5/1515437086.

[27] http://scioteca.caf.com/handle/123456789/985.

[28] http://www.oecd.org/finance/financial-education/oecdpisafinancialliteracyassessment.htm.

[29] http://www.sbif.cl/sbifweb3/internet/archivos/publicacion_11175.pdf

[30] http://www.aprendes.cl/aprendes/servlet/Area?indice=2.0&idArea=1.

[31] https://www.sernac.cl/portal/607/articles-8872_archivo_01.pdf.

[32] https://www.epicentrochile.com/2018/01/25/proyecto-que-incorpora-contenidos-de-educacion-financiera-en-colegios-sera-ley.

[33] http://www.superir.gob.cl.

[34] http://atencion.superir.gob.cl/AtencionPublicoWeb/registroQuiebra.do

[35] http://www.superir.gob.cl/preguntas-frecuentes/preguntas-frecuentes-reorganizacion.

[36] https://www.leychile.cl/Navegar?idNorma=1010668.

[37] At the cut date of the collection of the information, the new Chilean Government was preparing a new Programme of Government for 2018-2022 in which it was defining the strategic initiatives to be undertaken during the whole period.

[38]https://www.sercotec.cl/Portals/0/MANUALES/Agenda-de-Productividad-Innovacion-y-Crecimiento.pdf.

[39] According to the agenda, the rationale for the creation of the Business Development Centres was that the low levels of productivity of Chilean SMEs derive from weak management and strategic planning. The Agenda also considered that although the availability and quality of finance and technical support for SMEs has improved, the coverage of BDS was low. The Agenda, however, provides no reference to the evidence for this diagnosis.

[40] https://documentos.sercotec.cl/documentos/LosCentrosdeDesarrollodeNegociosenChile.pdf.

[41] See the "Productive transformation" section (Dimension 6) for more information on the latter two topics.

[42] Please see the section on Access to market and internationalisation of SMEs (Dimension 7) in this chapter for further details on this subject.

[43] https://www.escritorioempresa.cl/web/escritorio-empresa-v2/home.

[44]www.dgmn.cl/transparencia/leyes_dgmn/DOC.LEGALES/Ley%2019.886%20Compras%20P%C3%BAblicas%20y%20Reglamento.pdf.

[45] More information is available (in Spanish) in the following video from *Chile Compra*: www.youtube.com/watch?v=tVFDtSZ-uI8.

[46] A UTM is a *Unidad Tributaria Mensual*, or a measurement unit that can be expressed in Chilean pesos and which is linked to the consumer price index.

[47] www.economia.gob.cl/wp-content/uploads/2014/12/Plan-Nacional-de-Innovaci%C3%B3n1.pdf.

[48]www.cnid.cl/wp-content/uploads/2017/05/CTI-para-un-nuevo-pacto-de-desarrollo-CNID-2a-edicion.pdf.

[49] The Innovation Division developed the National Innovation Plan 2014-2018 and is reportedly working on an agenda for 2018-2022. However, there is no mention of how the Innovation Division coordinates the National Innovation Plan 2014-2018 (it does mention its role in the implementation of the Agenda).

[50] https://www.corfo.cl.

[51] http://www.startupchile.org.

[52] http://www.dipres.gob.cl/597/articles-177359_informe_final.pdf.

[53] The term "triple-helix" in this context refers to university-industry-government relationships. See https://triplehelix.stanford.edu/3helix_concept for more information.

[54] See http://www.comisiondeproductividad.cl.

[55] Agriculture, game and fish; mining; industry; construction; commerce, hotels and restaurants; transport and communications; services.

[56] Constituting approximately 1% of its total budget over this period (2015-2018).

[57] See Boneu et al. (2016), *The Impact Evaluation of Cluster Development Programs: Methods and Practices.*

[58] The full review is available here: http://www.dipres.gob.cl/597/articles-177361_informe_final.pdf. A summary is available here: http://www.dipres.gob.cl/597/articles-177361_r_ejecutivo_institucional.pdf.

[59] Implemented by CORFO: Reactivation Support Programme; Associative Projects of Promotion; Competitive Nodes. Implemented by SERCOTEC: "Juntos"- Fund for Associative Businesses. See Table 9.7 for more information.

[60] The latest (2011) impact evaluation can be accessed here: http://www.dipres.gob.cl/597/articles-139666_r_ejecutivo_institucional.pdf (summary); http://www.dipres.gob.cl/597/articles-139666_informe_final.pdf (full report).

[61] Ibid. The follow-up report can be accessed here: http://www.dipres.gob.cl/597/articles-139666_seguimiento_compromisos.pdf.

[62] For more information, see http://www.eurekanetwork.org/about-eureka.

[63] Available at https://www.oecd.org/chile/diagnostic-chile-gvc-2015.pdf.

[64] See https://www.direcon.gob.cl/wp-content/uploads/2014/01/CUENTAPUBLICA_2017.pdf.

[65] See http://www.consejoexportaciones.cl/ for more information.

[66] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[67] See https://www.sicexchile.cl.

[68] The Agenda was developed jointly under the responsibilities of the General Secretariat of the Presidency *(Secretaría General de la Presidencia),* MEFT, and Ministry of Transport and Telecommunications *(Ministerio de Transporte y Telecomunicaciones).*

[69] See https://www.prochile.gob.cl/minisitio/exportadigital_/.

[70] See https://www.espaciopyme.cl.

[71] 2015 at the time of the assessment – this survey is conducted every three years.

[72] See http://www.dipres.gob.cl/597/articles-141128_r_ejecutivo_institucional.pdf for more information.

[73] The Additional Protocol to the PA Framework Agreement entered into force on 01 May 2016. It liberalizes 92% of the bloc's trade, with the remaining 8% over the coming years. For more information, see http://www.sice.oas.org/TPD/Pacific_Alliance/Pacific_Alliance_e.asp and http://www.sice.oas.org/Trade/PAC_ALL/Index_PDF_s.asp.

[74] See http://www.tlc.gov.co/publicaciones/40519/oportunidades_regionales_para_aprovechamiento_acuerdos_comerciales.

[75] See http://www.acuerdoscomerciales.gob.pe/ for more information.

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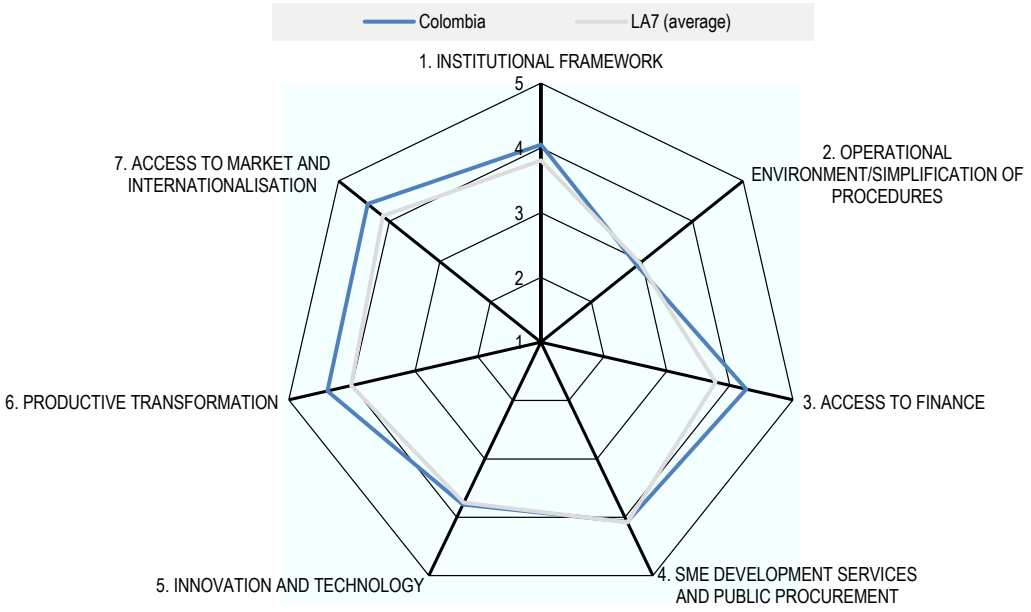
Chapter 13. Colombia

Colombia performs relatively well in this first SME Policy Index assessment focusing on Latin America, outperforming the LA7 average across the majority of the assessment dimensions. SME strategic orientations for the period covered by this assessment were defined in the framework of the country's National Development Plan 2014-18, as well as its Productive Development Policy 2016-2025 (CONPES Document 3866 of 2016), and supported by a well-established "National SME Support System", which includes institutionalised mechanisms for public-private consultation, and specific programmes targeted to subjects such as productive transformation and innovation.

Going forward, while the country does have a large existing SME support offer and a relatively strong planning and design culture, Colombia could consider a re-assessment of its existing strategic documents and institutional organisation related to SME development, prioritising the clear definition of roles and responsibilities; integration of measurable, impact-oriented KPIs; and clearer communication of the integrated support offer. The changing of political administrations in the country, which took place at the close of this assessment, offers a particularly timely moment to consider these possible next steps.

Key findings

Figure 13.1. 2019 SME Policy Index scores for Colombia



Colombia performs relatively quite well in this first SME Policy Index assessment focusing on Latin America, outperforming the LA7 average across the majority of the assessment dimensions (Figure 13.1) and receiving the highest score of the LA7 for "Access to Finance" (Dimension 3) and "Access to Market and Internationalisation of SMEs" (Dimension 7). This is due to the large offer of SME support services currently available in Colombia across this assessment's various dimensions; the country's relatively strong planning and design culture; and targeted, often pilot, programmatic efforts within its Productive Development Policy 2016-2025 (CONPES Document 3866 of 2016) to support SMEs and various strategic sectors in driving the country's productive transformation – especially those related to innovation, clusters and export-oriented value chains.

SME strategic orientations for the period covered by this assessment were defined in the framework of the aforementioned CONPES Document 3866 of 2016, as well as the country's National Development Plan 2014-18. Overall, despite the country's relatively strong existing planning and design culture (which does systematically operationalise strategic documents via detailed inter-ministerial action plans and include a centralised, government-wide digital monitoring platform) improvements related to the integration of key performance indicators (KPIs) could be prioritised going forward. Indeed, current strategic indicators remain process-oriented, limiting the ability to measure programme impact.

Furthermore, despite the country's already large existing SME development support offer, information on existing initiatives is widely dispersed and often incomplete or lacking the information necessary to guide potentially interested users and to communicate activities and impact.

Thus, going forward, Colombia could consider a re-assessment of its existing strategic documents and institutional organisation related to SME development – prioritising the clear definition of roles and responsibilities; the integration of measurable, impact-oriented

KPIs; and clearer communication of the integrated support offer so it has a greater impact on groups of interest. These points will be further detailed throughout this chapter.

In the area of "Operational Environment/Simplification of Procedures" (Dimension 2), which is the only area where Colombia lags behind its LA7 peers, the country should continue advancing the implementation of regulatory impact analysis (RIA) and moving towards one-stop shops and fully digital procedures for company registration. Colombia could also consider elaborating a comprehensive agenda for regulatory reform, focusing on the areas where regulatory restrictiveness and administrative barriers are highest.

Overview

Economic structure and development priorities

Table 13.1. Macroeconomic Indicators

Indicator Name	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth (annual %)	4.4	4.7	4.0	6.6	4.0	4.9	4.4	3.1	2.0	1.8
GDP per capita (current US$)	2472	3386	6251	7228	7885	8031	7913	6045	5757	6302
GDP per capita, PPP (current international $)	6585	8248	10680	11496	12058	12725	13396	13828	14165	14552
Unemployment, total (% of total labour force)	20.5	11.9	10.9	10.2	9.8	9.2	8.5	8.2	8.4	8.9
Inflation, GDP deflator (annual %)	31.8	5.6	3.9	6.7	3.0	2.0	2.1	2.5	4.9	4.8
Exports of goods and services (% of GDP)	15.9	16.8	15.9	18.7	18.3	17.6	15.9	15.2	14.8	14.8
Imports of goods and services (% of GDP)	16.8	18.8	17.8	19.9	20.0	20.1	21.4	23.4	21.7	20.1
External balance on goods and services (% of GDP)	-0.8	-1.9	-1.8	-1.2	-1.8	-2.6	-5.4	-8.1	-7.0	-5.3
Current account balance (% of GDP)	0.8	-1.3	-3.0	-2.9	-3.1	-3.3	-5.2	-6.4	-4.3	-3.4
Services, etc., value added (% of GDP)	57.2	53.8	53.1	50.7	51.1	52.2	53.2	54.8	55.4	55.7
Foreign direct investment, net inflows (% of GDP)	2.4	7.0	2.2	4.4	4.1	4.3	4.3	4.0	4.9	4.5
Foreign direct investment, net outflows (% of GDP)	0.3	3.3	1.9	2.5	-0.2	2.0	1.0	1.4	1.6	1.2
General government total expenditure (% of GDP)	26.7	26.0	29.5	28.8	28.2	28.9	29.4	29.7	28.0	28.5
General government net lending/borrowing (% of GDP)	-3.0	0.0	-3.3	-2.0	0.1	-0.9	-1.9	-3.5	-2.9	-3.0
Domestic credit to private sector (% of GDP)	20.9	29.5	43.8	44.8	48.8	49.8	52.3	46.9	47.0	49.4..

Source: (World Bank, 2018[1]; IMF, 2018[2]).

Colombia's economic performance has been satisfactory over the past ten years, with an average annual growth rate of 4.6% of GDP (see Table 13.1). This was the result of enhanced macroeconomic policy settings, the commodity prices super-cycle and improved security conditions. Even in recent years, when the fall of commodity prices reduced growth rates across the region, Colombia's growth path proved resilient thanks to a set of adequate macroeconomic responses to shocks (see below); only in 2017 did the rate fall slightly below 2% for the first time in the past decade (OECD, 2015[3]).

While the 2016 peace accords with the Revolutionary Armed Forces of Colombia (FARC), an internal guerrilla movement, promise to reduce political uncertainty and enable investments, promoting inclusive growth is one of the main challenges that Colombia faces in the coming years (OECD, 2017[4]). Recent growth has lifted 14% of the population out of poverty, reducing the national rate to 28%, and unemployment is close to the regional standard (8.85% compared to 8.26% for LAC in 2017), having dropped from 20% in 2000; yet the country remains one of the most unequal in the region (OECD, 2017[4]). Furthermore, approximately 48.5% of workers are in the informal economy (DANE, 2017[5]). Going forward, a strong emphasis should be put on infrastructure, skills development, innovation and reduction of regulatory burdens in order to boost productivity.

Colombia has been placed inside the "High Human Development" category of the Human Development Index (HDI) (United Nations, 2018[7]), along with Ecuador, Mexico and Peru from the LA7, with a rank of 90 out of 189 countries (See Table 13.2). This means that its performance on indicators measuring quality of health, education and standard of living generally fall among the middle third of all countries. However, its gender development index (GDI) score places it in the top group of countries with high equality in HDI achievements between women and men.[1] Since the 1990s, Colombia has increased life expectancy by 6.3 years, mean years of schooling by 2.8 years, and expected years of schooling by 5.4 years.

Table 13.2. Selected Human Development Index (HDI) Scores - Colombia 2018

Variable	Colombia	LA7 Average
HDI Ranking (2017)	90th	69.3
HDI[1] (scale of 0-1, with 1=best; 2017 value)	0.747	0.785
Life expectancy at birth (in years; as of 2017)	74.6	76.8
Gender Development Index Ranking[2] (scale of 0-1, with 1=best; 2017)	0.997	0.983
Quality of Health[3]		
Lost Health Expectancy[4] (2016)	10.7%	11.3%
Physicians (per 10,000 ppl.; 2007-2017)	18.2	22.2
Hospital beds (per 10,000 ppl.; 2007-2014)	15.0	22.0
Quality of Education[3]		
Pupil-teacher ratio primary school (pupils per teacher; 2012-2017)	24.0	20.7
Primary school teachers trained to teach (2009-2017)	95%	93.5%
Proportion of schools with access to internet (2008-2013)	71%	56.3%
Math (PISA[5] score 2015)[6]	390	414
Reading (PISA score 2015)	425	436
Science (PISA score 2015)	416	431
Quality of Living Standards[3]		
Vulnerable employment (% of total employment; as of 2017)	74.1%	38.1%
Share of rural pop. with access to electricity (2016)	95.7%	95.9%
Share of pop. using improved drinking-water sources (2015)	96.5%	96.6%
Share of pop. using improved sanitation facilities (2015)	84.4%	89.6%

1. The HDI score is calculated based on a set of indicators covering the dimensions of "long and healthy life", "knowledge" and "a decent standard of living". For more information, see (United Nations, 2018[7]).
2. The GDI is calculated by comparing the females and male HDI values of the country. Countries are divided into five groups by absolute deviation from gender parity in HDI values.
3. Indicators under the categories "Quality of Health", "Quality of Education" and "Quality of Living Standards" are taken from the HDI Dashboard 1 on Quality of Human Development..
4. The relative difference between life expectancy and healthy life expectancy, expressed as the percentage of life expectancy at birth.

5. The Programme for International Student Assessment (PISA) is a triennial international survey that aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. In 2015 over half a million students in 72 countries and economies took the PISA test, and were assessed in science, mathematics, reading, collaborative problem solving and financial literacy. For more information and assessment results, see http://www.oecd.org/pisa/aboutpisa/.
6. The highest average national score for Math, Reading and Science is held by Singapore with 564, 535 and 556 points, respectively.
Source: (United Nations, 2018[7]).

Although the sectoral structure of Colombia's GDP resembles that of LAC region, tertiarization has been slightly slower, with services accounting for 55% of GDP in 2016 compared with 61% for LAC. Industry and agriculture are slightly more relevant than in the rest of the region (30% and 7% of GDP, respectively) (World Bank, 2018[1]).

Financial markets are slightly deeper than in the rest of the region: domestic credit to the private sector averaged 45% over the past ten years (see Table 13.1).

Even though the Colombian population is relatively less concentrated than in other LAC countries (the metropolitan area of Bogota accounts for only 16% of the population), there are wide gaps in economic development. Casanares, the richest department, has a GDP per capita 6.2 times larger than Vaupes, the poorest. The Gini coefficient for GDP per capita among regions is higher in Colombia than for any OECD country (OECD, 2016[8]). In a country with 33 departments, three of them (Bogota, Antioquia and Valle del Cauca) account for half of the country's GDP and 40% of its population (DANE, 2017[9]).

Public sector, money and prices

Fiscal management in Colombia has been relatively cautious over the past ten years. The headline fiscal deficit averaged 1.5% compared with 2.9% for LAC. In 2011, a fiscal rule was enacted, targeting central government budget balance, adjusted for cyclical factors and commodity prices, and aiming at a gradual convergence to a 1% fiscal deficit in 2022 (OECD, 2015[3]). The rule included the creation of a savings and stabilization fund.

A tax reform was enacted in 2016 to boost tax revenue, increase business competitiveness and make the tax system more progressive and efficient (OECD, 2017[4]). Its provisions include simplifying and reducing the burden of corporate tax, increasing VAT rates, and eliminating the exemption for dividends in the income tax. The reform will increase fiscal space and enable much-needed public investments in infrastructure, education and other productivity-enhancing programmes.

Inflation has been slightly slower than in the rest of the region (4.3% vs. 4.7% for 2005-2015; see Table 13.1). The monetary authority holds substantial autonomy and follows an inflation-target strategy with flexible exchange rates. After 2014, the inflation rate rose, but the central bank acted accordingly, raising policy rates and arresting the upward trend in prices. A flexible exchange rate, meanwhile, has been crucial for absorbing negative external shocks like the fall in commodity prices.

External sector

Trade levels are lower in Colombia than in other countries of the region. The openness ratio averaged 37% of GDP between 2005 and 2015, as compared to 45% for LAC (World Bank, 2018[1]).

The country ranks 61st in the Economic Complexity Index (MIT, 2017[10]), falling behind only Mexico (21st) and Uruguay (54th) within the LA7. Fuel and mining products make up

41.61% of the country's exports value. Crude petroleum constitutes one-third of all exports, followed by coal briquettes. Agricultural exports are dominated by coffee (5.18%) and, to a lesser extent, cut flowers (3.1%). Service trade represents 6.7% of GDP (2015), which is the same as the LAC regional average (World Bank, 2018[1]).

In terms of trade, the United States (US) is the main partner (29% of exports, 26% of imports), followed by the EU (13% and 15%). China ranks fourth for exports and third for imports. Regional partners are also important: Panama receives 8.6% of Colombia's exports and Mexico provides 7.5% of its imports.

Inward FDI flows are relatively strong, averaging 4.2% of GDP over the 2005-2015 period (see Table 13.1), compared to a regional 3.2% (World Bank, 2018[1]).

Business environment

Figure 13.2. Doing Business Indicators 2019 - Colombia



Note: *LA7* is the simple average for the seven countries studied in this report: Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay. The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.
Source: (World Bank Group, 2018[11]).

Between 2006 and 2019, Colombia climbed from 76th to 65th in the World Bank's Ease of Doing Business ranking (World Bank, 2018[12]), falling behind only Mexico (54th) and Chile (56th) within the LA7. The country does a particularly good job in the "Getting credit" dimension, in which it ranks 3rd worldwide. Recent reforms include the introduction of a new transactions system, the creation of a centralised collateral registry, and a broadening of the range of assets that can be used as such. The country also outperforms the region by

a wide margin in "Resolving insolvency" (40th) and in the protection of minority investors (15th). One of the main weaknesses is the enforcement of contracts (177th): the time and resources demanded are more than double those of OECD countries. Trading across borders (133rd) and "paying taxes" (146th) are also more burdensome than the LAC average.

Colombia also climbed in the WEF Global Competitiveness Index, going from 69th to 60th over the past ten years (WEF, 2018[13]). Health, in terms of human capital, and the overall size of its domestic market are the country's main strengths. Weak institutions are its main liability, along with lack of ICT adoption, infrastructure and product market development. The Skills pillar has decreased since the beginning of the assessment in 2007, pulled down in the most recent assessment by sub-indicators related to vocational training, skills of graduates, digital skills and pupil-to-teacher ratios, even when the performance of students in PISA tests improved slightly faster than OECD countries between 2009 and 2015 (OECD, 2017[14]).

According to the World Bank Group's latest Enterprise Survey of Colombia (IFC/WB, 2017[15]), firms identify the informal sector as their main operational obstacle. The second biggest perceived problem is tax rates, followed by corruption. Small, medium and large enterprises generally all perceive these challenges equally, though medium-size enterprises feel particularly affected by corruption (13% of the medium-size enterprise population, while only 2% for small and large enterprises).

The US Department of State's Investment Climate Statement recognises the consistency and transparency of Colombia's legal and regulatory system. However, it also states that historically the judiciary has not played an active role in adjudicating commercial cases. It also highlights that security has improved in recent years (e.g. kidnapping decreased 94% between 2000 and 2017). FDI receives national treatment[2] for most affairs[3] and all economic sectors (except TV broadcasting) are fully opened to foreign capital. The report also states that Colombia's weaknesses include the lack of meaningful progress on the protection of intellectual property rights (IPR). The government has also struggled with the loss of energy sector revenues after the price of oil, its largest export, collapsed in 2014, as well as with the adjustment of the devaluation of the peso. If Colombia's new government does not address these problems, its sovereign credit rating might fall below investment level (US DOS, 2018[16]).

SME Sector

Definition and employment

The SME sector is regulated by the MSME Promotion Law of 2000 (Law 590, modified by Law 905 of 2004).[4] The definition it provides is based both on employment and assets (see Table 13.3). The asset-based criterion will prevail in case of conflict.

Table 13.3. SMEs definition in Colombia

Criterion		Micro	Small	Medium
Employment		=10	11 - 50	51-200
Assets	MLMS	≤ 500x	between 501-5 000x	between 5 001-30 000x
	USD	≤ 125 970	between 125 970 - 1 259 700	between 1 259 700 - 7 558 200

Note: MLMS: minimum legal monthly salary = COP 781 242 (2018). Exchange rate 1 USD = 3100 92 COP (05/02/2019).
Source: MSME Promotion Act (590, modified by Act 905 of 2004).

According to the latest (2005) census[5] (see Table 13.4), there were 1.4 million economic units in the country. One-third were linked to the household and two thirds were independent. The vast majority (92%) were microenterprises, with 46% of these corresponding to one-person ventures; all microenterprises accounted for half of total employment. Small and medium-sized firms accounted for 4% of the economic units and 31% of employment. Finally, large firms, a small fraction of the enterprise population, employed 19% of workers.

Table 13.4. Firms and employment by firm size - 2005

	No. of firms	% of total firms	No. of employees	% of total employment
Micro	1 288 582	92%	2 639 585	51%
Small	43 945	3%	913 846	18%
Medium	7 092	1%	665 789	13%
Large	1 749	0%	999 193	19%
n/a	59 779	4%	-	-
Total	1 401 147	100%	5 218 413	100%

Note: Size categories are based on employment.
Source: 2005 Census (DANE, 2005[17]).

Business registration data from Confecamaras (the main business chamber confederation in Colombia, see Table 13.5) similarly shows the prevalence of SMEs, accounting for 99.5% of registered enterprises. Furthermore, there are almost 100 000 small and medium companies (7.2% of total firms), two times the amount reported by the census a decade before (see Table 13.4).

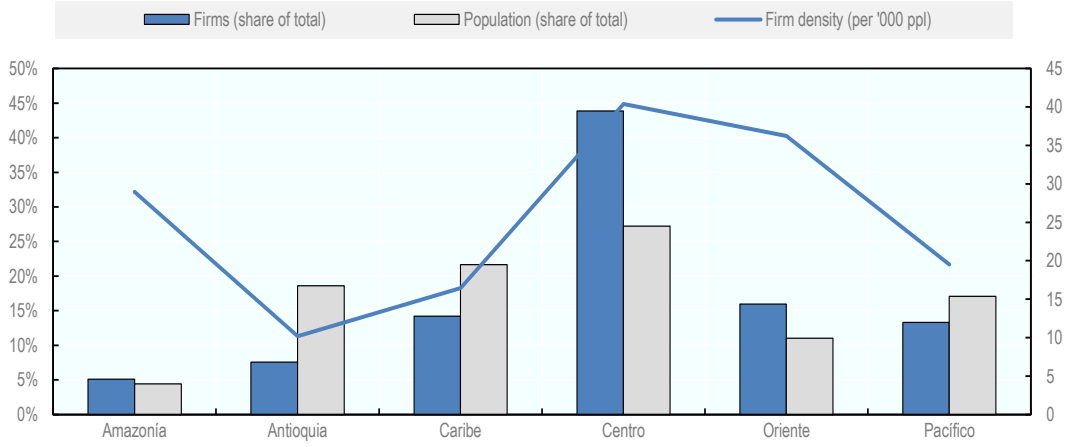
Table 13.5. Registered firms by size - 2015

Size	No. of firms	% of total firms
Micro	1 273 017	92.3%
Small	79 926	5.8%
Medium	19 980	1.4%
Large	6 361	0.5%
Total	1 379 284	100.0%

Source: Confecámaras (Murillo Lozano, 2016[18]).

In terms of regional distribution of firms (see Figure 13.3), there is a marked concentration in the Centro region. In particular, 32% of registered firms are located in Bogota (compared to just 16% of population). As a consequence, Bogota's firm density (49 firms per 1 000 inhabitants) is double the national average. Oriente is the second region in terms of quantity of firms, followed by Caribe. The Antioquía region has the lowest density of firms (10 firms per 1 000 inhabitants).

Figure 13.3. Share of total firms and population, and firm density (firms per 1,000 inhab.) by region



Note: Firm density is measured on the secondary (right) axis.
Source: (Murillo Lozano, 2016[18]) and (DANE, 2018[19]).

The informal economy is large in Colombia and particularly pervasive in the SME sector. The percentage of workers not affiliated with a pension fund is significantly lower for larger firms (see Table 13.6). By contrast, the self-employed and workers of microenterprises are rarely covered by this kind of social security programme. The non-contributing rate drops steeply for small and medium-sized firms (27% and 10% respectively).

Table 13.6. Percentage of workers not contributing to a pension fund by firm size – April 2017

Size	%
Self-employed	91%
1- 10	81%
11-50	27%
51-100	10%
>100	5%
Total	60%

Note: Firm size categories do not correspond with the official SME definition.
Source: (DANE, 2018[19]).

Productivity and value added

As there are no enterprise surveys covering the whole economy, it is hard to draw a general picture of value added and productivity for the SME sector. However, sectoral surveys can be used to describe these variables for the Manufacturing and Trade sectors.

SMEs account for 45% of employment and 32% of value added in the manufacturing sector (see Table 13.7). As a result, value added per worker in the case of small firms is half that of large firms, and 56% that of medium-sized companies. There is a smaller gap in terms of worker compensation: workers in small and medium-sized firms earn 57.5% and 74.2% that of large firms, respectively. The endowment of capital per worker is also lower for SMEs than for large firms. Surprisingly, small firms have more assets per worker than medium-sized ones.

Table 13.7. Sectoral performance indicators by firm size – Manufacturing - 2017

Size	Participation in Employment	Participation in value added	Productivity per worker (as % of large firms)	Average worker compensation (as % of large firms)	Assets per worker (as % of large firms)
10-49	14.7%	9.7%	53.5%	57.5%	76.0%
50-199	30.4%	22.2%	59.2%	74.2%	44.7%
200+	55.0%	68.0%	100.0%	100.0%	100.0%
Total	100.0%	100.0%	80.8%	85.2%	79.7%

Note: To be included in the Annual Manufacturing Survey, a firm must have more than nine employees or exceed a turnover threshold (around USD 170 000/year). This generates a strong selection bias in the case of microenterprises. Microenterprises were not considered in these calculations for that reason.
Source: Annual Manufacturing Survey (DANE, 2018[20]).

Wholesome and retail trade displays a more homogeneous picture (see Table 13.8). The available data shows that SMEs account for more than half of employment (52%) and a similar share of value added (56%). Hence, the productivity per worker is actually higher for small (105%) and for medium-sized (126%) than for large companies. Average worker compensation is similar for large and medium-sized enterprises, and slightly lower for small ones.

Table 13.8. Sectoral performance indicators by firms size – Trade - 2015

In percentage and '000s COP

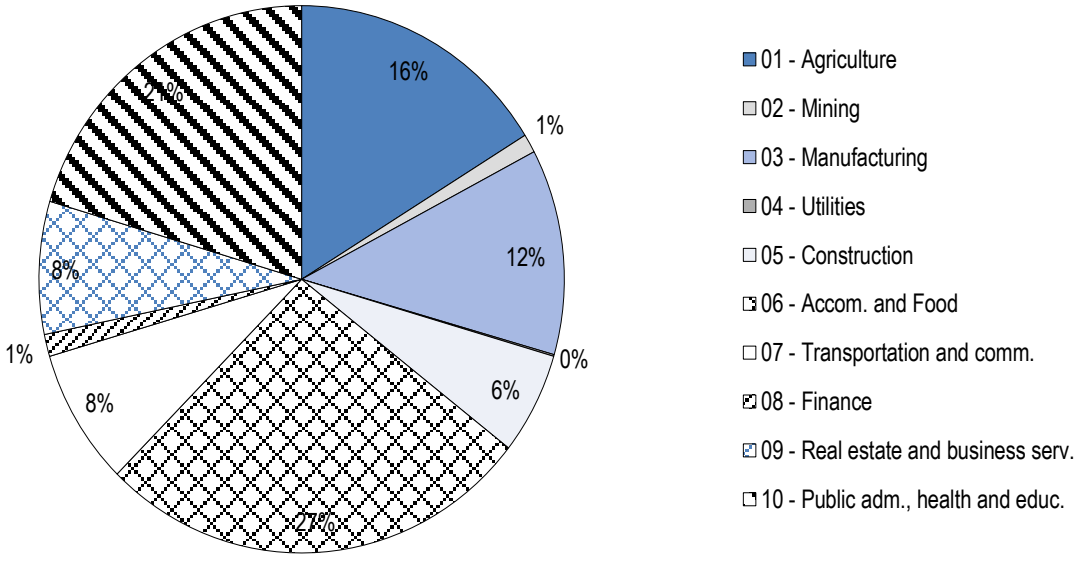
Size	Partic. in Employment	Partic. in value added	Productivity per worker	Average worker compensation
Small	25%	25%	50.760	22.070
Medium	26%	30%	60.434	28.968
Large	48%	44%	47.990	27.654
Total	100%	100%	52.104	26.431

Note: Microenterprises were not considered in these calculations. See note for Table 13.7
Source: Annual Trade Survey (DANE, 2016[21]).

Sectors of activity

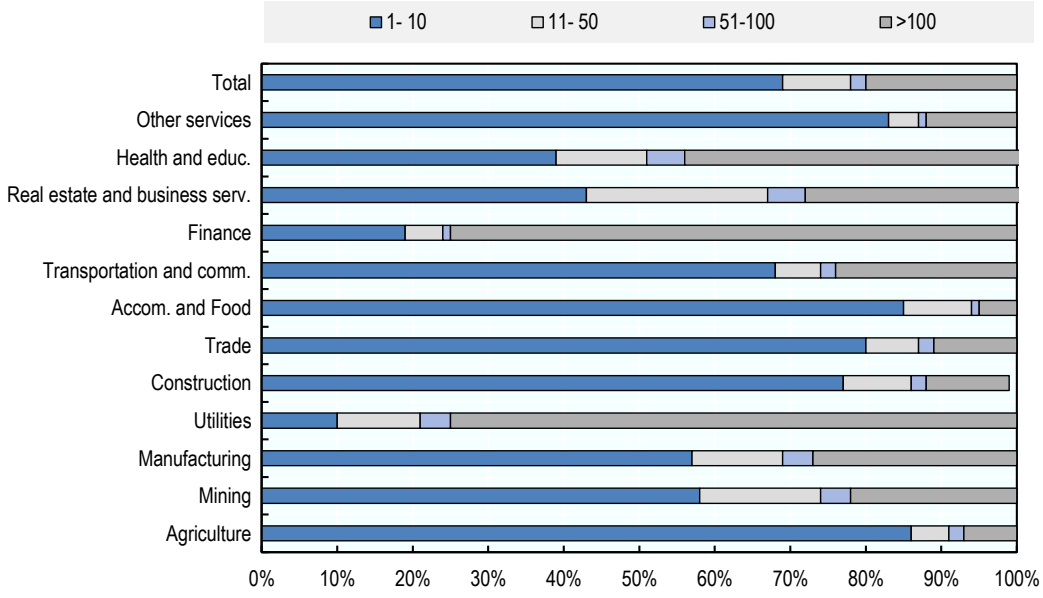
As demonstrated in Figure 13.4, agriculture, accommodation and food, and public administration, health and education comprise the majority of SME[6] employment. Although SMEs, and microenterprises in particular, are relevant in every sector (except for finance and utilities), they represent more than 90% of the employment in the accommodation and food and agricultural sectors; construction, trade and other services are also close to that mark (Figure 13.5). Firms with between 10 and 100 employees have more weight in real estate and business services (28%), mining (20%) and manufacturing (17%), while large firms dominate in finance and utilities.

Figure 13.4. Sectoral composition of private employment for firms with 100 workers or less - 2018



Source: (DANE, 2018[19]).

Figure 13.5. Sectoral private employment composition by firm size - 2017



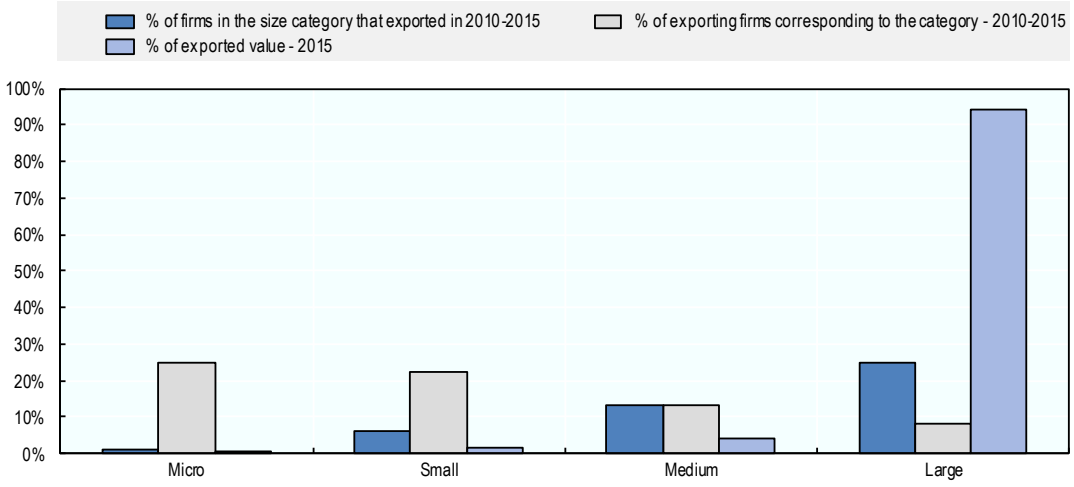
Note: Firm size categories are determined by number of employees, and do not correspond with the official SME definition.
Source: (DANE, 2018[19]).

International trade

As in other countries of the region, export activities are dominated by large firms (see Figure 13.6). In 2015, large firms accounted for 94% of the country's exported value, even as they only represented approximately 8% of exporting firms. The propensity to export is

lower for smaller companies. Only 1% of microenterprises exported between 2010 and 2015. That indicator climbs to 6% and 13% for small and medium-sized enterprises, respectively. In the same period, 1 out of 4 large companies exported. According to the World Bank's Enterprise Surveys (World Bank, 2017[22]), the overall percentage of Colombian exporting firms is slightly higher than the LAC average (18.2% vs. 17.3%). According to (Urmeneta, 2016[23]), 59% of exporting SMEs sell one product to one destination and no SMEs sell more than 10 products to 10 destinations, compared to 50% and 41% for large firms.

Figure 13.6. Exporting firms and exported value by firm size - 2010-2015



Source: (Bernal, 2017[24]) and (Murillo Lozano, 2016[18]).

Assessment results

Institutional framework (Dimension 1)

Colombia's overall score of 4.05 (on a scale of 1-5) for this dimension is higher than both the LA7 (3.81) and Pacific Alliance (PA) average (4.00). Indeed, Colombia has performed relatively well across all four included sub-dimensions.

Colombia has made a significant effort to build a sound institutional framework for SME policy, establish co-ordination and consultation mechanisms, and ensure good communication between national and regional policy makers. Over the next two years, the country will have to elaborate new medium-term strategic plans. It is important that it conduct an in-depth evaluation of the results achieved so far, and assess the effectiveness of its project/programme evaluation instruments.

Institutional framework and SME definition

Colombia has a relatively well-structured institutional framework for SME policy. This structure and the general orientations of the country's SME policy were defined in the first law on SME development approved in 2000 (Law 590) and modified by Laws 905 of 2004, 1151 of 2007 and 1450 of 2011.

In particular, Law 905 of 2004 put in place the institutional framework for SME policy and defined the SME policy scope. The Law updated the SME definition; assigned the SME

development policy mandate to the Ministry of Commerce, Industry and Tourism *(Ministerio de Comercio, Industria y Turismo*, or MINCIT); and established (a) the National SME Support System (*Sistema Nacional de Apoyo a las Mipymes)*, (b) public-private consultative councils for both microenterprises, as well as one for small and medium enterprises, and a (c) series of regional public-private consultative SME councils – all with corresponding technical secretariats (*Consejo Superior de Pequeña y Mediana Empresas; Consejo Superior de las Micro-empresas*; *Consejos Regionales Pymes)*.

Furthermore, the law created the Colombian Fund for Modernisation and Technological Development of Micro, Small and Medium Enterprises (FOMIPYME), which has been central to SME support activities in the country. In 2015, in the context of the National Development Plan 2014-18 *(Plan Nacional de Desarrollo)*,[7] FOMIPYME was unified with iNNpulsa Colombia,[8] which to date executes a significant amount of initiatives to support micro, small and medium enterprises, with a focus on entrepreneurship, innovation and productivity (see subsequent sections of this chapter for more information).

The Law also defined the main priority areas for the country's SME development policy efforts: improving market access, promoting technological development and human capital, improving access to financial markets and promoting enterprise creation.

The mandate for SME policy is therefore clearly assigned to MINCIT. The ministry, which covers a wide range of policy areas – from trade policy to industrial development, SME development, and tourism – is made up of three vice-ministries, each overseen by a vice-minister with operational responsibility.

SME policy is placed under the responsibility of the Vice-Ministry for Enterprise Development. Other responsibilities of this vice-ministry include the formulation and management of policy related to productivity and competitiveness-enhancement, also at regional level; regulation of the internal market; and management of the country's quality infrastructure system. Policy elaboration and implementation is coordinated and managed by the Vice-Ministry's Directorate for SMEs, which was established in 2003 and had a staff of 43 officials at the end of 2018.

The current official SME definition was also set by Law 905 of 2004.[9] The definition is based on two criteria: number of workers and total assets, expressed in terms of multiples of the minimum wage, in order to index the value of the assets to wage inflation. The definition divides firms into micro, small and medium-sized enterprises (see Table 13.3) and it is consistently adopted across the public administration.

Strategic planning, policy design and co-ordination

In 2007 the National Council for Economic and Social Policy (*Consejo Nacional de Política Económica y Social*, or CONPES) published Document 3484, which defined a "National Policy for Productive Transformation and the Promotion of SMEs: A Public-Private Effort" *(Política Nacional para la Transformación Productiva y la Promoción de las Micro, Pequeñas y Medianas Empresas: un Esfuerzo Público-Privado)*.[10]

Apart from this document, however, Colombia has not elaborated a stand–alone SME development strategy. Rather, SME strategic policy orientations at the time of this assessment were defined in the National Development Plan 2014-18 and in a policy document elaborated by the CONPES: the "National Policy for Productive Development" for 2016-2025 (*Política Nacional de Desarrollo Productivo*) – also known as CONPES Document 3866 of 2016.[11]

In line with the establishment of these strategies, and considering that innovation and productivity are two intertwined elements of CONPES Document 3866 of 2016, the country also merged the formerly separate National System of Science, Technology and Innovation with the National System of Competitiveness to create the National System of Competitiveness, Science, Technology and Innovation (SNCCTI), which oversees several institutions with responsibility over the design, implementation and evaluation of innovation and productivity policies, as well as institutionalising private sector feedback mechanisms.[12]

First, as its name suggests, the National Development Plan is a planning instrument that contains all the social and economic programmes that each government intends to develop during the period for which it was elected. In this way, it reflects the general and specific objectives of state action in the medium and long terms, the general quantitative and qualitative goals and the mechanisms to achieve them, and the corresponding strategies and policies in economic, social, financial, administrative and environmental fields.

Thus, the 2014-18 Plan covered areas such as peace building, equality and the fight against extreme poverty, education, social mobility, and governance. Chapter V of the Plan focuses on Colombia's extensive priorities for *Competitiveness and Strategic Infrastructure* and includes a series of ambitious objectives to increase the productivity of enterprises; foster science, technology and innovation; promote ICTs; develop infrastructure; and consolidate the mining-energy sector, among others.

The first of these objectives relates to *increasing the productivity of firms*. This objective is broken down into seven explicit strategies for increasing the sophistication and diversification of the economy. These strategies include key aspects of SME policy, many of them covered in this and other sections of this report, such as fostering the internationalisation of the economy (Dimension 7 of this report); strengthening the technological capabilities of enterprises (Dimension 5); improving business regulations (dimension 2); and deepening financing and formalisation (Dimensions 3 and 1.4, respectively). The current government, elected in 2018 and led by President Iván Duque, is in the process of building the National Development Plan 2018-2022.

Second, CONPES Document 3866 of 2016 defines the Productive Development Policy of Colombia in terms of a *general objective* (broadly, to foster productivity and economic sophistication) and a number of *specific objectives*, as summarised in Table 13.9.

To achieve these objectives, CONPES Document 3866 of 2016 includes a detailed action plan (*Plan de Acción y Seguimiento*, or PAS) with a number of "lines of action" touching upon themes covered in this and other policy dimensions in this report (innovation, access to finance, productive transformation, internationalisation, etc.). It is formulated as an annex, describing all individual actions (90 total) for each of the objectives shown on Table 13.9. Further information related to these actions can be found in the subsequent sections of this chapter.

Table 13.9. Objectives of the Productive Development Policy for 2016-2025 (CONPES Document 3866 of 2016)

Objective	Description[1]
General objective	To develop tools to address market, government and articulation failures at the level of firms, production factors, or competitive environment, so as to increase productivity, economic diversification and sophistication.
Specific objective 1	To address market and government failures limiting productivity, diversification and sophistication by: – Improving the capacity to innovate, absorb, and transfer knowledge and technology to firms – Improving the efficiency and effectiveness of the supply of human and financial capital – Creating an environment that fosters productive linkages, quality and the exposure of national goods and services in international markets.
Specific objective 2	To define a procedure for prioritising productive activities, facilitating the transformation and diversification of the economy into more-sophisticated goods and services.
Specific objective 3	To generate an institutional framework to promote coordination between actors and to guarantee the sustainability of the Productive Development Policy for 2016-2025.

[1] The language has been simplified.
Source: (CONPES, 2016[24]).

The National Planning Department (DNP) has also established a National System for the Evaluation of Management and Results (SINERGIA), which focuses on the progress of the implementation of the National Development Plan.[13] Through its website, it is possible to consult the level of progress of the implementation of the different policy areas and measures of the Plan. This includes progress by sector (agriculture, justice, ICT, housing, etc.) and institutions in charge of the different actions of the Plan (ministries, agencies, etc.). It also possible to search by transversal policy areas, objectives and programmes.

The National SME Support System, established by Law 905/2004, is the primary instrument for ensuring SME policy co-ordination. The System includes the central government ministries and institutions that have competencies directly or indirectly related to SMEs: MINCIT; the Ministry of Social Protection, now the Ministry of Labour; the Ministry of Agriculture; the DNP; the National Learning Service (SENA); the Administrative Department of Science, Technology and Innovation (*Colciencias*); the Bank of Foreign Trade (*Bancóldex*); the National Guarantees Fund *(Fondo Nacional de Garantías)*; and the Fund for the Financing of the Agricultural Sector (Finagro). It also includes the aforementioned public-private consultative councils for microenterprises and small and medium enterprises, as well as the regional SME councils.

The System is coordinated by the Vice-minister for Business Development. It elaborates annual action plans that specify the type of support provided by each institution to SMEs, the planned actions and the amount allocated in support, as well as the targeted number of enterprises. The 2018 Action Plan aimed to support 379 759 enterprises, implying a total expenditure of approximately USD 7.03 million, 99% of which was made up of reimbursable credits and contributions.

Programme/project implementation is directly managed by MINCIT through its Directorate for SMEs and conducted mainly through the execution of calls for proposals (*convocatorias*) via iNNpulsa. The actual implementation is therefore largely delegated to the institutions and SMEs that get selected via the calls for proposals. The role of MINCIT is mainly to define the programme/project scope, transfer funds to iNNpulsa, set the eligibility criteria, and follow up on the call for proposal process once it has been executed.

The Action Plan of the National SME Support System is monitored by the system's Technical Secretariat, attached to MINCIT. The Technical Secretariat elaborates an annual

activity report for the Congress of the Republic, with detailed information on the actions performed by each institution included in the System, and the related expenses. The implementation of the CONPES Document 3866 of 2016 is monitored by the DNP via its overall CONPES monitoring system, "SisCONPES" (see this chapter's section on "Productive Transformation" for more information).

The National Department of Statistics (DANE) publishes a full set of SME statistics. This data is collected through a series of annual surveys of the various productive sectors (manufacturing, trade, services) while specific surveys are conducted at the level of microenterprises.

The overall monitoring and data collection system appears to be relatively well developed; however, there is no evidence that any impact evaluations have been conducted to date.

Public-private consultations

Colombia has put in place relatively well-structured mechanisms of public-private consultations (PPCs) across the public administration. Article 8 of Law 1437 of 2011, on the duty of providing information to the public, establishes that public authorities must make available to all persons complete and updated information on their respective websites, as well as through the printed and electronic means available, and by telephone or by mail, on specific regulatory projects and the information on which they are based, in order to receive opinions, suggestions or alternative proposals. The process is managed directly by each institution in charge of the legislative or normative change. The draft legislative or normative act is placed on the ministry/institution web site and the opinions of NGOs and civil society are also invited. However, the length of this web-based public consultation period is determined by each institution, though the period given must be indicated and recorded.[14]

This process was further institutionalised by the Law on Transparency of 2014 (No. 1712), which regulates the right of access to public information, the procedures for the exercise and guarantee of the right, and the exceptions to information publicity. The law stipulates that legislative and normative acts have to go through a public consultation process before final approval.[15]

At the level of SME policy, the aforementioned PPCs for microenterprises and small and medium enterprises, at central and local level, provide the main consultation channels. Half of the members of these councils are composed by representatives of the SME sector, sectoral associations and civil society representatives. Any council member has the right to call for extraordinary meetings, including those representing the private sector. The councils hold regular meetings, normally four per year, and their deliberations are generally made public by MINCIT. Furthermore, in the middle of 2018, Resolution 194 was passed, creating a commission in the Senate to oversee the policy and regulatory changes that the SME sector requires to increase its growth.

Measures to address the informal economy

Colombia's level of informality is one of the highest in Latin America. According to ILO data (ILO, 2009[26]), which is based on the elaboration of DANE data, non-agricultural informal employment accounted for 57.4% of total employment in 2009. It declined slightly to 56.6% in 2012 and to 53% in 2013, but has returned to very high levels in recent years. According to data released by DANE, the share of informal employment over total employment in microenterprises with up to five employees was 47% at the beginning of

2017, while 61.8% of all employees were not covered by social security. Informality is particularly high among the self-employed, who represent a very large share of the labour population; among workers in microenterprises; and among women and younger workers.

There have been a number of in-depth studies on informality, particularly on labour informality, conducted by Colombian institutions (*Banco de la República*, DNP), academics and international organisations (World Bank, 2010[27]; Peña, 2013[28]). These have been supported by a comprehensive database provided by DANE, in particular through its microenterprise survey (*Encuesta de micro-establecimientos*).[16]

The reduction of informality was one of the main objectives of the 2014-18 National Development Plan, which also contains a diagnostic section on informality and set the objective of raising the rate of formal employment from the base of 34.6% of total employment in 2014 to 36% in 2018. The government has put in place a multi-faceted strategy to fight both labour and enterprise informality. At the level of labour informality, the government has introduced, through the Law on Labour Formalisation (Law 1429) approved in 2010, a number of incentives to promote labour regularisation and registration by small enterprises. In 2014, it launched the National Network for Labour Formalisation *(Red Nacional de Formalización Laboral)*, a strategy aimed at mobilising institutions at local level throughout the entire country to organise initiatives aiming at raising the level of understanding of the causes of informality, increasing capacity at the level of enterprises and labour organisations and promoting formalisation.

At the level of enterprise informality, the government has introduced a number of fiscal incentives and tax exemptions to promote enterprise registration, through the Law on Fiscal Reform (Law 1607 of 2012) and the simplification of procedures and reduction of costs related to company registration (see next section on "Operational environment and simplification of procedures").

The Ministry of Labour regularly monitors the application of the Law on Labour Formalisation (Law 1429 of 2010) and the performance of the National Network for Labour Formalisation. A first review of the implementation of Law 1429 was conducted in 2013 and led to policy adjustments of the social security regime and the allocation of family subsidies. A second review in 2016 demonstrated that government actions against informality are producing results. In particular, labour informality has been progressively reduced; however, the level of informality remains high in absolute terms, particularly for a country that has reached upper-middle income levels.

Operational environment and simplification of procedures (Dimension 2)

Colombia's overall score of 2.90 for this dimension (on a scale of 1-5) is slightly below that of the other members of the Pacific Alliance (PA) (average of 3.14) and aligned with the LA7 average (2.96).

Colombia performs relatively poorly (2.33) on sub-dimension 2.1, which focuses on regulatory simplification, given the lack of a comprehensive regulatory reform strategy and the fact that the application of regulatory impact analysis (RIA) is at an early stage. Its score for sub-dimension 2.3 on the ease of tax filing (2.33) is also relatively low, due to the poor score received regarding the post-tax filing index. The score for sub-dimension 2.2 (3.28) on company registration reflects the moderate level of development in this area, particularly the gradual introduction of one-stop shops and the remaining complex notification procedures; while the score for sub-dimension 2.4 on e-government is relatively higher (3.98), but still falls below the overall dimension average, due to the presence of a good

range of operational electronic services for enterprises and the availability of electronic signature.

Legislative simplification and regulatory impact analysis

The level of regulatory restrictiveness and the weight of administrative burdens on enterprise operations in Colombia vary significantly across administrative areas – an indication of how regulatory reform efforts have in some cases been significant, but also of how the country lacks a comprehensive approach to regulatory reform and administrative simplification.

Colombia's performance in the overall rankings of the World Bank's *Doing Business 2019* report is broadly aligned with that of the other PA member countries. Colombia ranked 65th out of 190 economies in the 2019 report, which is ahead of Peru, but below Mexico and Chile. However, its ranking across the 10 areas covered by the *Doing Business* report varied greatly, with Colombia ranked among the top three countries in the Getting Credit indicator and 40th in the Resolving Insolvency indicator, while at the same time ranked 177th in Enforcing Contracts, 133rd in Trading Across Borders and 100th in Starting a Business (World Bank Group, 2018[11]).

Furthermore, Colombia's relative ranking position has deteriorated across most of the ten indicators between 2018 and 2019, with the country losing six positions in the overall ranking (from 59 in 2018 to 65 in 2019), indicating a relative loss of initiative in the regulatory reform area.

Colombia pursued a progressive path towards implementing regulatory reforms. For example, in 2012 the approval of Decree 019 set the guidelines for abolishing redundant procedures and established the rule that no new regulation from a public administrative body could be introduced without previous reporting and examination by the Administrative Department of the central government entity *Función Pública* (DAFI).[17] In 2017, the government approved Decree 270, extending the right to citizens and interest groups to provide comments on new regulations. In 2015, the government introduced the obligation to conduct RIA *(Análisis de Impacto Normativo*, or AIN*)* on any new technical regulation starting from 1 January 2018, building on one of the objectives included in the CONPES Document 3816 of 2014.[18] RIA is also to be applied for the revision of existing regulations. To date, less than 25% of the existing stock of laws and regulations have been revised.

The National Planning Department (DNP) has elaborated the RIA guidelines, with the support of the OECD, while the assessments will be conducted by the different line ministries. The DNP is also in charge of developing the RIA monitoring system, while MINCIT is in charge of publishing the results of RIA assessments for the areas under its remit on the ministry web site.

In parallel, the Presidency is supervising a public campaign ("Simple State, Agile Colombia", or *Estado Simple, Colombia Ágil*)[19] co-ordinating the actions conducted by the DNP, DAFI, the Ministry of Justice and MINCIT, with the intent to reduce the communication barriers between citizens and the state, increase the level of co-ordination among the different public bodies and improve regulatory quality in Colombia. A public consultation was completed at the end of 2018, with over 6 000 proposals for regulatory improvement received.

Company registration

This sub-dimension combines a number of indicators related to the institutional framework for company registration, including the presence of one-stop shops, the use of a single company identification number, and the availability of online registration facilities, with indicators on performance of company registration and starting-a-business procedures based on the results of the World Bank's *Doing Business 2019* report.

Procedures for starting a business in Colombia are in line with that of other PA member countries in terms of the number of procedures and time required, but their cost is relatively high.

In Colombia, the tax identification number (*Número de Identificación Tributaria*, or NIT) operates as a single identification number for all companies. The NIT is issued at the moment the new company registers with the Unique Tax Registry (*Registro Único Tributario*, or RUT).

Company registration is performed at the 57 chambers of commerce (*cámaras de comercio*) distributed across the country. Forty-two of these chambers house "business attention centres" (*centros de atención empresarial*, or CAEs), which provide orientation and assistance services to new entrepreneurs. A network of one-stop shops is not yet operational in Colombia, although a pilot project is under development at the Bogota Chamber of Commerce, with the support of the IFC. Currently, notification procedures remain complex and relatively time-consuming, but they do not add to the overall starting a business costs, while company registration fees are relatively expensive.

Online registration is not yet possible for limited liability companies, although some of the procedures can be conducted online for simplified joint-stock companies (*sociedad por acciones simplificadas*, or SAS) and for natural persons. The government is working towards the establishment of an electronic platform, the *Ventanilla Única Empresarial* (VUE), which will operate as a single window in line with the directive set by Decree 1875 of 2017; while MINCIT is pursuing a public-private agenda to promote the simplification of the starting a business procedures and increase the rate of enterprise formalisation, as part of the aforementioned *Estado Simple, Colombia Ágil* campaign.

Colombia ranks 100th out of 190 on the Starting a Business indicator of the World Bank's *Doing Business 2019* report, which is slightly lower than the ranking it held in 2018 (96th). Similarly, in the 2019 report, the "distance to frontier/ease of doing business"[20] ranking for Colombia was 85.31, again at the same level as in in 2018 (out of 100[21]). Starting a business in Colombia requires the completion of eight administrative steps; the time required is 11 days and the cost is equal to 14% of the GNI per capita (World Bank Group, 2018[11]).

The Superintendence of Industry and Commerce (SIC) supervises the chambers of commerce in their role as manager of the company register. The regulatory improvement group of the DNP also monitors the performance of the public administration. The directorate for Innovation and Enterprise Development of the DNP recently undertook a sub-national *Doing Business* study with the World Bank to assess the comparative performance of the country's main cities in terms of enterprise creation, the issuance of construction permits, registering a firm and paying taxes. The latest of these studies was published in October 2017.

Ease of filing taxes

The assessment for this sub-dimension on the ease of tax filing is based exclusively on a set of indicators drawn from the "paying taxes" section of the World Bank's *Doing Business 2019* report. These indicators cover the number of annual tax payments; the time required to perform these payments; and the post-tax-filing index, which takes into consideration the time required for an enterprise to obtain a VAT refund and complete an income tax correction.

Colombia performs relatively poorly in this area compared with OECD countries, but is generally aligned with the performance of the other LA7 countries. The most critical areas are related to the low level of the post-tax filing index (48.17 against an average of 84.4 in the OECD area, 100 corresponding to the frontier, or best practices) and the time required to complete the tax payments (255.5 hours compared with an average of 159.4 in the OECD area). The number of tax payments per year is 11, in line with the OECD average (11.2). The indicators are based on standard procedures only, and do not take into account the availability of online facilities for tax filing and payment (World Bank Group, 2018[11]).

E-government

Colombia is pursuing an active digital government policy *(Política de Gobierno Digital)* to steer the transition towards a more inclusive and open government using advanced information and communications technology (ICT) and data processing technologies. The policy is co-ordinated by the Ministry of ICT (MINTIC), and is an evolution of the previous administration's "Online Government Strategy" *(Estrategia de Gobierno en Línea)*, which focused on extending the adoption of digital government solutions throughout the public administration. As part of this policy, Colombia established an open data system and web portal (datos.gov.co) that consolidates in one place the information and data published by all public entities in the country. A recent OECD review of digital government in Colombia (OECD, 2018[29]) has highlighted the progress achieved by the country in this area, and elaborated a detailed set of policy recommendations.

A number of public digital services are already operational, including tax filing (through a platform managed by the Directorate of Taxes and National Customs, or DIAN) and social security. Electronic signature is also operational and gives access to a range of e-government services. Automatic exchange of data among public databanks (interoperability) is under development. Currently, interoperability is in place between the databases of the chambers of commerce and the RUT.

Access to finance (Dimension 3)

Colombia receives the highest score of the LA7 for this dimension; its high score of 4.26 is consistent with its moderately advanced level of policy development in this area.

Legal, regulatory and institutional framework for access to finance

Colombia stands out from the rest of the region for its regulatory framework on the rights and prerogatives of creditors in secured transactions. This framework is governed primarily by Law 1676 of 2013[22] (Law of Movable Guarantees) and Decree 400 of 2014[23] of the Bogotá Chamber of Commerce. For example, they allow companies to deliver present and future goods, either with a specific description or generic as stipulated by international standards. Colombia also has a land documentation system[24] and a registry of movable guarantees[25] created under the aforementioned legislation. Consistent with best practices,

this registry is based on notices of the use of an asset as collateral and does not contain information on the underlying property documents. This information is accessible to the public electronically and allows users to access and modify their collateral records online.

Another facilitator for judging credit risks is the availability of credit bureaus. In Colombia, this role is fulfilled by two private companies: TransUnion[26] and DataCredito.[27]

The reason why Colombia has not received a higher score in this section is its lack of regulation on the amount of assets requested as collateral by commercial banks to grant loans to SMEs.

Diversified funding sources

Colombia obtains a high score (4.63 points) in the sub-dimension relating to diversified sources of financing. Colombia has several microfinance institutions at the national level, in addition to Bancóldex, a state-owned commercial bank that operates as Colombia's entrepreneurial development and export-import bank. Bancóldex provides knowledge services and financial instruments to companies of all sizes, sectors and regions, whether exporters or oriented to the national market. It has also established alliances with local governments and multilateral organizations. Although the bank's activities are not exclusively aimed at SMEs, this productive segment uses many of its products.

In addition, the national government, with the support of the Colombian Association of Medium and Small Enterprises *(Asociación Colombiana de Medianas y Pequeñas Empresas,* or ACOPI),[28] set up in 1984 the National Guarantees Fund (*Fondo Nacional de Garantías*, or FNG)[29] with public and private participation, which seeks to facilitate access to credit for SMEs by providing bank guarantees in cases where enterprises lack adequate collateral. This agency also has other support and training tools for SMEs and is available to all productive sectors except for the agricultural sector, which has its own guarantee schemes.

Colombia also has a dense network of alternative sources of financing that is based on assets and private capital investment instruments. Until recently, the main gap was the lack of pertinent regulation for collective financing mechanisms (i.e. crowdfunding). However, this problem was solved when the Financial Regulation Unit (*Unidad de Regulación Financiera*, or URF) together with the relevant government bodies, issued Decree 1357 of 2018, through which collaborative financing activities are regulated. This also specifies that electronic collective financing platforms are subject to the supervision of the Superintendence of Finance of Colombia *(Superintendencia Financiera de Colombia)*.

Financial education

Colombia achieves the highest score in the sub-dimension of financial education (4.28 points), recognizing the efforts of the Colombian government in this area. In recent years there have been several measurements of financial knowledge in the country including a World Bank survey in 2012, another financed by CAF in 2013[30], and a "Great SME Survey of 2018"[31] carried out with the support of the IDB, Bancóldex and the Central Bank *(Banco de la República)*. These helped inform the financial education guidelines outlined in the National Strategy for Economic and Financial Education (*Estrategia Nacional de Educación Financiera* – ENEEF).[32] This national strategy identifies different target groups among which small entrepreneurs play a preponderant role. The fundamental line of action aimed at SMEs is the provision of content and training programs such as those offered by the Ministries of Education, Finance and Public Credit, and Trade, Industry and Tourism. Bancóldex, the Banking Association, and the Superintendence of Finance of Colombia also

have a portfolio of online training and support activities in the areas of business, strategy, corporate governance and personal finance.[33]

In addition to these multifaceted initiatives, the Colombian government has developed a series of indicators for monitoring management and evaluating the impact of initiatives. Because the strategy was launched only at the end of 2017, no results are yet available that can be used to refine the strategy. However, the government has proposed publishing these performance indicators on its publicly accessible web portal for financial education.[34]

Furthermore, although educative institutions in Colombia have curricular autonomy, within the ENEEF framework the Ministry of Education has developed guidelines, programmatic suggestions and tools to incorporate financial education[35] issues in educational curricula.

Efficient procedures for dealing with bankruptcy

Colombia stands out in the section on insolvency proceedings by obtaining the highest LA7 score of 4.17 points, well above the LA7 average (3.16). These processes are regulated under Law 1116 of 2006[36] and the Single Regulatory Decree 1074 of 2015, which establishes a system structured around two processes: reorganization and liquidation. All these reorganization requests are handled through a system of notices published in the Chambers of Commerce, corresponding to the domicile of the debtor and its branches, but such information is not available in a unified registry and freely accessible to the public. The Superintendence of Corporations (*Superintendencia de Sociedades*)[37] also has the power to collect legal, financial and accounting information from companies subject to supervision, but such information is only accessible to officials of the Superintendence. In addition to these procedures, this entity has a tool that identifies financial, accounting and legal alerts.

Although the legal framework of guaranteed operations is broadly aligned with internationally accepted principles, some criteria are not yet observed within existing legislation. For example, there are no restrictions that require creditors' approval before subjecting companies to reorganization processes, nor are there any contingencies for secured creditors to obtain priority in the event of liquidation of the bankrupt company's assets.[38]

Finally, Colombia has the most efficient procedures in the region, with relatively high recovery rates close to 70% of the value of the assets. However, the reorganization and liquidation processes require about two years to be completed.

SME development services and public procurement (Dimension 4)

In general, and as already demonstrated in this chapter's previous "Institutional Framework" section, Colombia has an established and detailed system of planning and design of economic policy, including enterprise development policy, despite the fact of lacking a particular or exclusive SME strategy. Details on business development services (BDS) for SMEs and entrepreneurs, however, are limited. The actions and programmes on BDS put forward by the plans are many, but lack an explicit structure, including a public consolidated catalogue or website. Furthermore, while there are several institutions providing BDS, there is a lack of clarity concerning the division of responsibilities and limited performance-oriented information on the functioning and results of individual BDS programmes.

Colombia's overall score for this dimension of 4.08, which is basically equal to the LA7 average, reflects this state of affairs. Going forward, Colombia could benefit from explicitly

defining the roles and responsibilities of the many institutions involved in SME support, improving the dissemination of relevant information, and better tracking the results of BDS on SMEs and entrepreneurship, building on its already strong planning and design culture.

Business development services for SMEs and entrepreneurs

The National Development Plan 2014-18 and the National Policy for Productive Development 2016-2025 (also known as CONPES Document 3866 of 2016) are the main documents guiding Colombia's productive development policy, including SME development (see the "Strategic planning, design and co-ordination" sub-dimension for more information). Both strategic documents include detailed diagnostics sections that identify low productivity and low economic sophistication as the main challenges preventing economic development in Colombia.[39]

Increasing the supply and coverage of BDS is one of the four components under the National Development Plan's strategy to strengthen the technological capabilities of enterprises. However, the component does not specify the types of BDS to be promoted and how they will contribute to the technological capabilities of firms. What is more, the stated objective of this component is quite generic and not explicitly related to technological capabilities (i.e. to strengthen management capabilities and specialised knowledge of production and commercialisation processes) (DNP, 2015, p. 145[30]). The National Development Plan does mention three mechanisms to foster BDS: a network of business development centres, a programme for Technological Extension, and an increase of firms benefiting from innovation and entrepreneurship programmes by iNNpulsa. The Plan does not, however, provide any other specifics, other than very rough targets in terms of intermediary goals and outputs (DNP, 2015, p. 160[30]).

The National Council for Economic and Social Policy (CONPES) developed CONPES Document 3866 of 2016**,** which provides many more details on BDS actions, as it puts forward the Productive Development Policy for 2016-2025 – which, according to the information provided for this assessment, is framed by the wider National Development Plan. The Document includes an in-depth analysis of the factors hindering productivity and diversification in Colombia, including the shortcomings of the BDS market. Citing a 2012 study by Propais, CONPES Document 3866 of 2016 notes that the most important shortcomings perceived by managers do not relate to the quality of BDS but rather their price (88% of respondents), the concentration of their offering in urban centres (83%) and the lack of access to information about the BDS available (67%).[40]

The following are some of the actions for BDS mentioned in CONPES Document 3866 of 2016:

1. The implementation of a National Programme for Productive Scaling-Up (*Programa nacional de escalamiento de la productividad*), which would take into account the results of the pilot programme for Technological Extension (referred to in the National Development Plan 2014-18).[41] This programme would focus on improving management capacities in Colombian firms through a diagnostic and improvement programme, and through supporting the adoption of knowledge and new technology. At the time of writing, the programme had not yet been launched.
2. The development of a market of BDS providers across Colombia, particularly through the transfer of "successful methodologies [to,] and the development of human capital" in, firms providing support services. The programme is

implemented by SENA, the National Learning Service, which focuses on building the capacities of "support entities".

3. The provision of financial support to business incubators and accelerators, through the different entities and programmes under MINCIT and according to the success of the initiatives.
4. The implementation of a Programme to Reinforce and Develop Entrepreneurship Capacities, including through mentorships and training.
5. Expansion of the Business Development Centre programme, taking inspiration from the Small Business Development Centres in the United States.

All of the above actions correspond to CONPES Document 3866 of 2016's "specific objective 1" (see Table 13.9 earlier in this chapter) and involve an important number of institutions. The National SME Support System – which, as mentioned earlier, was created in the context of the SME Law (see the section on "Institutional Framework") – supports business owners through financial and non-financial instruments delivered by various entities.[42] The System comprises several BDS providers, including those already mentioned (MINCIT, DNP, SENA, MINTIC), and others such as business associations, universities and other education institutions.

These institutions, and their agencies, implement a variety of BDS programmes. For example, iNNpulsa Colombia, an enterprise development agency, delivers programmes to raise awareness of entrepreneurship (through conferences, seminars, etc.), providing advice and training as well as facilitating networking between entrepreneurs, experts, mentors and financers. Another example is the *Aldea* (village) programme, which involves business diagnostics, expert counselling, specialised advisory services (intellectual property, marketing, finance, etc.) and advice on obtaining finance, either from iNNpulsa (*capital semilla* or seed capital) or from external sources.

In coordination with iNNpulsa, the Ministry of ICT (MinTIC) has since 2017 worked to reinforce the digital transformation of SMEs. It takes a double approach: first, to boost enterprising skills (strategy, culture, capabilities, etc.); and second, to support the adoption of ICT by increasing knowledge about these technologies, helping firms to adopt ICT solutions, aligning supply and demand, and similar efforts. This is implemented through Digital Transformation Centres (CTDE), which provide standardised and personalised services. To date, there are 18 centres (hosted by chambers of commerce) which have helped 10 600 SMEs with diagnostics and "digital transformation routes".

In addition, the Business Development Centres (*Centros de Desarrollo Empresarial*) programme aims to bring together the government, higher education and the private sector to provide specialised services to SMEs and entrepreneurs in areas such as innovation, management and administrative advice, advice on access to finance, business linkages (*associatividad*), access to new markets, and others.[43]

This adds to programmes by SENA on technology accelerators,[44] advice to SMEs and entrepreneurs,[45] and others, as well as programmes by Propaís, a public-private organisation supporting SMEs through training and advice.

There is therefore a large number of organisations and support services operating in Colombia, although without an evident structure and division of roles and responsibilities. What is more, the information available online on the different support programmes for SMEs is highly fragmented, limited and often outdated. This makes it difficult to understand the roles and responsibilities of the many public and private actors active in this

area and the services on offer. Notably, MINCIT's information website for SMEs displays a banner with links to the different support organisms and programmes, without actually distinguishing between institutions and services and without providing any information about the characteristics and objectives of each initiative.[46] Therefore, Colombia could greatly benefit from improved communication with the public on the structure of SME policy responsibilities, including BDS, and a better dissemination online of the different support programmes available to different types of SMEs and entrepreneurs.

As already explained in the "Institutional Framework" section of this chapter, Colombia has an established system for tracking the progress of the implementation of its strategic documents and their different areas, including BDS. For example, the DNP has established the National System for the Evaluation of Management and Results (SINERGIA), which focuses on the progress of the implementation of the National Development Plan (and hence, does not cover all government programmes and strategies).[47] Unfortunately, clear transversal information on BDS is not available, even when examining the objective "increasing the productivity of firms" in the area of Competitiveness and Strategic Infrastructure (Chapter V in the Plan).[48] This objective includes nine programmes and a number of indicators.[49] Unfortunately, none of these programmes corresponds to the BDS initiatives cited in this section (business development centres, programme for technological extension and increase of firms benefitting from the programmes of iNNpulsa). This reflects a lack of coordination between the objectives, strategies and goals in the text of the plan and the actual programmes and indicators that are monitored in SINERGIA.

CONPES has also established a mechanism to track the progress of its documents, including Document 3866 of 2016. This action plan (*Plan de Acción y Seguimiento*, or PAS) is the only document to contain such a level of detail among the LA7. Nevertheless, the description of its actions for the promotion of BDS remains very broad and generic, despite supplying details such as responsible agency, contact person, and KPIs for each year from 2016 to 2025. For example, the CONPES Document 3866 of 2016 does not provide any specifics on the characteristics of the National Programme for Productive Scaling-Up (*Programa nacional de escalamiento de la productividad de las empresas* – action 1.1 in the PAS) other than the generic information that it establishes a diagnostic and improvement programme for productivity. Furthermore, the second programme to develop a market of BDS providers in Colombia (*Programa nacional de escalamiento de la productividad de especialistas formados* – action 1.2 in PAS), which is meant to complement the National Programme for Productive Scaling-Up, includes no details on who the target beneficiaries are; the description in CONPES Document 3866 of 2016 only refers to the beneficiaries as "supporting entities" (*entidades de soporte*).

The same applies to the other three programmes mentioned here. Furthermore, there is no information available on the programme for Business Development Centres, including on the website of MINCIT, which includes only a very superficial description of their roles and activities. This contrasts with examples of networks of business development centres in other countries, which comprise a central website providing an overview of the centres and their services, and links and contact information of sub-national centres. Overall, nearly two-thirds of the objectives of CONPES Document 3866 of 2016 have been achieved (in terms of indicators).[50] The results for the individual BDS programmes vary greatly, ranging from 0% for the programme to provide financing to incubators and accelerators, to 66% for the programme on Business Development Centres.

In general, Colombia has an established and detailed system of planning and design of economic policy, including enterprise development policy, despite the fact of lacking an

explicit SME strategy. Details on BDS for SMEs and entrepreneurs, however, are limited. Therefore, going forward, Colombia could benefit from explicitly defining the roles and responsibilities of the many institutions involved in SME support; improving the dissemination of information on the offer available; and better track the results of BDS on SMEs and entrepreneurship, building on the already strong planning and design culture.

Public procurement

In Colombia, public procurement accounts for 12.5% of GDP. Although slightly below the OECD average, this represents a relatively larger share of government expenditure (35.7%) (OECD, 2016[31]). Colombia's legal framework for public procurement derives from a number of laws, amendments and decrees that include provisions to facilitate the participation of SMEs in this market. These include adequacy and proportionality principles, the possibility to form consortia and undertake joint bids, and the possibility to split tenders into lots (see Box 13.1). The laws, however, do not foresee the imposition of penalties in the case of late payments to contractors.

In terms of e-procurement, as noted in Box 13.1, Law 1150 of 2007 introduced the Electronic System for Public Procurement (SECOP), which was established as an initial e-procurement system for publishing contracts, notices and information on awards (OECD, 2016[31]). The public procurement agency, *Colombia Compra Eficiente* (CCE), then established a more complete and functional system, SECOP II, which – apart from serving as a platform for the electronic publication of information – functions as a full e-procurement system, allowing electronic communication at all stages of the procurement cycle, and the electronic submission of tenders (OECD, 2016[31]). The e-procurement platform is available through the CCE's website, which provides extensive information for both suppliers and buyers. Additionally, Colombia implements a single register of suppliers (*Registro Único de Proponentes*, RUP), which is managed by the Association of Chambers of Commerce (*Confecámaras*) and whose registry is necessary to participate in procurement processes. Nonetheless, an OECD report found that suppliers wanting to register with the RUP needed to submit substantial documentation and needed to renew their registration annually to be kept in the registry (OECD, 2016[31]).

Box 13.1. Legal and regulatory framework for SME participation in public procurement in Colombia

Law 80 of 1993 established the initial legal framework for public procurement in Colombia by defining the contracting entities, primary goals, and the rights and obligations of contracting authorities and suppliers. This Law includes some provisions facilitating the participation of SMEs in public procurement, notably allowing consortia and temporary unions of legal and natural persons to participate in public contracts (Art. 7). Law 80 also establishes that, under equal conditions, there will be preference for domestic goods and services over foreign ones (Art. 21 and Law 816 of 2003).

Law 1150 of 2007 introduced reforms to Law 80 and added other general dispositions to the public procurement system. Several of these reforms have great relevance for SME participation in public procurement, notably:

- The establishment of e-procurement, which led to the creation of the SECOP as an initial e-procurement system;
- The introduction of adequacy and proportionality principles, according to the nature and value of the contract;
- The possibility of preferential subcontracting for SMEs and to award contracts exclusively to SMEs when the contracts are below USD 125 000; and
- The facilitation of guarantees for SMEs.

Decree 4170 of 2011 created the National Agency for Public Procurement (*Colombia Compra Eficiente*), which is in charge of defining the technical and methodological guidelines for the consolidation of the system of public procurement and public contracting.

Decree 1082 of 2015 required government agencies to publish in SECOP II all procurement documents three days after their release.

Sources: Law 80 of 1993 http://www.secretariasenado.gov.co/senado/basedoc/ley_0080_1993.html; Law 1150 of 2007 http://www.secretariasenado.gov.co/senado/basedoc/ley_1150_2007.html; Decree 4170 of 2011 http://wsp.presidencia.gov.co/Normativa/Decretos/2011/Documents/Noviembre/03/dec417003112011.pdf.

Concerning the implementation of programmes for SMEs, according to the information submitted for this assessment, CONPES Document 3484 of 2007 on a National Policy for Productive Transformation and SME Promotion led to the development of three specific public procurement tools: the SME Guide for Public Procurement,[51] the ABCs of Public Procurement[52] and Five Steps for Public Procurement.[53] However, these are only informative tools (and with very limited information in most cases) and do not represent help desks for SMEs or specific support programmes to train and advise SMEs on how to take advantage of procurement opportunities.

Finally, regarding the monitoring and evaluation of the participation of SMEs in public procurement, some facts and data are published in the CCE portal. They include the participation of SMEs in framework agreements, in total (52% of all firms) and according to categories. Nonetheless, no other details are available. Hence, Colombia could develop systems for the automated collection of data on SME participation in SECOP – by, for example, asking users to declare whether they are a SME. Furthermore, Colombia could introduce programmes that directly support SMEs with public procurement opportunities such as training, programmes for joint bidding, subcontracting, incentives to participate (e.g. advance payments) and other measures.

Innovation and technology (Dimension 5)

As already noted in the previous section on business development services (BDS) for SMEs and entrepreneurs, the promotion of science, technology and innovation (STI) is one of the main priorities for Colombia and is a central element in its National Development Plan for 2014-18 and its National Policy for Productive Development 2016-2025 (CONPES Document 3866 of 2016).

Indeed, as noted in the OECD Economic Survey of Colombia of 2017, R&D expenditure is just 0.2% of GDP, compared with 2.4% in the OECD. Furthermore, only 30% of total R&D is performed by the business sector, compared with 70% on average for OECD countries. This contributes to the low innovative performance of Colombian firms: according to the OECD survey, just 2% of manufacturing and services firms introduced new products to the market in 2010-2012, compared to 3.7% (manufacturing) and 8.8% (services) in Brazil, and 8.5% (manufacturing) and 3% in Chile (only services) (OECD, 2017[4]). Along these lines, the National Development Plan 2014-18 (DNP, 2015[30]), citing a survey of the manufacturing industry, notes that the share of manufacturing firms classified as non-innovative grew from 60.6% of the total in 2009-2010 to 73.6% in 2011-2012. A similar trend was registered in the services sector.

The country's overall score for this dimension of 3.78, which is aligned with the LA7 average of 3.75, reflects this state of affairs – and corresponds to the fact that Colombia has an ample offer of innovation support services, including the financing of innovation activities. The information on these services, however, is widely scattered and in most cases only refers to broad descriptions of the support schemes, without providing concrete information on how SMEs can find and apply for the different types of support.

Institutional framework for innovation policy

As seen in this chapter's previous BDS section, Chapter V of Colombia's 2014-18 National Development Plan focuses on Competitiveness and Strategic Infrastructure and includes a specific segment with the objective to "contribute to productive development and to address social challenges through science, technology and innovation" (DNP, 2015, pp. 161-170[30]). To address this aspiring objective, the plan describes, albeit very broadly, four strategic priorities: 1) developing a system and set of institutions enabling science, technology and innovation; 2) improving the quality and impact of research and the transfer of knowledge and technology; 3) fostering scientific, technological and innovative development as an engine for enterprise growth and entrepreneurship; and 4) generating a culture that values and manages knowledge and innovation.

Without providing a schematic view of responsibilities, the plan assigns a set of institutions to undertake its precepts. The main actor in this area is the Department of Science, Technology and Innovation (*Colciencias*), which leads the design of integral policies and coordinates the efforts of diverse actors (see Box 13.2 for a characterisation of the Colombian innovation system). Other important actors mentioned are the DNP, the business associations, SENA and the Foreign Trade Bank of Colombia (Bancóldex). However, very little is said in the Plan of MINCIT, its Vice-Ministry of Enterprise Development, and/or iNNpulsa, which was created in 2012. This is surprising, given the fundamental role of these organisations in promoting innovation in the private sector; however, this role is included in much more detail in CONPES Document 3866 of 2016.

Of the four strategic priorities set forward by the Plan, the third one on "fostering scientific, technological and innovative development as an engine for enterprise growth and

entrepreneurship" is of the greatest relevance for this section. This priority seeks to articulate the STI policy with that of productive development, which in particular aims to increase the technological capabilities of firms. The strategic priority hence identifies three particular components (DNP, 2015, pp. 167-168[30]):

1. Consolidating the capabilities of firms to manage innovation. To achieve this, *Colciencias* would develop a programme for enterprise innovation (*programa de iniciación a la innovación de las empresas*) to increase their productivity and sophistication. More concretely, the component proposes to support the creation of innovation units within enterprises.
2. Increasing financing for innovation. MINCIT and Bancóldex would work to develop alternative sources of finance and business incubators and accelerators. This would be complemented with other programmes such as public procurement for innovation, tax incentives for STI and innovation pacts.
3. Strengthening intellectual property for innovation. *Colciencias* would develop a programme to support patenting processes by firms, universities, research centres and individuals.

The implementation of these programmes is analysed in the next section on support services and financing for innovation.

Box 13.2. Colombia's National System of Competitiveness and Innovation (SNCCTI)

Colombia has several institutions with responsibility over the design, implementation and evaluation of innovation and productivity policies. These institutions form the SNCCTI, which is the result of the mandate of the National Development Plan to merge the former National System of Science, Technology and Innovation with the National System of Competitiveness.

The SNCCTI is led by a Council of Ministers that reports to the Presidency of the Republic. It also includes an Executive Committee comprising representatives of relevant ministries (at the director level) and the private sector, as well as a platform of regional commissions and technical coordination committees covering STI, productive development, human capital, formalisation, logistics and other areas (see below).

The design of policies is assigned to a number of ministries (e.g. MINCIT, MINTIC, Education, Labour), DNP and *Colciencias*. The execution of policies is given to SENA, iNNpulsa and others. However, there are no details on the operation and concrete policy design responsibilities between ministries and agencies.[1] For example, *Colciencias* is reported to be the agency in charge of coordinating the National System of STI. *Colciencias* also has responsibility over the design of strategic programmes, taking into account the complementarity among different institutions and international co-operation initiatives. However, the SNCCTI has no details on the role of *Colciencias*, or that of other important agencies such as SENA, Bancóldex, iNNpulsa, and others.

1. At the time of writing, all websites related to the SNCCTI were down, except the ones related to its regional commissions.

Sources:www.mincit.gov.co/minindustria/publicaciones/5305/sistema_nacional_de_competitividad_e_innovacion; and http://www.colciencias.gov.co/sites/default/files/ckeditor_files/politiciadeactores-snctei.pdf.

Innovation and productivity are two intertwined elements of CONPES Document 3866 of 2016 – which, as stated earlier, is framed by the wider National Development Plan (see Table 13.9, earlier in this chapter, for the objectives of CONPES 3866 of 2016). Among its various action areas, the Document includes a line of action (No. 2) to "increase the

innovation capacity of the economy" (CONPES, 2016, pp. 73-75[32]). The institutions involved in this line of action are MINCIT, iNNpulsa, SENA, *Colciencias*, the DNP and the Ministry of Information and Communication Technology (MINTIC). This line of action defines a series of activities in the action plan (*Plan de Acción y Seguimiento,* or PAS) annexed to the CONPES Document 3866 of 2016. Some of these activities are:

1. To define a model to co-finance innovation and technology initiatives in companies. The definition of the model would be led by MINCIT, in coordination with SENA and *Colciencias*, and would take into account the different responsibility areas of relevant institutions (this action does not specify *which* institutions – see Box 13.2, which explains Colombia's innovation system and the responsibilities of various entities).[54]
2. To develop a mechanism of innovation bonds that would aim to promote the articulation between firms and "support entities"[55] The bonds would be provided to the users of innovation support services to pay to the service providers. The MINCIT, *Colciencias*, SENA and DNP would lead this initiative.[56]
3. To develop a set of programmes for the consolidation of innovation in enterprises, in particular (a) STI management (b) development of new products and services, (c) open innovation and (d) corporate entrepreneurship (i.e. corporate spin-offs and intra-entrepreneurship). These programmes would add to existing efforts and be implemented by different agencies. This initiative would be led by MINCIT through its entities and programmes, the SENA and the DNP.[57]
4. To consolidate the strategy for the promotion of an entrepreneurship and innovation mind-set and culture. This would be led by MINCIT, through its entities and programmes, and in coordination with the SNCCTI.[58]

Other activities listed under innovation in CONPES 3866 have already been described in the previous section on BDS due to their relevance for the analysis of that section and to the inevitable overlaps between BDS and innovation policy.

CONPES Document 3866 of 2016 also includes specific actions on "deepening the financial support mechanisms for innovation and entrepreneurship" (line of action no. 4) (CONPES, 2016, pp. 79-82[32]). Some of these actions are as follows:

1. Contributing to the development of the industry of private and venture capital to finance the creation and growth of innovative firms. This includes specific actions such as investing in private capital funds, structuring a fund of funds, introducing programmes that incentivise the creation of private and venture capital funds, eliminating the barriers for the creation of new instruments (crowdfunding and corporate venturing) and attracting FDI to venture capital funds. These efforts would be led by MINCIT and its agencies, Bancóldex, iNNpulsa and the DNP.[59]
2. Modernising the Enterprising Fund (*Fondo Emprender*), under the SENA. This action does not provide further details.
3. Developing a programme for high potential firms to enter the stock and bond markets. These efforts would be led by MINCIT and its agencies.

In addition to these measures, the latest Economic Survey of Colombia (OECD, 2017[4]) notes new measures to improve framework conditions for innovation. For example, voluntary innovation pacts are signed by companies that include innovation as part of their business strategy. Innovation systems provide specialised training to develop innovation

capabilities, and innovation alliances (managed by Colciencias and chambers of commerce) promote the culture of innovation across companies in clusters.

The actual implementation of these programmes is analysed in the next sub-section on support services and financing for innovation.

Support services and financing for innovation and SMEs

As evidenced in the previous sub-section, Colombia has or is developing a large number of programmes supporting SME and entrepreneurship innovation. However, information about BDS programmes is scattered across many sources and not centralised. Furthermore, the information available online, including for the three flagship *Colciencias* programmes described below,[60] lacks a concise description of the programmes and how to benefit from them.

Colciencias is the main player in innovation policy in Colombia, providing a number of support schemes for innovation in enterprises, tax incentives for innovation, knowledge and technology transfers, patents, and others. *Colciencias* undertakes three flagship enterprise innovation programmes, as follows:

1. *Innovation Alliances* consists of programmes to raise awareness and train SME managers to promote innovation within their business. The alliances are implemented at sub-regional level through business associations and have three stages: innovation mentality or attitudes, training, and implementation.
2. *Innovation Pacts* helps to articulate the actors in the innovation system and incentivise investment in STI, including at sub-regional level.[61] The pacts are "voluntary agreements" where firms make a compromise to invest in innovation. The pacts provide support in terms of an innovation auto-diagnostic, supporting patenting and tax incentives for innovation, among others.
3. *Innovation Systems* helps to establish innovation strategies in firms by providing specialised consulting services.

SENA is another key agency promoting innovation in firms in Colombia, including through the development of human capital and programmes for competitiveness and technological development. For example, SENA implements a Programme of Continuous and Specialised Training, which co-finances 50% of the training costs of personnel (60% for groups of firms) at all levels and production stages. SENA also organises Sectorial Roundtables (*Mesas Sectoriales*) between the academic sector, the government and private firms to define strategies for the improvement of human capital in different sectors.

Finally, iNNpulsa also offers a number of programmes to support innovation and innovative entrepreneurship, including financial support for business accelerators and support for firms operating in the knowledge economy ("orange" economy), among others. While iNNpulsa does produce an annual report, the impact evaluation processes for each of its *convocatorias* are unclear.

Productive transformation (Dimension 6)

In 2016, Colombia built on its previous record of productive transformation efforts with the publication of CONPES Document 3866 of 2016, which outlines the country's "Productive Development Policy". Colombia's 4.39 overall score for this dimension, one of the highest of the LA7, reflects the generally well-developed nature of this strategy

across the policy-making cycle of planning and design, implementation, and M&E, with a focus on its components related to associativity and value chains.

Colombia's score moves above a 4.0 for this dimension thanks to its existing, and functioning, M&E efforts at both strategic and programmatic levels, especially those related to cluster development within this dimension. Going forward, these M&E efforts could be further improved at programmatic level by integrating them into value chains; and at strategic level, as already mentioned, the action plan (PAS) related to CONPES Document 3866 of 2016 could be further strengthened to include KPIs that are performance- rather than process-oriented. Utilising the results of these M&E efforts to inform future policy-making cycles will be essential to effectively evaluate the performance of these strategic and programmatic efforts in harnessing SMEs to contribute to Colombia's productive transformation.

Productivity-enhancing strategies

As explained previously in this chapter, Colombia currently uses CONPES Document 3866 of 2016 to guide both its SME development and productive transformation efforts over the 2016-2025 period. This policy includes a diagnostic of the country's productivity and diversification challenges, and sets the overall objective to develop instruments that resolve market failures to increase the productivity and diversification levels of the country's economy (see Table 13.9 earlier in this chapter for more information on the Policy's objectives). In alignment with its macro-objectives, the strategy then introduces lines of action, with corresponding instructions for specific government entities to develop support mechanisms. The policy includes various references to SMEs throughout, in both the diagnostic and lines of action, but no dedicated strategic component.

In co-ordination with the development of this strategy, and as already introduced in the previous section on "Innovation and Technology", the country has merged its previously separate public-private coordination systems dedicated to competitiveness and innovation into one National System of Competitiveness, Science, Technology and Innovation (SNCCTI) (see Box 13.2). The SNCCTI's "Mixed Committee on Productive Development" *(Comité Técnico Mixto de la Política de Desarrollo Productivo)* includes the "Private Council on Competitiveness" *(Consejo Privado de Competitividad)*, which is composed of representatives of more than 30 businesses – active in various sectors and regions – as well as four universities, the National Association of Entrepreneurs (ANDI), the Colombian Association of Micro, Small and Medium Enterprises (ACOPI), and the Colombian Federation of Chambers of Commerce (*Confecámaras*).

As already noted in this chapter's "Institutional Framework" section, in contrast to the majority of LA7 countries, CONPES Document 3866 of 2016 includes a detailed action plan (*Plan de Acción y Seguimiento*, or PAS), with quantifiable time-bound targets, which is publicly available as an annex to the policy.[62] The policy sets seven overall "results indicators" related to the number of businesses helped or certified, export values generated, financing mobilised, and employment rates – each indicator has pre-defined annual goals, set in comparison to a 2013/15 baseline. The plan also defines 90 specific actions, assigned to a specific division within a government entity, in relation to the strategy's objectives and lines of action. Each action has a set implementation period and assigned KPI, once again with pre-defined annual goals, set in comparison to a 2015/16 baseline. However, these are generally process- rather than performance-oriented (i.e. "numbers of assisted enterprises" vs. their pre-/post-programme performance). A number of these actions are the responsibility of MINCIT's Directorate for SMEs. Beyond this public action plan, MINCIT

also produces an annual public report,[63] though it is not aligned to the structure of CONPES Document 3866 of 2016. Overall, this creates a challenging situation where external stakeholder cannot easily discern the connections between operational programmes and stated strategic actions, even within the PAS, as well as programme impact (beyond participation and funding).

One of the central programmes that has been mobilised to deliver on CONPES Document 3866 of 2016 is the "Productive Transformation Programme" (PTP), originally established in 2009. The PTP works with a range of priority sub-sectors across agro-industry, manufacturing and services.[64] Organised around various transversal axes (productivity, quality, value chains, human capital, and norms), the PTP's efforts include training, commercial intelligence and tools, and financing support, delivered via calls for proposals.[65] iNNpulsa, covered in the previous sections related to business development services (BDS) and innovation and technology, also includes a number of targeted productive association-enhancing instruments (see next sub-section). While each programme includes measures that are both general and highly specific and targeted in nature, iNNpulsa's method of delivery is more related to calls for proposals *(convocatorias)* and provision of co-financing. Overall, in 2017, iNNpulsa impacted close to 28,000 beneficiaries, providing roughly USD 39 million in co-financing, while PTP focused on 352 enterprises. The following sub-sections will explore various instruments within both of these programmes related to associativity and value chains.

Productive association-enhancing measures

Within the framework of iNNpulsa over the past six years, Colombia has progressively developed a comprehensive support system for cluster development, comprising training, financing, networking and multi-stakeholder management support measures. Beginning in 2012, the "Competitive Routes" programme was established. It consists of active government intervention to develop roadmaps for the establishment of new or strengthening of existing clusters in priority sectors. At the time of this assessment, the programme had designed 51 roadmaps, covering clusters in 22 national departments, in which more than 500 businesses had participated.

Building on this programme, in 2015 iNNpulsa created the "InnovaCluster" call for proposals, which provides co-financing for the strengthening of existing clusters that have already participated in the "Competitive Routes" programme. This co-financing must be used to achieve various strategic goals (incorporation of innovative technology, amplification of export markets, better governance) within the cluster's established roadmap. At the time of this assessment, 22 projects had been selected for roughly USD 3.6 million in co-financing, involving 204 businesses.

A further step was taken in 2016 with the creation of the "Colombian Cluster Network" *(Red Clúster Colombia)*, a web portal[66] that provides a mapping of existing cluster initiatives, as well as a database for information on relevant public support programmes and tools, including, for example, import/export guidelines. The mapping, which covered close to 90 clusters as of 2018, includes information on the activities, governance and project financing of each cluster. An M&E system was also established in 2016 that analyses three dimensions: management, performance, and regional context/comparisons. The first M&E report, publicly published in 2017 on the basis of 2016 results,[67] covered 61 clusters, of which 30 had been assisted by iNNpulsa or MINCIT, and the remaining by local chambers of commerce or SNCCTI regional commissions. The report gives a score of 1-10, with 10 being the best, for each cluster for dimensions 1 and 2, on the basis of

various indicators; most clusters are ranked in the lowest two tiers (1-5, 5-7), and targeted recommendations are given at the end of the report. For dimension three, the evolution of official statistics by cluster, covering employment, salary, exports/imports, and sales, are displayed over the period 2008-2014.

Regarding industrial parks, Colombia, along with other LA7 countries (Ecuador, Peru, Uruguay) is in the process of updating its legal frameworks governing industrial parks, with the objective of promoting their development and creating more incentives for public-private-academic collaboration. While various industrial parks are already established, MINCIT is currently working to develop norms for the recognition and regulation of scientific/technology/innovation parks, in alignment with a 2016 tax reform (Law 1819), which incentivises investment in these parks.[68]

Integration into regional and global value chains

The majority of LA7 countries, including Colombia, have developed a similar type of supplier development programme to facilitate SMEs' inclusion in value chains. These programmes take the form of a call for proposals *(convocatoria)*, with co-financing for proposal implementation offered by the government. In the case of Colombia, as in Chile, Peru and Uruguay, this call for proposals is directed at large companies, who must submit a proposal for the development of their suppliers. Colombia's programme is also open to receiving proposals from chambers of commerce, unions and cooperatives.

However, the Colombian case is somewhat unique, in that its programme is specifically targeted at the agro-industrial sector. The "Agro-Export" programme, established in 2017 within the PTP, has selected and provided roughly USD 20 million in co-financing to 29 regional projects, involving 11,000 suppliers. Each project is anchored by the large enterprise or association that submitted the proposal, and can consist of either one or both of the following components: technical assistance, provided in co-operation with trade unions; and measures to strengthen the linkages between project anchors and their suppliers, and increase supplier quality, production processes, and marketing. The programme also involves ProColombia, as many project objectives are export-oriented.

Information on each project currently in implementation, including objectives, beneficiaries, anchors, sector, geographic location and cost, is publicly available via the programme website.[69] However, at the time of this assessment, evaluation mechanisms, such as formal private sector feedback and impact indicators, were lacking.

Access to market and internationalisation of SMEs (Dimension 7)

Colombia is making clear efforts to support SME internationalisation, including specific measures related to trade facilitation, e-commerce, quality standards and regional integration. Its overall score of 4.43 for this dimension, the highest of the LA7, reflects these generally well-developed efforts, with consistently high scores across the first four sub-dimensions on support programmes for internationalisations, trade facilitation, e-commerce, and quality standards. Going forward, further strengthening M&E systems and utilising the results to inform future policy-making cycles will be essential to effectively evaluate these efforts' effectiveness in improving Colombia's export environment and SME export performance.

Support programmes for internationalisation

As noted in Chapter 10, all LA7 countries, including Colombia, have relatively well-advanced policies and programmes in place to promote SME exports. Colombia's investment and export promotion agency (EPA), ProColombia, was guided during the period of this assessment by MINCIT's Strategic Sectoral Plan 2015-18, which set the overall goals to (a) increase the productivity of assisted companies by 15%, (b) raise the value of the country's non-mining-energy exports by USD 30 million, and (c) generate USD 6 billon in income and 300,000 new jobs from tourism.

ProColombia offers training support to SMEs via three main programmes: the Exporter Formation Programme; the Exporter Adequacy Programme; and COMEX – which, unlike the other two programmes, uses a call-for-proposals selection process. According to ProColombia's 2017 annual report,[70] its exporter-formation training programme reached close to 40,000 participants that year, exceeding the agency's annual goal by 37%. More targeted assistance was provided to 227 businesses during 2017 within the Exporter Adequacy Programme, which advises SMEs on the pricing, packaging and corporate marketing necessary to successfully export their specific good or service. COMEX, which was launched in 2017, building on a previous "SME International" programme established in 2015, selected 131 SMEs out of 274 applicants in 2017 – the programme was open to applicants from the federal government's five priority sectors, who were selected across the categories of agro-food (28%), "industry 4.0" (7%), metalworking (25%), chemicals (21%), and fashion (19%). Drawing on ProColombia's regional offices in 19 of the country's 32 departments, the programme provides an agency employee to serve as a dedicated advisor to each selected SME over a period of 4-12 months, in order to facilitate the establishment or growth of its exports. At the end of 2017, eight of the selected SMEs had already succeeded in their export operations (within the first four months of the programme's operation), thanks to advisor assistance on the topics of origin formalities, logistics, and exchange analysis.

Thus, ProColombia is in a similar position to that of many other LA7 EPAs in the sense that, although their EPAs are well-established and generally have overall institutional monitoring and evaluation indicators, the targeted SME export support programmes are relatively new, having only been established between 2015 and 2017, with only monitoring rather than performance evaluation information available at this time. In the framework of the aforementioned SINERGIA national monitoring system, the DNP has set six key performance indicators (KPIs) for ProColombia in alignment with the country's National Development Plan, covering the number of enterprises assisted via the Exporter Adequacy Programme, the number of enterprises with exports facilitated by ProColombia, the number of Colombian enterprises that consistently export, the number of international promotional events conducted by the agency, the FDI facilitated by the agency, and the value of the exports facilitated by the agency. The results of these indicators are publicly available online[71]; at the time of this assessment, four of the six indicators had been completed or exceeded, with only the number of enterprises with exports facilitated by ProColombia lagging at 90% completion, and no data available on the number of Colombian enterprises that consistently export.

Lastly, in comparison to other LA7 countries, ProColombia lacks institutionalised private sector feedback mechanisms. Instead, the agency engages informally with various chambers of commerce and trade unions, though this reportedly occurs on a regular, at least annual, basis.

Trade facilitation

Colombia, like its LA7 peers, has a relatively high score here (4.67 vs. LA7 average of 4.35) as it has a specific "Easy Export" programme to facilitate basic SME exports, provides exporting guides and inquiry points, and has established both a single window for trade procedures and an Authorised Economic Operator (AEO) programme[72]. However, like its LA7 peers, it also lacks targeted support services for SMEs related to AEO certification and document preparation. However, its score is tied as one of the highest in the LA7 for this sub-dimension, due to high performance on the OECD Trade Facilitation Indicators (TFIs).

Colombia's "VUCE" single window was the first to be established in the LA7 region, beginning operations in 2005. It has resulted in significant achievements, such as streamlining 135 procedures and 35 forms needed for importing into a single procedure for traders, reducing the average response time of linked agencies by about five days, and reducing by 30% the amount of time required to issue a license (APEC Policy Support Unit, 2018[33]). Colombia also benefits from its membership in the IDB's Inter-American Network of International Trade Single Windows (RedVUCE), which provides a forum for the exchange of best practices and support for regional integration. The OECD's TFIs cover selected RedVUCE members, and finds Colombia and Mexico to be the highest performers. Colombia particularly outperforms its RedVUCE peers in matters related to data content and structure (minimising repetition and costs), legal framework (privacy, confidentiality, data protection and dispute resolution), and technological architecture (usability and capability for future developments) (OECD, 2018[34]).

Colombia's AEO programme was established in 2011 and, at the time of this assessment, had certified 53 exporters and importers – no data was available on the individual certifications and their size. Indeed, Colombia, like its LA7 peers, lacks targeted support services for SMEs related to AEO certification and document preparation.

Colombia's "Easy Export" programme, established in 2009, facilitates exports of up to USD 2 000 in value and 50 kilograms via the postal system. The programme is clearly advertised on MINCIT's SME website, but is not easily found within ProColombia's site or the MINCIT-ProColombia joint "Colombia Trade" platform as an available support tool. Programme statistics are regularly updated and publicly published on the programme webpage[73] – the programme's facilitated export value steadily rose until 2014, and has since stabilised at roughly USD 750 000 per year.

As demonstrated in Figure 10.4, Colombia generally exceeds or matches the average performance of its LA7 peers across the four TFI indicators included in this assessment (information availability, fees & charges, documents and procedures), though it falls below the LA7 average regarding fees & charges and procedures. However, its average overall TFI performance still lags behind the OECD average (1.46 vs 1.67 respectively, best=2). The OECD notes that Colombia matches or exceeds the average performance of upper middle income countries in all TFI areas; furthermore, its performance has improved between 2015 and 2017 in the areas of advance rulings, fees and charges, automation, procedures, governance and impartiality (OECD, 2017[35]). However, the Organisation notes that further reforms in the areas of documents and procedures, among others, should be prioritised to increase the amount of information available to stakeholders and reduce the time required for export procedures.

Use of e-commerce

Colombia, alongside the majority of its LA7 peers, is relatively well advanced in terms of programmes to support SME access to and use of e-commerce. At the time of this assessment, the Ministry of ICT (MINTIC) was guided by the 2014-18 "Live Digital Plan" (*Vive Digital*).[74] The plan included the objective to consolidate the adoption of ICT by SMEs, as a measure for increasing their productivity and competitiveness. In support of this objective, MINTIC launched a dedicated "SME Live Digital" strategy in 2016. This strategy consists of five components: events and training to transform SMEs' negative perceptions about the incorporation of ICT; the creation of a free digital training platform; the incorporation of ICT services and training in existing regional SME business development centres; e-commerce projects; and projects to disseminate high-impact ICT solutions. According to one of MINCIT's 2017 public annual reports,[75] each of these areas began implementation in 2017; regarding e-commerce, a specific course was launched on the new "Digital Businessman" web platform created by the strategy,[76] with four modules of increasing specificity. SMEs can sign up to take the courses virtually (i.e. online) and for free, but must pass a "certification" in order to proceed to each subsequent module. 10 000 SMEs were also assisted via nine dedicated projects to begin e-commerce operations. By 2018, among other objectives, the strategy has set the goal that 30% of SMEs will regularly use e-commerce, against a 2014 baseline of 8%.

The SME Live Digital strategy was based on a MINCIT study that established a baseline for Colombian SMEs' current ICT usage, and set corresponding objectives for improvement by 2018. During 2017, MINTIC also facilitated a study within Vive Digital, in co-operation with the Colombian Commission for Communications Regulation (CRC), on the status of Colombian e-commerce. The study benchmarks Colombia against other international actors, examines the country's e-commerce regulatory framework, and explores the principal barriers to e-commerce in Colombia. Among these barriers, it finds that sectors with high rates of e-commerce have low Colombian SME participation, and that the country has a high digital divide in terms of connectivity, know-how and flexibility (Comisión de Regulación de Comunicaciones, 2017[36]).

Colombia is one of the only LA7 countries, along with Ecuador, to have developed public ICT observatories. Colombia's public-private e-commerce observatory was established in 2017, and indicators for regular monitoring are still being selected via a consultative process. However, using established survey responses, the observatory published a first set of statistics at the end of 2017,[77] breaking down the penetration of advanced technology and the adoption and management of ICT by sector and enterprise size.

Quality standards

Colombia has a variety of specific SME quality-standard support programmes, implemented within its "Productive Transformation Programme" (PTP). The first programme, "Quality for Exporting" *(Calidad para exportar)*, functions as a call for proposals that then provides co-financing to selected applicants to obtain quality standards. Launched in 2016, the programme is limited to SME and laboratory applicants from various sub-sectors within the PTP's established priority sectors. Thus far, the programme has focused on supporting applicants in obtaining necessary certifications to export to the US and EU markets. A survey of participating enterprises found that 50% do not carry out actions to know if their production processes allow them to reach the quality standards required by their desired export market; 60% consider that lack of certifications has prevented them from exporting or increasing exports; and 65% do not have any type of

quality certification – of the remaining, 35% only have the minimum standard ISO 9001 certification.[78]

The PTP has also partnered with UNIDO to run the SAFE+ programme, which is focused on the cosmetics industry. The programme was created in 2015 to support Colombia's objective to be recognised in 2032 as the world leader in the production and export of cosmetics made from natural ingredients. It works with national entities, quality service providers and industry to improve the technical capacity of the National Institute of Metrology (INM), the National Accreditation Body (ONAC) and the National Institute of Drug Surveillance (INVIMA) in the area of chemistry applicable to the cosmetics sector; strengthen the national quality infrastructure to offer services to the cosmetics sector, in particular those related to conformity assessment; and improve the capacity of compliance with international standards. The programme has a four-year USD 2.7 million budget and has thus far trained over 1000 stakeholders and assisted 15 laboratories. By the end of 2019, its goal is to have at least one laboratory certified in the OECD Principles of Good Laboratory Practice,[79] after which it can develop recognised toxicity tests internationally, ending the need for Colombian businesses to do this testing abroad, which is more costly.

Lastly, during the second semester of 2017, the PTP finalised an agreement with the National Metrology Centre of Mexico (CENAM) to assist laboratories that perform quality tests in the dairy, fruit, chocolate and confectionery sectors in meeting international standards. This agreement includes a study to examine Colombian laboratories' current gaps; a work plan will then be designed using the study's results.

The above monitoring information is publicly available on PTP's website and within its annual report; however, beyond this, no information on impact-oriented indicators, such as the performance of beneficiaries, is available.

Taking advantage of the benefits of LAC regional integration

Colombia has made concrete efforts as a member of both the Pacific Alliance (PA) and the Andean Community (CAN) to support SME development within regional integration efforts. In the case of the PA, this is the responsibility of the bloc's "SME Technical Working Group", one of the PA's 24 thematic working groups. The group derives its work programme from the presidential mandates delivered at the PA's annual summit; during the time of this assessment, it was focusing on various projects related to trade facilitation, business and entrepreneurial development, and public procurement, as well as measures related to collection and monitoring of data and private sector involvement.[80]

Like the PA, CAN has also established a specific working group on SMEs: the Andean Committee for Micro, Small and Medium Enterprises (CAMIPYME). Following CAMIPYME's creation in 2011, a 2012-2017 action plan was approved that contained four main strategic lines of action: facilitating greater participation of SMEs in the Andean economic integration process, developing Andean trade fairs and events, improving SME access to the Andean market, and promoting associativity among Andean SMEs. The Action Plan was well formulated, with clear objectives and corresponding actions and indicators (as well as a division of short-, medium-, long-term and permanent goals and actions). However, CAMIPYME faced difficulty in consistently implementing the plan because of both the annually rotating CAN pro-tempore presidency and the lack of a dedicated implementation budget. Thus, no follow-up report on the overall status of implementation of the plan has been conducted. Rather, in practice, each pro-tempore president has selected various priority projects, and worked to facilitate their development and implementation under their mandate.

While the 2012-2017 Action Plan was thus not systematically implemented, and no further action plan for the current period has been or is in development, actions taken to date correspond to some of the main lines of action established within the 2012-17 plan. These actions include investment in commercial intelligence to inform the development of regional value chains and targeted trade facilitation measures, such as the development of "Easy Export" Programmes in CAN member states (similar to the PA). To date, CAMIPYME has invested in various research projects to better understand existing and potential opportunities for Andean value chains. At the beginning of 2018, the UN Economic Commission for LAC (ECLAC) published a study on Colombian-Ecuadorian value chains[81] and, at the time of this assessment, was finalizing a statistical productive matrix (MIP), developed at CAN's request, systematising national accounts information on trade flows, employment, value chains, productive complementarity, and necessary intra-sectoral inputs by sector in each CAN member state. CAMIPYME was also developing a call for proposals to finance an external study on value chains with the greatest export potential to the EU market. In terms of trade facilitation, CAN also established a strategic plan dedicated to this subject in 2012, with the development and improvement of "Easy Export" programs for SMEs as an established project. In addition to these existing projects and results, further support measures related to BDS are under development.[82]

The PA also lacks a dedicated budget for its SME working group, whose projects are mainly funded on an ad-hoc basis by external donors. Current M&E efforts for both blocs are limited to the regular SME Working Group meetings and their summary records, but do not include any quantitative indicators to measure outcomes and impact. However, SME observatories are being developed by both SME working groups. Both groups are also in the process of institutionalising private sector feedback mechanisms, as their membership is limited to public officials from each bloc member country with responsibility for SME-related public policies.

Overall, Colombia thus scores somewhat lower than its LA7 peers who are solely PA members (Chile, Mexico) on the sub-set of indicators within this sub-dimension that measure action to support SME development at the *bloc* level, as CAN's current actions are somewhat less developed than those of other regional trade blocs, being concentrated in the planning and design and research phases. Yet, the country's overall score for this sub-dimension is higher than that of Chile and Mexico, thanks to strong *national* efforts to disseminate information about the benefits of regional integration. MINCIT has a specific "Economic Integration" Directorate; included within its set responsibilities, as established in the Decree creating MINCIT in 2003, is the need to actively communicate and coordinate with the private sector, especially with productive associations and chambers of commerce, to identify commercial opportunities related to regional integration. Building on this mandate, MINCIT has a specific website[83] dedicated to the country's free-trade agreements (FTAs), which includes a centre *(Centro de Aprovechamiento de Acuerdos Comerciales)* tasked with researching FTA business opportunities that has published studies detailing opportunities and challenges for various Colombian provinces/sub-regions to take advantage of existing FTAs.[84]

The way forward

Institutional framework

Colombia has made a significant effort to build a sound institutional framework for SME policy, establish coordination and consultation mechanisms, and ensure good communication between national and regional policy makers. Over the next two years, the

country will have to elaborate new medium-term strategic plans. In this regard, it could consider:

- **Conducting an in-depth evaluation of the results achieved so far, and assessing the effectiveness of its project/programme evaluation instruments.** As the CONPES Document 3866 of 2016 arrives at its mid-way implementation point (covering the period of 2016-2025), it will be useful to evaluate the effectiveness of the measures included in the plan and consider the lessons learned from the plan's implementation, in close consultation with SME associations.
- **Reviewing the mechanism of project/programmes implementation.** Colombia is relatively strong in policy planning and design, but relatively weak in policy implementation. The government should consider how to strengthen implementation institutions, including the need to establish a public agency for SME development, and review the call-for-proposal *(convocatoria)* mechanisms.

Operational environment and simplification of procedures

There is significant room for improvement within this dimension, as Colombia lacks a comprehensive regulatory reform strategy, RIA application is at an early stage, post-tax filing index scores are low, and company registration remains at a moderate level of development. Even so, there is already a good range of operational electronic services for enterprises and the availability of electronic signature.

Going forward, the country could consider:

- **Elaborating a comprehensive agenda for regulatory reform,** focusing on the areas where regulatory restrictiveness and administrative barriers are higher.
- **Implementing the application of RIA to all new regulations** as stipulated in the CONPES Document 3816 of 2014.
- **Moving ahead with the implementation of one-stop shops and the articulation of entities**, based on the single-window configuration located within the country's chambers of commerce.
- **Allowing for the completion of all procedures for company registration online,** and extending the facilities for online registration to other types of companies.
- **Reviewing the procedures for VAT reimbursement and post-filing tax auditing.**
- **Implementing the recommendations contained in the 2018 OECD *Digital Government Review of Colombia*** (OECD, 2018[29]).

Access to finance

Colombia has a context conducive to facilitating SMEs' access to financing – as reflected in its average score in this dimension, 4.26, the highest among the countries analysed. However, there are still some areas for improvement. In particular, the Colombian government could consider:

- **Strengthening the regulatory framework for secured creditors in the event of bankruptcy**. To adhere to internationally accepted principles, this legal framework must require the consent of secured creditors before commencing insolvency

proceedings, and give priority to these creditors in the event of liquidation of the assets of the insolvent company.

- **Ensuring the implementation and use of Decree 1357 of 2018 on collective financing schemes.**
- **Developing a unified register of companies in insolvency that is accessible to the public**. Although both the Chambers of Commerce and the Superintendence of Corporations keep records of these procedures, they are not unified and the information contained therein is only available to the members of these institutions.

Business development services for SMEs and entrepreneurs and public procurement

Colombia has a well-established planning system for SME support, including through BDS, and provides a number of support services for SMEs and entrepreneurs through a number of agencies. Yet the link between planning and implementation is not evident. For example, one of the key actions identified by Colombia's strategic planning documents is the creation of a network of business development centres. Although these centres seem to be operational, there is no information on the type of services provided, the beneficiaries, and how to apply to support schemes. Another example is the lack of public evidence on the implementation of the National Programme for Productive Scaling-Up, which would consist of the development of a BDS market in Colombia. Hence, in this area Colombia could:

- **Improve the dissemination of information on the different BDS support programmes for SMEs and entrepreneurs**, including by creating an online portal where prospective beneficiaries could learn about the different support mechanisms and the institutions that provide them.
- **Further develop the National SME Support System and assign roles and responsibilities to the institutions forming it**, from high-level oversight at the ministerial level to technical-level implementation through iNNpulsa, SENA, *Confecámaras*, etc. To date, there are no specific details or clear description of the different responsibilities of the organisations forming that National System.

Colombia has a mature e-procurement system and a legal framework with provisions to facilitate SME access to public procurement. The country could go a step further by introducing support schemes for SMEs to access public procurement opportunities. These schemes could include trainings and supplier development programmes, among others. Colombia could also develop systems for the automated collection of data of SME use in SECOP, the e-procurement platform.

Innovation and technology

Colombia has an important number of innovation support programmes, including for SMEs and entrepreneurs. A number of agencies, including *Colciencias*, iNNpulsa and SENA, provide support in this area. As in the case of BDS in general, information on the support available is very fragmented and scarce. Furthermore, there is no clarity as to institutional responsibilities under the National System of Competitiveness and Innovation (SNCCTI); for example, *Colciencias* still often refers to the National Innovation System, which is declared to have been merged with the National System of Competitiveness to form the

SNCCTI. This indicates that the general limitations of the BDS system are reflected in innovation support schemes. Hence, Colombia could:

- **Develop the roles and responsibilities of the SNCCTI and create a comprehensive website** to inform users, in a structured manner, of the innovation support schemes available through various institutions (iNNpulsa, *Colciencias*, SENA, Bancóldex, etc.).

Productive transformation

Colombia has made considerable recent efforts – guided by CONPES Document 3866 of 2016, and primarily implemented by iNNpulsa and the PTP – to support SMEs and various strategic sectors in driving the country's productive transformation. To further build on these efforts, Colombia could pursue the following actions:

- **Bolster current KPIs to measure performance rather than solely process.** While the current Action Plan (PAS) for CONPES Document 3866 of 2016 does include a set of macro-indicators that are more focused on performance, the established KPIs for each action focus on process (i.e. "numbers of assisted enterprises") vs. pre-/post-intervention performance. A mid-term review of CONPES Document 3866 of 2016's implementation could be the occasion to bolster current indicators and introduce impact assessment measures. Regarding the latter, it is important to both retain contact with applicants that are not selected as programme beneficiaries (in order to create a control group for further impact assessment) and to budget funds for an external independent evaluation, to be conducted after a set initial evaluation period.
    - **This recommendation is also particularly relevant for the Colombian Cluster Network's M&E system**, whose first report lacked responses from the majority of clusters related to performance indicators. Further mapping could be undertaken to establish control groups of clusters that are not receiving public support, and to establish impact assessment measures. Future reports could also differentiate between those clusters receiving iNNpulsa or private regional support, in order to compare performance and share good practices.
- **Incorporate and publish M&E processes in programme/call for proposal regulations from the outset.** While public monitoring mechanisms are readily available in the form of webpages and annual reports, the evaluation processes related to individual PTP and iNNpulsa *convocatorias* and programmes are unclear. Colombia could consider incorporating M&E schemes from the outset, and publishing these as part of the guidelines for each support programme/call for proposals.

Access to market and internationalisation of SMEs

Colombia is implementing a number of measures to support SMEs in their internationalisation efforts, including support in the specific areas of trade facilitation, e-commerce and quality certifications. To further build on existing efforts, Colombia could pursue the following actions:

- **Include AEO training in ProColombia's Exporter Formation training programme, and consider providing further support to SMEs, such as expedited exam processes, more flexible security standards, subsidised fees, customs-business partnerships, and/or quotas.** These methods have proved

successful in facilitating SME AEO certification in both OECD and APEC countries (APEC Policy Support Unit, 2016[36]).

- **Explore ways to incorporate quantitative indicators (KPIs) into various projects led by the PA SME Technical Working Group, allowing them to measure outcomes and impact and thus inform future efforts.** These indicators should go beyond measuring participation/funding, and instead seek to capture real-world impact. Clear communication of these efforts, via mechanisms such as the Working Group's website, could also bolster its efforts to build a dialogue with the private sector.
- **Take advantage of CAMIPYME's investment in diagnostic research and project development to establish a robust future SME development strategy, with quantitative indicators to measure outcomes and impact (KPIs).** CAMIPYME's efforts since its establishment have resulted in a valuable set of diagnostic research on SMEs' contribution to Andean value chains and corresponding opportunities, as well as project proposals related to BDS and institutionalising private sector participation and inter-Andean networking. CAMIPYME has also formed a robust network of partners and donors, including the IDB, CAF, ECLAC and the ILO. Looking to the future, CAMIPYME could consider taking advantage of these efforts through the establishment of a multi-annual action plan, drawing on support from partners to secure an overall implementation budget.

Notes

[1] Group 1 comprises countries with high equality in HDI achievements between women and men (absolute deviation of less than 2.5 percent), group 2 comprises countries with medium to high equality in HDI achievements between women and men (absolute deviation of 2.5– 5 percent), group 3 comprises countries with medium equality in HDI achievements between women and men (absolute deviation of 5–7.5 percent), group 4 comprises countries with medium to low equality in HDI achievements between women and men (absolute deviation of 7.5–10 percent) and group 5 comprises countries with low equality in HDI achievements between women and men (absolute deviation from gender parity of more than 10 percent)

[2] "National Treatment" is the commitment by a country to treat enterprises operating on its territory, but controlled by the nationals of another country, no less favourably than domestic enterprises in like situations. See http://www.oecd.org/daf/inv/investment-policy/nationaltreatmentinstrument.htm for more information.

[3] Foreign companies face restrictions in media, banking, fishing, transportation, telecommunications, and accounting, among others. (US DOS, 2018[16]).

[4] The National Development Plan Act of 2011 (No. 1450) modified the procedure for defining SMEs. It established that, rather than passing a bill through Congress, the Executive can alter the ranges and introduce sectorial specificities through regulations. However, the definitions contained in Act No. 590 will prevail until these regulations are introduced.

[5] There is no comprehensive enterprise survey covering all economic sectors in Colombia. The last one was a complementary survey attached to the population census of 2005. However, there are annual sectorial enterprise surveys (manufacturing, services, and trade) that provide data on production, employment and value added for these sub-populations.

[6] In this section we consider SMEs to be firms with a workforce of 100 and below, due to data restrictions.

[7] See Law 1753 of 2015 http://www.secretariasenado.gov.co/senado/basedoc/ley_1753_2015.html.

[8] See https://www.innpulsacolombia.com/.

[9] As previously stated, Law 590 of 2000 was modified by laws 905 of 2004, 1151 of 2007 and 1450 of 2011. This last law modifies Article 2 of Law 590, which establishes the definitions of business size, and defines three classification criteria for micro, small and medium enterprises: number of workers (employment), annual gross sales value and value of total assets. Additionally, it instructs the national government to establish the ranges that will apply to these criteria. However, while the government regulates the ranges, the current values are those set forth in Law 905 of 2004.

[10] See www.mipymes.gov.co/descargar.php?id=84216.

[11] See https://sisconpes.dnp.gov.co/ReportesSisCONPES/Reportes/ReportePAS?numeroConpes=3866.

[12] For more on the SNCCTI, see Box 13.2 later in this chapter under "Innovation and technology (Dimension 5).

[13] https://sinergia.dnp.gov.co/Paginas/inicio.aspx

[14] In the case of specific regulatory projects that are issued with the signature of the President of the Republic, the term for public consultation must be at least 15 calendar days, as established by the Single Regulatory Decree 1081 of 2015.

[15] Furthermore, Decree 270 of 2017 addresses the participation of citizens or interest groups in the elaboration of specific regulatory projects.

[16] See https://www.dane.gov.co/index.php/estadisticas-por-tema/industria/microestablecimientos.

[17] See http://www.funcionpublica.gov.co/ for more information about this entity.

[18] See https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/3816.pdf.

[19] See http://www.colombiaagil.gov.co/.

[20] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[21] "100" represents the best performance observed on each *Doing Business* topic across all economies and years included since 2005.

[22] http://www.suin-juriscol.gov.co/viewDocument.asp?id=1686166.

[23] https://www.ccb.org.co/content/download/5127/66623/file/Decreto%20400%20de%202014.pdf.

[24] http://www.igac.gov.co/igac.

[25] https://www.garantiasmobiliarias.com.co/Informacion/Legislacion.aspx.

[26] https://www.transunion.co.

[27] https://www.datacredito.com.co/quienessomos.html.

[28] http://acopibol.org.

[29] http://www.fng.gov.co/EN.

[30]http://scioteca.caf.com/bitstream/handle/123456789/743/ENCUESTA%20DE%20MEDICION%20DE%20LAS%20CAPACIDADES%20FINANCIERAS%20EN%20LOS%20PA%C3%8DESE%20ANDINOS%20-%20COLOMBIA.pdf

[31] http://www.anif.co/publicaciones/observatorio-pyme/gran-encuesta-pyme.

[32] http://www.banrep.gov.co/es/publicaciones/estrategia-nacional-educacion-economica-financiera.

[33] https://campusvirtual.bancoldex.com, http://www.asobancaria.com/sabermassermas.

[34] https://pesospensados.gov.co.

[35]http://www.mineducacion.gov.co/1621/articles-40033_archivo_pdf_Orientaciones_Edu_economica_financiera.pdf.

[36]http://www.supersociedades.gov.co/delegatura_insolvencia/Documents/Normatividad/Ley_1116_de_2006.pdf.

[37] However, the PIE portal of the Superintendence of Corporations can be consulted, free of charge, to obtain basic financial and legal information on commercial companies, sole proprietorships and branches of foreign companies, which report information to the Entity. See http://pie.supersociedades.gov.co/Pages/default.aspx.

[38] Article 52 of Law 1676 of 2013, on Security Guarantees in Judicial Liquidation Proceedings, provides that "Assets secured by property of the debtor in judicial liquidation may be excluded from the mass of the liquidation for the benefit of the secured creditors or beneficiaries of the security provided that the security is entered in the register of movable securities or in the register which, according to the type of act or the nature of the assets, would have been made in accordance with the law. If the value of the asset given as security does not exceed or is less than the value of the secured obligation, this asset may be directly awarded by the insolvency judge to the secured creditor. If the value of the asset exceeds the value of the secured obligation, the proceeds of the disposition will first be allocated to the secured creditor and the remainder will be applied to the other creditors in the corresponding legal order of priority. The secured creditor may choose to keep the asset as security and pay the balance to the liquidator to apply to the payment of other creditors. In the case of payment by adjudication, the secured creditor will be awarded the asset up to the value of the secured obligation and the remainder will be awarded to the other creditors in order of priority. In any case, the provisions of this article shall not apply to the detriment of pension rights.

PARAGRAPH: The exclusion of pledged assets in judicial liquidation proceedings shall be without prejudice to any agreements that may be entered into between the secured creditor and the liquidator, when the pledged assets are part of the economic exploitation unit of the debtor and this may be sold under the terms of paragraph of article 81 of Law 1116 of 2006. Upon disposition of the asset as security, the liquidator shall assign to the secured creditor the value of the asset given as security or may choose to pay prior to the disposition an amount equivalent to the value of the asset given as security and proceed with the disposition in the course of the proceedings.

[39] Economic sophistication is understood in these documents as the capacity of an economy to produce higher value added and more complex products and services.

[40] Propais is a public-private platform for the development of SMEs. The document cited is Propais (2012), *Diagnóstico del mercado de Servicios de Desarrollo Empresarial en Colombia: Debilidades, fortalezas, brechas y oportunidades*, Corporación para el Desarrollo de las Microempresas, Propais.

[41] This programme is being evaluated by the World Bank

[42] See http://www.mipymes.gov.co/publicaciones/2504/sistema_nacional_de_apoyo_a_las_micro_pequena_y_mediana_empresa.

[43] See https://www.innpulsacolombia.com/sites/default/files/anexo_iii_manual_operativo_0.pdf and http://www.mipymes.gov.co/publicaciones/9785/centros_de_desarrollo_empresarial.

[44] http://tecnoparque.sena.edu.co/quienes/quees/Paginas/default.aspx.

[45] http://www.sena.edu.co/es-co/trabajo/Paginas/fortalecimientoMypes.aspx.

[46] www.mipymes.gov.co/. Surprisingly, this website is not directly accessible through MINCIT's main website and it seems to be out of date.

[47] https://sinergia.dnp.gov.co/Paginas/inicio.aspx.

[48] http://sinergiapp.dnp.gov.co/#EstrategiaObj/2587/26.

[49] http://sinergiapp.dnp.gov.co/#ProgNivel/2628/26.

[50] https://sisconpes.dnp.gov.co/sisconpesweb//AccesoPublico/Index?idFase=5.

[51] www.aplicaciones-mcit.gov.co/guiapymes/intro.html.

[52] www.mincit.gov.co/mipymes/publicaciones/3210/abece_de_las_compras_publicas.

[53] http://www.aplicaciones-mcit.gov.co/cincopasos/c1.html.

[54] Action line 1.8 in the Action Plan (PAS) of CONPES Document 3866 of 2016.

[55] As in the actions described in the previous BDS section, the term "support entities" is not clarified.

[56] Action line 1.9 in the Action Plan (PAS) of CONPES Document 3866 of 2016.

[57] Action line 1.10 in the Action Plan (PAS) of CONPES Document 3866 of 2016.

[58] Action line 1.15 in the Action Plan (PAS) of CONPES Document 3866 of 2016.

[59] Action line 1.30 in the Action Plan (PAS) of CONPES Document 3866 of 2016.

[60] For example, on the "Innovation Pacts" webpage various links are broken (e.g. the virtual innovation community – the SUNN website is expired) or do not correspond to the information they should display (e.g. the webpage on tax incentives for innovation re-directs to a generic webpage displaying *Colciencias* portfolio of services).

[61] http://pactosporlainnovacion.colciencias.gov.co/hazparte.

[62] See https://sisconpes.dnp.gov.co/ReportesSisCONPES/Reportes/ReportePAS?numeroConpes=3866.

[63] Available at http://www.mincit.gov.co/publicaciones/39477/rendicion_de_cuentas_2017.

[64] Agro-industry: cacao; coffee; selected fruits; processed foods; fish; and beef. Manufacturing: cosmetics; pharmaceutical; plastics and paints; chemistry; transportation; construction; and fashion. Services: software and IT; business process, knowledge process, and IT outsourcing; tourism and well-being; and natural tourism.

[65] See the programme website (https://www.ptp.com.co/) and annual report (https://www.ptp.com.co/ptp-capacita/publicaciones/transversales/informes-de-gestion-ptp) for more information.

[66] See http://www.redclustercolombia.com.

[67] The full report is available at http://redclustercolombia.com/contenido/sistema-de-seguimiento-medicion-y-evaluacion-ssme-para-iniciativas-cluster/30.

[68] See Article 256 of Law 1819, accessible here: http://www.funcionpublica.gov.co/eva/gestornormativo/norma.php?i=79140. The Article states that investors in certified research, technological development or innovation projects will be entitled to deduct 25% of the value invested in said projects from their income tax. It stipulates

that these investments may be carried out by various actors, including science, technology and/or innovation parks that are recognised by and registered with Colciencias.

[69] See https://www.ptp.com.co/ptp-servicios/ptp-proyectos/alianza-el-agro-exporta.

[70] See http://www.procolombia.co/procolombia/transparencia/informe-de-gestion.

[71] See http://sinergiapp.dnp.gov.co/#IndicEntidadP/152/35/26.

[72] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[73] See http://www.mincit.gov.co/mipymes/publicaciones/2010/ExportaFacil.

[74] See https://www.mintic.gov.co/portal/vivedigital/612/w3-channel.html.

[75] See https://www.mintic.gov.co/portal/604/w3-article-62254.html.

[76] See https://empresariodigital.gov.co.

[77] See https://www.mintic.gov.co/portal/604/w3-article-61929.html.

[78] See https://www.ptp.com.co/ptp-comunica/noticias/ptp-abre-convocatoria-de-tercera-fase-de-calidad-p for more information.

[79] See http://www.oecd.org/chemicalsafety/testing/good-laboratory-practiceglp.htm for the principles.

[80] For more detailed information, see the sub-sections on sub-dimension 7.5 of Chapter 12 on Chile and Chapter 15 on Mexico.

[81] See https://www.cepal.org/en/node/45914.

[82] For more detailed information, see the sub-section on sub-dimension 7.5 of Chapter 14 on Ecuador.

[83] See http://www.tlc.gov.co/.

[84] See http://www.tlc.gov.co/publicaciones/40519/oportunidades_regionales_para_aprovechamiento_acuerdos_comerciales.

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DANE (2017), *BOLETÍN TÉCNICO: CUENTAS DEPARTAMENTALES-CD PRODUCTO INTERNO BRUTO*, DANE, https://www.dane.gov.co/files/investigaciones/pib/departamentales/B_2005/Bol_dptal_2016preliminar.pdf (accessed on 13 December 2018). [8]

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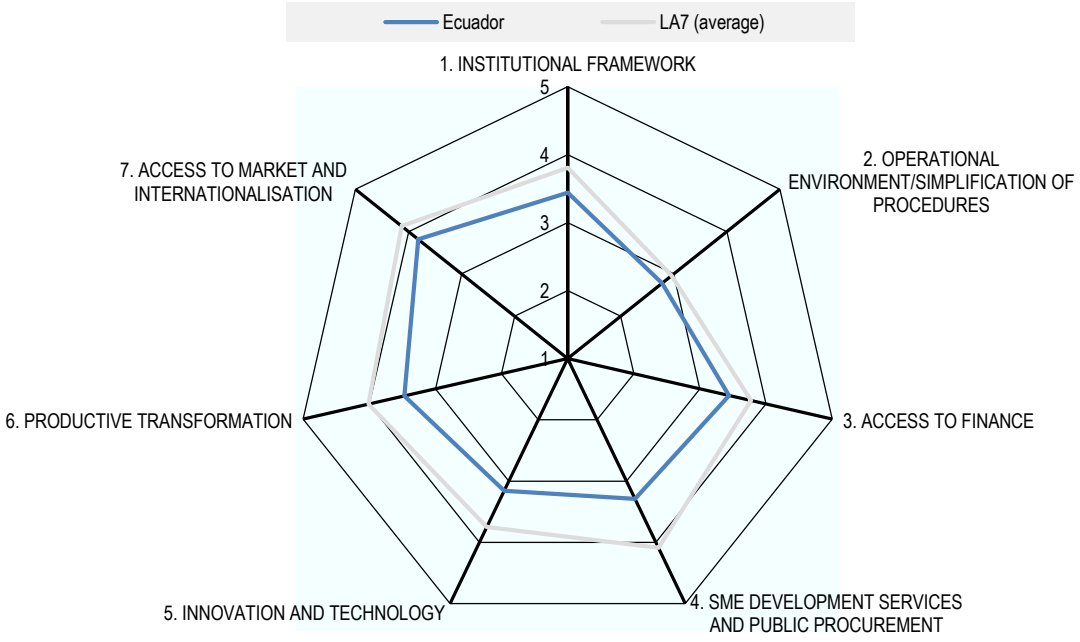
Chapter 14. Ecuador

Ecuador currently seeks to implement SME policy both as an instrument to achieve productive transformation and as a tool for social promotion. While this approach has a rationale rooted in the country's particular development challenges, in practice, effectively managing these two separate objectives is a challenging task.

In order to effectively advance these dual priorities, Ecuador should consider the development of an integrated SME strategy and redesign its policy implementation framework accordingly to improve the targeting of policy actions and devote substantially more resources to SME development. Actions oriented to business development services (BDS) and the promotion of innovation and technology are particularly lacking, with even existing initiatives threatened by ongoing budget cuts in place since 2016. Furthermore, while a government-wide monitoring and evaluation system does exist, current strategies lack specific, performance-oriented key performance indicators (KPIs) and most programmatic information remains internal to the government, leading to information gaps concerning the public support already readily available.

Key findings

Figure 14.1. 2019 SME Policy Index scores for Ecuador



This first OECD SME Policy Index assessment of Ecuador recognises the various efforts the country has made regarding SME development policy, but finds important remaining gaps across the various assessment dimensions (Figure 14.1) in the areas of planning and design, implementation, and monitoring and evaluation (M&E). Overall, current efforts led by the Ministry of Industries and Productivity (MIPRO) seek to implement SME policy both as an instrument to achieve productive transformation and as a tool for social promotion, given the country's need to (a) pursue greater economic diversification and a faster technological upgrade for future prosperity, and at the same time (b) promote employment and reduce poverty and marginalisation under current conditions.

However, various issues arise when attempting to manage these two separate objectives. For example, while the Industrial Policy 2016-2025 is in practice utilised by MIPRO as a central document for SME development policy strategic orientations, it does not in fact include SME-specific instruments or objectives. The policy still has major relevance for SME policy because Ecuador's industrial structure is mostly made up of small and medium-sized enterprises. However, it faces a major limitation in that the large majority of SMEs in Ecuador operate in the service sector, and are thus not directly covered by the strategy and only indirectly considered by the National Development Plan.

The current lack of a comprehensive SME development strategy does not allow for the optimisation of synergies and spillover among current actions. Furthermore, while a government-wide system to monitor the implementation of publicly funded programmes does exist, current strategies lack specific, performance-oriented key performance indicators (KPIs) and most information collected remains internal to the government. Furthermore, general explanatory information is lacking online for most current programmes, making it difficult for relevant stakeholders, including the SME population, to fully understand the support mechanisms already at their disposal. These conditions do

not allow for an assessment of the impact that existing initiatives are having on the SME population.

Going forward, and in order to effectively manage both social and productive objectives, Ecuador should consider developing an integrated SME strategy and redesigning its policy implementation framework accordingly to improve the targeting of policy actions and devote substantially more resources to SME development. Actions oriented to business development services (BDS) and the promotion of innovation and technology are particularly lacking, with even existing initiatives threatened by ongoing budget cuts in place since 2016. In this regard, authorities could also consider the needs of SMEs and entrepreneurs in less capital-intensive sectors that are still considered as priorities for the country's development, such as tourism, IT and agribusiness and others.

Overview

Economic structure and development priorities

Table 14.1. Macroeconomic Indicators

Indicator Name	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth (annual %)	1.1	5.3	3.5	7.9	5.6	4.9	3.8	0.1	-1.6	3.0
GDP per capita (current US$)	1 451	3 021	4 657	5 223	5 702	6 074	6 396	6 150	6 018	6 198
GDP per capita, PPP (current international $)	5 855	7 664	9 163	9 926	10 512	11 037	11 483	11 446	11 242	11 617
Unemployment, total (% of total labour force)	9.0	7.7	4.1	3.5	3.2	3.1	3.5	3.6	4.6	3.8
Inflation, GDP deflator (annual %)	-7.7	7.7	7.5	5.7	5.0	3.1	3.0	-2.5	0.9	1.5
Exports of goods and services (% of GDP)	32.1	27.6	27.9	31.1	30.2	28.6	28.1	21.3	19.7	20.8
Imports of goods and services (% of GDP)	27.3	28.5	32.4	33.4	31.6	31.0	29.7	24.0	19.1	21.3
External balance on goods and services (% of GDP)	4.8	-0.9	-4.5	-2.2	-1.4	-2.3	-1.6	-2.7	0.5	-0.5
Current account balance (% of GDP)	6.1	1.1	-2.3	-0.5	-0.2	-1.0	-0.5	-2.1	1.5	-0.2
Foreign direct investment, net inflows (% of GDP)	-0.1	1.2	0.2	0.8	0.6	0.8	0.8	1.1	0.8	0.6
Foreign direct investment, net outflows (% of GDP)	0.1	0.1	0.2	0.1	0.0	0.1	0.1	0.1	0.2	-
General government total expenditure	23.2	21.4	34.7	39.5	40.3	43.7	43.6	39.7	38.6	36.6
General government net lending/borrowing	-0.3	0.6	-1.4	-0.1	-0.9	-4.6	-5.2	-6.1	-8.2	-4.5
Domestic credit to private sector (% of GDP)	26.0	20.7	24.6	25.3	26.1	26.5	27.2	27.2	29.2	32.7

Source: (World Bank, 2018[1]; IMF, 2018[2]).

Activity, labour markets and economic structure

Ecuador started the 21st century with a long period of economic growth during which GDP (in US dollars) increased four-fold between 2000 and 2014. High oil prices (with oil accounting for one-third of the country's exports) and an economically proactive government were the key drivers behind this process. Growth halted in 2015 due to the global fall in oil prices, the concomitant reduction in government expenditure and the appreciation of the US dollar (ECLAC, 2016[3]), but is expected to resume in 2019 (International Monetary Fund, 2018[4]).

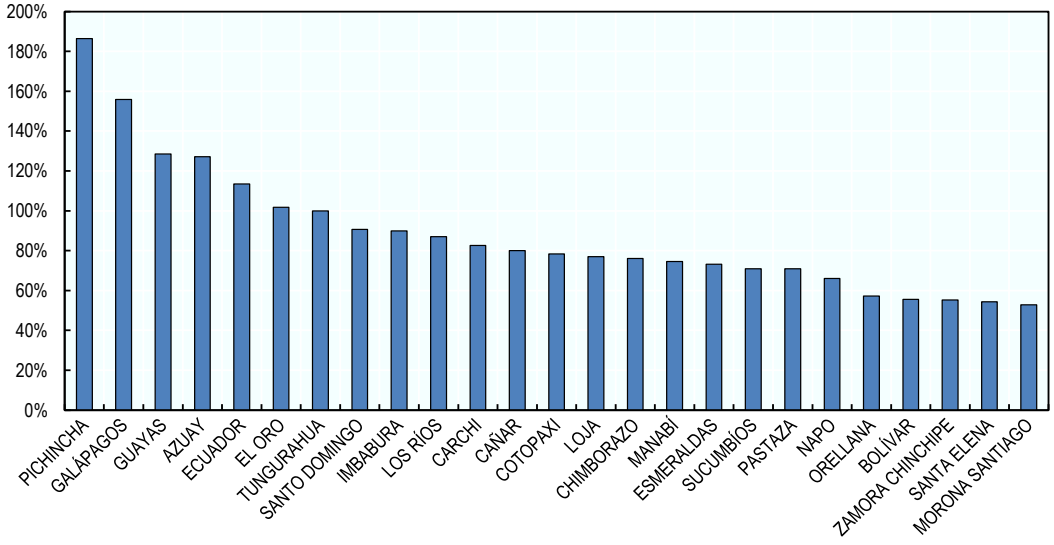
Ecuador's labour market followed an equally dynamic pattern to begin the 21st century. Unemployment plummeted from 9% to 3.8% between 2000 and 2017(see Table 14.1); and the employed population doubled between 2004 and 2016. However, the informal economy rate climbed to 46% in 2016, especially in agriculture (ILO, 2018[5]). This is particularly important in a country where 36% of the population resides in rural areas, a figure well above the LAC average of 20%.

In terms of structure, services still play a relatively low role in value added (52.1%) when compared with the rest of the LAC region (60.8%) (World Bank, 2018[1]). Agriculture accounts for 9.5% of total value added, double the regional average, while industry represents 31.4%. Oil is particularly relevant in the latter, with its extraction and manufacturing representing around 24.3% of total value added (Banco Central del Ecuador, 2017[6])

Financial markets remain shallow, with domestic credit to the private sector representing only 32.7% of GDP (see Table 14.1). Furthermore, the country is subject to high risks associated with market (oil prices) and natural (earthquakes, El Niño, floods) factors.

Being a relatively small (by regional standards) country in terms of land area, Ecuador does not face such sharp regional disparities as other LAC economies. The non-oil value added per capita ranges from 53% of the national average for Morona Santiago to 186% for Pichincha (see Figure 14.2).

Figure 14.2. Non-oil value added per capita by province - 2015



Note: Expressed as percentage of national non-oil value added per capita.
Source: (INEC, 2015[7]).

Ecuador's ranks 86th worldwide within the United Nations (UN) Human Development Index (HDI), placing it inside the group of "high human development countries", along with Colombia, Mexico and Peru from the LA7 (United Nations, 2018[9]) (see Table 14.2). This means that its performance on indicators measuring quality of health, education and standard of living generally fall among the middle third of all countries. However, Ecuador has a high gender development index (GDI) for the region, alongside Argentina and Colombia, placing it inside the top group of countries with high equality in HDI

achievements between women and men.[1] Ecuador has made a considerable improvement since the 1990s by increasing life expectancy at birth by 7.6 years, mean years of schooling by 2.1 years and expected years of schooling by 2.8 years.

Table 14.2. Selected Human Development Index (HDI) Scores – Ecuador 2018

Variable	Ecuador	LA7 Average
HDI Ranking (2017)	86th	69.3
HDI[1] (scale of 0-1, with 1=best; 2017 value)	0.752	0.785
Life expectancy at birth (in years; as of 2017)	76.6	76.8
Gender Development Index Ranking[2] (scale of 0-1, with 1=best; 2017)	0.98	0.98
Quality of Health[3]		
Lost Health Expectancy[4] (2016)	11.3%	11.3%
Physicians (per 10,000 ppl.; 2007-2017)	16.7	22.2
Hospital beds (per 10,000 ppl.; 2007-2014)	16	22
Quality of Education[3]		
Pupil-teacher ratio primary school (pupils per teacher; 2012-2017)	25.0	20.7
Primary school teachers trained to teach (2009-2017)	82.0%	93.5%
Proportion of schools with access to internet (2008-2013)	22.0%	56.3%
Math (PISA[5] score 2015)[6]	.	413.7
Reading (PISA score 2015)	.	436.2
Science (PISA score 2015)	.	431
Quality of Living Standards[3]		
Vulnerable employment (% of total employment; as of 2017)	45.6%	38.1%
Share of rural pop. with access to electricity (2016)	99.8%	95.9%
Share of pop. using improved drinking-water sources (2015)	92.6%	96.6%
Share of pop. using improved sanitation facilities (2015)	86.1%	89.6%

1. The HDI score is based on a set of indicators covering the dimensions of "long and healthy life", "knowledge" and "a decent standard of living". For more information, see (United Nations, 2018[9]).
2. The GDI is calculated by comparing the females and male HDI values of the country. Countries are divided into five groups by absolute deviation from gender parity in HDI values.
3. Indicators under the categories "Quality of Health", "Quality of Education" and "Quality of Living Standards" are taken from the HDI Dashboard 1 on Quality of Human Development..
4. The relative difference between life expectancy and healthy life expectancy, expressed as the percentage of life expectancy at birth.
5. The Programme for International Student Assessment (PISA) is a triennial international survey that aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. In 2015 over half a million students in 72 countries and economies took the PISA test, and were assessed in science, mathematics, reading, collaborative problem solving and financial literacy. For more information and assessment results, see http://www.oecd.org/pisa/aboutpisa/.
6. The highest average national score for Math, Reading and Science is held by Singapore with 564, 535 and 556 points, respectively
Source: (United Nations, 2018[9])

Public sector, money and prices

The Ecuadorean government has taken a more active role in its economy in the last decade. Public spending rose from 21% of GDP in 2005 to almost 44% in 2013 (see Table 14.1 under "General government total expenditure"). Outlays were directed mostly at social programmes (with large increases in health, housing and education) and investment, particularly in energy and transportation.

Since then, successful efforts have been made to reduce outlays, which fell to 37% of GDP in 2017. This fiscal consolidation process was concurrent with a steep decline in oil prices that threatened the sustainability of the government balance sheet.

Ecuador has used the US dollar as its domestic currency since 2000. This switch allowed the country to address its endemic problem of inflation. While its consumer price index increased 40% annually on average during the 1990s, it increased by only 18% during the first decade of the 21st century. Inflation has averaged 4% over the past decade (see Table 14.1), below the regional average. However, dollarisation has also reduces the country's room for manoeuvre against negative external shocks.

External sector

International trade is important for the Ecuadorian economy. Its openness ratio averaged 58% between 2010 and 2015, compared to 44% for LAC (World Bank, 2018[1]).

However, the country's export basket heavily depends on a single commodity: petroleum. Crude oil made up 35% of the country's exports in 2015 (World Trade Organization, 2017[10]). Bananas and crustaceans complete the list of its top three exportable products. Manufactures represent only 7.3% of external sales. MIT's Economic Complexity Index ranks Ecuador 101st, the lowest ranking for the countries included in this study (MIT, 2018[11]). The recent appreciation of the US dollar has decreased the competitiveness of non-traditional exports.

The United States (US) and the European Union (EU) are Ecuador's main trading partners, together comprising 48% of exports and 35% of imports. China is the second main origin of imports. Regional trade is concentrated with the Pacific Alliance, with Chile and Peru the main export destinations and Colombia a main imports source. Despite its status as a crude oil exporter, Ecuador is a net importer of refined oil, which in fact constitutes the country's largest import product (European Comission, 2017[12]).

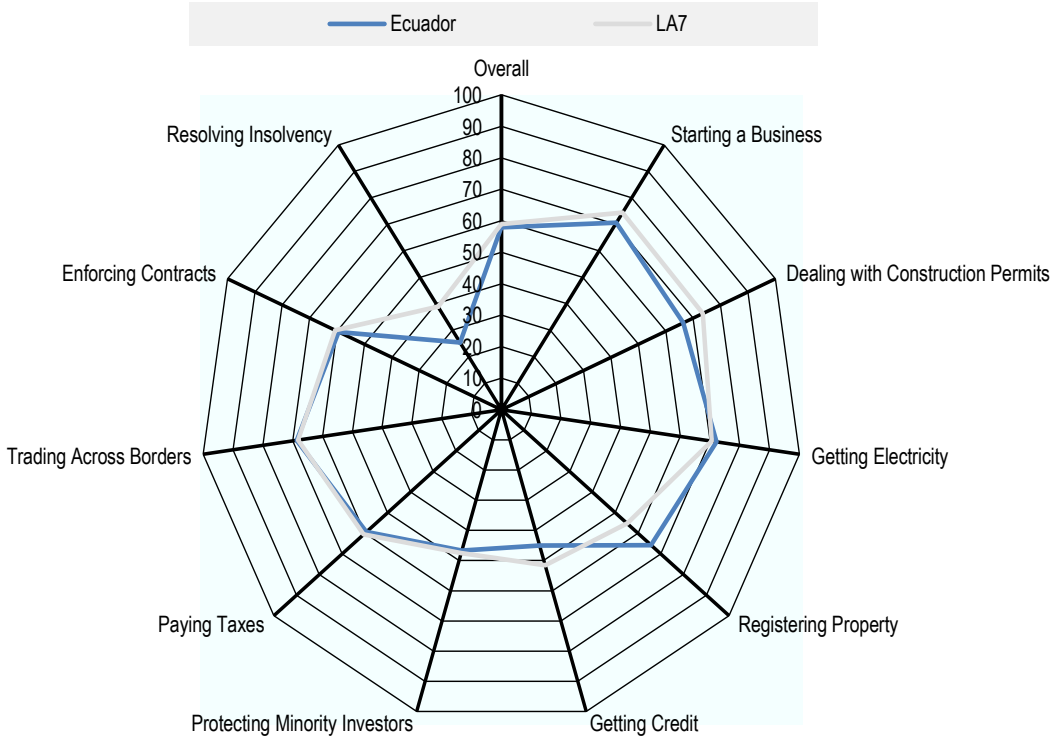
Capital inflows are relatively low. FDI averaged only 0.8% of GDP over the last five years (see Table 14.1) as compared to the regional average of 3.5%. On the other hand, personal remittances play a significant role in the economy, amounting to 2.7% of GDP in 2017 (World Bank, 2017[13]).

Business environment

Ecuador fell from 107th in 2006 to 123rd in the 2019 Ease of Doing Business rankings (World Bank, 2018[14]), the lowest ranking of the LA7. The country performs relatively well in registering property (75th) and enforcing contracts (79th). In general, dealing with legal complexity that has fostered inconsistent interpretations and applications leads to the increase of risks and costs in Ecuador. The country presents weaknesses in starting a business (168th) and resolving insolvency (158th), the latter of which most of the LA7 score poorly in as well (see Figure 14.3). However, reforms over the past decade demonstrate clear efforts to make starting a business easier (the amount of days required has been halved) and paying taxes and trading across borders a faster process (particularly through the introduction of electronic systems).

Figure 14.3. Doing Business Indicators 2019 - Ecuador

Ease of Doing Business Score (100 = best performance)



Note: LA7 is the simple average for the seven countries studied in this report: Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay. The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.
Source: (World Bank, 2018[14])

Between 2007 and 2018, Ecuador jumped 17 positions in the WEF Global Competitiveness Index, from 103rd to 86th (WEF, 2018[16]). Major improvements have been made in higher education and training, and in infrastructure. However, as in other countries in the region, macroeconomic conditions in Ecuador have deteriorated sharply in recent years due to the fall in oil prices and its impact on government balances. Financial markets also performed poorly in comparison to other countries in the region.

The firms included in the Enterprise Survey (World Bank, 2017[17]) identify political instability as the main problem (25% of firms in 2017, falling from 28.4% in 2006). This is particularly true for SMEs as compared to large firms. Choosing the informal sector is mentioned as the second largest problem, particularly by medium-sized companies, and more frequently than the regional average. The proportion of exporting firms (6%) is lower than the average for LAC (12%) and had decreased in relation to 2006. In relation to this, the average time needed to clear exports was double the regional average. On the other hand, perception of corruption was much lower.

The government has recently passed legislation to attract foreign investment, including a Public-Private Partnership Law and new regulatory policies for mining, according to a report by the US State Department (US DOS, 2017[18]). Remittance of profits and capital is

not limited by any means except a 5% exit tax. However, regardless of these initiatives, Ecuador's FDI remains very low in comparison to the other countries in the region. According to the DOS report, Ecuador's main weakness is corruption and lack of institutional transparency. In February 2017, a referendum was passed that prohibits elected officials and public servants from having financial interactions with official lists of tax havens and other dubious jurisdictions.

SME sector

Definitions and employment

The Ecuadorean company registration agency (*Superintendencia de Compañías*) established its criteria for defining SMEs (see Table 14.3) in line with information-sharing criteria previously established by the Andean Community (CAN). The definition is further institutionalised within the Organic Code of Production, Commerce and Investments (*Código Orgánico de la Producción, Comercio e Inversiones*, or COPCI).[2]

Table 14.3. SME definition in Ecuador

Variable	Micro	Small	Medium
Employment	1–9	10–49	50–199
Annual Turnover (USD)	≤100 000	100 001–1 000 000	1 000 001–5 000 000
Assets (USD)	≤100 000	100 001–750 000	750 001–3 999 999

Note: The norm establishes no guidance for when these criteria conflict with each other. However, both the COPCI and the CAN Resolution on which it is based (Res. 1260/2009) prioritize turnover over the employment criterion.
Source: Resolution SC-INPA-UA-G-10-005, (Supercías, 2010[19]).

According to the last economic census in 2010 (see Table 14.4), SMEs totalled 416 927 establishments, representing 99.4% of all Ecuadorean firms (using only the employment-based definition). The bulk of them (95.7%) are firms with fewer than 10 employees, and are thus classified as microenterprises. SMEs represent 78.1% of the total employment surveyed by the census. Microenterprises stand out again, accounting for more than one-half of total employment, while small and medium-sized firms together employ one-quarter of workers.

Table 14.4. Number of establishments, employment and value added by size of establishment

Size of Establishment	No. of Establishments		Employment		Share of value added
No. of employees	No. of firms	% of total firms	No. of employees	% of total employment	
<10	401,306	95.7%	800,159	52.7%	19%
11-49	12,204	2.9%	215,813	14.2%	15%
50-199	3,417	0.8%	169,697	11.2%	17%
>199	2,447	0.6%	331,664	21.9%	49%
Total	419,374	100.0%	1,517,333	100.0%	100%

Note: Agriculture and mining firms were not included in the survey.
Source: *Encuesta Exhaustiva* (INEC, 2011[20]).

Most enterprise surveys underestimate the role of SMEs in employment because they do not account for informal employment. This is especially true for the self-employed and microenterprises in Ecuador: 75% and 65% of each group, respectively, operate within the

informal sector (see Table 14.5). It is also interesting to note that reported rates of firms that do not receive social insurance are higher than the reported rates of operation within the informal sector; in other words, some firms and self-employed that operate in the formal sector still do not receive social insurance (see Table 14.5).

Table 14.5. Private Employment, informal sector and social insurance by firm size – 2017

Size	Employment		Operation within informal sector	Does not receive social insurance
	N of firms	% of total firms	share of total firms in size category	share of total firms in size category
Self-employed	2 618 304	45%	75%	-
2-10	1 832 896	32%	65%	82%
11-50	499 757	9%	4%	36%
51-100	79 891	1%	0%	20%
>100	731 738	13%	0%	10%
Total	5 762 586	100%	50%	54%

Source: Encuesta Nacional de Empleo, Desempleo y Subempleo (INEC, 2017[21]).

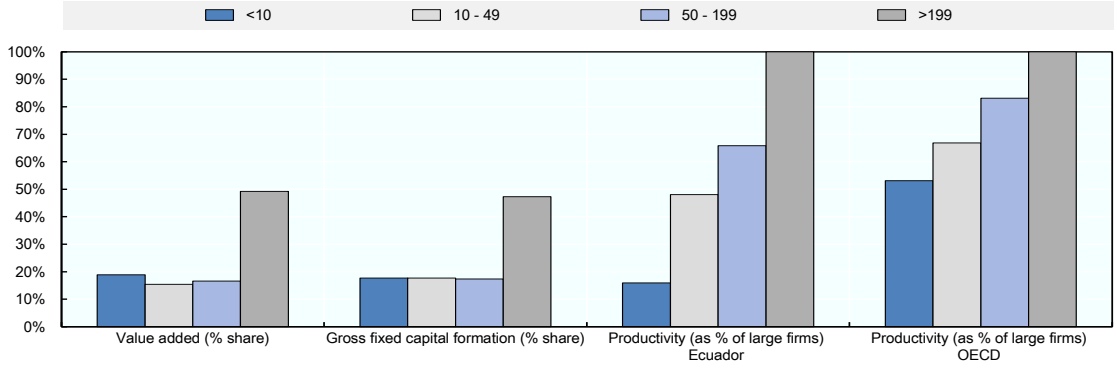
Firm density varies across the country, although not as dramatically as in most of the LA7. The national average is 28 firms per 1 000 inhabitants. Galápagos and Pichincha, two of the provinces with the highest GDP per capita, also have the highest firm density. Santa Elena, Los Ríos and Esmeralda, on the other hand, have firm densities around one third the national average.

Productivity and value added

The relevance of the SME sector drops in terms of value added and capital formation. About half of total value added corresponds to SMEs (see Table 14.4 and Figure 14.4). SMEs also contribute half of fixed capital formation.

The gap in labour productivity between SMEs and large firms is larger in Ecuador than in OECD countries (see Figure 14.4). Productivity rates for workers in Ecuadorean microenterprises are 16% that of the country's large companies. Furthermore, Ecuadorean large firms' productivity levels are more than double the country's average level. Small and medium-sized firms present productivity rates that are close to the national average, and 48 percentage points above, respectively.

Figure 14.4. Value added, gross fixed capital formation and productivity by size of establishment (Ecuador vs. OECD countries)

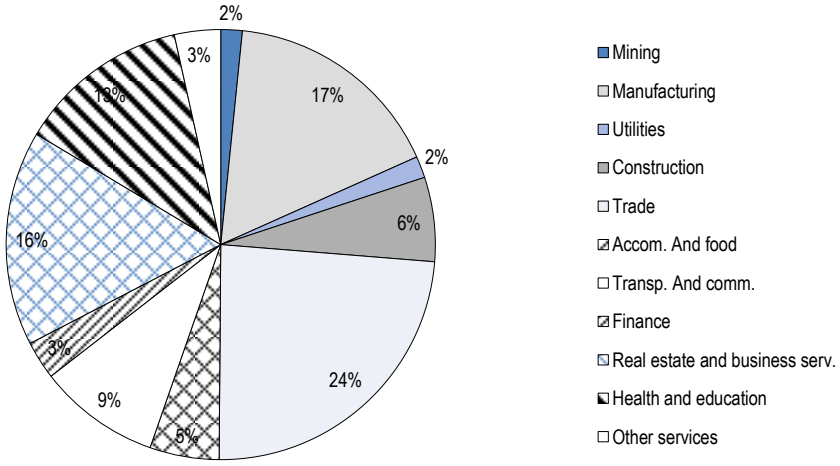


Source: Encuesta Exhaustiva (INEC, 2011[20]) and (OECD, 2016[22]).

Sectors of activity

In terms of sectors, non-agricultural SME employment takes place mostly in trade (24%). Manufacturing comes next, absorbing 17% of employees, followed closely by real estate and business services (16%, see Figure 14.5).

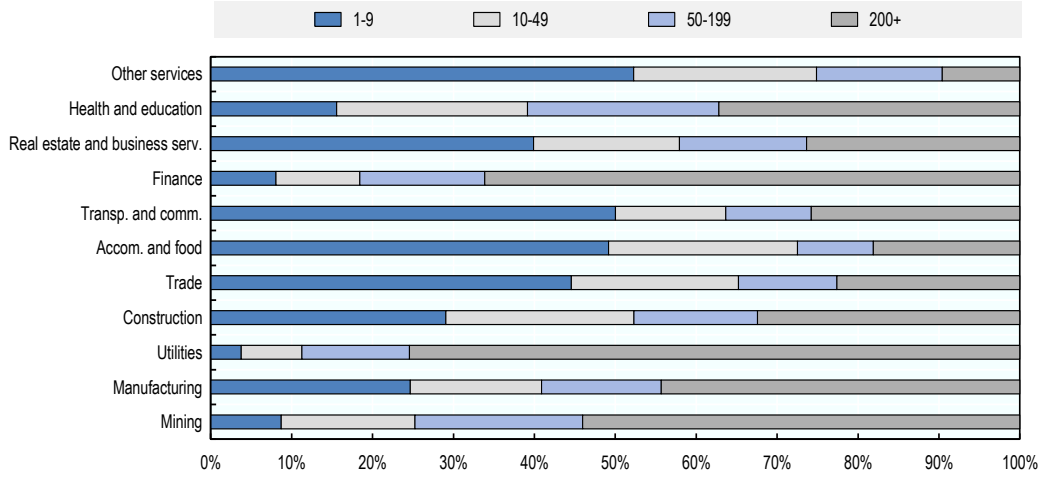
Figure 14.5. Non-agricultural SME employment by sector of activity - 2015



Source: Directorio de Empresas (INEC, 2016[23]).

In terms of intra-sector relevance, SMEs contribute the largest shares of employment in accommodation and food and other services. Microenterprises play an important role in both sectors, but also in transportation and communications. Small firms are relevant in health and education and construction, employing one-quarter of workers. Medium-sized companies stand out in health and education and in mining activities (see Figure 14.6).

Figure 14.6. Participation in sectoral employment by size of establishment - 2015



Source: Directorio de Empresas (INEC, 2016[23]).

International trade

From 2004 to 2009 the number of exporting firms doubled in Ecuador, from 2 000 to more than 4 000 (0.5% of total firms) (Urmeneta, 2016[24]). Around 3 500 of these were SMEs. According to (Urmeneta, 2016[24]), Ecuador is one of the countries in the region with the largest growth of exporting firms, alongside Costa Rica and Peru. This has been fostered especially through the flower industry, which experienced significant growth between 2008 and 2013.

According to the last economic census, 3.3% of firms (microenterprises excluded) were involved in export activities in 2011. That figure drops to 0.6% for small firms and goes up to 3.7% and 17% for medium and large firms, respectively. However, large firms accounted for the bulk of the exported value surveyed (97%, see Table 14.6).

Table 14.6. Exporting behaviour by firm size - 2011

Size	Share of total exporting firms (%)	Share of total surveyed exported value (%)
Small	0.6	0.2
Medium	3.7	2.9
Large	17.1	96.9
Total	3.3	100.0

Note: Microenterprises are not considered in this table.
Source: Encuesta Exhaustiva (INEC, 2011[20]).

According to the World Bank (2018[14]), only 1.4% of small Ecuadorian firms export directly or indirectly (as compared to 7.9% for Latin America as a whole and 21.3% for OECD countries). Medium-sized companies do not fare better than their regional peers either, as only 13.5% of them sell abroad (vs. 23% for Latin America and 33% for OECD countries). 29.7% of large Ecuadorian companies export either directly or indirectly.

Assessment results

Institutional framework (Dimension 1)

Ecuador has received a score of 3.44 on a scale of 1-5 for this dimension, indicating that the policy framework is largely completed, but that there are significant gaps in implementation and monitoring and evaluation (M&E). It highest score has been assigned to the sub-dimension dealing with the SME definition (4.33), followed by the sub-dimension focusing on public-private consultations (3.50). In sub-dimension 1.2 – related to the strategic planning, design and co-ordination of public policies – Ecuador received a score of 3.19, due to limited results in policy implementation, while in sub-dimension 1.4 it had the lowest score (3.01) due to the lack of a comprehensive strategy to deal with informality, limited implementation and relatively weak M&E mechanisms.

Ecuador sees SME policy as both an instrument for achieving productive transformation and a tool for social promotion. Thus, SME policy is included both in the country's industrial policy strategy and under the "Economy at the service of the society" (*Economía al servicio de la Sociedad*) axis in the National Development Plan 2017-2021, entitled "*Toda una vida*".

The combination of the two approaches has its own rationale, given the country's need to (a) pursue a higher economic diversification and a faster technological upgrade for future prosperity while at the same time (b) promoting employment and reducing poverty and

marginalisation under current conditions. However, to effectively manage these two separate objectives, Ecuador would need to develop an integrated SME strategy, redesign its policy implementation framework, improve the targeting of policy actions and devote substantially more resources to SME development.

Institutional framework and SME definition

In Ecuador, the SME policy mandate is assigned to the Ministry of Industries and Productivity (*Ministerio de Industrias y Productividad*, or MIPRO). MIPRO has a wide range of competences, being in charge of the elaboration ad implementation of both horizontal and sectoral policies related to private sector development.

Until May 2017, MIPRO was under the supervision of the Coordinator Ministry of Production, Employment and Competitiveness (*Ministerio Coordinador de la Producción, Empleo y Competitividad*), a "super-ministry" that oversaw and coordinated the activity of a number of line economic ministries. Since the re-organisation of the government structure after the 2017 presidential elections, the coordination role on economic affairs has been assumed by the Presidency.

MIPRO comprises six undersecretariats and four units for general coordination. SME policy is managed by the Undersecretariat for SMEs and Artisans (*Subsecretaría MIPYMES y Artesanías*), but other undersecretariats, such as those in charge of territorial development, intermediary and final industries, agriculture and agro-processing, also have competencies on issues related to SME development.

The SMEs and Artisans undersecretariat includes three directorates in charge respectively of entrepreneurship, learning and entrepreneurial innovation; business strengthening; and market articulation. In total, during the year 2016 the undersecretariat has a staff of 33 and a budget of USD 1.34 million, including operating expenses. MIPRO has a network of seven regional offices with the role of implementing government programmes in coordination with local authorities. The ministry has also signed co-operation agreements with a number of other central and local institutions for the implementation of SME support programmes.

The country's SME definition is set by the Production Code (*Código de la Producción*), a legal instrument that defines the categories of enterprises eligible to benefit from public support. The definition is adopted across the public administration and is based on two joint criteria: employment and annual turnover. It includes a stratification for micro-, small and medium-sized enterprises (see Table 14.3).

Strategic planning, policy design and coordination

Ecuador has not yet developed a stand-alone SME development strategy. SME policy strategic orientations are derived from the National Development Plan 2013-17 (*Plan Nacional para el Buen Vivir 2013-2017*),[3] and more specifically from the country's industrial strategy, the "Industrial Policy of Ecuador 2016-2025" (*Política Industrial del Ecuador 2016-2025*), published in 2015 by MIPRO.[4]

The 2013-17 National Development Plan included 12 strategic development objectives. Objective no. 10 called for the enhancement of the transformation of the country's productive matrix and had indirect implications for SME development. The Plan included qualitative and quantitative objectives. A new National Development Plan covering the period 2017-2021, entitled "*Toda una vida",*[5] was adopted in January 2018. The plan aims to promote an equitable and socially oriented economic system and includes nine national

objectives organised around three major axes. Objective no. 4 deals with the consolidation of the country's socially and/or well-being oriented economic system (*Sistema Económico Social, Solidario y Sostenible*).[6] Specifically, the objective, organised under the "Economy at the service of society" (*Economía al servicio de la Sociedad*) axis, calls for increasing the contribution of the SME sector and other actors of the economic system, such as entrepreneurs, to value-added creation. The objective includes a number of qualitative and quantitative targets, but none directly related to SME development.

The Industrial Policy 2016-2025 combines horizontal- and sector-specific approaches and outlines a set of instruments designed to meet the stated policy objectives. None of these instruments is SME-specific, but the policy still has major relevance for SME policy as the industrial structure of Ecuador is mostly made up of small and medium-sized enterprises. The main limitation of the industrial policy is that the large majority of SMEs in Ecuador operate in the service sector, and are thus not directly covered by the strategy and only indirectly considered by the National Development Plan. Programme implementation is directly managed by MIPRO's SMEs and Artisans undersecretariat, with the support of the Citizen Business Development Centres (*Centros de Desarrollo Empresarial Ciudadano*) located within the ministry's regional offices.

In relation to the aforementioned limitation, there is a third strategic document of relevance. Closely associated with the aforementioned Industrial Policy, it was developed over 2013-2015 by the Correa administration in alignment with the 2013-17 National Development Plan. The National Strategy for Economic Change (*Estrategia Nacional para el Cambio de la Matriz Productiva*, or ENCMP) aims to define the policies that will help Ecuador to transform from a natural resource-based country to a knowledge-based economy. The ENCMP establishes four objectives: 1) strengthening the productive system through efficiency and innovation, 2) reducing the trade deficit, 3) creating decent jobs, and 4) promoting environmental sustainability. It also identifies 13 priority economic activities around three sectors that would be the focus of the policies – sectors that go beyond the industrial sector to include a wider range of services, such as tourism and software and ICT (see Table 14.7 later in this chapter). The ENCMP includes very few measures to promote entrepreneurship and SMEs, however, and is led by the Vice-Presidency of the Republic, rather than MIPRO. Rather, the strategy's objectives and actions have important indirect implications for SME policy, and feed into the subsequent Industrial Policy under MIPRO's leadership, especially regarding the foreseen actions for the development of basic industries, and creation and promotion of investment and financing incentives.

Between 2011 and the end of 2017, MIPRO implemented a project to develop the productive capacity of SMEs (*Proyecto: Fomento de las MIPYMES Ecuatorianas*). The projected aimed at promoting industrial development, enterprise competitiveness and employment in a number of manufacturing sectors (initially eight, but reduced to five in 2015). The project had a total budget of USD 16 million over eight years. The project document included a detailed diagnostic of the SME sector and a set of general objectives, aligned with the *Plan Nacional para el Buen Vivir 2013-17*, specific policy objectives and quantitative targets. The project document essentially outlined the country's SME development strategy, combining a strategic orientation with an operational approach. However, the project came to a conclusion at the end of 2017 and it had no follow-up or overall assessment of impact, mainly due to government-wide budget cuts related to the sharp fall in the price of oil, Ecuador's central export commodity.

In 2016, the government allocated approximately 0.5% of the state budget to programmes supporting the SME sector. However, a subsequent decline in fiscal revenues forced the

government in 2017 and 2018 to reduce budget allocations, increasing the reliance on donor-funded programmes.

Ecuador has developed a management tool, internal to the public administration, to monitor the implementation of publicly funded programmes. The tool, called "Government for Results" (*Gobierno por Resultados* or GPR), was first introduced in 2011. Its application across the government is coordinated by the National Secretariat of Planning and Development (*Secretaría Nacional de Planificación y Desarrollo*, or Senplades). The GPR is integrated into the National Decentralized System of Participatory Planning (*Sistema Nacional Descentralizado de Planificación Participativa*, or SNDPP) and foresees that each administration in charge of programme implementation set its management objectives (*metas de gestión*) through a process of consultations with the beneficiaries and with other related central and administrative bodies. MIPRO is further integrated in a formal system of inter-ministerial consultation and coordination mechanisms related to general economic governance; however, there is no inter-ministerial committee in place dealing specifically with SME policy issues. MIPRO also publishes an annual report containing an implementation matrix aligned with the pillars of the Industrial Policy.

Public-private consultations

Ecuador has put in place a highly diversified system of public private consultations (PPCs). At central level, the Presidency established in June 2017 a "Productive and Tax Consultative Council" (*Consejo Consultivo Productivo y Tributario*) as the main formal body of consultation between the government and private sector representatives on major economic and fiscal issues. The Council includes the ministers of Industry and Productivity, Labour, Finance, and External Trade; the head of the tax administration; and six representatives of the private sector nominated by the President of the Republic, including a representative of the country's various SME chambers/organisations. The Council is operational, with private sector representatives playing an active role through the presentation of a set of proposals for policy improvements, on which deliberation is publicly available.

At the same time, Ecuador is nurturing a form of public participation in economic development through the promotion of the country's aforementioned socially and/or well-being oriented economic system (*Sistema Económico Social, Solidario y Sostenible*), which is made up of cooperatives, locally-based productive associations, and the community sector supporting commercialisation and distribution of products made by local microenterprises. The organisations that are expressions of this system, including those representing its financial system,[7] play a significant role in influencing the government's development policy, under the supervision of the Superintendence of the Popular and Solidarity Economy (*Superintendencia de Economía Popular y Solidaria*).[8]

The National Statistics Agency (*Instituto Nacional de Estadística y Censos*, or INEC) has developed a comprehensive SME database. By combining data from different administrative registers and enterprise surveys, it has established the Directory of Companies and Establishments (*Directorio de Empresas y Establecimientos*, or DIEE), which provides data on the number of enterprises, turnover, employment and salaries for enterprise classes, location and sector of activity, but not for contributions by SMEs to value-added generation.

Measures to address the informal economy

Ecuador has traditionally experienced one of the highest levels of informality in Latin America. According to ILO data, in 2009, 60.9% of the total non-agricultural workforce was employed informally (ILO, 2014[25]). The share of informal employment declined to 50.1% in 2012 as a result of the strengthening of workers' rights based on constitutional and legal reforms, the establishment of penalties for enterprises failing to provide social security, the simplification of labour registration by the Ecuadorian Social Security Institute (IESS), and other enforcement actions. As in other Latin American countries, labour informality is highest among self-employed (informality rate at 70%), domestic workers, family members working in family-run enterprises and among employees of microenterprises (informality rate at 64.5%).

According to INEC data, informal employment accounted for 45% of total national employment in March 2018 and only 43.1% of employees benefitted from some kind of social security coverage (INEC, 2018[26]). The INEC definition of informal labour differs from that utilised by the ILO, as it is based on employment in enterprises, including self-entrepreneurs not registered in the Single Taxpayer Registry (*Registro Único de Contribuyentes*, or *RUC*).

Ecuador has a relatively good database on informal labour, thanks to the labour force and household surveys conducted by INEC, while data on enterprise informality is scarce. There have been several country studies analysing labour informality (ILO, 2014[25]; Vega Núñez, 2017[27]; World Bank, 2012[28]), based largely on INEC labour market surveys (2009-2012), but these have found very limited evidence for the impact of informality on enterprise development. Data from the 2017 World Bank Enterprise Survey seems to indicate that competition from informal enterprises remains a major issue, with 67.1% of the surveyed enterprises declaring that they compete against unregistered and informal companies and 41.9% declaring that unfair practices from informal enterprises constrain their operations (World Bank Group, 2017[29]).

Although the Ecuadorian government has not formulated a dedicated strategy to reduce informality, the promotion of formal labour and fair employment conditions are major objectives of the new national development plan for 2017-2021 ("*Toda una vida"*). The government's objective is to increase the number of enterprises registered with the tax authorities and the RUC. This will allow for more focused labour inspections.

Newly established enterprises are currently incentivised to register with the RUC. In order to incentivise the registration of microenterprises and the self-employed, the government has introduced a simplified tax regime (*Régimen Impositivo Simplificado Ecuatoriano*, or RISE), which applies to non-incorporated enterprises with a total turnover not exceeding USD 60 000 per year. Furthermore, registration with the RUC is a condition for access to all the MIPRO enterprise support programmes.

At the same time, the government incentivises the creation of employment and business opportunities among the marginalised members of the employment population through programmes linked to the "Popular and Solidarity Economy", with the aim of bringing those informal production units into the formal sector.

Operational environment and simplification of procedures (*Dimension 2*)

Ecuador's performance for the dimension related to the operational environment and regulatory simplification is relatively low, with an overall score of 2.78 against an average LA7 score of 2.96 on a scale of 1-5.

Ecuador's performance is particularly low (2.14) for the sub-dimension focusing on regulatory simplification and RIA application, since the entire regulatory reform process is in an early phase of design; its score is also low with regard to the ease of filing taxes (2.33). Performance on the company registration sub-dimension (2.64) is also below the LA7 average, given the complexity of the company registration and starting-a-business procedures, while it is relatively high for the e-government sub-dimension (4.46), given the presence of a National E-government Plan, the functioning of electronic signature, and the introduction of a number of e-government services.

Legislative simplification and regulatory impact analysis

Enterprises in Ecuador, as in several other Latin American countries, must cope with restrictive regulations and a heavy administrative burden, which raises operational costs and constrains their growth potential.

According to the World Bank's *Doing Business 2019* report (World Bank, 2018[14]), Ecuador ranks 123rd out of 190 economies, while it was classed as 118th in 2018. Ecuador's "distance to frontier/ease of doing business"[9] ranking , measuring the distance from the best performing country across the 10 indicators of the *Doing Business* report, is 57.94 (100=best performing country), marginally below its score obtained in 2018 (57.82), and overall a poor placement for an upper middle-income country.

Ecuador's rankings are particularly low in the indicators related to starting a business (168th), resolving insolvency (158th) and paying taxes (143rd), while it is the highest for the indicators concerning registering property (75th) and enforcing contracts (79th).

The government of Ecuador has only recently started to take action on regulatory simplification. In April 2018, it passed a decree (*Decreto Executivo 372*) directed at improving the country's regulatory system and promoting administrative simplification. The decree gives a mandate to the Ministry of Telecommunications to establish an electronic platform (the *Registro Único de Tramites y Regulaciones*) to list all of the administrative regulations, on the basis of inputs provided by all federal public entities. The decree also mandates the establishment within three months from the date of decree's approval of an Interinstitutional Committee for Regulatory Simplification (*Comité de Simplificación de Trámites Interinstitucionales*). The committee will report to the presidency and will develop the technical guidelines for administrative simplification while a proposed law for administrative simplification has been presented the National Assembly.

The country is therefore only at a very early stage of launching an administrative reform agenda; currently, less than 25% of the legislative and normative acts affecting the operations of private enterprises have been reviewed.

The introduction of Regulatory Impact Analysis (RIA) is at an equally early stage. The National Secretary of Planning and Development is developing a pilot project aimed at the introduction of RIA, at the level of line ministries. The Ministry of Industries and Productivity (MIPRO) is already working on the pilot introduction of RIA on new regulations concerning the SME sector. As the introduction of RIA is still at an early stage, no action has been taken yet to develop a RIA monitoring system.

Company registration

This sub-dimension combines a number of indicators related to the institutional framework for company registration – including the presence of one-stop shops, the use of a single company identification number, and the availability of on-line registration facilities – with

indicators on the performance of company registration and starting-a-business procedures based on the results of the *Doing Business 2019* report (World Bank, 2018[14]).

Procedures for company registration and, more broadly, starting a business are highly complex, lengthy and costly – more so than in the other LA7 countries. Specifically, the obligation to register at both national and local levels significantly lengthens the time required to start a business.

In Ecuador, SMEs carry two identification numbers: (a) the registration number issued by the Superintendence of Companies, Securities and Insurance (SCVS) at the moment of the company registration with the SME Registry (*Registro Único de MIPYMES*, or RUM); and (b) the identification number issued by the tax administration following the registration in the Single Taxpayer Registry (*Registro Único de Contribuyentes*, or *RUC*).

One-stop shops organised according to the one-window modality are not yet operating in the country, but customer service centres (*centros de atención al usurario*) provide assistance to new entrepreneurs during the company registration phase. The SCVS operates six regional offices and has also developed a portal for on-line company registration accessible directly by the enterprises or through their notaries.

In terms of performance, Ecuador ranks 168th out of 190 economies in the 2019 *Doing Business* ranking for the "starting a business" indicator, with no improvement compared to its 2018 ranking, placing Ecuador at the lowest level among the LA7 countries. The gap with the best performing country in this area, as measured by the "distance to frontier/ease of doing business"[10] ranking, is also considerable, at 70.58, with no change compared to the result recorded in 2018 (100 = best performing country).

The poor performance of Ecuador in starting-a-business procedures is due to the number of procedures (11) and the length (48.5 days) and overall cost (21.2% of the GNI per capita) involved. While public fees are generally low, the cost of notaries and lawyers involved in the process contributes significantly to raise the overall cost of starting a business. The notification phase is also complex and lengthy, particularly the registration with the local authorities. The introduction of one-stop shops across the country could substantially reduce both the time spent in the notification phase and the complexity of the starting-a-business procedures.

The SCVS regularly ensures that companies operate according to the law and the related regulations, while the National Directorate of Public Data Records (*Dirección Nacional de Registros de Datos Públicos,* or DINARDAP) has started to monitor the efficiency of the registration process at national level.

Ease of filing taxes

The assessment for the sub-dimension is based exclusively on a set of indicators drawn from the 2019 World Bank *Doing Business* report (World Bank, 2018[14]) for the "paying taxes" section. Those indicators cover the number of annual tax payments, the time required to perform those payments and the post-tax-filing index, which takes into consideration the time required for an enterprise to comply and obtain a VAT refund and comply and complete an income tax correction.

Ecuador performs relatively poorly in this area compared with OECD countries, but is generally aligned with the performance of the other LA7 countries. The most critical areas are the time required to perform the tax payments (664 hours compared with an average of 159.4 in the OECD area), which is well above the number recorded in the other LA7

countries, while the post-tax-filing index stands at 49.54 (against an average of 84.4 in the OECD area). The number of tax payments per year is eight, a reduction from the ten payments recorded in 2018. The indicators cover the standard procedures only and do not take into account the availability of online tax-filing and payment facilities.

E-government

The Ecuadorian government has elaborated a National E-government Plan (*Plan Nacional de Gobierno Electrónico*) covering the period 2018-2021, consistent with the objectives of the 2017-2021 National Development Plan. The objectives of the e-government plan are to promote the introduction of digital government services to aid the efficiency of the public administration, to extend ICT service coverage to all citizens, to increase the transparency of public governance and to reduce administrative burdens for enterprises. The Ministry of Telecommunications and Information Society is in charge of the plan's coordination.

The implementation phase is at an early stage, but some e-government elements are already in place. The *Clave Única*, delivered by the "Users Authentication System" (*Sistema de Autenticación Único*), operates as the electronic signature and gives access to e-government services across the entire public administration. Electronic tax-filing and social security-filing services are already operational.

Inter-operability is under development and already covers databases managed by 45 public institutions. The monitoring of the Plan is at an early stage of development, but the aforementioned DINARDAP, the public agency in charge of the security of public data banks, regularly conducts surveys concerning the satisfaction of e-government service users.

Access to finance (*Dimension 3*)

Ecuador receives a relatively low score in the dimension of access to financing, with an average of 3.44 points (vs. LA7 average of 3.77). While the scores for the legal framework (4.07 points) and funding sources (4.53 points) are consistent with a moderately advanced level of policy development, Ecuador shows significant shortcomings in its processes for dealing with corporate insolvency (2.13 points).

Legal, regulatory and institutional framework

Ecuador obtains an intermediate score in this sub-dimension (4.07 points), although lower than the regional average of 4.20 points.

The country's main shortcoming lies in the lack of a legal framework regulating the rights and obligations of various parties in guaranteed transactions. The development of a legal framework aligned with international best practices should allow companies to, among other things, use as collateral goods with or without a detailed description of their characteristics, as well as assets to be acquired in the future. This should also include a unified and freely accessible register that contains information on pledged assets based on notifications; that enables interested parties to enter, modify and cancel applications; and that is indexed according to the name and identification number of the debtors. There is currently no register of movable property that could be used as collateral, although some public institutions collect information according to their prerogatives. Nor is there a unified cadastral system, since it is managed by local governments. Although these sources of information are not unified, the national government is currently developing the National

Public Data Registry System *(Sistema Nacional de Registro de Datos Públicos)* that will integrate the cadastral and movable property registries into a single free-access system.

Concerning a different subject, following the creation of the Special Stock Market Registry (*Registro Especial Bursátil*, or REB), Ecuador now appears well positioned regarding its market for securities. Particularly, the REB aims to provide an accessible system of transactions for SMEs that includes the negotiation of bills of exchange, promissory notes and commercial invoices, as well as the possibility of making a public offer of shares and other long-term obligations considering the needs of small enterprises.

Diversified funding sources

With respect to the availability of financing sources, Ecuador appears favourably positioned as it has numerous microfinance institutions with national coverage, as well as credit guarantee tools for those SMEs that lack the assets to satisfy the collateral demands of commercial banks. In this sense, the National Guarantee Fund *(Fondo Nacional de Garantía)* offers coverage of up to half a million U.S. dollars with rates ranging from 0.8 to 4.5% depending on the characteristics of the borrower.[11]

In addition to these schemes, Ecuador has other asset-based financial tools, such as factoring, that are appropriately regulated. It has also expanded its efforts to promote other capital instruments by, for example, creating a risk capital fund defined by Presidential Decree 680 of 2015.[12] Collective financing platforms (i.e. crowdfunding) are also part of the ecosystem of opportunities for access to financing, but their penetration is still low and lacks an appropriate regulatory framework.

Financial education

Ecuador receives an intermediate score in the financial education sub-dimension with 3.05 points. Some government entities, including the Superintendence of Banks of Ecuador *(Superintendencia de Bancos de Ecuador)*, run financial education programs that include online courses covering personal finance topics. Other public banking entities – such as BanEcuador,[13] the National Financial Corporation[14] and the Institute of the Popular and Solidarity Economy *(Instituto de la Economía Popular y Solidaria)* – offer, within their strategic guidelines, training and technical assistance programs for small entrepreneurs. However, these initiatives have not been aligned and integrated under clear guiding principles established in a national strategy. Ecuador's initiatives in financial education also lack specific M&E mechanisms to identify the impact of such policies on the population's financial literacy and the use of a greater variety of financial tools. The only known effort to gauge the financial knowledge of the population was the survey of financial capacities carried out with CAF funding in 2013, but whose purpose is not to provide a follow-up tool for all financial education policies implemented at the national level.

In addition to adult education programs, the Ministry of Education included in 2011 the subject of "Entrepreneurship and Management" in the compulsory curriculum for secondary schools. This is to be studied in two of the academic periods of the Baccalaureate. In 2016, these curricular requirements were extended to all years of secondary education, and they also include appropriate content for basic education students. However, anecdotal evidence suggests that the implementation of this proposal has been limited by the lack of specialized teachers, although there is still no public information on the fidelity with which the practice has been executed.

Efficient procedures for dealing with bankruptcy

Ecuador receives the lowest score in the region for the sub-dimension relating to existing insolvency and bankruptcy proceedings (2.13 points). In Ecuador, these processes are governed under the Preventive Contest Law of 2006,[15] which allows companies that are in default to enter into agreements to restructure their assets and liabilities. These applications are then submitted to the Superintendence of Companies, Securities and Insurance (*Superintendencia de Compañías, Valores y Seguros*), which is responsible for coordinating and supervising the agreement process between the debtor company and its creditors. These procedures do not apply to governmental institutions whose performance is under the supervision of the Comptroller's Office and the Attorney General's Office of the Republic.

This minimum regulatory framework does not contemplate the creation of either a registry of insolvent companies or explicit mechanisms of exoneration for companies that have complied with the necessary requirements. However, bankruptcy proceedings are published in the main newspapers of the localities where the firms are based as indicated by the relevant regulation for these processes. Other areas to consider include offering tools for early identification of companies with potential insolvency problems, as well as training and support programs for entrepreneurs seeking to restart their activities. Ecuador receives the lowest score in the region in the performance section of its insolvency processes as they usually require more than four years on average to be completed and the recovery rates obtained are very poor (below 15% on average).

SME development services and public procurement (*Dimension 4*)

Ecuador has yet to develop a complete SME policy that includes the design of programmes for direct SME and entrepreneurship support, such as business development services (BDS). Compounding this situation, the government has implemented strict budget cuts since 2016, which has affected central features of MIPRO's BDS programme.

The country's overall score for this dimension of 3.29 is the lowest of the LA7, which points to the significant scope for improvement. This is especially the case with regard to the provision of BDS and support services for entrepreneurs, which at 2.85 and 3.41 are the lowest LA7 scores in these sub-dimensions. Performance in public procurement is somewhat better (3.83) given that Ecuadorean laws include some provisions to facilitate the participation of SMEs.

Business development services for SMEs and entrepreneurs

As stated earlier in this chapter, the National Development Plan 2013-17 reflects the broad guidelines for economic development and transformation through private enterprise policy in Ecuador. The diagnostics in the Plan identify as challenges the dependence of the economy on low-value-added and natural-resource-intensive activities and the need to foster more knowledge-intensive and innovative sectors. The Plan comprises 12 strategic development objectives, some of which focus on fostering a more inclusive and sustainable economy through greater diversification and productivity. Quite a few of the strategic policies and guidelines within those development objectives refer to the development of skills and capacities among entrepreneurs and enterprises, although none makes explicit reference to BDS.

The tenth objective in the Plan refers to Transforming the Economy (*Transformar la Matriz Productiva*), in particular by promoting new economic sectors, higher productivity,

sustainability and economic inclusion. Objective 10.5 focuses specifically on "strengthening the popular and solidary economy and micro, small and medium-sized firms in the productive structure." Although it proposes no specific measures or programmes, it mentions strategic SME policy priorities such as supporting SMEs in priority sectors, promoting innovative activities and increasing access to finance.

The Industrial Policy 2016-2025 is a more detailed strategy guiding economic policy. Its objectives are aligned with those of the National Development Plan and include increasing economic diversification and value added through more-competitive and innovative enterprises. However, the Industrial Policy has very few specifics in terms of SME policy and does not put forward any concrete measures in terms of BDS. Furthermore, the document includes no reference to promoting entrepreneurship and SME growth and an important part of its focus is on the development of capital-intensive activities. While the document does include a section on "support services for production", this section refers to a few activities of the services sector in general (e.g. transport, logistics, telecoms), not to business development services for SMEs and entrepreneurs.

The Industrial Policy makes reference to a third strategic document: the National Strategy for Economic Change (*Estrategia Nacional para el Cambio de la Matriz Productiva*, or ENCMP). This document is said to be linked to the *Plan Nacional para el Buen Vivir 2013-2017*. The ENCMP's goal is to define the policies that will help Ecuador to transform from a natural-resource-based country to a knowledge-based economy. The ENCMP establishes four objectives: strengthening the productive system through efficiency and innovation, reducing the trade deficit, creating decent jobs, and promoting environmental sustainability. It also identifies 13 priority economic activities around three sectors, which would be the focus of policies (see Table 14.7).

The ENCMP, however, includes very few measures to promote entrepreneurship and SMEs. Under its section on innovation ecosystems (Vice-Presidency of the Republic of Ecuador, 2015, pp. 95-97[30]) it points to support for business accelerators, business planning, commercial prototyping and other BDS. However, the document gives no details on those initiatives. Furthermore, although the strategy mentions BDS for specific sectors (e.g. the chocolate industry) and some measures to support existing firms and start-ups in the software and ICT sectors, there are no details on the promotion of tourism (a sector where small firms are very active), despite the fact that the sector is identified as a priority.

Table 14.7. Priority sectors under the National Strategy for Economic Change 2015-2017 of Ecuador

Sector	Activities	Objective
Food processing industry	Food products based on cacao, coffee, fish and seafood, and dairy products	Exploit comparative advantages to build competitive advantages in this sector
Basic industries	Petroleum derivatives, metalworking, chemicals and pharmaceuticals, paper and cardboard, plastic and rubber	Reduce the dependence on manufacturing imports
Services	Software and ICT services, tourism, recycling and multimodal logistics	Develop knowledge- and innovation-intensive activities with high growth potential in the world economy

Source: Vice-Presidency of the Republic of Ecuador (2015), *Estrategia Nacional para el Cambio de la Matriz Productiva*, Quito.

MIPRO is the institution in charge of enterprise policy in Ecuador. Specifically, MIPRO operates an SME and Artisans Undersecretariat that focuses on productive capacities

(productivity and innovation), formalisation (productive inclusion), entrepreneurship, business linkages and networks, and access to local and foreign markets.

The information available on BDS provision by the SMEs and Artisans Undersecretariat is scarce. First, the information provided by the authorities for this assessment indicates that there was a BDS programme implemented by MIPRO during 2011-2016 (*Proyecto: Fomento de las MIPYMES Ecuatorianas*).[16] The programme included support for management in SMEs, business linkages, innovation, access to markets and support for new enterprises. The programme was scaled down in 2016 due to government-wide budget cuts related to drops in the price of oil, the country's main export commodity. Second, Ecuador also refers to a network of 89 business development centres across the territory (*Centros de Desarrollo Empresarial y Apoyo al Emprendimiento*).[17] However, no information is publicly available on the type of services provided and the results of the centres. Furthermore, the independent evaluation for this assessment, which involved interviews with private sector representatives, notes that the private sector considers that the availability of BDS is scarce. Third, there are a few BDS programmes provided by the National Financial Corporation (CFN) and the National Institute for the Popular and Solidary Economy,[18] but there is no information available regarding their operation and results.

Thus, Ecuador has a long way to go in the development of a proper SME policy that includes the introduction of BDS for SMEs and entrepreneurs. The country's national development and economic strategies assign a particularly limited role to SME and entrepreneurship policy, and give almost no specific role to BDS support. Ecuador could therefore start by undertaking a detailed analysis of the needs of SMEs and entrepreneurs in terms of BDS, then designing and implementing specific programmes responding to those needs. The authorities could undertake a horizontal approach to BDS (as most countries do) and add sectoral elements around the priority economic activities identified in the industrial policies. In other words, the government could develop BDS schemes provided by the authorities and also by the private sector (e.g. voucher schemes, financial support to incubators). These schemes could support any eligible SME or entrepreneur. Given Ecuador's strong focus on the development of strategic industries, the authorities could also establish more-detailed BDS programmes for SMEs and entrepreneurs, especially in less capital-intensive activities such as tourism, IT, and agribusiness.

Public procurement

The regime of public procurement in Ecuador is framed by the Law of the National Public Procurement System (LOSNCP).[19] The Law includes some provisions to facilitate the participation of SMEs in public procurement, as follows:

- Article 9 identifies as one of the priorities of the public procurement system to promote the participation of artisans, professionals and SMEs with competitive offers, although it is not specified how this priority would be achieved.
- Article 25 establishes a preference for goods, works and services provided by Ecuadorian firms and SMEs. Such a preference would be established through mechanisms such as preferential margins over the offers of other providers, market reserves, and preferential subcontracting. However, the Law does not provide details on how those mechanisms would be defined and by whom.
- Article 26 allows for joint bidding and the formation of consortia.

- Articles 51 and 52 states that "contracts for smaller amounts" (contrataciones de menor cuantía) should give preference to SMEs. This refers to the procurement of "non-normalised" goods, services and works (i.e. those with non-homogenous characteristics and which cannot be standardised) whose value is less than 0.000002% of the "initial public budget" (0.000007% for works); this was less than USD 69 600 in 2018.

In addition, the ENCMP aims to increase the participation of SMEs in public procurement through the simplification of processes; however, it provides no details in this regard.

The National Service for Public Contracting (SERCOP) is the authority in charge of public procurement. It administers the Official System for Public Contracting of Ecuador, (SOCE), an e-procurement platform, and the Unified Registry of Suppliers (RUP). According to the LOSNCP, the use of the SOCE is obligatory for all authorities mandated by the Law, although it does not specify which those are.

The SOCE hosts the RUP, an electronic catalogue of institutions participating in the National System of Public Procurement (SNCP) and other information. SERCOP also has a system of Dynamic Inclusive Catalogues, which are a tool to facilitate SME access to public procurement, although their information is not openly available.[20] Finally, SERCOP provides training to contracting institutions and to suppliers on how to use the procurement system and on the different laws and regulations. However, SERCOP's e-learning services are limited to the contracting authorities and do not include SMEs.[21]

Ecuador has in place some elements to facilitate the participation of SMEs in public procurement. The procurement law includes several features addressing SME needs, although those features are not as specific as those contained in similar laws across the region (e.g. the law does not clarify the specific preferences to be provided to SMEs). In addition, although there appear to be some direct support measures for SME participation in public procurement (catalogues and training), there is no information on how those actually benefit SMEs. Finally, there are no statistics on the participation of SMEs in public procurement.

Innovation and technology (Dimension 5)

There is ample room for Ecuador to develop and implement innovation support policies for SMEs and entrepreneurs. While the Industrial Policy 2016-2025 notes the very important role of innovation in the diversification and productivity efforts of the country, in practice there are very few support schemes for innovation in SMEs and start-ups, as compared to other countries, including the LA7.

The country's overall score for this dimension of 3.16, and its sub-dimension (5.1) score of 2.54 on the relevant institutional framework in particular (both of which are the lowest of the LA7), reflect this state of affairs. Overall, this indicates that the country has ample room for improvement. This could include the creation of a national system for innovation in the private sector, a concrete set of programmes for innovation in an SME strategy, or the addition of further detail and coherence to ongoing industrial strategies.

Institutional framework for innovation policy

Although Ecuador does not have an explicit innovation agenda, the ENCMP (National Strategy for Economic Change) includes as one of its major action lines the establishment of an innovation ecosystem. The strategy points to the innovation shortcomings in the country, for example, that most researchers and scientists work for the public sector and

the education system and that the manufacturing industries (the big focus of the strategy) hires only 6% of those professionals. The strategy also acknowledges that the private sector funds about 1% of R&D in the country, compared to 68% by the government and 19% by higher education institutions. In addition, total expenditure in R&D is just 0.78% of GDP. The strategy notes the need to consolidate a National System for Entrepreneurship and Innovation, bringing together R&D with technological entrepreneurship. Nonetheless, the lack of articulation in academia, research institutions and the productive sector prevents diversification and innovation.

The ENCMP, however, lacks specifics on the actions to promote innovation in Ecuador. For example, it mentions as one of its four major dimensions the reinforcement of the productive system based on efficiency and innovation. This dimension aims to increase the share of output that is intensive in innovation, technology and knowledge and increase quality and productivity (Vice-Presidency of the Republic of Ecuador, 2015, p. 48[30]). However, the specific objectives in this area – to increase the share of manufacturing to 14.5% in 2017 (from 12.3% in 2014) and to increase labour productivity to USD 5.5 per worked hour (from 4.7 in 2014) – are too few, too broad and too weakly correlated to innovation performance.

One of the strategic axes to increase competitiveness in the ENCMP involves developing an innovation ecosystem (Vice-Presidency of the Republic of Ecuador, 2015[30]) through actions in three main areas:

1. Greater articulation between knowledge creation and the productive system, through such efforts as fostering the creative and cultural industries and promoting technology development and transfers;
2. Better aligning the scientific and educational system with the needs for productive transformation; and
3. Fostering innovative entrepreneurship, including by nurturing entrepreneurship in education and fostering the entrepreneurship ecosystem.

The strategy cites a few examples of programmes that have been implemented in these areas. In particular, in terms of innovation and entrepreneurship, it notes the establishment of the Ideas Bank (*Banco de Ideas*), which identifies and supports innovative business ideas; and support provided by the Secretariat for Higher Education, Science, Technology and Innovation (SENESCYT) through seed capital. It also notes the provision of various types of BDS (see previous section), although without any specific reference to programmes.

The Industrial Policy 2016-2025 includes a few programmes on innovation, although in a rather fragmented manner. Although it mentions innovation as one of its guiding pillars (along with quality, markets, investment and productivity), the document does not treat innovation as a specific or horizontal policy area (Ministry of Industries and Productivity of Ecuador, 2015, pp. 35-37[31]). Actually, a few programmes involving innovation elements are scattered throughout the document in its horizontal and sector-specific areas, without a clear rationale for not including an innovation element in all areas. (These programmes are analysed in the following sub-section, "Support Services and financing for Innovation".)

In terms of the system of institutions promoting innovation in Ecuador, according to the strategic documents mentioned here, Article 385 of the Constitution mandates the creation of a National System of Science, Technology, Innovation and Ancestral Knowledge, to be

constituted by the State, academia, the enterprise sector and society.[22] In practice, however, there is no evidence of the existence of such a system. Furthermore, the actors and programmes available to support innovative SMEs and entrepreneurs are very few, compared to other countries.

Support services and financing for innovation in SMEs

SENESCYT implements Ecuador's flagship innovation programme for entrepreneurs: *Banco de Ideas*, which supports innovative ideas from entrepreneurs with up to USD 50 thousand in grants. The programme is divided into four categories of *convocatorias* (calls for proposals): a generic category, projects developed in universities, food products (sponsored by a specific firm) and social entrepreneurship.[23] The programme brings together innovative entrepreneurs, a network of evaluators that assess the innovative content of the proposals, and innovation agents that act as mentors. The innovation agents are certified by the programme and include incubators, higher education institutions and local development agencies. There is no information on any other concrete programme to support SME innovation in Ecuador at the central level.

MIPRO has no information on the provision of innovation support services for SMEs and entrepreneurs. However, it recently created a Directorate for Entrepreneurship and Enterprise Innovation. In November 2017 the new directorate developed an "Innovation Plan" whose objective is "to comply with the minimum requirements for innovation management and focus on the execution of projects, processes and activities […] that allow innovations […] in SMEs and artisanal groups".[24] The document, however, does not outline any concrete programme or activity in this regard.

The information provided for this assessment mentions very few other initiatives, and lacks details on their characteristics, implementation and results. For example, in terms of financing innovative activities among SMEs and entrepreneurs, MIPRO presented a USD 20 million fund for venture capital and seed capital (*Fondo Capital de Riesgo – Capital Semilla*), which is one of the key actions set forward by the Industrial Policy 2016-2025 in terms of the promotion of innovation. The details on when the fund will be operational, how it will work, and whom are the beneficiaries are not yet publicly available.

Innovation policies for SMEs and entrepreneurship in Ecuador, as with SME policy in general, are very embryonic. The main strategic documents propose no concrete and coherent actions in this area, other than mentioning the concept in some of the sections on industrial policy. Furthermore, there is no evidence of a structured and functioning institutional mechanism to promote innovation in the country, let alone support SMEs and entrepreneurs. Ecuador could therefore do more work to lay the foundations for SME and entrepreneurship policy, including innovation. The strategic economic plans (the Industrial Policy and the ENCMP) indeed identify the shortcomings in the SME and entrepreneurship performance in the country. Yet they do not go far enough in specifying any concrete actions in the SME policy realm.

***Productive transformation* (*Dimension 6*)**

Ecuador established an industrial policy with a ten-year horizon in 2016. The policy sets out clear and ambitious proposals to develop local productive clusters and value chains, promote exports, and increase the overall productivity and quality of Ecuadorian goods and services.

However, the government's ability to deliver on this policy remains to be seen. While many of the projects set out in the industrial policy remain in the development phase, various implementation efforts are underway, despite limited resources due to government budget cuts first implemented in 2016. Ecuador's overall score of 3.47 for this dimension, which is below the LA7 average of 4.01, reflects this state of affairs. The score could be expected to improve as various projects mature and move fully into implementation, though overall funding levels and lack of implementation capacity remain significant challenges in this regard.

Productivity-enhancing strategies

As already noted in the "Institutional Framework" section of this chapter, Ecuador currently uses the same strategy to guide both its SME development and productive transformation efforts: the Industrial Policy 2016-2025. This policy includes a diagnostic of the current status and challenges facing the nation's industrial sector, and is organised around five thematic pillars: innovation, quality, productivity, investment and markets. Using these five pillars, the strategy introduces various transversal and sectoral lines of action, with corresponding suggested instruments, related to the strategy's five pillars. As stated previously in this chapter, while none of these instruments are SME specific, the policy has still major relevance for SME policy because the industrial structure of Ecuador is mostly made up of small and medium-sized enterprises.

The Industrial Policy is also connected with Ecuador's National Strategy for Economic Change (ENCMP), which was developed prior to the Industrial Policy, over the 2013-2015 period. As previously noted in this chapter, the ENCMP's scope is wider than that of the Industrial Policy, going beyond the industrial sector to include a wider range of services, such as tourism and software and ICT (see Table 14.7). The ENCMP, however, includes very few measures to promote entrepreneurship and SMEs, and is led by the Vice-Presidency of the Republic, rather than MIPRO. Rather, the strategy's objectives and actions have important indirect implications for SME policy, and feed into the subsequent Industrial Policy under MIPRO's leadership, especially regarding the foreseen actions for the development of basic industries, and creation and promotion of investment and financing incentives. For example, the basic industries identified as strategic priorities in the ENCMP are the same as those identified in the Industrial Policy; indeed, the Industrial Policy specifically cites the ENCMP in this regard, and positions itself as building on the ENCMP and further advancing it. For this reason, the analysis for this dimension will focus on the Industrial Policy 2016-2025 as the primary policy of relevance.

While the Industrial Policy 2016-2025 was mainly developed by MIPRO during the final years of the Correa administration, the current (Lenin Moreno) administration has put in place an inter-ministerial "Production Sectoral Council" (*Consejo Sectorial de la Producción*) to oversee the policy's implementation. Furthermore, and as already noted in the "Institutional Framework" section of this chapter, a "Productive and Tax Consultative Council" (*Consejo Consultivo Productivo y Tributario*) was formed in 2017, which includes six private sector representatives, selected by the President, alongside various ministers. Upon its formation, the latter council launched a three-month long dialogue process with civil society, culminating in a document with 139 recommendations for the President, of which 86% were ultimately accepted for further investigation.

The new administration is thus continuing with the Industrial Policy, even as it consults a wider range of stakeholders, both public and private, to inform its actions. Following these consultations, the government incorporated into the Industrial Policy's dedicated website a

section that lists all of the proposals and their status (under revision, in development, or finalised), as well as the public body responsible for the proposal's revision/implementation.[25] As of the time of writing, close to 50 projects were marked as finalised, though no details were given on what specific measures were taken in order to address the proposal.[26]

Ecuador's Industrial Policy faces a challenge similar to that facing many LA7 productivity-enhancing strategies, in that it does not go beyond a collection of general lines of action and project fiches to include a robust action plan and quantifiable time-bound targets. Within the policy document, Ecuador limits itself to setting four overall targets for 2025, in terms of increasing GDP (by 10%), reducing its trade deficit (by USD 10.2 million), generating new employment (251 000 new jobs) and increasing investment (by USD 13.6 million). However, MIPRO has developed a more specific set of indicators for each thematic pillar of the policy, both in general and for priority sectors (including SMEs), for which it sets annual goals and produces trimestral monitoring reports. In terms of productivity, the average labour productivity for the industrial sector overall, as well as various subsectors, is measured. MIPRO also produces a public annual report, aligned with the five pillars of the Industrial Policy, including the section on the work of the SME and Artisans Undersecretariat. During the process of drafting this report, the Ministry also allows citizens to submit questions online, and responds to them in a dedicated section of the report.

Ecuador lags somewhat behind its LA7 peers regarding implementation, as it reports insufficient funds, due to budget cuts made in 2016 in reaction to low oil prices and a strong US dollar. These budgets cuts affected both the Industrial Policy and SME measures, with MIPRO's central SME BDS programme implemented during 2011-2016 (*Proyecto: Fomento de las MIPYMES Ecuatorianas*) discontinued; efforts instead shifted to training programmes and attracting foreign and private investment and donor funds.

Productive association-enhancing measures

The way in which Ecuador implements its productive association-enhancing measures differs from the majority of LA7 countries. Rather than providing co-financing support for the development or strengthening of existing clusters, MIPRO has focused on (a) incentivising investment in and establishing Special Economic Development Zones (ZEDEs) and (b) leading various "industrial development pole strategies" *(polos de desarrollo industrial)* for priority sectors, as set out in the Industrial Policy 2016-2025.

Beginning with the ZEDEs, the Organic Code of Production, Commerce and Investments (*Código Orgánico de la Producción, Comercio e Inversiones*, or COPCI), established in 2017, sets out a legal framework, as well as various tax incentives intended to facilitate private investment in ZEDEs.[27] Four ZEDES were approved during 2013-17 in the areas of industry, technology and logistics; although none are yet operational, the first is scheduled to begin installation of operators in late 2019.

The Industrial Policy 2016-2025 also sets out various projects in selected basic industries. The selected industries are not yet well developed in Ecuador, and have been selected thanks to their (a) ability to generate productive value chains, (b) positive spillover effects on the development of other industries, and (c) high import-substitution potential. Of the eight projects set out in the Industrial Policy, implementation efforts are currently underway in all areas. The village of Posorja has been selected as the site of various industrial facilities, with a shipyard and production plants for steel, copper and aluminium products under development. A "Forestry Development Pole" is also underway in La

Condordia that will consist of commercial forests and an industrial plant. Pre-feasibility studies have been completed, and a public-private management model is currently under construction by MIPRO. Lastly, pre-feasibility studies for a petrochemical plant have also been completed, but the project is awaiting the completion of various crude oil refineries. Overall, the implementation of these cluster-development strategies has been driven by MIPRO's involvement in establishing norms, management systems, zoning, and attract investment for the cluster.

Ecuador is also seeking to develop industrial parks. However, while MIPRO has undertaken studies of existing parks as well as potential models, a policy to set standards for and promote the development of industrial parks has been under debate by the government since 2016, and is still awaiting approval.

In terms of M&E, MIPRO's Undersecretariat for Territorial Industrial Development is in charge of overseeing the ZEDEs and making regular inspections for compliance with COPCI regulations. However, these evaluations focus more on compliance rather than performance. The Industrial Policy sets out goals for 2025 for each selected basic industry, which are summarised in Table 14.8.

Table 14.8. 2025 Industrial policy goals: Basic industry cluster development

Industry	Additional income (USD millions)	Trade balance impact (USD millions)	GDP impact (USD millions)	GDP growth impact (%)	Investment (USD millions)	Employment generation
Shipyard	35	15	15	0.015	203	850
Flat Steel	300	300	300	0.3	550	800
Forestry	550	550	880	0.8	2 800	1 910
Copper	2 100	2 100	2 100	2.1	2 000	850
Aluminium	670	670	670	0.6	1 900	1 000
Petrochemicals	177	177	448	0.4	1760	370

Source: (Ministry of Industries and Productivity of Ecuador, 2015[30]).

Integration into regional and global value chains

Ecuador's SME support in the area of global value chains (GVCs) also differs from what exists in most LA7 countries. Rather than a supplier development programme implemented via calls for proposals and provision of co-financing, its ENCADENA programme, in place since 2014, consists of various components, including an update of the industrial cadastre; the creation of an inter-ministerial information and support platform for Ecuadorean industry; the undertaking of diagnostic studies of priority value chains, in order to establish a baseline and define a support roadmap; and assistance to large companies for the development of their suppliers.

However, implementation has been significantly delayed, with the original 2014-16 timeline extended through 2018, and only 20% of the original 65 million USD project budget spent as of the end of 2017. As of the end of 2017, the cadastre update was not yet complete and the information and support platform not yet created. Furthermore, while internal monitoring notes that roadmaps were established for various value chains, no publicly available information is available about the programme, beyond ad-hoc press releases. However, various partnerships have resulted from this programme, including (a) support from the European Union (EU) to Ecuadorean SMEs interested in partnerships with

EU firms or exporting to EU markets, and (b) the ongoing development of a supplier development programme with the UNDP, which will work with large companies and their suppliers in the coffee, cacao, plastics, metalworking and foodstuffs value chains.

While no public information is available, Ecuador's ENCADENA programme is subject to monthly monitoring by the government's "Management for Results" (GPR) system; however, in this case, the monitoring is generally qualitative and descriptive, and while outcome and impact indicators were established, they have not been updated.

Access to market and internationalisation of SMEs (Dimension 7)

Ecuador is making clear efforts to support SME internationalisation. These efforts have been delivered mainly via training programmes, including a particular focus on dedicated SME e-commerce training, as well as the development of specific trade facilitation and quality certification mechanisms for SMEs. These efforts have also been accompanied by monitoring and evaluation (M&E) schemes, both internal and public, with a clear focus on ensuring that support reaches all areas of the country, including rural zones.

Ecuador's overall score of 3.82 for this dimension reflects that the country has support programmes solidly in implementation. Going forward, barriers exist related to funding and staffing levels, though pilot financing support programmes are being implemented in areas such as quality standards and general export support, in partnership with the EU. These pilot efforts should be carefully monitored and evaluated against existing technical support to inform future policies and programmes, and to guide the effective use of public funds to help SMEs gain and sustain greater market access.

Support programmes for internationalisation

As noted in Chapter 10, all LA7 countries, including Ecuador, have relatively well-advanced policies and programmes in place to promote SME exports. Ecuador's investment and export promotion agency (EPA), ProEcuador, created in 2011 under the supervision of the Ministry of Foreign Trade (*Ministerio de Comercio Exterior*), has developed its institutional planning in line with the government's Industrial Policy 2016-2025. In terms of targeted SME support, it currently implements an SME export training programme, entitled *"Ruta Exportadora"*, which is open to the entire SME population, after the SME undertakes an online export diagnostic. The diagnostic serves to place each SME in a category (beginner/intermediate/advanced), which then corresponds to a training programme covering various subjects (e.g. quality standards, trade facilitation, marketing) and activities (e.g. participation in trade fairs) intended to support the SME in either beginning to export or expanding its existing export operations. This programme therefore provides training to a potentially wide range of SME exporters, but does not go so far as to include financial support.

The EPAs of Colombia and Peru implement similar programmes.[28] ProEcuador currently has close to 9 000 registered users, built up since 2013, with 1 344 new users registered in 2017. About half of these users are placed in the beginning category, with about one-third in the intermediate category, and the remaining 18% in the advanced category. However, of this entire population, only 310 diagnostic tests were given in 2017, with about half of the group graduating from intermediate to advanced level. Introductory training reached 1 748 users in 2017, while intermediate training reached 3 722 and advanced 1 073, of which 83% were SMEs.

However, the case of Ecuador is somewhat unique in comparison to its peers, in that Ecuador lags behind in implementation due to self-reported limited staff and funds. Ecuador is currently the sole LA7 country to limit its SME internationalisation support for training, without any additional financing support. This changed somewhat beginning in 2018, with the implementation of a programme, co-financed by the EU, called "Support Programme to the Ecuadorian Trade Sector for SMEs" (*Programa de Apoyo al Sector de Comercio en el Ecuador para MIPYMES*), with an EUR 8.5 million total budget. The programme, which is designed for SMEs and entrepreneurs with export potential to the EU, plans to select 100 new and 100 existing exporters for support via an open call for proposals. Similar to other LA7 financial support programmes, the selected beneficiaries will be supported in the development of an export diagnostic and action plan, as well as in the implementation of the plan (up to 50% of costs) over 2018-19.

ProEcuador uses the same GPR M&E system as the rest of the Ecuadorian government. The system sets various annual strategic objectives, and corresponding measurable performance indicators. While the results of this internal system are not public, an annual report is published on the ProEcuador website each year. ProEcuador requires all beneficiaries of its training services to take user satisfaction surveys following the training, and makes the results of these surveys public in its annual report. In 2017, 92.44% of users were satisfied with the introductory training, and 90.5% with the intermediary-level training. The annual report also breaks down information on beneficiaries by geographic zone, drawing on ProEcuador's network of seven regional offices.

Trade facilitation

Ecuador, like its LA7 peers, scores relatively well here (4.33 vs. LA7 average of 4.35), as it has a specific "Easy Export" (*Exporta Fácil*) programme to facilitate basic SME exports, provides exporting guides and inquiry points, and has established both a single window for trade procedures and an Authorised Economic Operator (AEO) programme.[29] However, despite the existence of these latter two programmes, Ecuador, like its LA7 peers, lacks targeted support services for SMEs related to AEO certification and document preparation. Furthermore, it also lags somewhat behind its LA7 peers regarding its scores on the OECD Trade Facilitation Indicators (TFIs).

Ecuador's ECUAPASS e-customs system has included the *Ventanilla Única Ecuatoriana* ("VUE") single window since 2013. Its AEO programme was established in 2015; however, since this time, only four companies have been certified, none of which are SMEs. Ecuador's "Easy Export" programme was established in 2011, prior to these wider services, and facilitates exports of up to USD 5 000 in value and 30 kilograms. Internal monitoring reports state that approximately 4 500 export operations by 222 companies to over 80 countries were completed during 2016. The programme website is particularly well designed, connecting users to information on training and other exporter support services provided by both MIRPO and ProEcuador, as well as information on rules of origin and other formalities.

As demonstrated in Figure 10.4, Ecuador generally lags behind the average performance of its LA7 peers across the four OECD Trade Facilitation Indicators (TFIs) included in this assessment (information availability, fees & charges, documents and procedures), though it slightly exceeds the LA7 average regarding the latter. Furthermore, it performs below both the average OECD and LA7 overall TFI performance (1.08 vs 1.67 and 1.37, respectively, best=2). Nonetheless, the OECD notes that in general, Ecuador matches or exceeds the average performance of upper-middle-income countries in all areas with the

exception of appeal procedures (OECD, 2017[33]). However, the Organisation notes that further reforms in the areas of fee and charges, documents, and procedures, among others, should be prioritised to increase the amount of information available to stakeholders and reduce the time required for export procedures.

Use of e-commerce

Ecuador, alongside the majority of its LA7 peers, is relatively well advanced in terms of programmes to support SME access to and use of e-commerce. The work of the Ministry of Telecommunications (MINTEL) is led by Ecuador's National Telecommunications and Information Technology Plan 2016-2021 (*Plan Nacional de Telecomunicaciones y Tecnologías de Información del Ecuador*), and was established on the basis of market research conducted by the Ministry to understand, among other issues, SMEs' current use of information and communications technologies (ICT). The plan consists of four macro-objectives,[30] within which "increase the use of ICT by SMEs" is a specific objective, with the goal of training at least 60 000 microenterprises on the use of ICT for business-purposes and 1 400 SMEs on ICT issues specific to their sector by 2021.

As explained in Chapter 10, the LA7 countries' support programmes in this area can be divided into three categories: (1) training programmes, (2) construction of public e-commerce platforms and/or modernisation of e-commerce systems/legislation, and (3) provision of co-financing. Ecuador is currently implementing training programmes, as well as having constructed a public e-commerce platform. In line with the aforementioned strategy, MINTEL has mobilised its network of over 800 "InfoCentres" to provide ICT training, on topics ranging from basic information to e-government services and e-commerce. This includes dedicated and free "Digital Microenterprise" and "Digital SME" training programmes, which consist of various modules and recognise those who complete them with diplomas, which had been awarded to over 3 000 microenterprises and close to 50 SMEs by the beginning of 2018.

Various government entities also collaborated in 2016 to launch *Supertienda*, a national e-commerce platform for Ecuadorian products that offers free registration for both buyers and sellers. Providers of both goods and services can advertise within the portal, which currently integrates electronic payment via PayPal and mobile phones, and incorporates various shipping services. While sales are currently limited to Ecuadorian buyers, a future objective is to open foreign access. According to an internal 2018 report on the platform, 10 391 producers (entrepreneurs and SMEs) are currently registered in the system, though only about 72% of these have products registered. Over 250 000 people have visited the site, resulting in more than 2 000 transactions valued at almost USD 80 000. (Interestingly, about half of the transactions to date have been for purchases related to chocolate/cacao.) However, the number of transactions dropped significantly during 2017-2018; for this reason, the project is working on a new marketing and communications plan, mobile and international access, and design updates, among other improvements, in a second project phase.

MINTEL undertakes quarterly monitoring reports of its advancement towards the objectives set for 2021, setting quarterly objectives for the number of training courses to deliver. MINTEL has also established an ICT Observatory,[31] which publishes statistics under five main categories: access and use, info-centres, telecommunications, ICT in businesses, and business in the ICT sector. The observatory also benchmarks Ecuador's performance globally, using UN data on ICT development and e-government. Ecuador, along with Colombia, are the only LA7 countries to have such observatories in place.

Quality standards

Ecuador has prioritised quality as one of the five pillars of its current industrial development strategy, and has in place a fully developed quality standards system including a normalization institute (INEN) and accreditation organisation (OAE). However, targeted support for SMEs is a recent initiative. INEN has developed a specific process for certifying the management of SMEs; this is in its first stage of implementation, having certified more than 30 SMEs. INEN also recently launched a self-certification option for SME management systems, via a one-week virtual course.

However, there is currently no public financial support for SMEs that need to obtain or want to undergo quality certifications. The Industrial Policy 2016-2025 includes as a project the development of a dedicated credit line for SMEs, but no implementation of this has yet begun. However, the aforementioned EU export support programme for SMEs includes quality as a key component, and will finance quality certifications as a part of export action plans. As this programme is both a pilot and was still in design at the time of the assessment, Ecuador receives a somewhat lower score of 3.71 for this sub-dimension, but could expect to improve as the programme matures.

Taking advantage of the benefits of LAC regional integration

Ecuador scores somewhat lower than its LA7 peers here as, while the Andean Community (CAN) has made efforts to provide SME development support within its regional integration efforts, current actions are somewhat less developed than those of other regional trade blocs, such as the Pacific Alliance (PA) and Southern Common Market (Mercosur), and are concentrated in the planning and design and research phases.

Like the PA, CAN has established a specific working group on SMEs: the Andean Committee for Micro, Small and Medium Enterprises (CAMIPYME). Following CAMIPYME's establishment in 2011, a five-year action plan was approved for 2012-2017, with four main strategic lines of action, including facilitating greater participation of SMEs in the Andean economic integration process, developing Andean trade fairs and events, improving SME's access conditions to the Andean market, and promoting associativity between Andean SMEs. While the Action Plan was well formulated, with clear objectives and corresponding actions and indicators (as well as a division of short-, medium-, long-term and permanent goals and actions), CAMIPYME faced difficulty in the consistent implementation of the plan, due to the annually rotating CAN pro-tempore presidency, as well as lack of a dedicated budget for implementation. Thus, no follow-up report on the overall status of implementation of the plan has been conducted. Rather, in practice, each pro-tempore president has selected various priority projects and worked to facilitate their development and implementation under their mandate.

While the 2012-2017 Action Plan was thus not systematically implemented, and no further action plan for the current period has been or is in development, actions taken to date correspond to some of the main lines of action established within the 2012-17 plan. These actions include investment in commercial intelligence to inform the development of regional value chains and targeted trade facilitation measures, such as the development of "Easy Export" Programmes in CAN member states. To date, CAMIPYME has invested in various research projects to better understand existing and potential opportunities for Andean value chains. At the end of 2017, the UN Economic Commission for LAC (ECLAC) published a study on Colombian-Ecuadorian value chains and, at the time of this assessment, was finalizing a statistical productive matrix (MIP), developed at CAN's request, systematising national accounts information on trade flows, employment, value

chains, productive complementarity, and necessary intra-sectoral inputs by sector in each CAN member state. CAMIPYME was also developing a call for proposals to finance an external study on value chains with the greatest export potential to the EU market. In terms of trade facilitation, CAN also established a strategic plan dedicated to this subject in 2012, with the development and improvement of "Easy Export" programs for SMEs as an established project.

In addition to these existing projects and results, further support measures related to BDS are under development. At the time of this assessment, an "Andean Business Strengthening" project was proposed in co-operation with the International Labour Organisation (ILO). The project seeks to train more than 100 Andean facilitators to deliver the ILO's "Start and Improve Your Business" (SIYB) programme[32] to 1000 Andean SMEs, undertake diagnostic studies of the BDS programmes already active in each CAN member state, and develop a platform for the sharing of best practices. However, at the time of this assessment, funding for the envisaged USD 2 million project budget was yet to be secured. CAMIPYME is also planning to use the results of the MIP study to design support programmes for the development of strategic Andean value chains.

While CAMIPYME's membership is limited to high-level public officials from each CAN member country with responsibility for SME-related public policies, and does not currently have an established mechanism for private sector feedback, the Committee is currently working on establishing such a consultative body. M&E efforts are also under development in the form of an Andean SME Observatory (OBAPYME). While the mandate for OBAPYME was originally delivered in 2012, alongside the establishment of CAMIPYME, the project has experienced implementation delays, mainly due to lack of resources to sustain a dedicated project team. CAMIPYME is currently undertaking a diagnostic of the Observatory's current state, in terms of statistical information gathered, to inform next steps.

The way forward

Institutional framework

Within its current SME development efforts, Ecuador is aiming to pursue a higher economic diversification and a faster technological upgrade for future prosperity, while at the same time promoting employment and the reduction of poverty and marginalisation under current conditions. To effectively manage these two separate objectives going forward, Ecuador could consider:

- **Developing an integrated SME strategy**, including a redesign of its policy implementation framework, improved targeting of policy actions and the devotion of substantially more resources to SME development.
- **Elaborating a comprehensive strategy to reduce labour and enterprise informality.** Labour and enterprise informality rates in Ecuador are very high. Enterprise informality constrains the development of the SME sector and is at the root of labour informality. Informality is a complex phenomenon that needs to be tackled from a variety of perspectives. A comprehensive strategy, based on an in-depth analysis of the causes of informality and including a range of incentives to promote formalisation and enhanced enforcement measures, may prove more effective than adopting separate approaches to deal with labour and enterprise informality.

Operational environment and simplification of procedures

Ecuador's performance for this dimension is relatively low, as the entire regulatory reform process is in an early phase of design, and the country ranks relatively low in international assessments of the ease of filing taxes and company registration processes.

However, reform efforts are underway, especially in the area of e-government services. Going forward, the country could consider:

- **Completing the elaboration of guidelines and an agenda for regulatory reform**, establishing quantitative and measurable objectives, setting intermediary targets, and identifying the institutions in charge of the agenda implementation.
- **Elaborating guidelines for the introduction of RIA** and training civil servants in charge of its application in the line ministries.
- **Conducting consultations with the private sector** to identify the areas where regulations are most restrictive and administrative burdens are the greatest. This could be paired with a comprehensive review of existing procedures for starting a business, including a review of the need for registration at both national and local levels.
- **The introduction of one-stop shops**, in association with existing customer service centres (*centros de atención al usurarios*) and the SCVS.
- **Reducing the time needed to complete standard procedures for tax payments**, and further developing e-tax filing and tax-payment procedures.

Access to finance

Ecuador has one of the lowest scores in the LA7 in the dimension of access to finance, which finds that it is particularly important to address financial education initiatives and strengthen procedures for dealing with bankrupt businesses. In particular, the Ecuadorian government should focus its efforts on:

- **Strengthening the regulatory framework for secured transactions**. As mentioned earlier, Ecuador does not even have a specific legal framework for secured transactions. A proposal in this regard should seek to adhere to internationally accepted criteria, (including a) greater flexibility in the type of assets and descriptions needed to grant assets as collateral), b) creation of safeguards to guarantee payment to secured creditors in the event of insolvency, and c) creation of an accessible register of assets used as collateral.
- **Unifying asset registers.** In Ecuador these registers exist, but are managed in a decentralized manner and are not homogenized. However, the national government is currently working on a National Public Data Registry System that seeks to centralize this information and facilitate its access by the population. This system could be enhanced by following the recommendation above of creating a registry of assets that have been used as collateral, which is notice-based and allows to register, search and amend records online.
- **Developing a unified strategy to improve financial education that incorporates a framework for evaluation and follow-up.** Although Ecuador has numerous initiatives to improve the financial knowledge of the population, and particularly of small entrepreneurs, these efforts have not been co-ordinated by a single strategy

outlining guiding principles and including clear indicators to monitor the progress made.

- **Simplifying and streamlining insolvency procedures.** While the legal requirements for insolvency proceedings are limited, the procedures for closing insolvency proceedings are very time-consuming and costly compared to other countries in the region.

SME development services and public procurement

Ecuador has yet to develop a complete SME policy, including the design of programmes for direct SME and entrepreneurship support, such as BDS. Because the country's strategies are geared to capital-intensive industries, they contain few specifics on BDS for SMEs and entrepreneurs in key sectors identified by Ecuador (such as tourism, agro-industries, creative and cultural industries) or in terms of support for SMEs in general. Ecuador also lacks support programmes to facilitate the participation of SMEs in public procurement. Therefore, Ecuador could:

- **Develop a more complete SME policy, including by identifying and specifying concrete direct support mechanisms, notably BDS.** Although there appear to be some initial mechanisms, such as business development centres, there is little detail on how they operate and what types of services they offer.
- **Undertake a horizontal approach to BDS (as most countries do) and add sectoral elements around the priority economic activities identified in the industrial policies.** The authorities could also establish more detailed BDS programmes for SMEs and entrepreneurs, especially in less capital-intensive activities such as tourism, IT, agribusiness and others.
- **Adopt support programmes for SME participation in public procurement**. These could include online training, information desks, supplier development programmes and other schemes.

Innovation and technology

Ecuadorean policies to support innovation among SMEs and entrepreneurs are very limited, reflecting the state of affairs of the general SME policy. The industrial strategy of Ecuador (be it the "Industrial Policy 2016-2025" document or the ENCMP) notes the very important role of innovation in the diversification and productivity efforts of the country. However, there are very few support schemes for innovation in SMEs and start-ups, compared to other countries. Hence, Ecuador could:

- **Include a concrete set of programmes for innovation in a SME strategy or add further detail and coherence to ongoing industrial strategies.**
- **Develop a national system for innovation in the private sector (or innovation in general), with a clear institutional structure,** including high-level direction and oversight, implementation mechanisms assigning specific roles to different agencies from the public sector (MIPRO and its undersecretariats and departments, SENECYT, CFN, etc.) as well as business associations.
- **Create an online platform where entrepreneurs can learn about the support available.** The current programme *Banco de Ideas* provides a good initial example,

informing about the different programmes, beneficiaries, and support institutions (e.g. incubators, accelerators).

Productive transformation

Ecuador has made considerable recent efforts to develop a set of policies to support SMEs and various strategic sectors in driving the country's productive transformation, even if these efforts generally remain in the planning and development stages. To further build on these efforts, Ecuador could pursue the following actions:

- **Further institutionalise sectoral dialogue in alignment with existing projects.** As Ecuador's productive development strategy clearly focuses on a number of priority basic industrial sectors, existing initial implementation efforts could be completed and strengthened through institutionalised dialogue with relevant public and private stakeholders by sector. These dialogues could serve to monitor and inform ongoing projects of sectoral relevance (whether they be ZEDEs, supplier development programmes, or development poles), especially as they become operational in the short-to-medium term. Ecuador could learn from high-quality LA7 examples in this regard, such as Argentina's "Executive Roundtables for Productive Transformation".
- **Further develop the educational sector.** The development of new industries necessitates correspondingly high-quality human capital. The government should align public education with vocational demands, whether through higher education in science, technology and engineering, or through vocational training programmes. Incentives such as scholarships and/or discounted fees could be considered.

Access to market and internationalisation of SMEs

Ecuador is making clear efforts to assist SMEs with their internationalisation efforts, including support in the specific areas of trade facilitation, e-commerce and quality certifications. To further build on existing efforts, Ecuador could pursue the following actions:

- **Incorporate impact assessment measures for export support programmes.** In particular, ProEcuador could capitalize on the pilot experience of the EU export support programme in order to inform future possible financing support for SME exporters. To do so, Ecuador could consider the following steps:
  - Set KPIs designed to compare the impact and cost of training vs. financing support measures. These indicators should go beyond measuring participation, and instead seek to capture real-world impact (number of beneficiaries that export for the first time, etc.).
  - Retain contact with applicants that are not selected as programme beneficiaries, in order to create a control group for further impact assessment.
  - Budget funds for external independent evaluation, to be conducted after a set initial evaluation period; and adjust programme implementation accordingly, based on both the independent and private sector feedback.
- **Include AEO training in the advanced stage (business promotion) of ProEcuador's "RutaExportadora" training programme, and consider providing further support to SMEs – such as expedited exam processes, more-**

flexible security standards, subsidised fees, customs-business partnerships, and/or quotas. These methods have proved successful in facilitating SME AEO certification in both OECD and APEC countries (APEC Policy Support Unit, 2016[34]).

- **Further expand e-commerce support for exporters.** Current government efforts have responded to the particular situation facing Ecuador (i.e. the relatively low use of ICT by SMEs) by providing basic training, establishing community ICT centres, and creating a free national e-commerce platform. Building on these efforts, ProEcuador could consider specific programmes to support exporters via e-commerce, such as facilitating the inclusion of Ecuadorian SMEs on international e-commerce platforms, learning from pilot projects underway in Argentina with Alibaba and logistics services.
- **Raise the visibility and breadth of public sector support for quality certifications, building on existing and pilot efforts.** ProEcuador could collaborate with INEN to incorporate a training module on management systems, and the dedicated certification available for SMEs, into its "RutaExportadora" training programme. Furthermore, building on the pilot experience of the EU export support programme, ProEcuador and INEN could consider further support for SMEs that wish to obtain quality certification, such as via a dedicated credit line, or by subsidising the costs of certification for priority enterprises.
- **Take advantage of CAMIPYME's investment in diagnostic research and project development to establish a robust future SME development strategy, with quantitative indicators to measure outcomes and impact.** CAMIPYME's efforts since its establishment have resulted in a valuable set of diagnostic research on SMEs' contribution to Andean value chains and corresponding opportunities, as well as project proposals related to BDS and institutionalising private sector participation and inter-Andean networking. CAMIPYME has also formed a robust network of partners and donors, including the IDB, CAF, ECLAC and the ILO. Looking to the future, CAMIPYME could consider building on these efforts by establishing a multi-annual action plan, drawing on support from partners to secure an overall implementation budget.

Notes

[1] Group 1 comprises countries with high equality in HDI achievements between women and men (absolute deviation of less than 2.5 percent), group 2 comprises countries with medium to high equality in HDI achievements between women and men (absolute deviation of 2.5– 5 percent), group 3 comprises countries with medium equality in HDI achievements between women and men (absolute deviation of 5–7.5 percent), group 4 comprises countries with medium to low equality in HDI achievements between women and men (absolute deviation of 7.5–10 percent) and group 5 comprises countries with low equality in HDI achievements between women and men (absolute deviation from gender parity of more than 10 percent)

[2] See https://www.aduana.gob.ec/codigo-organico-copci/.

[3] See http://www.buenvivir.gob.ec/.

[4] See https://www.industrias.gob.ec/wp-content/uploads/2017/01/politicaIndustrialweb-16-dic-16-baja.pdf.

[5] See https://www.todaunavida.gob.ec/.

[6] See http://www.seps.gob.ec/noticia?conoce-la-eps for more information.

[7] See http://www.seps.gob.ec/#sector-financiero for more information.

[8] See http://www.seps.gob.ec/web/guest/inicio for more information.

[9] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[10] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[11] https://www.cfn.fin.ec/fondo-nacional-de-garantia.

[12] http://www.oficial.ec/decreto-680-creese-fondo-capital-riesgo.

[13] https://www.banecuador.fin.ec/educacion-financiera-3-2.

[14] https://www.cfn.fin.ec/educacion-financiera-2.

[15] http://leyconcursal.org/derecho-concursal/ecuador/ley-de-concurso-preventivo.

[16] https://www.industrias.gob.ec/wp-content/uploads/2015/09/FOMENTO-DE-LA-MIPYMES-ECUATORIANAS.pdf.

[17] https://www.industrias.gob.ec/centros-de-desarrollo-empresarial-y-apoyo-al-emprendimiento.

[18] See https://www.cfn.fin.ec/desarrollo-de-capacidades-empresariales and https://www.economiasolidaria.gob.ec/fomento-productivo.

[19] http://www.oas.org/juridico/pdfs/mesicic5_ecu_panel5_sercop_1.1.losncp.pdf.

[20] https://portal.compraspublicas.gob.ec/sercop/catalogos-dinamicos-inclusivos-2.

[21] https://portal.compraspublicas.gob.ec/sercop/capacitaciones-virtuales.

[22] http://coesc.educacionsuperior.gob.ec/index.php/LIBRO_I_-_Del_Sistema_Nacional_de_Ciencia,_Tecnolog%C3%ADa,_Innovaci%C3%B3n_y_Saberes_Ancestrales.

[23] http://www.bancodeideas.gob.ec/convocatoria/index.

[24] "Cumplir con los requisitos mínimos para la gestión de la innovación y propender a la ejecución de proyectos, procesos y actividades abiertas, investigativas, participativas y colaborativas que permitan la detonación de innovaciones en el ámbito productivo de las Mipymes y grupos artesanales."

[25] See the "Reportes" section of http://www.inteligenciaproductiva.gob.ec/.

[26] See http://www.inteligenciaproductiva.gob.ec/reporte-home/lista-propuesta/4/1 for more information.

[27] See https://www.aduana.gob.ec/codigo-organico-copci/.

[28] See Chapter 10 and the country profiles of these countries for more information.

[29] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[30] 1) Complete and encourage the deployment of telecommunications infrastructure; 2) increase the penetration of ICT services in the population; 3) ensure the use of ICT for economic and social development; and 4) establish the basis for the development of a long-term IT industry.

[31] Accessible via https://observatoriotic.mintel.gob.ec.

[32] More information on this programme is available at https://www.ilo.org/empent/areas/start-and-improve-your-business/lang--en/index.htm.

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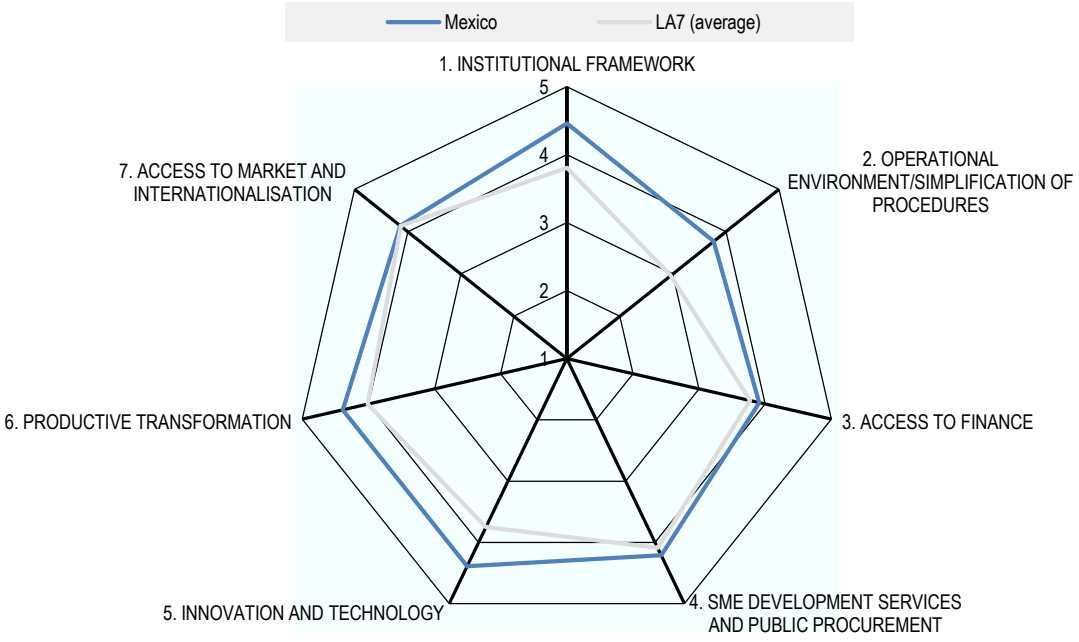
Chapter 15. Mexico

Mexico has continuously worked to develop its SME policy since the establishment of initial institutions and support programmes in the early 2000s. Alongside that process, Mexico has undertaken two in-depth SME policy reviews (in 2007 and 2013, through the OECD Working Party on SME and Entrepreneurship) that have helped to identify important areas of reform. Those efforts have contributed to Mexico's good performance in this first SME Policy Index assessment focusing on Latin America.

Mexico is currently at a crucial point in defining its strategic orientations for both overall economic development and SME development, as the new administration is in the process of elaborating the new national plan of economic development and the new strategy for SMEs. Going forward, the country could consider a closer involvement of INADEM (the SME agency) and other public agencies in the implementation of SME support programmes, re-assessing the current call-for-proposal based programme delivery system and identifying opportunities to expand co-operation with the private sector. At the same time, efforts should be continued to develop partnerships with state and local administrations.

Key findings

Figure 15.1. 2019 SME Policy Index scores for Mexico



Mexico stands out as a top performer in this first SME Policy Index (SME PI) assessment focusing on Latin America, outperforming the LA7 average across all of the assessment dimensions (Figure 15.1). Furthermore, it is the top LA7 performer in the areas of the Institutional Framework for SME Development (Dimension 1) and Operational Environment/Simplification of Procedures (Dimension 2).

In the case of the institutional framework, this is largely due to the National Institute for the Entrepreneur (*Instituto Nacional Del Emprendedor*, or INADEM), which was established in 2013 as a decentralised public institution placed under the supervision of the Ministry of Economy to implement SME and entrepreneurship promotion programmes and coordinate the country's "Entrepreneur Support Network" (*Red de Apoyo al Emprendedor*). Since then, at the time of writing, INADEM had become the central institution in shaping and implementing SME policy in Mexico. It has at its disposal a significant National Entrepreneur Fund (FNE), which finances the large offer of SME support services currently available across the various dimensions covered by this assessment.

In the case of the operational environment and simplification of procedures, Mexico still has ample room for improvement, as all LA7 countries receive a score lower than 4 (on scale of 5) for this sub-dimension. However, with a score of 3.77, Mexico is by far the best LA7 performer, thanks to its progress in implementing regulatory reforms and regulatory impact assessment (RIA) application, and the presence of a good range of operational electronic services for enterprises and the availability of electronic signature. Going forward, the country could focus on various priorities for further improvement, such as the costs associated with the pre-registration phase to start a business; the coverage of one-stop shops regarding notification procedures, VAT reimbursement and company tax-auditing procedures; and the monitoring of e-government services geared towards SMEs.

SME strategic orientations for the period covered by this assessment were defined in the framework of the National Development Plan (PND) for 2013-18 and the Ministry of Economy's related Programme of Innovative Development (PRODEINN). Mexico is currently at a crucial point in defining its strategic orientations for both overall economic development and SME development, as the new administration of President López Obrador is in the process of elaborating the new national plan of economic development and the new strategy for the SME sector. While the country's economic and SME development was guided by clear strategic documents over the period of this assessment, improvements could be prioritised going forward to pair these strategic documents with robust action plans that clearly delineate roles, responsibilities and performance-oriented targets at implementation level. This could help to shift current public monitoring and evaluation (M&E) efforts, which are already relatively developed in terms of the LA7, from being qualitative and descriptive to quantitative and impact-oriented. This is also an opportune moment to undertake impact evaluations for the most important SME programme/projects currently operational.

Furthermore, going forward the country could also consider a closer involvement of INADEM and other public agencies in the implementation of SME support programmes, re-assessing the current call-for-proposal *(convocatoria)* based programme delivery system and identifying opportunities to expand co-operation with the private sector. At the same time, efforts should be continued to develop partnerships with state and local administrations.

Overall, the new administration – which began its mandate in December 2018 directly following the close of this assessment – can count on a sound institutional framework with considerable experience in managing SME support programmes. It has an important opportunity to evaluate INADEM's first five years of existence, and to continue strengthening the country's strategy on this basis, as well as drawing from the experiences and good practices of the other LA7 countries.

Overview

Economic structure and development priorities

Table 15.1. Macroeconomic Indicators - Mexico

Indicator Name	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth (annual %)	4.9	2.3	5.1	3.7	3.6	1.4	2.8	3.3	2.9	2.0
GDP per capita (current US$)	6 959	8 089	9 016	9 912	9 940	10400	10580	9 290	8 443	8 902
GDP per capita, PPP (current international $)	10799	12369	14858	16049	16658	16848	17481	17239	17769	18258
Unemployment, total (% of total labour force)	2.6	3.6	5.3	5.2	4.9	4.9	4.8	4.3	3.9	3.4
Inflation, GDP deflator (annual %)	11.2	5.9	4.5	5.8	4.1	1.5	4.4	2.7	5.4	6.1
Exports of goods and services (% of GDP)	25.4	30.4	29.7	31.0	32.3	31.3	31.9	34.6	37.1	37.9
Imports of goods and services (% of GDP)	27.0	32.0	31.1	32.4	33.5	32.5	33.1	36.6	39.1	39.7
External balance on goods and services (% of GDP)	-1.6	-1.6	-1.4	-1.4	-1.2	-1.2	-1.2	-2.0	-2.0	-1.8
Current account balance (% of GDP)	-2.6	-1.0	-0.5	-1.1	-1.5	-2.4	-1.8	-2.5	-2.2	-1.7
Services, etc., value added (% of GDP)	57.8	60.0	60.4	59.9	60.0	61.1	60.2	61.0	61.1	60.9

Indicator Name	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
Foreign direct investment, net inflows (% of GDP)	2.6	3.0	2.0	2.1	1.5	3.7	2.4	3.1	3.3	2.8
Foreign direct investment, net outflows (% of GDP)	0.1	0.7	0.8	1.0	1.6	1.1	0.5	1.1	0.6	0.3
General government total expenditure (% of GDP)	20.3	22.1	27.7	27.7	28.2	27.8	28.0	27.5	27.4	25.9
General government net lending/borrowing (% of GDP)	-2.8	-1.5	-4.0	-3.3	-3.7	-3.7	-4.5	-4.0	-2.8	-1.1
Domestic credit to private sector (% of GDP)	15.0	16.0	23.3	24.6	26.0	29.0	29.3	32.0	34.0	35.6

Source: (World Bank, 2018[1]; IMF, 2018[2])

Activity, labour markets and economic structure

Mexico presents some differences in economic structures and specialization when compared to the rest of the LA7 countries. The country is strongly integrated with the United States (US) economy and has a large industrial complex (particularly in the assembly stages of the value chain) dedicated to export activities. Primary activities are less relevant than in other countries of the region, even when oil is a significant source of fiscal revenue.

As Mexico is less exposed to commodity prices, its economic performance over the past decade looks sluggish when compared to that of its LAC peers. GDP growth averaged 2.5% in 2005-2015 in Mexico (see Table 15.1, compared with 3.1% in LAC), and it is expected to remain close to 2% in the coming years (OECD, 2017[3]). Protectionism in trade partners poses a risk to the Mexican economy.

Unemployment has remained low for most of the past decade (4.5% average, see Table 15.1). However, the country has failed to achieve the dramatic reduction in poverty accomplished by its peers. By 2012, the percentage of the population below the national poverty line remained above 50%, the same as two decades earlier (OECD, 2017[4]). Income inequality is the highest among OECD countries (OECD, 2017[5]). Furthermore, around 56% of employment is informal (INEG, 2017[6]).

In terms of sectoral composition, agriculture accounted for 4.2% of GDP during the past ten years, the lowest figure in this report (World Bank, 2018[1]). Mining accounts for around 6% of total value added, in line with the regional average (ECLAC, 2016[7]). Manufacturing averaged 18% of GDP during the past decade – above the regional average, and surpassed only by Argentina in this report. The auto industry in particular plays an important role both in value added and exports within the North American Free Trade Agreement (NAFTA; replaced since Nov. 2018 by the United States-Mexico-Canada Agreement, or USMCA). Services account for 61% of the economy (Table 15.1), with real estate and financial intermediation and commerce shares above the LAC mean.

The amount of domestic credit provided to the private sector remains below the regional mark (35.6% of GDP compared to 49.2% for LAC in 2017, see Table 15.1).

Regional disparities in Mexico are the sharpest among OECD members. In 2015, the richest federative entity (Campeche) had a GDP per capita 8.7 times higher than the poorest (Chiapas). Southern regions usually enjoy a lower wellbeing than northern ones. Ciudad de Mexico and Estado de Mexico together concentrate 26% of economic activity and 21% of the population (OECD, 2016[8]).

Mexico ranks 74th worldwide within the United Nations' (UN) Human Development Index (HDI), placing it inside the group of "high human development countries" alongside Colombia, Ecuador and Peru from the LA7 (United Nations, 2018[10]) (see Table 15.2). This means that its performance on indicators measuring quality of health, education and standard of living generally fall among the middle third of all countries, though, in Mexico's case, indicators related to quality of education fall mostly within the bottom third. In any case, Mexico has made improvements since the 1990s by increasing life expectancy at birth by 6.5 years, mean years of schooling by 3.1 years and expected years of schooling by 3.5 years.

Table 15.2. Selected Human Development Index (HDI) Scores - Mexico 2018

Variable	Mexico	LA7 Average
HDI Ranking (2017)	74th	69.3
HDI[1] (scale of 0-1, with 1=best; 2017 value)	0.77	0.79
Life expectancy at birth (in years; as of 2017)	77.3	76.8
Gender Development Index Ranking[2] (scale of 0-1, with 1=best; 2017)	0.95	0.98
Quality of Health[3]		
Lost Health Expectancy[4] (2016)	11.6%	11.3%
Physicians (per 10,000 ppl.; 2007-2017)	22.3	22.2
Hospital beds (per 10,000 ppl.; 2007-2014)	15	22
Quality of Education[3]		
Pupil-teacher ratio primary school (pupils per teacher; 2012-2017)	27	20.7
Primary school teachers trained to teach (2009-2017)	97.0%	93.5%
Proportion of schools with access to internet (2008-2013)	12%	56%
Math (PISA[5] score 2015)[6]	408.0	413.7
Reading (PISA score 2015)	423.0	436.2
Science (PISA score 2015)	416	431
Quality of Living Standards[3]		
Vulnerable employment (% of total employment; as of 2017)	27.2%	38.1%
Share of rural pop. with access to electricity (2016)	100%	96%
Share of pop. using improved drinking-water sources (2015)	98.3%	96.6%
Share of pop. using improved sanitation facilities (2015)	89.2%	89.6%

1. The HDI score is based on a set of indicators covering the dimensions of "long and healthy life", "knowledge" and "a decent standard of living". For more information, see (United Nations, 2018[10]).
2. The GDI is calculated by comparing the females and male HDI values of the country. Countries are divided into five groups by absolute deviation from gender parity in HDI values.
3. Indicators under the categories "Quality of Health", "Quality of Education" and "Quality of Living Standards" are taken from the HDI Dashboard 1 on Quality of Human Development.
4. The relative difference between life expectancy and healthy life expectancy, expressed as the percentage of life expectancy at birth.
5. The Programme for International Student Assessment (PISA) is a triennial international survey that aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. In 2015 over half a million students in 72 countries and economies took the PISA test, and were assessed in science, mathematics, reading, collaborative problem solving and financial literacy. For more information and assessment results, see http://www.oecd.org/pisa/aboutpisa/.
6. The highest average national score for Math, Reading and Science is held by Singapore with 564, 535 and 556 points respectively.
Source: (United Nations, 2018[10]).

Public sector, money and prices

Over the past three decades, Mexico has implemented deep structural reforms that have transformed the country from an oil-dependent economy into an industrial and trade hub. Since 2012, a package of structural reforms called the *Pacto por Mexico* was implemented

by the Peña Nieto administration that included measures related to financial sector liberalisation, labour market reform, competition policy reform, telecom deregulation and anti-corruption, among others (OECD, 2017[4]).

Mexico has a relatively low government expenditure level (average of 27.3% of GDP over the past five years; see Table 15.1) if compared to the regional average (approximately 33%). However, this has followed an upward trend since 2000, when it bottomed at 20.2%. The increase was enabled to some extent by the increase in oil prices, as oil revenues made up to 40% of fiscal revenues in 2012. The recent decline in oil prices plus a timely tax reform reduced dependence on oil revenues to 20% in 2015 (OECD, 2017[4]). The budget deficit averaged 4% during the past five years, in line with the regional average. However, projections indicate that the structural deficit will be reduced (IMF, 2016[11]). Furthermore, amendments introduced in 2014 to the fiscal rule reduced the pro-cyclicality of the fiscal deficit. (IMF, 2018[2])

The monetary authority has an inflation targeting regime that has been able to maintain inflation at a 2-4% rate for most of the past decade, even after episodes of strong depreciation of the Mexican peso (see Table 15.1). Furthermore, a flexible exchange rate was important to absorb external shocks.

External sector

Mexico is a very open economy. Its openness ratio (66% of GDP for the past five years) is high for such a large economy (World Bank, 2018[1]). The country has signed 12 free trade agreements with 46 countries (OECD, 2017[4]). In particular, NAFTA has transformed the Mexican economy since its beginning in 1994; the new United States-Mexico-Canada Agreement (USMCA) signed on 30 November 2018 will continue giving Mexico a privileged entry to the US and Canadian markets.

The US is by far the biggest destination for Mexican exports (81% of exported value) and the principal origin of imports (46%). China and the European Union (EU) follow in the imports origin ranking (18% and 11%, respectively) (European Comission, 2017[12]).

The exports basket is dominated by manufactures (90%) (European Comission, 2017[12]). The automotive industry heads the list of exported products, followed by electronic devices like data-processing machines and telephones. Agriculture, fuel and mining products make up only 16% of exports, a low figure when compared with South American countries. As a result, Mexico heads the Economic Complexity Index ranking (MIT, 2018[13]) in the region, reaching the 21st position worldwide, which far outranks the next LA7 performer (Uruguay, at 54th). Trade in services, on the other hand, is relatively low (5.57% of GDP for the last decade, compared to 6.73% for LAC) (World Bank, 2018[1]).

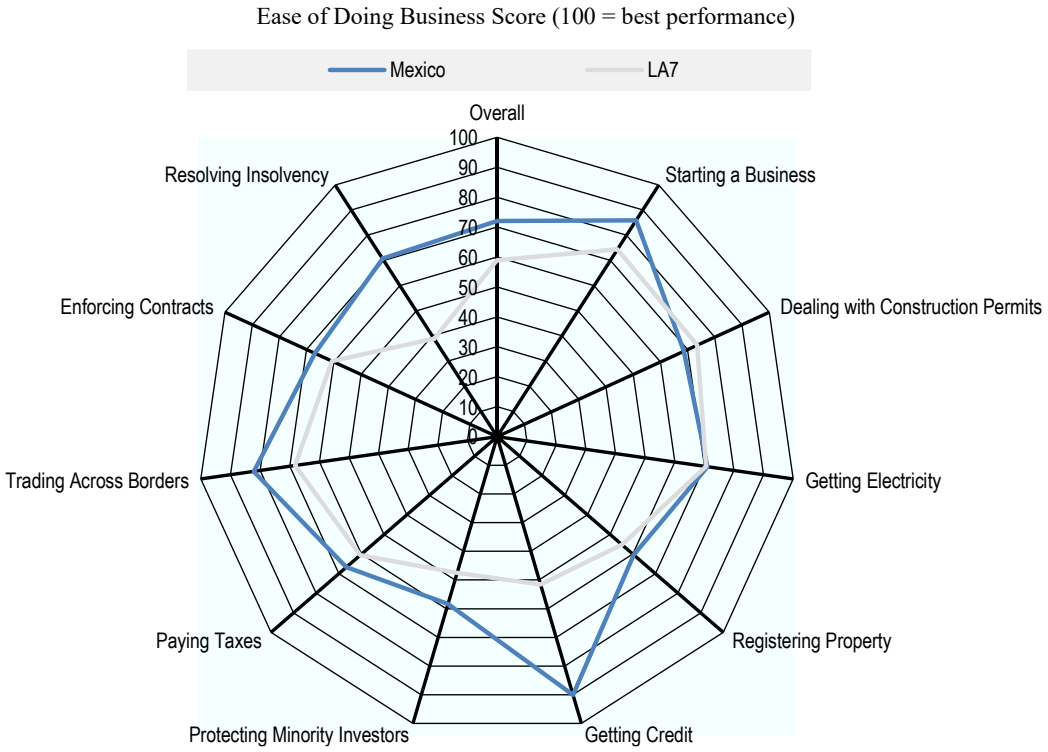
Foreign direct investment (FDI) is relatively low, averaging 2.6% of GDP in 2005-2015, compared to 3.2% for LAC (see Table 15.1).

Business environment

According to the 2019 Ease of Doing Business ranking (World Bank, 2018[14]), Mexico is the top performer in LAC in terms of the quality of its business environment, at 54th in the world (out of 190), which is slightly above Chile's rank of 56th. "Getting credit" (8th) and "resolving insolvency" (32nd) are the most favourable dimensions. Mexico's lowest rankings were obtained in "paying taxes" (116th) and "registering property" (103rd), the former because of a high tax rate and the latter because of the number of procedures required. Reforms improved matters in "getting electricity" in the last decade by

streamlining utilities procedures, and in "registering property" and "trading across borders" by digitalizing procedures and databases.

Figure 15.2. Doing Business Indicators 2019 - Mexico



Note: *LA7* is the simple average for the seven countries studied in this report: Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay. The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.
Source: (World Bank, 2018[1])

Mexico ranks 46th (out of 138) in the 2018 WEF Global Competitiveness Index (WEF, 2018[15]), making it the second most competitive LAC economy, behind Chile (33rd). Its large GDP and integration into NAFTA/USMCA mean a high performance in "market size" (11th), as does its "financial market development" (35th). The latter is also the dimension in which greatest improvements were achieved in the last decade. In terms of the LAC region, Mexico outshines its peers in the area of "business dynamism" (41st overall). On the other hand, "institutions" (105th), "labour market efficiency" (91st), and attracting and retaining a talented workforce (107th) are the less favourable dimensions. "Labour market efficiency" is also the dimension that suffered the steepest decline, linked to the increase in violent and organized drug-related crime, while the latter are related to low female participation in labour force.

The main obstacle identified by firms in the latest Enterprise Survey (World Bank Group, 2010[16]) was the practices of competitors in the informal sector, as in the rest of the region. Tax rates and access to finance followed. While small firms share those views, medium-sized companies identify crime as the second obstacle. An inadequately educated workforce is not considered a major burden, as opposed to what happens in the rest of LAC.

The bribe burden is high, as an overwhelming 34% of firms expect to give gifts to secure a government contract (as opposed to 12% for LAC). Crime also takes a heavy toll, causing losses valued at 1.4% of sales (1% for LAC). In terms of financing, bank finance is less common than in the rest of the region, but commercial credit and equity markets compensate for the difference.

According to the US Department of State's 2018 Investment Climate Statement (US DOS, 2018[17]), the legal framework in Mexico is transparent and consistent with international norms, but enforcement is sometimes subject to corruption. Indeed, the report affirms that, even though recent reforms have improved the investment outlook, the persistence of impunity and corruption continue to hinder growth and increase insecurity. The report also highlights the weaknesses of intellectual property rights (IPRs) norms and enforcement as well as the high incidence of organized crime.

However, the Investment Climate Statement also notes that in 2017 the Law of Administrative Responsibilities was passed with the aim to redesigning the Ministry of Public Administration and strengthening its audit and investigation skills to confront corruption in the public sector. Mexico has also made a holistic effort to meet international standards for corporate social responsibility, such as the OECD Guidelines for Multinational Enterprises[1] and the UN Global Compact.

SME sector

Definitions and employment

Mexico is the only country in this report that uses a combination of employment and turnover criteria to define SMEs. The formula, established by the Secretary of Economy in 2009, is the following:

$$Combined\ score = (Employment) * 10\% + \left(Annual\ turnover^{2}\right) * 90\%$$

As can be seen, the formula heavily weighs the turnover dimension. Furthermore, the turnover caps used to define the various size categories (see Table 15.3) are higher than in other countries of the region. As a result, the SME definition is less restrictive.

Table 15.3. SME definition in Mexico

Size	Sector	No. of employees	Annual turnover (MXN millions)	Combined score ceiling
Micro	All	Up to 10	Up to 4	4.6
Small	Trade	11- 30	4-100	93
	Industry and services	11 -50	4-100	95
Medium	Trade	31-100	100-250	235
	Services	51-100	100-250	235
	Industry	51-250	100-250	250

Note: Combined score = (employment) x 10% + (annual turnover) x 90%. The combined score of the firm must be equal or lower than the combined score ceiling for its class.
Source: Agreement for the establishment of the stratification of micro, small and medium enterprises, Secretaría de Economía (2009).

According to the 2013 Economic Census, there were 5.6 million firms in Mexico. Around 99.8% of them could be classified as SMEs, if an employment-based criterion is used (see Table 15.4). They employed 74% of workers. Microenterprises represent 94% of all firms

and employ 39% of workers. Small firms were the category that grew faster since the previous census, not only in number of firms, but also in employment.

Table 15.4. Firms and employment by firm size (employment-based categories) - 2013

Employment	Firms		Employment	
	No. of firms	% of total firms	No. of employees	% of total employment
0-10	5 332 788	94.3%	11 529 011	39%
11 - 50	263 041	4.7%	5 482 040	18%
51-250	47 724	0.8%	4 922 985	17%
>250	10 461	0.2%	7 708 385	26%
Total	5 654 014	100.0%	29 642 421	100%

Note: Agricultural firms are not included in the Economic Census.
Source: (INEGI, 2015[17]).

If the official definition is used, SMEs account for a slightly higher proportion of employment (76%, see Table 15.5). Inside this group, microenterprises and, particularly, small firms grow in importance in detriment of medium-sized firms.

Table 15.5. Firms and employment by firm size (official definition) - 2014

Size	Firms		Employment	
	No. of firms	% of total firms	No. of employees	% of total employment
Micro	4 020 817	95.0%	9 093 744	42%
Small	189 468	4.5%	5 406 094	25%
Medium	11 769	0.3%	1 976 433	9%
Large	8 691	0.2%	5 100 087	24%
Total	4 230 745	100.0%	21 576 358	100%

Source: (INEGI, 2015[17]).

According to household surveys, the share of SMEs in employment climbs to 88%, with microenterprises accounting for 54% of total employment (Table 15.6). Using access to health institutions as a proxy for formal employment, it can be seen that 95% of employees in microenterprises (many of them self-employed) operate in the informal sector. That figure falls to 32% for small firms and 4% for large firms (Table 15.6).

Table 15.6. Non-agriculture private sector employment and access to health institutions by firm size – II - 2017

Size	Proportion of total employment	Percentage of workers with no access to health institutions
Micro	54%	95%
Small	21%	32%
Medium	14%	10%
Large	12%	4%
Total	100%	59%

Note: Data from household survey. Firm sizes are based on the employment criterion specified in the official definition.
Source: Encuesta Nacional de Ocupación y Empleo (INEGI, 2017[19]).

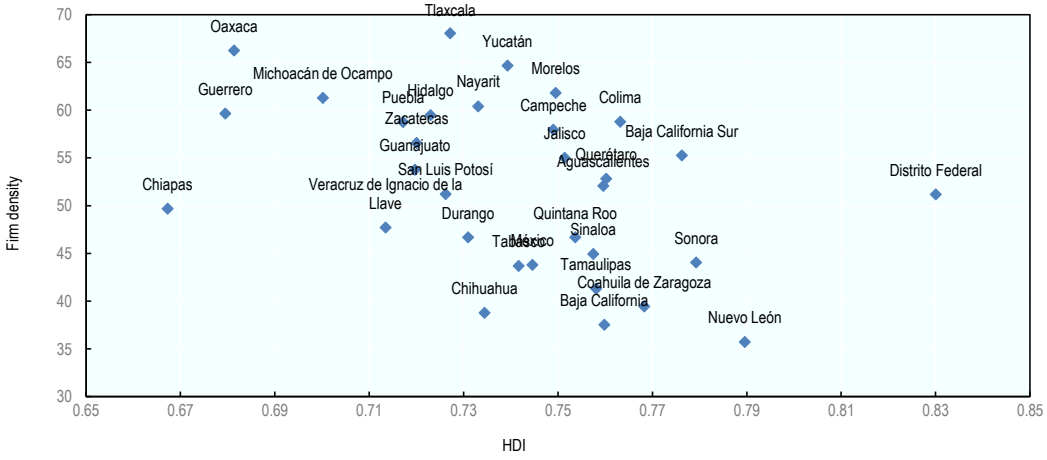
In terms of geographical concentration, Mexico City and State together concentrate around 20% of firms and population, a relatively low figure by regional standards. Firm density

goes from around 37 firms per 1 000 inhabitants in Nuevo León and Baja California to 67 firms per 1 000 inhabitants in Tlaxcala and Oaxaca. Somewhat counter-intuitively, total firm density is negatively correlated with human development, as measured by (UNDP, 2015[19]). However, if microenterprises are not considered, there is a strong positive correlation (see Figure 15.3).

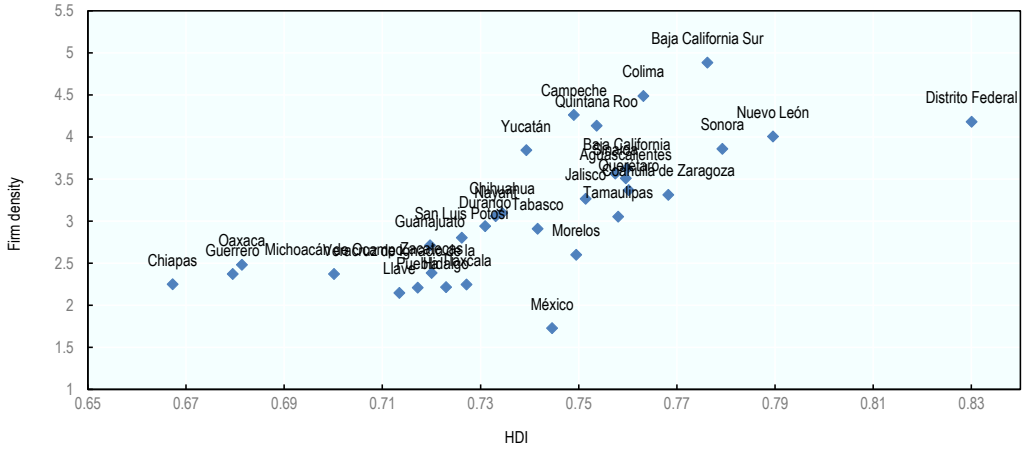
Figure 15.3. Firm density and HDI by region

(Firm density = number of firms per 1 000 inhabitants)

Panel A. All firms



Panel B. Microenterprises excluded



Note: The HDI score is based on a set of indicators covering the dimensions of "long and healthy life", "knowledge" and "a decent standard of living". For more information, see (United Nations, 2018[10]). Scores range between 0 and 1, with 1=best performance.
Source: (INEGI, 2015[21]), (INEGI, 2017[22]) and (UNDP, 2015[19]).

Productivity and value added

SMEs account for 76% of employment but only 32% of total value added (see Table 15.7). This phenomenon is related to a sizeable gap in productivity between SMEs and large companies. In the extreme, the value added per worker in microenterprises is 7% of that of large firms. This figure goes up to 21% and 29% for small and medium-sized firms,

respectively. One of the key factors driving this is the low capital intensity of smaller firms, whose fixed assets/worker ratios are between 7% and 21% that of large firms.

Table 15.7. Value added, productivity, remunerations and capital formation by firm size - 2013

% and '000 MXN

Size	Participation in		Productivity per worker		Average remunerations per worker		Fixed assets per worker
	Employment	Value added	'000 MXN	relative to large firms	'000 MXN	relative to large firms	relative to large firms
Micro	42%	9%	59	7%	17	12%	7%
Small	25%	15%	165	21%	63	45%	16%
Medium	9%	8%	234	29%	91	65%	21%
Large	24%	68%	803	100%	141	100%	100%
Total	100%	100%	277	35%	65	46%	32%

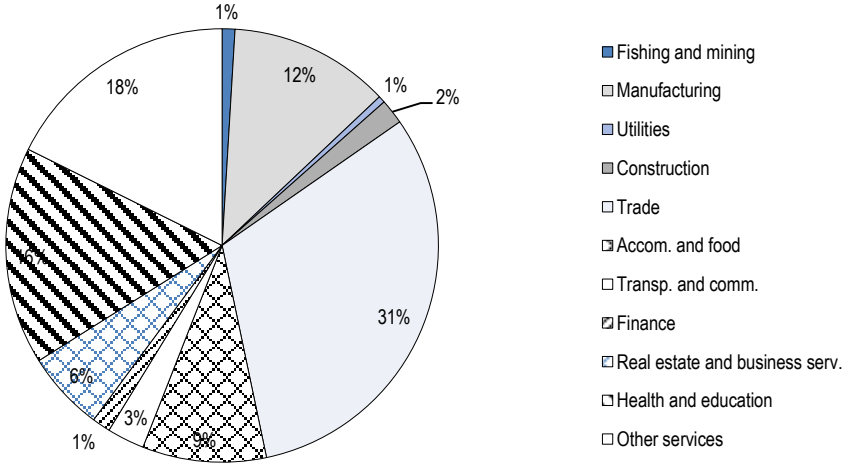
Note: Size categories are based on the official definition.
Source: (INEGI, 2015[21]).

Differences in worker retributions are sharp but slightly less dramatic (Table 15.7). Workers' pay in microenterprises is 12% that of large firm's workers, on average. That proportion goes up to 45% and 65% for small and medium-sized firms, respectively.

Sectors of activity

Services account for 85% of SME employment, eight percentage points more than in total employment. Wholesale and retail trade is the most relevant sector, employing 31% of SME workers. Other services, and health and education, account for 18% and 16%, respectively (Figure 15.4).

Figure 15.4. SME employment by sector - 2014

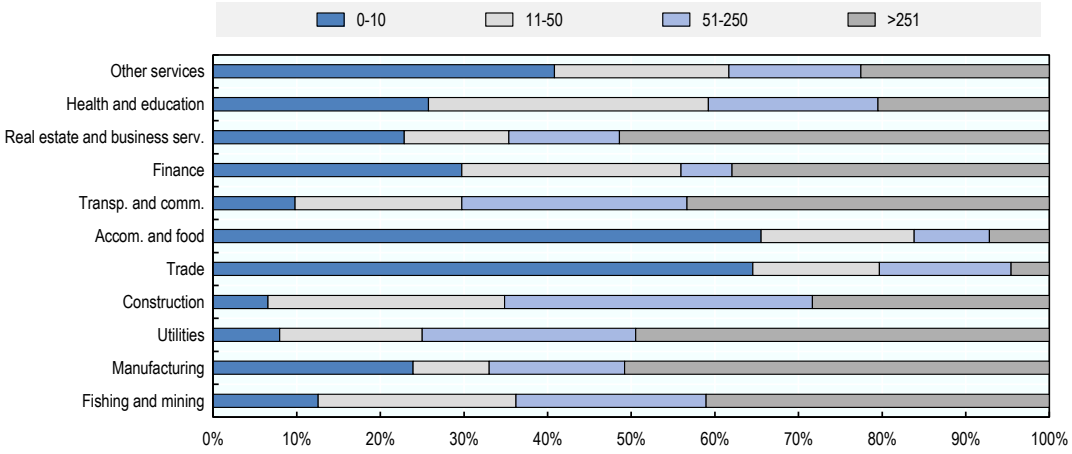


Note: SMEs are defined as firms with 250 workers or less.
Source: (INEGI, 2015[21]).

SMEs (particularly microenterprises) represent a large share of employment in service sectors, particularly trade, accommodation and food, and social services (**Error! Not a**

valid bookmark self-reference.). Manufacturing, on the other hand, is dominated by large companies, as well as real estate and business services and utilities. Small firms are relevant in health and education, accounting for 1 out of 3 jobs. Medium-sized firms make up the largest share in the construction sector, employing 37% of the workers in that sector.

Figure 15.5. Sectoral employment by firm size - 2014



Source: (INEGI, 2015[21]).

International trade

According to (Urmeneta, 2016[23]), in 2011 there were around 35 000 exporting companies in Mexico. Around 94% of them were classified as exporting "PyMEx".[3] On its side, the World Bank's Enterprise Survey found that in 2010 only 8.3% of surveyed firms were involved in exporting activities, compared to 17% for LAC (World Bank Group, 2010[16]). Small Mexican firms export less frequently (2.8%), while medium-sized firms export more frequently (14.4%) than the national average.

Mexico's "SME Productivity and Competitiveness Survey" (ENAPROCE) found that 4% of surveyed small firms and 7% of medium-sized firms were suppliers of an exporter, compared to 9% of large firms. Of the total exported value surveyed, 86% corresponded to large firms and only 14% to SMEs (see Table 15.8).

Table 15.8. Firm involvement in export activities by size - 2014

Size	% of firms that are a supplier of an exporting firm	% of firms that are a supplier of a multinational enterprise	Share of exported value
Small	4%	5%	2%
Medium	7%	10%	11%
Large	9%	16%	86%

Source: Encuesta Nacional sobre Productividad y Competitividad de las Micro, Pequeñas y Medianas Empresas (ENAPROCE) (INEGI, 2016[24]).

The profile of manufacturing exporters is even clearer concerning the concentration of the exporting business. Even when SMEs account for 60% of exporting firms, they only account for 5.2% of exported value (see Table 15.9).

Table 15.9 Exporting firms and exported value in the manufacturing sector by firm size - 2015

Size	Exporting Firms		Exported Value
	No. of exporting firms in size category	% of total exporting firms	Share of total exported value
1-10	206	3%	0.1%
11-50	1 006	17%	0.4%
51-250	2 341	39%	4.7%
>250	2 389	40%	94.8%
Total	5 942	100%	100.0%

Source: (INEGI, 2015[25])

Assessment results

Institutional framework (Dimension 1)

Mexico has recorded a relatively high overall score for this dimension of 4.46 on a scale of 1-5, which is higher than the LA7 average (3.81) and the average for member countries of the Pacific Alliance (4.00). Indeed, Mexico receives the highest score of the LA7 for this dimension. Mexico's performance is similar across the four sub-dimensions, with the highest score assigned to strategic planning, policy design and co-ordination (4.77) and the lowest to the measures to tackle the informal economy (4.17).

Mexico is at a crucial point in defining its strategic orientations for both overall economic development and SME development. The new administration of President López Obrador will have to elaborate the new national plan of economic development and the new strategy for the SME sector. It can count on a sound institutional framework with considerable experience in managing SME support programmes.

Institutional framework and SME definition

Mexico has established a relatively well-structured institutional framework for SME policy. SME policy is placed under the responsibility of the Ministry of Economy (*Secretaria de Economía*, or SE), a ministry that oversees a wide range of policy areas (from competitiveness, quality infrastructure and domestic market regulations to foreign trade, industry and commerce, and mining) and is organised under three undersecretariats (Competitiveness and Regulations, Industry and Commerce, and Foreign Trade). In 2004, the government established the "SME Fund" (*Fondo Pyme*) to finance programmes supporting entrepreneurship and SME development, directly managed by the SE.

In 2013, the government took a significant step by establishing the National Institute for the Entrepreneur (*Instituto Nacional del Emprendedor*, or INADEM) as a decentralised public institution placed under the supervision of the SE. INADEM contributes to SME policy elaboration, but its main function is to implement SME and entrepreneurship promotion programmes and co-ordinate the "Entrepreneur Support Network" (*Red de Apoyo al Emprendedor*, or RAE – see next sub-section on strategic planning, policy design, and co-ordination). Since then, at the time of writing, INADEM had become the central institution in shaping and implementing SME policy in Mexico, while operating in close co-ordination with the SE.

The official SME definition in Mexico was set as part of the Operational Regulations of the National Entrepreneur Fund (*Fondo Nacional Emprendedor*, or FNE), which was created along with INADEM in 2013 to design, implement and finance SME support

programmes. The definition is consistent with the guidelines set by the Law on the Competitiveness of SMEs approved in 2009.[4] The definition is based on the criteria of employment and annual turnover, reviewed annually, and includes a classification by enterprise size (micro, small and medium). There are different employment thresholds by enterprise class, according to the sector of activity of the SME (trade, services and industry – see Table 15.3). The classification of micro, small and medium-sized enterprises is done by combining the employment and turnover data, with a heavy weight assigned to employment (90%). The definition is adopted throughout the public administration.

Strategic planning, policy design and co-ordination

SME policy orientations in Mexico are defined by two interrelated documents: the 2013-18 National Development Plan (*Plan Nacional de Desarrollo*, or *PND*) and the 2013-18 Innovation Development Programme (*Programa de Desarrollo Innovador,* or PRODEINN), [5] the latter of which guides the actions of the SE specifically. Both plans cover the period under the presidential mandate and came to a conclusion with the end of the administration of President Peña Nieto. It will be up to the new administration under President López Obrador to elaborate the new mid-term planning documents.

The PND set the transversal action lines underpinning the country's economic development strategy. Those lines include improving the functioning of capital markets to provide support to productive activities, and promoting an entrepreneurial culture based on innovation. The PRODEINN contains the strategic indications for the development of the productive sector and defines the strategic policy guidelines for the SE.

The PRODEINN is organised around five strategic objectives: 1) promoting industrial development and innovation in the trade and service sector with high knowledge content; 2) promoting entrepreneurship; 3) the development of the SME sector and the social economy; 4) improving market regulations; and 5) stimulating foreign trade flows and FDI and consolidating access to markets in which Mexico already benefits of preferential treatments. The PRODEINN includes the presentation of 31 specific strategies by sector or area and 191 lines of action.

SME policy comes under Objective 3 of the plan and includes seven specific strategies, five of them directly related to SME policy and entrepreneurship promotion, in a combination of functional/vertical and transversal actions.

The PRODEINN specifies a set of qualitative and quantitative objectives and indicates the responsible institution(s) and the reporting schedule. The objectives directly related to SME policy include: 1) the increase by 2 percent of the contribution of the SME sector to GDP formation, using as a basis data from the 2014 Economic Census; 2) the increase to 87% of the percentage of entrepreneurial activities financed by funds from the "National Program for Financing Microentrepreneurs and Rural Women" (*Programa Nacional de Financiamiento al Microempresario y a la Mujer Rural*) that are conducted by women; and 3) the reduction to five days of the time required to register an enterprise. INADEM is directly responsible for the implementation of Objective 1.

In addition to and in alignment with the implementation of the PRODEINN objective, INADEM is in charge of implementing a vast range of initiatives and programmes related to SME development and entrepreneurship promotion funded by the FNE and approved by its Board of Directors. The Board includes the President of INADEM, a representative of the aforementioned Industry and Commerce Undersecretariat, a representative of the "Economic Productivity" Unit of the Ministry of Finance and Public Credit (*Secretaria de*

Hacienda y Crédito Publico), a representative of the "Mexican Association of Secretaries of Economic Development" (AMSDE), and one representative of the "Business Coordinating Council" (*Consejo Coordinador Empresarial*, or *CCE*), which consists of private sector associations. The Board of Directors has a crucial role in approving the projects that will be funded by the FNE and assigning resources based on programme evaluations and strategic objectives.

The main implementation modality of the support programmes funded by the FNE is the launch of calls for proposals (*convocatorias*). INADEM establishes the objectives of the *convocatorias*, sets the eligibility criteria and manages the selection process. Applicants to the *convocatorias* are private sector associations, local administrations and public institutions, temporary groups of enterprises or single enterprises. For each *convocatoria,* a co-financing contribution is required. The Operational Regulations of the FNE are updated each year to reflect the projects that will be funded and to set the Fund's overall annual objective. This objective is consistently to increase SME productivity in priority sectors through interventions in specific policy areas, such as access to financing; development of human capital; strengthening of productive, technological and innovative capacities; and insertion into global value chains.

One of the other main activities managed by INADEM is the aforementioned "Entrepreneur Support Network" (RAE), a programme that connects entrepreneurs and SMEs to a series of public and private support services, incentives and information sites upon registration with the network. The goal is thus to provide an integral and consolidated support offer that stakeholders can easily navigate to select support services of interest.[6]

Both the SE and INADEM have their own monitoring and evaluation units. INADEM also issues an annual activity report, made public through the SE, and has an "Open Data" (*Datos Abiertos*) section of its website that reports annually on the allocation of the FNE across INADEM's convocatorias, as well as other filters such as region, state, sector and gender.[7] In addition, the "National Council of Evaluation of the Social Development Policy" (*Consejo Nacional de Evaluación de la Política de Desarrollo Social*, or CONEVAL), a decentralised unit of the Federal Administration, is in charge of conducting impact evaluations of publicly funded policies and programmes. Their 2017-18 review of the FNE was generally positive (awarding 3.31 points, out of 4 possible) and highlighted the programme's clear objectives, alignment with federal strategies (such as PRODEINN and the PND) and attempts to quantitatively measure results. Regarding the latter point, it particularly suggested to reform the way in which the FNE conducts user satisfaction surveys with their assisted population.[8]

Mexico has a comprehensive SME database elaborated by INEGI, the national statistical institute (*Instituto Nacional de Estadística y Geografía*).[9] The data is collected through regular surveys of the productive sector (National Survey on Productivity and Competitiveness of Micro, Small and Medium Enterprises, or ENAPROCE), with the last survey at the time of writing completed in 2016 using 2015 data; and through the economic census, which is conducted every five years. Data includes the contributions by various enterprise classes to value-added generation and GDP. It is interesting to note that beyond statistics on the characteristics of SMEs, ENAPROCE also collects data regarding INADEM's activities. For example, in the latest (2015) survey, participants were asked about their knowledge of federal support programmes for SME development; at the time, only 14.3% of SMEs surveyed were aware of specific support mechanisms.

Public-private consultations

Mexico has developed a relatively well-advanced system of public-private consultations (PPCs) operating at different levels.

At citizen level, the government official website *"Participa con tu gobierno en línea"*[10] ("Participate with your government online"), allows all citizens to present their comments on laws and regulations before their approval. The results of citizen consultations are available on the same website.

At the level of SME policy, PPCs take place through different modalities and formal channels. The aforementioned FNE Board of Directors includes a representative of the private sector with equal rights to all the other members. In addition, INADEM has established an "Advisory Council" (*Consejo Consultivo*) to advise the Institute on the application of national strategies, policies, programmes and actions concerning the SME sector. It is important to note, however, that INADEM's Advisory Council does not require the participation of the private sector and, if invited, does not give private sector voting rights; thus, it has the possibility to function only as an inter-ministerial advisory body.

At the level of SE there exists a "National Council for the Competitiveness of SMEs" (*Consejo Nacional para la Competitividad de la Mipyme*), which was created in the context of the 2006 Law for the Development of the Competitiveness of SMEs (*Ley para el Desarrollo de la Competitividad de la Micro, Pequeña y Mediana Empresa*). The Council meets at least twice a year to evaluate the performance of SME development policies and make suggestions regarding future actions and ways to better involve the private sector and academia. The Council is composed of the President of the Mexican Association of Secretaries of Economic Development (AMSDE), the President of the CCE, and three members of the academic sector; it can invite as guests members of different associations. Thus, despite these various SME-focused groups, at operational level, there are only two regular private sector representatives (not including academia) with voting rights (one each on the FNE board and National Council). At enterprise level, INADEM promotes direct communications with SMEs through blogs, such as the "Entrepreneurs Blog" (*Blog del Emprendedor*),[11] which is part of the RAE; and through the organisation of a series of meetings, conferences and workshops. A further channel of communications is constituted by the National Entrepreneur Observatory (*Observatorio Nacional del Emprendedor,* or ONE),[12] a platform for the diffusion of information and statistics concerning entrepreneurship and SMEs.

Measures to address the informal economy

Mexico records a high level of informality, which has a structural character and is linked to the presence of a dual economy and the related labour markets. Mexico's manufacturing sector is larger than that of the other LA7 countries, and it is highly integrated into global value chains (GVCs), particularly the North American manufacturing system as a result of NAFTA/USMCA. Mexico also has an advanced financial and services sector, which generates formal employment opportunities.

In parallel, Mexico has a large informal sector, made up of small enterprises and self-employed, operating in traditional manufacturing and mostly service sectors, with a low level of productivity and employing informal workers. Furthermore, the country has more than 6 million informal agricultural workers.

According to ILO data (ILO, 2014[24]), the share of informal employment vs. total employment was close to 60% in 2013. More recent INEGI data indicates that labour

informality remains particularly high, at around 57% of total employment (workers with no access to labour rights), in spite of the efforts made by the federal and state administrations to reduce it. Informality reaches a very high proportion of up to 80% of the workforce in the country's less developed states, but drops considerably in states with a significant manufacturing base.

The issue of informality in Mexico has been the subject of a series of in-depth analyses by academics, international and national institutions. In 2016, for instance, the Mexican Competitiveness Institute (*Instituto Mexicano de Competitividad*, or IMCO) published a report titled *Un Puente entre dos Mexicos* ("A Bridge between two Mexicos"), highlighting the duality of the Mexican economy and labour market.[13] INEGI publishes regular estimates of the size of the informal economy, as a section of the national account statistics.

The government has launched a strategy to tackle informality as part of the wider 2013-18 "Programme to Democratize Productivity" (*Programa por Democratizar la Productividad*, or PDP), which is a component of the National Development Plan (PND) that contains the strategic orientations regarding informality, among other topics,[14] and a set of related objectives.

The Federal Administration's main initiative for reducing informality is the programme *Crezcamos Juntos* ("Let's Grow Together"), which operates at different levels. The programme includes actions to promote enterprise formalisation, and incentives to promote the registration of informal labour and enterprise registration with the tax authorities, through the "Fiscal Incorporation Regime" (*Régimen de Incorporación Fiscal*, or RIF), and measures to improve the living conditions of informal workers. In particular, the RIF facilitates income tax discounts over a ten-year period, beginning at 100% and scaling down to 10% over time, among other tax benefits. Those who join the RIF also gain access to the full *Crezcamos Juntos* programmatic support offer, which includes access to financing support from the National Development Bank (NAFIN), INADEM, and the Federal Mortgage Society (SHF); access to services from the Mexican Social Security Institute (IMSS) and the Secretariat of Labour and Social Welfare (STPS); and financial education and products from the BANSEFI.[15] The programme is co-ordinated by the tax administration (*Servicio de Administración Tributaria*, or SAT) and it involves several administrations, including INADEM, which offers incentives to newly formalised enterprises. Consultations have been conducted with the private sector, through the aforementioned CCE, which is a private council that brings together all the main national private sector organisations, while the SAT has developed channels of consultation with the main categories of stakeholders that benefit from the RIF.

The monitoring of the overall programme is conducted under the monitoring and reporting mechanisms of the PDP, while the monitoring of the different initiatives is conducted directly by the responsible institution; in particular, the SAT closely monitors the number of new registrations to the RIF.

However, despite a clear strategy and an array of measures, informality remains a major issue in Mexico. Changes in labour regulations, allowing a partial liberation of labour contracts, has created new categories of "precarious" workers employed in sub-contracting activities and given new space to informal enterprises.

Operational Environment and Simplification of Procedures (*Dimension 2*)

Mexico's performance for this dimension is the highest among the LA7 countries, with an overall score of 3.77 on a scale of 1-5, against an average score for the members of the Pacific Alliance (PA) of 3.14 and for the LA7 of 2.96.

Mexico performs relatively well in sub-dimension 2.1 (3.80), focusing on regulatory simplification, given its progress in implementing regulatory reforms and applying Regulatory Impact Analysis (RIA). Its score for sub-dimension 2.2 (3.93) is the result of progress achieved in the introduction of a single company registration number and the implementation of online registration services, but is still dragged downward by the relative high cost of the starting-a-business procedures and particularly the notary fees incurred in the pre-registration phase.

Mexico's score for sub-dimension 2.3 on the ease of filing taxes (2.78) is relatively low, due to the poor score received for the post-tax filing index. However, its score of 4.76 for sub-dimension 2.4 on e-government is significantly higher than the overall dimension average and the LA7 average, thanks to the presence of a good range of operational electronic services for enterprises and the availability of electronic signature.

Legislative simplification and regulatory impact analysis

Mexico has made the most progress of all the LA7 countries in terms of implementing regulatory reforms. However, some areas of the Mexican economy remain constrained by a relatively high level of regulatory restrictiveness and by a significant level of regulatory barriers.

Mexico's performance on regulatory reform is uneven across policy areas in terms of barriers and complexity. The OECD Index for Product Market Regulations (PMR) is a synthetic indicator measuring the level of restrictiveness of a country's regulations affecting the functioning of competitive markets. The PMR index for Mexico is significantly higher than the OECD average, indicating a high level of restrictive regulations (OECD, 2016[26]). In the PMR sub-index measuring barriers to entrepreneurship, Mexico scores below the OECD average, but at the same average level of Latin America, whereas it scores better than the OECD average in the PMR sub-index measuring the complexity of regulatory procedures. This indicates that while regulatory reform is at a good stage of implementation, progress is fragmented and uneven.

Mexico's overall rank in the World Bank's *Doing Business* 2019 report is 54th out of 190 economies, the highest among the LA7 countries. Mexico lost five positions in the overall *Doing Business* ranking compared with 2018, but the "distance to frontier/ease of doing business"[16] ranking, measuring the distance from the best performing country across the 10 indicators of the *Doing Business* report, did not significantly change in 2019 (72.09) compared with 2018 (72.27) (out of 100) (World Bank Group, 2018[27]).

Mexico has been implementing regulatory reforms since the late 1990s. The regulatory policy guidelines were first set by the Federal Law on Administrative Procedures approved in 1994. The Law has subsequently been amended and updated several times, most recently in 2018; however, in this latest reform, the law was stripped of all elements of regulatory policy, and a new General Law on Regulatory Improvement was issued.

The main institution in charge of planning and coordinating the implementation of regulatory reform in Mexico is the Federal Commission on Regulatory Improvement (*Comisión Federal de Mejora Regulatoria,* or COFEMER), established in 2000 as an

administrative body within the Federal Ministry of Economy. COFEMER, renamed CONAMER (the *National* Commission on Regulatory Improvement) following the aforementioned passing in 2018 of the new General Law on Regulatory Improvement, plays a central role in steering and managing the regulatory reform process. Among its many functions, it manages the Formalities and Services Federal Register, an inventory of the procedures of the federal public administration. No public agency/institution can apply additional procedures to those enrolled in the register without previous examination by CONAMER.

CONAMER is also in charge of conducting Regulatory Impact Analysis (RIA) on new regulations. Mexico started to apply RIA over two decades ago, and it has significantly extended the range of applications and adopted advanced analytical tools (OECD, 2016[28]). RIAs are regularly conducted in relation to regulations affecting SMEs. The regulatory impact is measured by CONAMER through a matrix of results indicators.

Mexico is quite advanced in the revision and simplification of its existing stock of law and regulations. This includes a recent revision of the Law on SME Development and Competitiveness and the General Law on Commercial Companies (*Ley General de Sociedades Mercantiles*). CONAMER is in charge of monitoring the implementation of regulatory reforms like these, and it publishes an annual activity report. Details on the implementation of regulatory reforms are also available from the government website *Reformas in Acción.*[17]

Company registration

This sub-dimension combines a number of indicators related to the institutional framework for company registration, including the presence of one-stop shops, the use of a single company identification number, and the availability of online registration facilities, with indicators on the performance of company registration and starting-a-business procedures based on the results of the World Bank's *Doing Business 2019* report.

Company registration and starting-a-business procedures are one of the areas where regulatory reform has made relatively less progress in Mexico. Notification procedures remain quite complex and the administrative costs of a starting a business are relatively high.

Mexico has adopted a single company identification number that is assigned by the tax administration (SAT). A one-stop shop is partly in place which combines company registration and tax registration procedures; but registration can be also performed online through the platform *Tu empresa,*[18] which is designed to complete all procedures related to company registration in three hours from the time of up-loading the full set of documents required for the registration. The performance of the company registration system is monitored by CONAMER as part of the "Quick Company Opening System" (*Sistema de Apertura Rápida de Empresa*).

In terms of performance, Mexico ranks 94th out of 190 economies in the 2019 *Doing Business* ranking for the "starting a business" indicator, while in 2018 Mexico's rank was 90th. The gap with the best performing country in this area is measured by the "distance to frontier/ease of doing business"[19] ranking; in 2019, this was equal to 85.94 (100=best performing country), which is very close to the levels recorded in 2018 (World Bank Group, 2018[27]).

Starting a business in Mexico requires the completion of eight administrative steps. The time required to do this is 8.5 days, and the cost is equal to 17.4% of the GNI per capita.

Public fees related to registration with the national company register and the other administrative bodies (tax administration, social security, national business information system) are zero or very low, while the notary fees incurred in the pre-registration phase are significant.

Ease of filing taxes

The assessment for this sub-dimension is based exclusively on a set of indicators drawn from the "paying taxes" section of the 2019 *Doing Business* Report. These indicators cover the number of annual tax payments, the time required to perform those payments, and the post-tax-filing index, which takes into consideration the time required for an enterprise to comply and obtain a VAT refund and comply and complete an income tax correction.

Mexico's performance in this area is relatively low compared with that of OECD countries, but generally aligned with the performance of the other LA7 countries. The time required to perform the tax payments (240.5 hours) is significantly higher than the OECD average (159.4), while Mexico's post-tax-filing index is particularly low, as in 2019 it stood at 40.51 (against an average of 84.4 in the OECD area). However, the number of tax payments per year is six, which is significantly lower than the OECD average (11.2). No change was recorded in all observations for Mexico between the results of the 2019 and 2018 report. The indicators are based on standard procedures only and do not take into account the availability of online tax-filing and payment facilities (World Bank Group, 2018[27]).

E-government

The provision of e-government services in Mexico was envisaged in the 2003 reform of the law governing the federal public administration (*Ley Orgánica de la Función Pública*). In 2013, the Federal Government launched the "National Digital Strategy" (*Mexico Digital: La Estrategia Digital Nacional*) in alignment with the National Development Plan (PND) 2013-18. The strategy includes five main objectives: 1) the transformation of government functions and 2) the education system; 3) the promotion of the digital economy; 4) the use of digital tools to deliver universal and effective medical services; and 5) the promotion of civic innovations and greater citizen participation. The strategy is directly coordinated by the presidency and includes 69 lines of action. Implementation progress can be regularly and publicly monitored through the official Mexico Digital web site.[20]

Mexico has achieved good progress in providing digital government services. The country ranks 64th out of 193 countries in the UN's 2018 e-government survey, with an index of 0.682 (maximum score 1), but a significantly higher index (0.92) in the online service component (UN, 2018[29]). A range of e-services is available and fully operational, including electronic tax and social security filing and payment. Electronic signature is also operational, while inter-operability is in an advanced phase. The utilisation of e-government services is regularly monitored through user surveys.

Access to finance (*Dimension 3*)

In the dimension of access to finance, Mexico achieves an average score of 3.91 points, which is very similar to the regional average. However, the various sub-dimensions of the indicator provide a glimpse of very different realities in different areas. On the one hand, Mexico is among the regional leaders in terms of the existence of a favourable legal and regulatory framework for access to finance (4.73 points) and has a well-diversified system of credit opportunities (4.83 points). However, in line with other countries in the region,

continued efforts are required to strengthen its financial education strategy (3.33 points) and strengthen its insolvency procedures (2.75 points).

Legal, regulatory and institutional framework for access to finance

Mexico achieves a high score in this sub-dimension with 4.73 points. This recognizes the existence of a regulatory framework for secured transactions, operating in accordance with internationally accepted principles, that includes (a) the power to grant security and future guarantees without the need for a detailed description and (b) the creation of a unified security registry based on notices. This Single Register of Guarantees *(Registro Único de Garantías),* established in 2010,[21] corresponds to a section of the Public Register of Commerce and allows financial institutions and other creditors to register online the movable guarantees they receive from their debtors. Likewise, Mexico has a cadastral registry of land ownership compiled by the national statistics institute (INEGI)[22] that includes information from all regions of the country and is accessible through the entity's web platform. Within the framework of its Cadastral Modernization Program,[23] INEGI plans to update all land registries to strengthen the collection of property taxes from local governments.

Another point of interest is access to credit information, in which Mexico scores highly. Mexican financial entities can obtain the credit records of natural and legal persons from three companies: Dun & Bradstreet, TransUnion Mexico and *Círculo de Crédito*. These organizations operate under the governance of the Law to Regulate Credit Information Companies.[24]

One of the areas that needs attention in Mexico is the lack of a securities market with conditions that guarantee the inclusion of SMEs. Although there is no specific niche for these companies as part of the securities market, one of the objectives of the Law to Regulate Financial Technology Institutions approved in 2018[25] is to regulate business models that seek to address some of the financial needs of this sector.

Diversified funding sources

Mexico offers small entrepreneurs a varied system of opportunities to access financing, as evidenced by the high score it obtains in this sub-dimension, 4.83 points.

In the first place, the National Bank of Foreign Trade (Banco Nacional de Comercio Exterior) offers credit schemes, guarantees and technical advice for SMEs that participate in activities that generate foreign exchange,[26] while other government entities such as the National Guarantee Fund (Fondo Nacional de Garantías, or FONAGA),[27] Trusts Instituted in Relation to Agriculture (Fideicomisos Instituidos en Relación con la Agricultura, or FIRA)[28] and the National Financial Trust (Nacional Financiera, or NAFIN)[29] offer guarantee coverage services to facilitate the integration of companies lacking sufficient collateral to access commercial credit to finance their activities. These schemes are usually accompanied by assistance and training programs, such as the business training, technical assistance and technology transfer programs offered by FIRA for rural enterprises.

Second, microfinance institutions are present in all regional markets in Mexico and are regulated by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores,* or CNBV) and the National Commission for the Protection and Defence of Financial Services Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*, or Condusef). However, there are still microfinance

institutions that are not subject to this regulatory apparatus, such as multiple purpose financial societies (sociedades financieras de objeto múltiples).[30]

Finally, Mexico also has an extensive market of asset-based credit tools that are recognized and regulated by CNBV and Condusef. There are also several collective financing initiatives framed within the activities of the Association of Collective Funding Platforms (Asociación de Plataformas de Fondeo Colectivo, or AFICO), but which still lack relevant regulation despite the Mexican government's efforts to modernize the legislative framework for the financial sector.

Financial education

Mexico receives an intermediate score of 3.33 points in the sub-dimension of financial education. This reflects the multiplicity of Mexican government actors – including NAFIN, Condusef, Consar[31], INADEM, IPAB[32] and the central bank (*Banco de México*, or Banxico) – that carry out financial education initiatives. The National Strategy for Financial Education, published in September 2017,[33] represents the most recent effort to co-ordinate the different initiatives of the Mexican government. It identifies SMEs as one of the key groups to serve and includes the provision of training programs and materials on business and financial issues.[34] This strategy also incorporates the collection of financial inclusion indicators[35] and other follow-up indications for each section of the national strategy, but these are yet to be implemented and used to further refine the strategy in the future. This document also prioritizes the inclusion of mandatory financial education issues in secondary education that, although not yet universally implemented, has been included in the curriculum of about 20% of schools (Forbes Mexico, 2018[30]).[36]

Efficient procedures for dealing with bankruptcy

Insolvency proceedings in Mexico are regulated by the Bankruptcy and Suspension of Payments Law *(Ley de Quiebras y Suspensión de Pagos)* and include a register of bankrupt companies maintained by the Tax Administrative Service (SAT). However, it is not publicly accessible. In addition to modernizing and opening a bankruptcy filing system, Mexico should consider creating early warning mechanisms for companies at risk of insolvency and support systems for those entrepreneurs looking to start over. Despite these shortcomings, these insolvency schemes perform better than those in other countries in the region by obtaining higher recovery rates and shorter waiting times for the closure of judicial proceedings in the event of company liquidations.

SME development services and public procurement (*Dimension 4*)

Mexico has an advanced SME policy and an established business development services (BDS) market, with INADEM acting as the key policy coordination and implementation agency and the National Entrepreneur Fund (FNE) as the main funding vehicle of the overall SME and entrepreneurship policy. Through INADEM and the Entrepreneur Support Network (RAE), small firms and entrepreneurs have access to a vast offer of support services by public and private actors across Mexico. In terms of public procurement, Mexico's laws and regulations include some precepts to facilitate or favour the participation of SMEs in this market, but do not foresee most of the measures assessed in this report.

Mexico's overall score of 4.21 for this dimension, which is above the LA7 average of 4.09 and equal to the Pacific Alliance (PA) average, reflects this generally well-developed state of affairs. Building on existing efforts, the authorities could work to improve the strategic

planning elements of the overall SME policy, including BDS, and consider introducing more specific measures and monitoring systems to support SMEs in public procurement processes.

Business development services for SMEs and entrepreneurs

Mexico has continuously worked to improve its SME and entrepreneurship policy, including direct support through BDS, since the creation of a SME Fund and an Undersecretariat for SMEs within the SE in the early 2000s. Alongside that process, Mexico has also undertaken two in-depth SME policy reviews (in 2007 and 2013, through the OECD Working Party on SME and Entrepreneurship)[37] that have helped to identify important areas of reform. As a result of this reform process, the country created INADEM and the FNE in 2013 to design, implement and finance SME support programmes, including BDS.

As explained in this chapter's earlier "Institutional Framework" section, INADEM, which is under the SE and which administers the FNE, is the agency in charge of implementing the SME mandate given in Mexico's National Development Plan (PND), which describes the Federal government's strategic orientations in all policy domains. As it is the case in many, perhaps all, other countries in the region, the Plan identifies low productivity as one of the structural problems holding back development and prosperity. Among many areas of action in economic policy, the Plan puts forward macroeconomic stability, access to finance, employment, and (in one single category) economic development, sectoral policy and regional policy. The document calls for the promotion of "strategic sectors" for job creation and inclusion, by which it defines SMEs, tourism, agriculture and housing as examples (Government of the Republic, Mexico, 2012, p. 80[31]). Precisely on SME policy, *and particularly on BDS,* the Plan proposes a strategy for "Boosting Entrepreneurs and Strengthening SMEs," and identifies a few general lines of action, which include the following:

- Support SME participation in the value chains of strategic sectors with growth and employment potential and in coordination with the state governments.
- Develop and implement a system for information, monitoring, evaluation and dissemination of the impact of SMEs and entrepreneurs.
- Boost programmes for the use of ICT and innovation as a means to promote the creation of high-value-added ecosystems for SMEs.
- Improve technical advice services to generate an enterprise culture.
- Foster social, green and high-impact entrepreneurship.

To implement the precepts of the PND in terms of the business environment, investment and the development of SMEs, the SE developed the aforementioned Innovation Development Programme 2013-18 (PRODEINN). The PRODEINN is structured around a number of broad objectives, strategies, and lines of action covering topics such as innovation in the industrial, trade and services sectors, better competition and regulations, and more trade and investment. A BDS strategy called "developing managerial capacities and aptitudes" is included in the section on SME and entrepreneurship development. That strategy lists the following actions:

1. Implement methodologies and workshops for the development of business and entrepreneurial skills.

2. Encourage the creation of companies through incubators.
3. Assist SMEs in strengthening their administrative, operational and commercial modernisation.
4. Encourage the organisation of events to promote productive sectors and services, productive chains and the entrepreneurial culture.
5. Develop and strengthen organisational, technical and project management skills through training and consulting support.
6. Support companies with high growth potential, through the process of acceleration and strengthening accelerators.
7. Encourage entrepreneurship through the granting of incentives and support to youth initiatives.
8. Promote methodologies and workshops for the development of business skills among entrepreneurs.

The PRODEINN provides no details for those actions, which seem fairly generic and undifferentiated (for example, lines of action 1, 3 and 5 involve skills and capacity building without making a clear difference between them). Furthermore, there are no details on concrete targets, budgets and responsibilities for implementation. Indeed, although the PRODEINN includes a section on goals and indicators that is structured around its thematic pillars (including SMEs and entrepreneurship), this section does not comprise any specific indicators related to the eight BDS actions listed above. The indicators for impact included in the PRODEINN are rather general, including a rate of growth of SME output 2% higher than that registered in 2013; a greater participation of women in support programmes; and a reduction in the number of days needed for an entrepreneur to register a firm. The PRODEINN does not indicate how BDS provision will influence those general results.

The Federal Government regularly assesses the progress of the PND and its elements, including the PRODEINN. Its latest report (2017) shows achievements made in terms of BDS and other areas. For example, the report notes that more than twenty thousand projects were approved in 2017 by the FNE, benefiting more than 44 000 SMEs and 48 000 entrepreneurs across the country. The report notes that for the second time in the current Federal Administration, the SME and entrepreneurship programmes administered by INADEM were ranked first among the federal public programmes (Government of the Republic, Mexico, 2017, p. 26[32]). The progress report is very detailed and informative, and it is structured around the thematic pillars and specific strategies described in the PRODEINN. However, the results are published only in terms of programme participation and other generic figures, make no reference to actual impact on SMEs and entrepreneurs supported, and present no results in terms of the eight actions listed above.

INADEM implements its BDS programmes through two main mechanisms: the FNE and the RAE.

The FNE is essentially the source of funding for direct SME and entrepreneurship support programmes implemented by the Federal Government, notably the *convocatorias* (calls for projects) by INADEM. Through the FNE, INADEM provided support services in four main categories of programmes for 2018:

1. *Strategic sectors and regional development*, which include programmes on developing global value chains, improving regional productivity, and supporting state-level initiatives for SME support.

2. *Entrepreneurship development*, including fostering an entrepreneurial culture and spirit (through support to education institutions and research centres); supporting "basic" enterprises and entrepreneurs who have participated in the online incubation programme;[38] and backing innovation initiatives, high-impact incubation, accelerators and high specialisation workshops.
3. *Programmes for entrepreneurs and access to finance*, notably a programme to support high-impact enterprises to start up or to scale up. The programme includes support for the development of software, product certification, business skills, and design and implementation of commercial strategies.
4. *Generic SME support programmes*, including through technical assistance and advice, ICT equipment and *in-situ* advisory services on marketing, product design and packaging, sales, energy efficiency, and many other areas.

INADEM also runs the RAE, which is a vast network bringing together public and private institutions providing support for entrepreneurship across the country. As of October 2018, the network included 579 organisations across Mexico.[39] It also had an online catalogue of services.[40] According to the 2017 progress report of the PRODEINN, in that year the RAE reached a historic 453 000 individuals and 154 000 SMEs.

In terms of the dissemination of information on the different BDS and other support programmes, Mexico has established the *Sistema Emprendedor* (Entrepreneurship System) as an electronic platform for operating all stages of the implementation of programmes for SMEs and entrepreneurs, including the selection, evaluation and follow-up of projects.[41] In addition, the *Vitrina de Soluciones de INADEM* (roughly, "showcase" solution system of INADEM") system constitutes an electronic platform to inform entrepreneurs and SMEs of the different support schemes and other relevant information.[42] Finally, the National Entrepreneurship Observatory (ONE) disseminates information on studies, statistics and research related to the entrepreneurship ecosystem. According to the 2017 progress report of the PRODEINN, ONE provided access to nearly 18 500 publications and received over 85 000 national and international online visitors.

Public procurement

Mexico's public procurement system is framed by the Law of Acquisitions, Leases and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*), which applies to federal ministries and agencies (and their autonomous organs), state-owned enterprises, and States and municipalities that use federal funds – all in accordance with agreements made with the Federal Executive Branch.[43] The Law includes a few precepts related to the participation of SMEs in public procurement, including the following:

1. According to the precepts of the procurement Law, the Ministry of Economy will determine the rules to be observed by the States and government organs related to programmes that aim to promote the participation of domestic firms, especially SMEs, in public procurement. In addition, States and government organs will design and execute suppliers development programmes for domestic SMEs as to generate supply chains for goods and services that are regularly tendered (Art. 8).
2. When the goods procured involve a manufacturing process of more than 60 days, the States and government organs will grant, in equal circumstances, 10-50% of the down payment to domestic SMEs (Art. 13).

3. In open international contracting procedures that use a system of points and percentages, SMEs producing goods using technological innovation will receive additional points (Art. 14).
4. The Federal Executive Branch, through the Ministry of Public Administration (*Secretaría de la Función Pública*), will determine the States and government organs that will have to establish mixed supply consultative commissions, in function of the volume, characteristics and importance of the acquisitions, leases and services to be contracted. These commissions will, among other things, promote actions that facilitate the contracting of SMEs (Art. 23).

The Law, however, does not foresee any of the measures assessed in this report: a requirement to split tenders above a certain monetary value into lots; the possibility to split tenders into lots; the possibility to form consortia or joint bids; and/or quotas for SME participation. On the other hand, the Law specifies that payments for contracts will not exceed 20 days from the moment of the issuance of an invoice, and the effective delivery of the goods or services under the terms of the contract.

CompraNet is the e-procurement system established by Mexico since 1996 and administered by the Ministry of Public Administration.[44] According to a recent OECD review of CompraNet, since its launch, the tool has evolved from a platform for publicising tender opportunities and disclosing contract award decisions into a portal where government agencies can post tender documents (OECD, 2018, p. 18[33]). Among other processes, CompraNet can handle market analysis, calls to tender, management of queries and clarifications, tender response and evaluation, contract award and management, and managing complaints. Furthermore, the system includes a unified suppliers registry (*Registro Único de Proveedores y Contratistas*, or RUPC). CompraNet also provides information to on how to use the system by publishing online guides and videos and conducting face-to-face training. However, there is no information on the participation of SMEs in public procurement, including through CompraNet.

Overall, Mexico has a well-developed public procurement system that should facilitate the participation of SMEs in public markets. Its procurement law, however, is still limited in this regard compared to regional peers and to other countries that have taken part in SME Policy Index evaluations. Going forward, Mexico could use CompraNet to collect information on SME participation in public procurement, for example by asking users to declare when they are a SME. INADEM could also introduce programmes for SMEs to participate in public procurement.

Innovation and technology (Dimension 5)

Mexico performs well in Dimension 5, especially in the areas related to the institutional framework and financing for innovation (sub-dimensions 5.1 and 5.3). Its overall score for this dimension is 4.39, the second highest in the LA7. Where Mexico could do more is in sub-dimension 5.2 on support services for innovation.

Institutional Framework

Mexico does not have a multi-year and comprehensive national innovation strategy assigning roles and responsibilities to various actors such as ministries, government agencies, universities, research institutes, private sector and others. There is, however, a national innovation system, which is comprised of different ministries, research and education institutions, the private sector and others (see Box 15.1). During the first half of

2018, the National Council of Science and Technology (*Consejo Nacional de Ciencia y Tecnología*, or CONACYT) and other members of the innovation system were working on a proposal to reform the Science and Technology Law. The aim of the reform is to strengthen the institutional design for science and technology and to adopt a long-term vision of innovation policy (20-30 years), among others.[45]

Box 15.1. Mexico's National Innovation System

In terms of the co-ordination of innovation policies, Mexico has a General Council for Scientific Research, Technological Development and Innovation, which is presided over by the President of Mexico and is composed of the Ministers of Foreign Affairs, Finance and Public Credit, Environment and Natural Resources, Economy, Development, Education, and Health, among others. The Council also comprises the Director General of CONACYT, who acts as its executive secretary; representatives of the productive sector; a representative of the System of Public Research Centres; and the Secretary General of the National Association of Universities and Higher Education Institutions.

Article 41 of the Science and Technology Law establishes that an Inter-Sectoral Committee for Innovation (CII) is in charge of designing and operating an innovation policy, as a specialised body of the General Council. The CII includes the Minister of Economy as president, the General Director of CONACYT as vice president, the Minister of Public Education, and other members.[46]

Sources: www.diputados.gob.mx/LeyesBiblio/pdf/242_081215.pdf; http://innovacion.economia.gob.mx/index.php?option=com_content&view=category&layout=blog&id=2&Itemid=256; www.gob.mx/se/prensa/el-secretario-de-economia-presidio-la-16-sesion-del-comite-intersectorial-para-la-innovacion; https://www.gob.mx/cms/uploads/attachment/file/217671/3._CII_SESIO_N_XVIII_ORD_23ENE2017_CPI.pdf.

As mentioned in the previous section on BDS, the SE implements the PRODEINN, or Innovation Development Programme 2013-18, which is framed by the wider National Development Plan (PND), and which comprises actions in various *economic policy* areas related (to varying extents) to innovation. Those include industrial development, competition policy, regulatory policy, foreign investment, trade and SMEs and entrepreneurship. The PRODEINN includes a myriad of actions to foster innovation *in the economy* (as opposed to society at large), including by promoting 'triple helix' partnerships (between research institutes, the government and the private sector), fostering the development of an ecosystem for the digital economy, and encouraging innovative SMEs and entrepreneurs. However, and as noted already in the BDS section, the Programme does not provide details on how the actions would be implemented. For example, concerning triple helix initiatives for the services sector, the Programme mentions actions such as fostering an innovative entrepreneurial culture, incentivising knowledge transfers, promoting the development of innovation ecosystems, and others. It does not, however, indicate or mandate the development of any specific programmes around those actions.

At the implementation level, the FNE executed by INADEM, includes the promotion of innovation and technology among SMEs and entrepreneurs as one of its strategic missions, along with access to finance, human capital development, productive capacities and participation in global value chains (basically all areas covered under this assessment).[47] To achieve this, the FNE implements innovation programmes for entrepreneurs (see next sub-section on "support services and financing for innovation"). However, the FNE rarely

treats SME innovation as a *single or specific category* of support and includes only two innovation-related items in the impact indicators of its Rules of Operation: the percentage of SMEs benefiting from innovation projects that lead to new products, processes or services; and the percentage of innovation projects evaluated by its Steering Committee, in relation to the applications received. What is more, the latter is not strictly an indicator of impact but rather just an indicator of programme uptake.[48]

Support services and financing for innovation in SMEs

Mexico's evidence points to a few innovation support programmes for SMEs and entrepreneurs. Information on the programmes and their providers is accessible via the webpages of the Entrepreneur Support Network (RAE), which, as explained previously, brings together public and private agencies providing support to SMEs and entrepreneurs across Mexico.[49] For example, the network lists 837 services provided across the country, most of them at the local level. Very few of those services, however, correspond to the innovation classification: from 12 to 19, depending on how the search is performed (i.e. either using the filter provided by the website or by performing a search through the search engine).[50] In terms of business incubators, the tool shows results for just 41 units across the country.

As mentioned in the section on BDS, in 2018 INADEM conducted three flagship *convocatorias* (calls for proposals) to foster innovative and high-impact entrepreneurship and SMEs:

- *Fomento a las Iniciativas de Innovación* (Promoting Innovation Initiatives). This programme helps SMEs create or improve products, processes, marketing strategies and organisational strategies. Support in this area can reach up to MXN 5 million (nearly USD 260 000) and cover up to 70% of the cost of the project. It can cover technological development, trials, first production batches and others. The programme is addressed to SMEs with at least two years of operation.[51] According to the 2017 progress report of the PRODEINN, in that year 50 projects were supported through this scheme, for a total of MXP 125 million (USD 6.253 million).
- *Incubación de Alto Impacto, Aceleración de Empresas y Talleres de Alta Especialización* (Programme for High Impact Incubation: Enterprise Acceleration and High-Specialisation Workshops). This programme is addressed to incubators of high-impact businesses, business accelerators or highly specialised workshops recognised by INADEM. The programme finances different items for up to MXN 2 million (about USD 103 thousand) and up to 70% of the cost of the project.[52] In 2017 the programme supported 233 projects for about USD 7.3 million.
- *Apoyo a Emprendimientos de Alto Impacto* (Supporting High-impact Entrepreneurship). This programme is implemented in two modalities: start-up (up to two years of operation) and scale-up (more than two years). It funds up to MXN 3 million (nearly USD 155 000) and 60% of the costs of projects to design software, obtain certifications, pay for consulting services, etc. In 2017, the programme supported 171 projects valued at about USD 19.8 million.

In addition, CONACYT and INADEM implement a Technological Innovation Fund (FIT), which aims to encourage initiatives backing innovations among technological SMEs and entrepreneurs. The 2018 calls for proposals (*convocatorias*) for the FIT covered a wide array of items (including investment and current expenses related to technological

development) and covered up to 70% of the cost of the project for up to MXP5 million (about USD 250 000). As of September 2018, when the *convocatorias* were closed, 113 project proposals had been received.

CONACYT also operates a system of 26 Research Centres whose aims include undertaking research activities, postgraduate programmes and knowledge transfers to the productive, public and social sectors.[53] Unfortunately, details on how the centres can support SMEs and link them to knowledge are largely lacking. The same is true for a series of other CONACYT programmes designed to stimulate innovation in firms (*Programa de Estímulos a la Innovación*), which include INNOVAPYME, a programme specifically designed to support innovation in SMEs. Here again, details on how to apply are limited.[54]

The scarce information on programmes designed to support innovation for SMEs and entrepreneurs suggests that this is an area where Mexico can advance further – especially given its well-developed SME support and institutions in general, as discussed in the previous section on BDS and other sections. For example, as noted earlier in this section, the PRODEINN includes a very large number of actions to foster innovation in the private sector, although the document has few details on who the beneficiaries are and how those actions would be implemented.

Productive transformation (Dimension 6)

Mexico's SME development support efforts at the time of the assessment, as guided by the National Development Plan (PND) 2013-18's Programme to Democratise Productivity (PDP), had a clear focus on increasing productivity, operationalised by various INADEM programmes. Mexico's 4.39 overall dimension score, one of the highest of the LA7, reflects the generally well-developed nature of this strategy across the policy-making cycle of planning and design and implementation, with a focus on the implementation of its components related to associativity and value chains. Its overall score is dragged down mainly by lower scores related to M&E at the programmatic level; while some institutionalised M&E efforts are already included for associativity and value chain support programmes, these could be strengthened going forward to better focus on performance and impact.

Productivity-enhancing strategies

At this time of this assessment, Mexico used two principal strategies to guide both its SME development and productive transformation efforts over the 2013-18 period: the PDP, which is applicable to the entire federal government; and the Innovation Development Programme (PRODEINN) developed to guide the actions of the Ministry of Economy (SE). Each of these programmes includes a dedicated SME component;[55] in the case of the PDP, the strategy sets out ten specific lines of action, mostly put under the responsibility of the SE, including the facilitation of SMEs' inclusion in value chains, and supplier development. These lines of action are reflected and further detailed in the PRODEINN, which includes a dedicated component on SME productivity, including facilitating associativity and closing gaps with large enterprises as key lines of action.

These strategies face a similar challenge to those facing many LA7 productivity-enhancing strategies: they do not go beyond a collection of lines of action to include a robust action plan containing corresponding quantifiable time-bound targets to operationalise the lines of action. However, each strategy does include a number of macro-level KPIs related to each strategic component. As already detailed in this chapter's previous "Institutional Framework" section, these include three KPIs established to measure the impact of SME-

related actions within the PRODEINN: the growth rate of SMEs' gross production, participation of women, and number of days required to register a new business. The PDP's indicators are concentrated on issues such as the rate of informal labour, index of labour productivity, and national investment in science, technology and innovation. Each indicator sets a goal for 2018, in relation to a 2012/13 baseline.

As previously mentioned in this chapter, each year, the SE publishes a public PRODEINN implementation report containing a qualitative description of the activities undertaken in relation to each strategic objective, and also reports on the established KPIs.[56] As of the end of 2017, SME gross production growth rates remained stagnant, or even decelerated, compared with the 2013 baseline; however, production did continue to grow by 0.30% from 2016-2017. Furthermore, the number of days required to open a business had fallen from nine to four days, below the five-day target. Overall, and as previously stated in this chapter's sub-section on "Business Development Services for SMEs and Entrepreneurs", the report is very detailed and informative, and it is structured around the thematic pillars and specific strategies described in the PRODEINN. However, the results are published only in terms of programme participation and other generic figures, and make no reference to actual impact on SMEs and entrepreneurs supported.

Following the establishment of these strategies, the federal government passed a law in 2015 to further institutionalise the country's productive and competitiveness development policies,[57] which included the creation of a National Productivity Committee (*Comité Nacional de Productividad* or CNP). Composed of various public, private and academic representatives intended to represent priority sectors, the CNP meets 2-3 times per year, with public summary records.[58] Meetings often also result in recommendations directed towards a specific sector.[59] However, it should be noted that there is no set SME representative(s) on this Committee. While there are various Advisory Councils in Mexico that have specific mandates on SME competitiveness (see this chapter's sub-section on "Public-Private Consultations"), those at the operational level related to the FNE and INADEM include either (a) only one regular private sector member with voting rights (as in the case of the FNE) or (b) possibly none – INADEM's advisory council does not require the participation of the private sector and, if invited, does not give private sector voting rights. Thus, while spaces for dialogue and consultation exist, SME private sector voices are lacking in both numbers and power.

A survey of SME productivity and competitiveness (the National Survey on Productivity and Competitiveness of Micro, Small and Medium Enterprises, or ENAPROCE) was carried out by the National Statistics Institute (INEGI) in 2015-16, covering close to 27 000 enterprises, of which 97.6% were microenterprises, 2.0% small, and 0.4% medium-sized. The results of the survey are publicly available,[60] and investigate, among other issues, barriers to SME growth and scale-up. The survey finds that 85.3% of SMEs want to grow, and that microenterprises face different barriers than do small and medium-sized firms: while microenterprises cite lack of credit as their greatest barrier to scale-up, small and medium-sized enterprises are more concerned with excessive bureaucratic procedures and taxation (INEGI, 2016[24]).

The following sub-sections will explore various instruments that INADEM has developed, in alignment with these strategies, in areas related to associativity and value chains.

Productive association-enhancing measures

During the period covered by this assessment, INADEM managed various calls for proposals (*convocatorias*) related to SME associativity, covering the mechanisms of

clusters, regional development, and special economic zones. Clusters had to include at least three SMEs to receive support, of up to roughly USD 500 000 per project, for joint activities related to training, consultancy, marketing, certifications, productive equipment or infrastructure, ICT and technology transfer. Regarding regional development and special economic zones, INADEM provided roughly USD 7.5 million in total co-financing during 2016 to about 60 projects,[61] which had to be solicited by state or municipal governments, universities, and/or business associations and include at least 10 SMEs in the project proposal. In all areas, applicants had to come from one of INADEM's priority sectors, which are defined at the state level.[62]

INADEM has not set any specific results indicators for this set of calls for proposals – however, there are publicly available indicators related to productivity in general within INADEM's overall "Results Matrix".[63] In 2017, it interviewed 1 798 SMEs that received assistance from its calls for proposals, and found that their total factor productivity before and after receiving assistance had risen by an average of 4.3%, exceeding INADEM's set goal of 4%. INADEM also measure the value of fixed assets held by supported SMEs, finding that in 2017, SMEs that received INADEM assistance reported an average of 33.6% growth in the value of their fixed assets, far outperforming the pre-set goal of 12.5%.

INADEM also ran a separate call for proposals during this time focused on the innovation of supply and market centres. Applicants had to include at least 30 SMEs, of which at least 30% were active in the agro-food industry, to be eligible. Successful applicants could receive support of up to roughly USD 480 000 per project for activities related to the creation of a business plan, training, certifications, productive equipment or infrastructure, and integration of advanced management technology. INADEM provided roughly USD 6.4 million in total co-financing to 45 of these types of projects during 2016.[64] In 2017, only 23 projects were approved for financing, benefitting 1 042 businesses; this only met 57% of INADEM's annual goal.

Regarding industrial parks, Mexico is the only LA7 country with a national association of industrial parks (AMPIP), as well as a network of scientific and technology parks (PACYTEC). However, these networks are privately managed and are not the subject of specific SME-related public support.

Integration into regional and global value chains (*GVCs*)

The majority of LA7 countries, including Mexico, have developed a similar type of supplier development programme to facilitate SMEs' inclusion in value chains. These programmes take the form of a call for proposals (*convocatoria*), with co-financing for proposal implementation offered by the government. While most LA7 programmes are directed at large companies, who must submit a proposal for the development of their suppliers, in the case of Mexico (and Argentina), the call for proposals is targeted directly to the providers themselves, who must submit proposals for their own development.

During the period covered by this assessment, INADEM managed a specific call for proposals dedicated to the development of SMEs' participation in value chains, both regional and global. This call for proposals included the clusters component covered in the previous sub-section, as well as components on supplier development and the opening and diversification of markets. The supplier development component is limited to applications from national suppliers that correspond to one of INADEM's priority sectors. These applicants were eligible to receive support of up to roughly USD 425 000 per project for activities related to training, consultancy, marketing, certifications, productive equipment or infrastructure, ICT and technology transfer. Regarding the opening and diversification

of markets, applicants had to display their product or service's export potential in order to receive support. The support consisted of up to about USD 500 000 per project, in the same categories, as well as assistance with participation in international trade fairs and the development of prototypes, pilots and samples.

INADEM provided roughly USD 6.4 million in total co-financing to 16 projects, across these and the clusters component, during 2016. However, the selection results, which are publicly available online,[65] show that many highly evaluated proposals were not selected for co-financing, due to lack of budget. Mexico, along with Peru, stands out from the rest of the LA7 concerning this level of transparency regarding the selection process results for each *convocatoria*: the final evaluation score that each submitted proposal received, and its performance during the various phases of proposal evaluation, are all public and easy to locate.

Mexico, like Chile, has also benefitted from co-operation with Germany through the "Fit for Partnership" programme. Since 2013, this programme has funded 100 Mexican SME managers to undertake a month-long training and networking programme in Germany, oriented towards the creation of an international business plan and contacts network. In 2017, INADEM hosted a "Fit for Partnership with Mexico" event that hosted German executives in Mexico to establish and strengthen international business connections. INADEM is also following up with programme alumni, in order to award prizes and further funding for successful and innovative projects.

During 2017, INADEM reports that it supported the efforts of 5 070 businesses, via 4 186 projects and seven different calls for proposals, to integrate into GVCs.[66] While no performance indicators are available, INADEM does measure the satisfaction of all those selected via calls for proposals each year; in 2017, it found that 98% of its 20 413 beneficiaries were satisfied with the support they received. However, the 2017-18 review of the FNE by CONEVAL found that the survey used was not rigorous enough to guarantee trustworthy results, as answers could influence the proposal selection process.

Access to market and internationalisation of SMEs (*Dimension 7*)

Mexico is making clear efforts to support SME internationalisation, including specific measures related to e-commerce, quality standards and regional integration. Its overall score of 4.14 for this dimension reflects these generally well-developed efforts, and is only slightly lowered in relation to the other LA7 due to the ongoing development of specific SME trade facilitation support measures. Going forward, further strengthening M&E systems and utilising the results to inform future policy-making cycles will be essential to effectively support SMEs in gaining and sustaining greater market access.

Support programmes for internationalisation

As noted in Chapter 10, all LA7 countries, including Mexico, have relatively well-advanced policies and programmes in place to promote SME exports. Mexico's investment and export promotion agency (EPA), ProMéxico, is an agency of the Ministry of Economy (SE) and, as such, was guided by the PRODEINN – which has as one of its specific sectoral objectives (#5) to "increase international trade and investment flows, as well as the national content of exports".

In 2016, ProMéxico created a dedicated "*RedExporta*" (Export Network) programme. This programme is somewhat unique among the LA7, as instead of using a call for proposals, it gives a more active role to the government to form networks of SME exporters. This

associative network component, rather than working with individual exporters, is also unique. The programme seeks to form formal associations of SMEs in the same productive sector or product, preferably with the same distribution channel, to so the SMES can improve their competitiveness and exports (through joint actions related to international promotion and the reduction of risks and costs) to facilitate access to foreign markets.

The *RedExporta* programme was developed on the basis of international experiences in Argentina, Italy, and Spain, as well as the experience of existing export consortia in Mexico. Research conducted when designing the programme underscored the necessity of adequate funding to undertake collective activities, and an appropriate consortia management structure. The programme allows for the formation of various types of networks (single-product/sector, multi-sector), which can either undertake only joint promotional activities (and retain independence related the sales of each enterprise) or consolidate around a single sales agent for the entire network. It is also targeted at participation from selected high-priority sectors.[67] Each network project receives 18-24 months of support, divided into the phases of prospection (formation of the network and hiring of an external consultant); preparation (development of a network business plan by the external consultant and network); implantation (formal constitution of the network and its plan); and consolidation (participation in joint promotional activities and hiring of a network manager). Various training seminars and trimestral meetings with ProMéxico to secure support for plan implementation, are also included throughout the programme.

The programme began implementation in 2017 and was developed with an established M&E system. It set a goal of supporting 400 SMEs in forming 20 networks over the 2017-18 period. According to ProMéxico's 2017 annual report,[68] the programme exceeded its 2017 goal of forming 10 networks, by forming 12 networks involving 90 SMEs. Additionally, 100 SMEs received export consortia training, and 43 experts were trained to serve as network consultants and/or managers, all exceeding the set annual targets. Furthermore, 48 additional exporting associations were involved in the programme at this time, awaiting their consolidation into formal networks. ProMéxico's fund to support strategic foreign direct investment is regularly reviewed by CONEVAL; however, no CONEVAL review of export support programmes has been undertaken.

ProMéxico also offers a training programme for all businesses, consisting of various modules (product development, legal aspects, logistics, market diversification, etc.) that can be attended in person or virtually. In terms of private sector participation, ProMéxico conducts an annual online survey to receive feedback on its programmes and services; the list of participants is then published online, meaning that this feedback is not anonymous, and a list of consolidated responses to the feedback received is published by the agency – each response noting whether the agency has already complied, is in the process of complying, or cannot comply with the feedback at this time. The inter-ministerial technical committee that oversees ProMéxico's public trust also includes four independent private sector members, nominated by the committee's public members.

Trade facilitation

Mexico lags behind its LA7 peers in this sub-dimension (with a score of 3.58 vs. the LA7 average of 4.35) as the assessment focuses specifically on targeted public programmes to support *SME* compliance with customs procedures, which Mexico is still developing. Although Mexico provides exporting guides and inquiry points, and has established both a well-functioning single window for trade procedures and an expansive Authorised Economic Operator (AEO) programme,[69] it lacks specific support to facilitate basic SME

exports. However, a new programme – one similar to the "Easy Export" *(Exporta Fácil)* programmes active in all other LA7 countries[70] – is under development in co-ordination with Mexico's involvement in the Pacific Alliance's SME Technical Working Group.

Mexico's "VUCEM" (*Ventanilla Única de Comercio Exterior Mexicano*) single window was established in 2012, and has resulted in significant achievements – such as reducing bureaucratic formalities (related to procedures, documents, etc.) by more than 90%, improving responsiveness from 15-20 days to 1-5 days, and lowering customs clearance time by more than 10% (APEC Policy Support Unit, 2018[35]). Mexico also benefits from its membership in the IDB's Inter-American Network of International Trade Single Windows (RedVUCE), which provides a forum for the exchange of best practices and support for regional integration. The OECD's Trade Facilitation Indicators (TFIs), which cover selected RedVUCE members, find Mexico and Colombia to be the highest performers. Mexico particularly outperforms its RedVUCE peers in matters related to institutional aspects and scope (e.g. number of public and private entities included, funding and array of services offered), as well as interoperability (OECD, 2018[36]).

Mexico's AEO programme, also established in 2012, is the largest programme in the PA, with over 400 importers and exporters and close to 50 carriers and customs brokers certified at the time of this assessment. Certification has been shown to reduce cross-border delivery times to the United States from four hours to 24 minutes, offering a significant competitive advantage. The programme has also encouraged certified companies to certify their entire trade chains, thus impacting SMEs (Vega Cancino, 2017[37]). However, Mexico, like its LA7 peers, lacks targeted support services for SMEs related to AEO certification and document preparation.

As noted in Chapter 10, while Mexico is not the highest scorer on the select TFIs utilised in this assessment, overall it receives the highest comprehensive TFI score in the LAC region. However, this performance is still somewhat below the average OECD TFI performance (1.49 vs 1.67 respectively, best=2). The OECD notes that Mexico exceeds or is closest to the best performance across the sample in all areas except information availability and appeal procedures; furthermore, its performance has improved between 2015 and 2017 in the areas of fees and charges, documents, and governance and impartiality (OECD, 2017[38]). However, the Organisation notes that further reforms in the areas of information availability, fee and charges, and procedures, among others, should be prioritised to increase the amount of information available to stakeholders and reduce the fees required for export procedures.

Use of e-commerce

Mexico, alongside the majority of its LA7 peers, is relatively well advanced in terms of programmes to support SME access to and use of e-commerce. The country launched a "National Digital Strategy" (*Mexico Digital: La Estrategia Digital Nacional*) in alignment with the PND 2013-18, which structures 69 lines of action under five key themes.[71] The "Digital Economy" pillar includes two projects dedicated to SMEs: 1) calls for proposals under the FNE related to e-commerce and ICT and 2) legal framework reforms to boost electronic commerce. Mexico is thus one of the only LA7 countries to use provision of co-financing to support SMEs in incorporating e-commerce – whereas most other LA7 countries' support is concentrated on training measures. According to Mexico Digital's website, over 2014-2016 the FNE supported 181 e-commerce projects with roughly USD 25 million via call for proposals #3.3, which was directed to promoting high-impact entrepreneurship. Mexico's legal e-commerce reforms are still in process; to date, reforms

have been implemented that allow companies to digitalize all documentation related to their businesses.

Mexico, along with Chile and Uruguay, provides an example of good practice for the region in terms of transparent strategic monitoring. Mexico Digital has a dedicated website (https://www.gob.mx/mexicodigital/seguimiento) that provides consistently updated reporting on the implementation status of each of the agenda's 69 lines of action. However, no related objectives or indicators have been established for each line of action. Instead, the website's indicators section consolidates various external datasets related to digitalisation, from organisations such as the OECD and UN, and highlights Mexico's relative international performance.

During 2017, building on previous efforts over 2013-2016, INADEM used call for proposals #4.1 (strengthening of microenterprises) to provide general ICT assistance. The agency uses data from the latest (2016) "National Survey on Productivity and Competitiveness of Micro, Small and Medium Enterprises" (ENAPROCE) to measure its market coverage, finding that the 12,817 microenterprises assisted by this programme correspond to 13% of the total microenterprise population that does not currently use ICT in their business model (INEGI, 2016[24]). At the time of this assessment, ProMéxico was also in the process of developing a B2B[72] e-commerce marketplace for Mexican businesses. This is in the context of the agency's "Mexico exports in one click" (*México exporta en un clic*) strategy, in which agreements are being signed with major e-commerce platforms (such as Alibaba, eBay and Amazon) and logistics providers (such as the United Parcel Service, or UPS) to facilitate SME integration and access. For example, SMEs that work with ProMéxico can already benefit from a 30% reduction on all UPS services for international shipments.

Quality standards

Some LA7 countries have specific SME quality-standard support programmes, which function as dedicated calls for proposals. In Mexico, by contrast, "quality certifications" is an approved spending category of almost every call for proposal funded by the FNE. This makes is somewhat difficult to understand the breadth, depth and impact of this support, as quality certification is just one among many approved spending categories.

However, INADEM does monitor information related to how many FNE projects result in support for quality certifications. In 2017, it found that 89 projects supported the certification of 290 SMEs, falling just below the agency's set goal of 300. Yet there is no measure of the SMEs satisfaction with, or performance following this support, besides the general INADEM satisfaction surveys.

Taking advantage of the benefits of LAC regional integration

Mexico has made concrete efforts as a member of the PA to support SME development within regional integration efforts. In the case of the PA, this is the responsibility of the bloc's "SME Technical Working Group", one of the PA's 24 thematic working groups. The group derives its work programme from the presidential mandates delivered at the PA's annual summit; during the time of this assessment, the group was focusing on various projects related to trade facilitation, business and entrepreneurial development, and public procurement, as well as measures related to collection and monitoring of data and private sector involvement. A brief summary is given below:

- *Entrepreneur Capital Fund*: A USD 80 million fund was finalised as of January 2018, with 15 initial projects selected. Funds come from the IDB, PA members, and the private sector.
- *"Easy Export" Programmes*: The Working Group has been sharing their experiences in order to inform the development of these programmes in each member state. Programmes are currently active in all members except for Mexico, whose programme was under construction at the time of this assessment.
- *Public Procurement*: The Working Group is developing a roadmap to maximise the benefits for SMEs in line with the chapter on public procurement in the Additional Protocol of the PA.
- *Network of Business Development Centres*: At the time of this assessment, and with the support of CAF, efforts were underway to construct a network between the member states' various existing business development centres. CAF was finalising a diagnostic study on the state of these centres in each member state, with recommendations on next steps in forming a network.

These efforts are further supported by the work of the PA's other dedicated technical working groups on the subjects of trade facilitation and export promotion. In contrast to MERCOSUR, the PA's work to date on SMEs has not focused on value chain creation or strengthening; however, at the time of this assessment, a new technical working group on value chains was under development. There is no dedicated PA budget for the working group, whose projects are mainly funded on an ad-hoc basis by external donors, including the IDB, CAF, and voluntary contributions from member and observer states.

The PA's current M&E efforts are limited to the regular quarterly meetings of the SME Group and their summary records, but do not include any quantitative indicators to measure outcomes and impact. However, a PA SME Observatory was under construction at the time of this assessment. The PA does have an established "Business Council" (CEAP), which meets at least twice a year, including in advance of the annual presidential summit, and issues its own recommendations for the PA's future work. The SME Working Group is in the processing of establishing an SME Council within CEAP; in May 2017, the group also held its first formal meeting with SME representatives from each member state, to discuss proposals for the group's future work.

Mexico had a specific section of its PND 2013-18 that was dedicated to its "global responsibility", with the objective of amplifying and strengthening its global presence. A specific strategy under this objective consisted of various lines of action related to the deepening of Latin American regional integration, though this is more focused on additional opportunities than the PA itself. However, the strategy does not focus on the dissemination of information about the benefits of regional integration, including business opportunities linked to FTAs. Although consolidated information on Mexico's FTAs is provided online by ProMéxico, this information does not go beyond the text of the agreements to explore related business opportunities.

The way forward

Institutional framework

Mexico is at a crucial point in defining its strategic orientations for both overall economic development and SME development. The new administration of President López Obrador will have to elaborate the new national plan of economic development and the new strategy

for the SME sector. It can count on a sound institutional framework with considerable experience in managing SME support programmes.

Going forward, the main priorities emerging from the Dimension 1 assessment are as follows:

- **Conduct a review to evaluate the results of the previous key economic strategies (PND and PRODEINN).**
- **Expand co-operation with the private sector**, particularly with the most dynamic segments of the enterprise population, moving from a consultation mode to a partnership, sharing risk and reward for the development of new sectors and activities.
- **Reassess the current system of *convocatorias* to consider a closer involvement of INADEM and other public agencies in the implementation of SME support programmes**. At the same time, efforts should be continued to develop partnerships with state and local administrations.
- **Broaden private sector participation in the various relevant *Consejos Consultivos***, including representatives of start-ups, innovative enterprises, women and young entrepreneurs and microenterprises.
- **Reform the relevant monitoring system to become more systematic and plan impact evaluations** for the most important SME programme/projects by the *Secretaria de Economía* and INADEM in co-operation with CONEVAL.

Overall, strong actions will have to be implemented to overcome the duality of the Mexican economy that is at the base of the very high incidence of informality.

Operational environment and simplification of procedures

Mexico outperforms the rest of the LA7 in this area thanks to its progress in implementing regulatory reforms and RIA application, and to the presence of a good range of operational electronic services for enterprises and the availability of electronic signature.

Going forward, the country could consider:

- **Elaborating an action plan for regulatory reform**, focusing on the areas where regulatory restrictiveness is the highest and administrative burdens are the heaviest.
- **Reviewing the costs associated with the pre-registration phase** in the starting a business process.
- **Making sure that one-stop shops cover all the notification procedures.**
- **Reviewing the VAT reimbursement and company tax auditing procedures.**
- **Monitoring the application of e-government services geared towards SMEs and working on improving the utilisation rate.**

Access to finance

Mexican public policies concerning SME access to finance comprise two contrasting realities. On the one hand, Mexico is one of the regional leaders in terms of the regulatory and practical framework for secured transactions, as well as the multiplicity of financing mechanisms accessible to SMEs. In stark contrast, it has notable shortcomings in issues

related to financial education and schemes for the management of bankruptcy. In order to correct these deficiencies, the Mexican government should prioritize:

- **Expanding financial literacy programs in public education and strengthening the monitoring framework**. The Mexican government has taken the first steps toward including financial education programs in schools, but has only reached about 20% of institutions. In addition, it is crucial to publish performance indicators in the sector that allow for follow-up and recommendations to strengthen the efforts made in this segment.
- **Strengthening existing procedures for companies at risk of insolvency.** This should include a) creating a unified, freely accessible system on insolvency procedures, b) the development of early warning mechanisms (for example, publishing markers of insolvency risk), and c) the strengthening of support systems and training for entrepreneurs who seek to start again.

SME development services and public procurement

Mexico has an advanced SME policy and an established BDS market, with INADEM acting as the key policy coordination and implementation agency and the FNE as the main funding vehicle of the overall SME and entrepreneurship policy. Through INADEM and the Network for the Support of Entrepreneurs (RAE), small firms and entrepreneurs have access to a vast offer of support services by public and private actors across Mexico.

Building on those efforts, the authorities could **work to improve the strategic planning elements of the overall SME policy, including BDS, and develop details on the broader development plan and its enterprise development components**. As noted earlier, the PRODEINN includes very little detail on the types of business support services to be implemented or how they will contribute to greater productivity and employment (which is signalled as one of the key challenges).

In terms of public procurement, Mexico's laws and regulations include some precepts to facilitate or favour the participation of SMEs in this market. The law, however, does not foresee most of the measures assessed in this report, namely the possibility or the obligation of splitting tenders into lots, and quotas for SME participation in public procurement. Therefore, Mexico could **consider introducing such precepts into the procurement law.** Mexico could also **introduce a system to collect information on the use of the e-procurement system by SMEs** and could **implement programmes for SMEs to take advantage of public procurement opportunities** (training, suppliers development programmes, quality enhancement programmes, etc.).

Innovation and technology

Fostering innovation among SMEs and entrepreneurs is an area where Mexico could do much more. The PRODEINN lacks details on specific programmes to support innovation in SMEs, apart from generic references to actions on the innovation ecosystems or supporting triple helix initiatives. Furthermore, inter-institutional initiatives for innovation, and notably the Inter-Sectoral Committee for Innovation (CII) seem inactive (as noted, the last time the CII met was in 2015). In addition, the number of and details on innovation support programmes for SMEs and entrepreneurs is limited. Hence, Mexico could consider:

- **Developing a comprehensive innovation strategy that involves all relevant government agencies, universities, the private sector and others.** As noted before, the PRODEINN is an innovation programme implemented by the Ministry

of Economy and focused on some economic aspects of innovation (competition policy, regulatory policy, SME support, etc.).

- **Extending the offer of innovation support services and the information available on those services.** In general, INADEM offers three flagship programmes on innovation, detailed above. CONACYT offers other support schemes, but the information available on them is very limited. Hence, CONACYT could include more details on the benefits of its programmes and how to apply to them through its website.

Productive transformation

Mexico, guided by its PND 2013-18 (specifically the "Programme to Democratise Productivity", or PDP) and operationalised by the PRODEINN and INADEM, has clearly made efforts to orient its SME support in ways that should aid SMEs in various strategic sectors in contributing to the country's productive transformation. Key mechanisms for productivity enhancement, such as enhancing SME associativity via clusters, regional development, and special economic zones, as well as the integration of SMEs into GVCs, all received dedicated attention via INADEM's *convocatoria* system.

Looking beyond 2018, the country could consider:

- **Building on existing M&E efforts to develop a robust action plan, with corresponding performance-centred KPIs.** For future strategies, Mexico should consider bolstering its existing public monitoring efforts by setting KPIs for each strategic project, line of action, or objective. In the case of INADEM, these KPIs could then be incorporated into its existing Results Indicators Matrix.[73]
- **Incorporating impact assessment measures.** While satisfaction surveys can serve to capture a measure of programme outcomes, they still fall short of robust impact assessment, which is an important tool for governments to assure the efficient investment of public funds. Mexico could consider retaining contact with applicants that are not selected as programme beneficiaries (in order to create a control group for further impact assessment) and budgeting funds for external independent evaluation to be conducted after an initial evaluation period.

Furthermore, as stated earlier, a reassessment of the current system of *convocatorias* to consider a closer involvement of INADEM and other public agencies in the implementation of SME support programmes, could be useful, especially as it relates to productive transformation; this could be integrated into the M&E strengthening efforts suggested above. Furthermore, the implementation of pilot programmes that include a more active public role in implementation and partnership formation, such as RedExporta (see section on "Access to Market and Internationalisation of SMEs"), provide fertile ground for comparison.

Access to market and internationalisation of SMES

Mexico is implementing a number of measures to support SMEs in their internationalisation efforts, including support in the specific areas of e-commerce, quality certifications and regional integration. To further build on existing efforts, Mexico could pursue the following actions:

- **Include AEO training in ProMéxico's training programme, and consider providing further support to SMEs, such as expedited exam processes, more**

flexible security standards, subsidised fees, customs-business partnerships, and/or quotas. These methods have proved successful in facilitating SME AEO certification in both OECD and APEC countries (APEC Policy Support Unit, 2016[39]).

- **Obtain private sector feedback regarding existing quality certification support.** Quality standard support for SMEs is integrated across INADEM's calls for proposals, widening its accessibility but lowering its visibility. Conducting a survey of the satisfaction and performance of existing beneficiaries could serve as a baseline for better understanding the strengths and gaps of existing support measures. Further feedback from the wider SME population, indicating their current knowledge of and potential interest in these services, could assist the public sector in better aligning its programming to demand.
- **Increase public knowledge about the benefits of regional integration connected to existing FTAs and corresponding business opportunities.** Although this is institutionalised as one of ProMéxico's key objectives, yet existing online information does not go beyond the text of FTA agreements to explore related business opportunities. Here, Colombia and Peru are good examples: Colombia's MINCIT has a specific centre (Centro de Aprovechamiento de Acuerdos Comerciales) tasked with researching FTA business opportunities, and has published studies detailing opportunities and challenges at the sub-regional level.[74] Peru runs a similar website, in which all the FTAs that the country has signed are explained, including the corresponding business opportunities.[75]
- **Explore ways to incorporate quantitative indicators (KPIs) into various projects led by the PA SME Technical Working Group, allowing them to measure outcomes and impact and thus inform future efforts.** These indicators should go beyond measuring participation/funding, and instead seek to capture real-world impact. Clear communication of these efforts, via mechanisms such as the Working Group's website, could also bolster its efforts to build a dialogue with the private sector.

Notes

[1] See http://www.oecd.org/corporate/mne/ for more information.

[2] In MXN millions.

[3] A *PyMEx* is defined as an exporting SME (*PyME*) whose exports are below 1 000 x GDPpc-ppp x Exp_coef, where GDPpc-ppp is the GDP per capita in PPP and Exp_coef is the exports-to-GDP ratio of the country.

[4] Accessible via http://www.ordenjuridico.gob.mx/Documentos/Estatal/Ciudad%20de%20Mexico/wo55598.pdf.

[5] http://www.dof.gob.mx/nota_detalle.php?codigo=5326479&fecha=16/12/2013.

[6] See https://rae.inadem.gob.mx/providers/search for more information.

[7] See https://www.sistemaemprendedor.gob.mx/index/datosabiertos.

[8] See https://www.gob.mx/cms/uploads/attachment/file/341711/informe_final_ecr_s020.pdf for further information.

[9] See the "Empresas y establecimientos" section of the INEGI website - https://www.inegi.org.mx/datos/.

[10] See https://www.gob.mx/participa/inicio.

[11] See https://www.inadem.gob.mx/blog-del-emprendedor/.

[12] See http://www.one.inadem.gob.mx/.

[13] Accessible via http://imco.org.mx/indices/un-puente-entre-dos-mexicos/capitulos/un-puente-entre-dos-mexicos.

[14] See this chapter's section on "Productive Transformation" for more information.

[15] See https://www.bansefi.mx/BsfPortalMovil/index for more information on BANSEFI.

[16] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[17] See http://reformas.gob.mx/.

[18] See http://www.tuempresa.gob.mx/.

[19] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[20] See https://www.gob.mx/mexicodigital/.

[21] https://www.rug.gob.mx/Rug/home/inicio.do

[22] http://www.inegi.org.mx/geo/contenidos/catastro/default.aspx

[23] http://www.inegi.org.mx/geo/contenidos/catastro/modernizacioncatastral.aspx.

[24]https://www.cnbv.gob.mx/Normatividad/Ley%20para%20Regular%20las%20Sociedades%20de%20Informaci%C3%B3n%20Crediticia.pdf.

[25] http://www.dof.gob.mx/nota_detalle.php?codigo=5515623&fecha=09/03/2018

[26] https://www.bancomext.com/empresas-que-apoyamos/pymex.

[27] https://www.gob.mx/fira/acciones-y-programas/fonaga-fondo-nacional-de-garantias.

[28] FIRA offers guarantees schemes aim at the agricultural, forestry, and fishing sectors, as well as other economic activities common in rural areas.

[29] The guarantee schemes offered by NAFIN are funnelled through financial institutions without prejudice of the economic activities that they intend to finance. See http://www.nafin.com/portalnf/content/intermediarios-financieros/productos_ifinancieros.html.

[30]https://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/OTROS-SUPERVISADOS/Descripci%C3%B3n-del-Sector/Paginas/SOFOMES-Reguladas.aspx.

[31] *Comisión Nacional del Sistema de Ahorro para el Retiro,* or National Commission of the Savings System for Retirement. See http://www.consar.gob.mx/.

[32] *Instituto para la Protección al Ahorro Bancario*, or Institute for the Protection of Bank Savings. See https://www.gob.mx/ipab.

[33]https://www.gob.mx/cms/uploads/attachment/file/254597/Estrategia_Nacional_de_Educacio_n_Financiera__002_.pdf.

[34] These lines of action are directed primarily by the resources offered by the Entrepreneur Support Network (RAE) and the offer for SMEs of Condusef.

[35] https://www.cnbv.gob.mx/Inclusi%C3%B3n/Documents/Reportes%20de%20IF/Reporte%20de%20Inclusion%20Financiera%208.pdf.

[36] https://www.forbes.com.mx/primarias-y-secundarias-publicas-impartiran-educacion-financiera.

[37] The 2013 review is available at http://www.oecd.org/publications/mexico-key-issues-and-policies-9789264187030-en.htm.

[38] https://www.gob.mx/creditojoven/articulos/programa-de-incubacion-en-linea.

[39] https://www.inadem.gob.mx/puntos-de-la-red-buscador.

[40] https://inadem-ntfg9dkg301jobi1zkue.netdna-ssl.com/wp-content/uploads/2018/04/Cat%C3%A1logo-de-productos.pdf.

[41] https://www.sistemaemprendedor.gob.mx.

[42] https://vitrinatic.inadem.gob.mx/vitrinatic.

[43] http://www.diputados.gob.mx/LeyesBiblio/pdf/14_101114.pdf.

[44] https://compranet.funcionpublica.gob.mx/web/login.html.

[45] http://conacytprensa.mx/index.php/sociedad/politica-cientifica/21203-avanza-reforma-ley-ciencia-tecnologia.

[46] http://innovacion.economia.gob.mx/index.php?option=com_content&view=category&layout=blog&id=2&Itemid=256.

[47] http://www.dof.gob.mx/nota_detalle.php?codigo=5508940&fecha=26/12/2017.

[48] http://www.dof.gob.mx/nota_detalle.php?codigo=5508940&fecha=26/12/2017.

[49] https://rae.inadem.gob.mx/benefits/search.

[50] https://rae.inadem.gob.mx/providers/list?category=&coverage=&search=.

[51] https://tutoriales.inadem.gob.mx/convocatoria.php?id=75.

[52] https://tutoriales.inadem.gob.mx/convocatoria.php?id=11.

[53] https://www.conacyt.gob.mx/index.php/el-conacyt/sistema-de-centros-de-investigacion.

[54] www.conacyt.gob.mx/index.php/fondos-y-apoyos/programa-de-estimulos-a-la-innovacion.

[55] Strategy #2.3 of the Programme to Democratize Productivity, which is accessible here: https://www.gob.mx/productividad/documentos/programa-para-democratizar-la-productividad-estrategia-transversal. Sectoral Objective #3 of the Innovative Development Programme is accessible here: http://www.economia.gob.mx/files/prodeinn/Programa_de_Desarrollo_Innovador2013-2018.pdf.

[56] All reports to date are accessible here: https://www.gob.mx/se/acciones-y-programas/reglas-de-operacion-e-informes-del-sector-economia-programa-de-desarrollo-innovador-2013-2018-prodeinn.

[57] The full text of the law is available here: http://www.diputados.gob.mx/LeyesBiblio/pdf/LIISPCEN_170517.pdf.

[58] These records can be accessed here: https://www.gob.mx/productividad/documentos/informes-del-comite-nacional-de-productividad?idiom=es.

[59] These recommendations are available here: https://www.gob.mx/productividad/documentos/recomendaciones-del-comite-nacional-de-productividad?idiom=es.

[60] See http://www.inegi.org.mx/est/contenidos/proyectos/encuestas/establecimientos/otras/enaproce/

[61] See https://inadem-ntfg9dkg301jobi1zkue.netdna-ssl.com/wp-content/uploads/2016/08/conv_1_2.pdf for the results of this call for proposals during 2016.

[62] See https://www.inadem.gob.mx/sectores-estrategicos-por-estado/ for a full listing by state.

[63] See https://www.inadem.gob.mx/transparencia/planes-programas-e-informes/.

[64] See https://inadem-ntfg9dkg301jobi1zkue.netdna-ssl.com/wp-content/uploads/2016/08/bolsas_1_4_2016.pdf and https://inadem-ntfg9dkg301jobi1zkue.netdna-ssl.com/wp-content/uploads/2017/01/RESULTADOS-CONVOCATORIA-1.4-2a-emisio%CC%81n.pdf for the results of this call for proposals during 2016.

[65] See https://inadem-ntfg9dkg301jobi1zkue.netdna-ssl.com/wp-content/uploads/2016/08/conv_1_1.pdf

[66] While this assessment focused on call for proposals 1.1 (development of networks and global value chains), INADEM also considers that 1.2 (regional economic development), 1.3 (economic reactivation), 2.1 (strengthening of the RAE), 2.4 (high-impact incubation and business acceleration), 3.3 (promoting high-impact entrepreneurship) and 4.2 (micro-franchises) also support SME integration in global value chains.

[67] Aerospace, creative and visual industries, food and beverage, fashion, auto parts, agroindustry, ICT services and software.

[68] See http://www.promexico.mx/es/mx/planes-programas-informes.

[69] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[70] See Chapter 10 for more information.

[71] Connectivity, Inclusion and digital skills, Interoperability and digital identity, Legal framework, and Open data.

[72] Business to business, also called B2B, is a form of transaction between businesses, such as one involving a manufacturer and wholesaler, or a wholesaler and a retailer. B2B refers to business that is conducted between companies, rather than between a company and individual consumers. Business to business stands in contrast to business to consumer (B2C) and business to government (B2G) transactions.

[73] See https://www.inadem.gob.mx/transparencia/planes-programas-e-informes/.

[74] See http://www.tlc.gov.co/publicaciones/40519/oportunidades_regionales_para_aprovechamiento_acuerdos_comerciales.

[75] See http://www.acuerdoscomerciales.gob.pe/ for more information.

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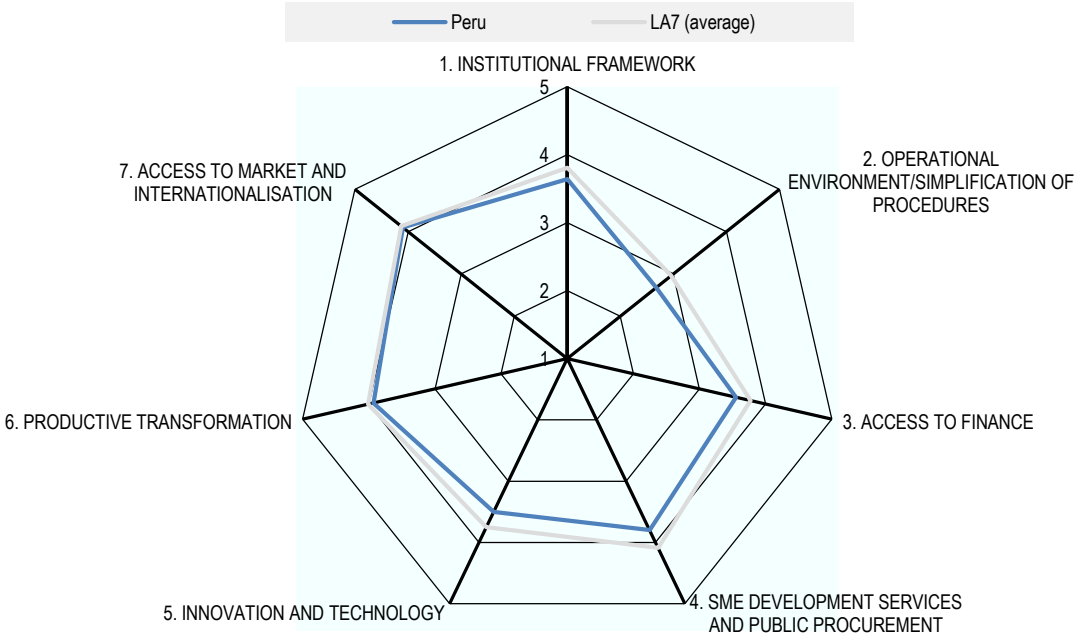
Chapter 16. Peru

This first OECD SME Policy Index assessment of Peru demonstrates that the country has a solidly developing range of programmes and initiatives in place to support SME development; indeed, beyond general SME development support, these efforts include targeted, often pilot, programmatic efforts to support productivity-enhancing measures for SMEs. However, Peru consistently falls below the LA7 average across this assessment's dimensions, demonstrating room for peer learning.

Overall, Peru could consider a reassessment of its existing strategic documents and institutional organisation related to SME development, with a view to strengthening the linkages between strategic orientations and programme implementation and more clearly monitoring and evaluating SME policy efforts. Alongside these actions, Peru should continue prioritising the improvement of its business environment.

Key Findings

Figure 16.1. 2019 SME Policy Index scores for Peru



This first OECD SME Policy Index assessment of Peru has demonstrated that the country has a solidly developing range of programmes and initiatives in place to support SME development, extending across the key areas of access to finance, business development services (BDS), innovation, productive transformation, and internationalisation, among others. Beyond general SME development support, these efforts include targeted, often pilot, programmatic efforts by the Ministry of Production (PRODUCE), in line with the country's 2014-2018 Competitiveness Agenda, to support productivity-enhancing measures for SMEs – especially those related to innovation, clusters and export-oriented value chains. However, Peru consistently falls below the LA7 average across this assessment's dimensions (Figure 16.1), demonstrating room for peer learning.

Overall, while Peru has made good advances in strategic planning areas and established a set of measurable strategic objectives for the SME sector, challenges remain. First, the existence of multiple, overlapping strategies, sometimes covering the same ministry, can lead to confusion and a lack of clear strategic priorities. Second, despite the inclusion of some details related to implementation, as well as specific strategic objectives in many of these strategies, the link between strategic orientations and implemented programmes is not always clear. Lack of clear and public follow-up regarding the implementation of strategies, and their linkage to specific programmes/projects, makes it difficult to gauge the overall impact of SME support measures.

Thus, going forward, and as will be further detailed throughout this chapter, Peru could consider a reassessment of its existing strategic documents and institutional organisation related to SME development. In doing so, it could prioritise (a) reinforcing programme/project implementation mechanisms, ensuring their clear relation to strategic orientations; (b) reassessing the system of calls for proposals (*convocatorias*), which tends to delegate policy implementation to intermediary institutions, creating a potential

information gap; and (c) consideration of establishing a dedicated SME Development Agency.

Alongside these actions, Peru also should continue prioritising the improvement of its business environment, noting the country's relatively high levels of informality (even within the Latin American context), lack of a comprehensive regulatory reform agenda, and relatively high cost of the procedures to start a business. There are significant existing efforts to build on, including the country's e-government services and citizen services centres (MACs), which could be developed into one-stop shops for future company registration. In the area of Access to Finance (Dimension 3), this assessment identifies various future reform priorities, such as establishing a regulatory framework for alternative financing mechanisms, launching a financial education programme, and simplifying bankruptcy proceedings to reduce their duration.

Overview

Economic structure and development priorities

Table 16.1. Macroeconomic Indicators - Peru

Indicator Name	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth (annual %)	2.7	6.3	8.3	6.3	6.1	5.9	2.4	3.3	4.0	2.5
GDP per capita (current US$)	1996	2754	5022	5771	6387	6583	6492	6053	6031	6571
GDP per capita, PPP (current international $)	5202	6762	9755	10449	11145	11828	12164	12533	13030	13434
Unemployment, total (% of total labour force)	5.8	4.9	3.5	3.4	3.1	3.2	3.0	3.0	3.5	3.6
Inflation, GDP deflator (annual %)	3.5	3.5	5.7	6.7	1.2	1.1	2.6	2.6	2.9	3.9
Exports of goods and services (% of GDP)	16.8	26.8	27.8	30.5	27.4	24.8	22.6	21.3	22.4	24.3
Imports of goods and services (% of GDP)	18.8	20.5	23.8	25.5	25.2	25.0	24.2	23.9	22.8	22.6
External balance on goods and services (% of GDP)	-2.0	6.3	4.0	5.0	2.3	-0.2	-1.6	-2.6	-0.4	1.7
Current account balance (% of GDP)	-3.0	1.5	-2.6	-1.7	-2.8	-4.7	-4.4	-4.8	-2.8	-1.3
Services, etc., value added (% of GDP)	54.0	49.8	48.9	47.8	49.1	50.5	52.5	53.9	55.2	..
Foreign direct investment, net inflows (% of GDP)	1.6	3.4	5.7	4.3	6.1	4.9	2.2	4.4	3.6	3.2
Foreign direct investment, net outflows (% of GDP)	..	0.0	0.2	0.1	0.0	0.1	0.4	0.1	0.2	0.1
General government total expenditure (% of GDP)	21.5	20.2	21.0	19.8	20.3	21.6	22.6	22.4	21.0	21.2
General government net lending/borrowing (% of GDP)	-2.1	-0.4	0.1	2.0	2.1	0.7	-0.2	-2.1	-2.3	-2.9
Domestic credit to private sector (% of GDP)	26.8	19.4	25.4	27.1	34.0	37.7	40.8	43.8	42.9	42.3

Source: (World Bank, 2018[1]; IMF, 2018[2])

Activity, labour markets and economic structure

Peru had the strongest GDP growth record (from 2005 to 2015) among the countries included this study, with its average annual increase of 6% (see Table 16.1) almost

doubling the regional average. GDP per capita (in PPP) increased over 140% between 2000 and 2015, with a combination of sound domestic policies and good external conditions enabling that outcome (OECD, 2015[3]). Despite slowing down since then, growth has been resilient to the recent decrease in mineral commodity prices, Peru's main export product.

In order to extend the path of inclusive growth, Peru needs to overcome low productivity growth, large inequalities and high informality (OECD, 2015[3]). Unemployment has decreased to a 3.2% average over the 2010-2015 period, the lowest figure in this report (see Table 16.1). Poverty fell from 59% of the population in 2004 to 24% in 2013. Inequality also dropped, but it remains high when compared to OECD countries and even to some regional peers. Informal employment is widespread, affecting 72.8% of workers in 2014, the highest recorded in this study (OECD, 2015[3]).

In terms of sectoral composition, agriculture accounted for 6.9% of GDP during the past ten years (2008-2016), a higher share than the LAC average (4.8%) (World Bank, 2018[1]). Mining accounted for 12%, more than double the regional average (ECLAC, 2016[4]). Manufacturing is slightly more relevant in Peru than in the rest of the region, generating 13.2% of value added (World Bank, 2018[1]). Services, on the other hand, add up to only 55.2% of GDP (Table 16.1; compared to 60.8% for LAC). Among them, food and accommodation stand out, generating 7% of total value added. It is essential that Peru diversify its economy away from natural-resource-dependent sectors to avoid falling into the "middle-income trap", as well as to tackle informality and develop better transport connections.

Financial markets are relatively less developed than in the rest of the region. Domestic credit to the private sector represented 27% of GDP between 2005 and 2015, which is below the regional average (40%), although this has increased to centre around 40% in recent years (since 2014, see Table 16.1).

Regional disparities are sharp. Population and economic activity is heavily concentrated in Peru: Lima accounts for 31% of the population and 48% of GDP. The GDP per capita in the capital city is 52% higher than the national average and 3.5 times higher than in Huánuco, the poorest department (INEI, 2017[5]). Arequipa is the second largest district in terms of economic activity, while Moquegua is the richest one in per capita terms. The Human Development Index for Huancavélica or Ayacucho is around half that of Lima, while life expectancy gaps of more than ten years are not rare among departments (UNDP, 2013[6]).

Peru ranks 89th worldwide within the United Nations' Human Development Index (HDI) (see Table 16.2), placing it inside the group of "high human development countries" alongside Colombia, Ecuador and Mexico from the LA7 (United Nations, 2018[8]). This means that its performance on indicators measuring quality of health, education and standard of living generally fall among the middle third of all countries – although in Peru's case (as is also the case of Mexico within the LA7), indicators related to quality of education fall mostly within the bottom third. Furthermore, Peru's gender development index (GDI) score falls below those of other LA7 countries, placing it overall as a country with medium equality in HDI achievements between women and men (group 3).[1] In any case, Peru has made improvements since the 1990s by increasing life expectancy at birth by 9.7 years, mean years of schooling by 2.6 years and expected years of schooling by 1.9 years.

Table 16.2. Selected Human Development Index (HDI) Scores – Peru 2018

Variable	Peru	LA7 Average
HDI Ranking (2017)	89th	69.3
HDI[1] (scale of 0-1, with 1=best; 2017 value)	0.75	0.79
Life expectancy at birth (in years; as of 2017)	75.2	76.8
Gender Development Index Ranking[2] (scale of 0-1, with 1=best; 2017)	0.95	0.98
Quality of Health[3]		
Lost Health Expectancy[4] (2016)	11.1%	11.3%
Physicians (per 10,000 ppl.; 2007-2017)	11.2	22.2
Hospital beds (per 10,000 ppl.; 2007-2014)	15	22
Quality of Education[3]		
Pupil-teacher ratio primary school (pupils per teacher; 2012-2017)	18	20.7
Primary school teachers trained to teach (2009-2017)	.	93.5%
Proportion of schools with access to internet (2008-2013)	.	56.3%
Math (PISA[5] score 2015)[6]	387	413.7
Reading (PISA score 2015)	398	436.2
Science (PISA score 2015)	397	431
Quality of Living Standards[3]		
Vulnerable employment (% of total employment; as of 2017)	50.3%	38.1%
Share of rural pop. with access to electricity (2016)	75.6%	95.9%
Share of pop. using improved drinking-water sources (2015)	89.9%	96.6%
Share of pop. using improved sanitation facilities (2015)	76.8%	89.6%

1. The HDI score is based on a set of indicators covering the dimensions of "long and healthy life", "knowledge" and "a decent standard of living". For more information, see (United Nations, 2018[8]).
2. The GDI is calculated by comparing the female and male HDI values of the country. Countries are divided into five groups by absolute deviation from gender parity in HDI values.
3. Indicators under the categories "Quality of Health", "Quality of Education" and "Quality of Living Standards" are taken from the HDI Dashboard 1 on Quality of Human Development.
4. The relative difference between life expectancy and healthy life expectancy, expressed as the percentage of life expectancy at birth.
5. The Programme for International Student Assessment (PISA) is a triennial international survey which aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. In 2015 over half a million students in 72 countries and economies took the PISA test, and were assessed in science, mathematics, reading, collaborative problem solving and financial literacy. For more information and assessment results, see http://www.oecd.org/pisa/aboutpisa/.
6. The highest average national score for Math, Reading and Science is held by Singapore with 564, 535 and 556 points, respectively.
Source: (United Nations, 2018[8]).

Public sector, money and prices

Peru is one of the few LA7 countries that has not increased the size of its government during the 21st century. In 2017 its government expenditure was 21.2% of GDP, almost the same as it was in 2000 (see Table 16.1). It is also the country with the lowest public expenditure in our sample, and far below the regional average (approximately 32% over the past ten years).

The budget balance has generally been kept on the positive side for the past ten years, an accomplishment shared only with Chile in our country sample. Over the past five years, Peru was the only country to keep a fiscal surplus (on average). This level of fiscal discipline was attained through the implementation of a sound institutional framework, including a 1999 Fiscal Responsibility Law and the 2013 macro-fiscal legislation introducing fiscal rules and counter-cyclicality (OECD, 2015[3]).

Looking forward, the country has ample space to increase revenue (to fund much-needed social services) and to transform tax policy into a redistributive tool.

Peru's monetary authority enjoys a great deal of independence to implement its inflation targeting strategy. Inflation was kept in the 2-4% target range during most of the past 15 years (see Table 16.1), while the average inflation rate was lower than in any of the countries in our sample and below the regional average. On the other hand, dollarisation and currency mismatch remain a weakness of the financial system and reduce the efficacy of monetary policy (OECD, 2015[3]).

External sector

The openness ratio was larger for Peru (51%) than for the LAC region (45%) between 2005 and 2015. (World Bank, 2018[1])The country has 15 operational FTAs covering 54 countries (MCET, 2017[9]).

The Peruvian exports basket is dominated by fuels and mining products (46%) (WTO, 2017[10]). In particular, copper and gold represented 41% of exported value in 2016. Agricultural products represent 22.4% of exports and include grains (wheat) and seeds, coffee and fruits. Services trade represented 6.6% of GDP in 2005-2015, slightly above the regional average. The country ranks 92nd in the Economic Complexity Index, which is the second lowest ranking of the LA7, only outperforming Ecuador (MIT, 2018[11]).

Peru's three largest trade partners, both for exports and imports, are China, the United States (US) and the European Union (EU). Brazil and Mexico are the most important regional partners in terms of origin of imports (10.5%).

FDI averaged 4.8% of GDP between 2005 and 2015 (see Table 16.1), above the LAC average (3.2%).

Business environment

According to the 2019 Ease of Doing Business rankings (World Bank, 2018[12]), Peru occupies the 68th position overall out of the 190 economies assessed, and fourth in Latin America, behind only its fellow Pacific Alliance members (Chile, Colombia and Mexico) (Figure 16.2). Improvements have been made since 2007, when it ranked 78th. The country performs particularly well in "getting credit" (32nd) and "registering property" (45th). On the former, legal rights, credit information and credit bureau coverage have high scores; on the latter, the process takes less than a week, compared with 68 days for the region as a whole. Low scores are achieved in "paying taxes" (120th) and "starting a business" (125th). Post-filing procedures are particularly burdensome in the tax dimension. However, Peru has implemented several relevant reforms over the past decade, including the electronic filing of taxes and the reduction of rates, the elimination of the requirement for SMEs to make a deposit to start a business, and the improvement of personal data protection (an important issue related to financial development).

Figure 16.2. Doing Business Indicators - 2019



Note: *LA7* is the simple average for the seven countries studied in this report: Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay. The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.
Source: (World Bank, 2018[1]).

Peru also climbed in the WEF Global Competitiveness Index (WEF, 2018[13]), rising to 63rd from 86th a decade ago. The country receives the top ranking overall on the "macroeconomic environment" pillar, thanks to low government debt and the investment grade of sovereign bonds. Health, in terms of human capital (32nd) and market size (49th), also receive relatively high marks. However, Peru presents one of the lowest regional performances in "innovation capability" (89th) and a low performance overall for "institutions" (90th), infrastructure (85th) and business dynamism (92nd). The low private spending on research and development (R&D) and the lack of a government procurement framework for promoting technological advance are weaknesses regarding the former. The high incidence of crime and the burden of government regulations are noted as liabilities regarding the latter set. Major advances have been made in the previous decade in improving macroeconomic conditions and the efficiency of labour markets. However, business sophistication and innovation have lagged behind.

The main obstacle identified by firms in the latest Enterprise Survey (World Bank, 2017[14]) was the practices of competitors in the informal sector, as seen in the rest of the region, but here with a higher proportion of firms identifying this as a key obstacle (75.9% compared to 63.2%). This perception is shared across different firm sizes. Corruption is considered the second major obstacle for small firms, while medium and large companies are more concerned about the inadequacy of the workforce education. Reported corruption is more acute than in LAC, as 26% of firms are expected to give gifts to secure a government

contract, compared to 12% for the latter. On the other hand, access to finance is less of a problem than the regional average. Nearly 35% of firms reported having access to bank finance for investments, compared to the regional 20%. Finally, the proportion of exporting firms (14%) is below the regional benchmark (17%).

The US Department of State's 2017 Investment Climate Statement (US DOS, 2017[15]) highlights that the judiciary system is independent but, as in other government branches, corruption can arise. Intellectual property rights are legislated but rarely enforced, yielding a large counterfeiting and piracy market. The report also mentions the 2016 reform to facilitate investment through the facilitation of public-private partnerships (PPP), However it also discusses the persistence of social unrest linked to mining projects with substantial environment impact.

SME sector

Definitions and employment

The Peruvian SME definition (see Table 16.3) was updated by a 2013 amendment (Law 30056)[2] to the country's Micro and Small Enterprises Law (*Ley MYPE – D.S. N° 007-2008-TR*). It is turnover-based and linked to an indexed unit called the Unidad Impositiva Tributaria (UIT).

Table 16.3. SME definition in Peru

Criterion		Micro	Small	Medium
Annual Turnover	UIT	up to 150	between 151-1 700	between 1 701-2 300
	USD	up to 186 750	between 186 750-2 116 500	between 2 116 500-2 863 500

Note: Values: 1 Unidad Impositiva Tributaria (UIT) = 4 150 PEN (2018). 1 USD/PEN exchange rate = approximately 3.33 (05/02/2019); UIT value in USD = approximately 1 245 USD (05/02/2019).
Source: Law 30056.

While the turnover cap for the "small" category is higher than in most other countries in this study, the one for medium-sized companies is more restrictive.

The concept of micro and small enterprises (MSEs) arguably has a longer tradition in Peru than the SME. The 2003 MSE Promotion and Formalisation Act (Law 28015)[3], which established a set of incentives for these types of firms, is still in place. Moreover, many statistics are collected based on that concept.

In 2015, there were 1.9 million firms registered in the Central Directory of Firms and Establishments (based on administrative records). The vast majority (95%) were microenterprises, and only 4.4% were small. In 2014, MSEs accounted for 44% of surveyed employment.

Recent data from the Ministry of Production (see Table 16.4) shows, using an employment-based classification, that SMEs constitute 99.5% of Peruvian firms and account for 88.7% of employment. Microenterprises were particularly relevant, representing 95.1% and 71.30% respectively.

Table 16.4. SMEs firms and employment - 2016

	Firms		Employment	
Size	No. of firms	% of total firms	No. of employees	% of total employment
1–10	1 652 071	95.1%	7 803 352	71.3%
11–50	74 085	4.3%	1 548 375	14.2%
51–200	2 621	0.2%	356 642	3.3%
> 200	8 966	0.5%	1 230 801	11.3%
Total	1 728 777	100.0%	9 708 369	100.0%

Note: Number of firms represents only formal enterprises.
Source: (PRODUCE, 2016[15])

For a broader picture that includes the informal economy (Table 16.5), household surveys show that, in the first quarter of 2017, 89% of Peruvian employment took place within firms employing less than 101 workers (82% if self-employment is not considered). Firms with less than 20 workers provide the bulk of the employment (83%, if self-employment is included). In sum, the enterprise landscape in Peru is dominated by a large amount of very small firms, making for a high degree of self-employment.

Informal employment is pervasive in the country as a whole and particularly within small firms. More than three out of four persons working in firms with 20 workers or less (including self-employment) are not affiliated to a pension system. This ratio falls abruptly for firms with more than 20 workers; yet, due to the aforementioned pervasiveness of very small firms, this still results in about two-thirds of workers overall who lack pension system affiliation (Table 16.5).

Table 16.5. Employment by firm size - 2017

Size	No. of employees	% of total employment	% of total employment w/o self-employed	Not affiliated with pension system
Self-employed	5 625 090	37	n.a.	77%
02-20	6 978 794	46	72	—
21-50	585 762	4	6	26%
51-100	434 688	3	4	27%
101-500	741 549	5	8	14%
>500	930 849	6	10	7%
Total	15 296 731	100	n.a.	67%
Total without self-employed	9 671 642	n.a.	100	—

Source: Encuesta Nacional de Hogares (INEI, 2016[17]).

In terms of geographical concentration, Metropolitan Lima concentrates 43% of firms and 31% of the population. It is the department with the second highest firm density (96 firms per 1 000 inhabitants) after Madre de Dios, and well above the national average (65.6). Huancavelica, Amazonas, Cajamarca and Puno are the departments with the lowest firm density (less than half the national average).

Productivity and value added

Even when the SME sector makes up the bulk of Peruvian firms and employment, it only accounts for 41% of total value added (employment-based criterion). This difference is explained by the sizeable productivity gap between SMEs (1-200 workers) and large firms (more than 200 workers). The latter have a value added per worker that is 1.4 times higher

than medium-sized firms, 2.1 times higher than small firms and 7.5 times higher than microenterprises. Differences in worker compensation are even more dramatic in the case of microenterprises, but milder in the case of SMEs (see Table 16.6).

Table 16.6. Value added, productivity and worker compensation by firm size - 2007

% and '000 PEN

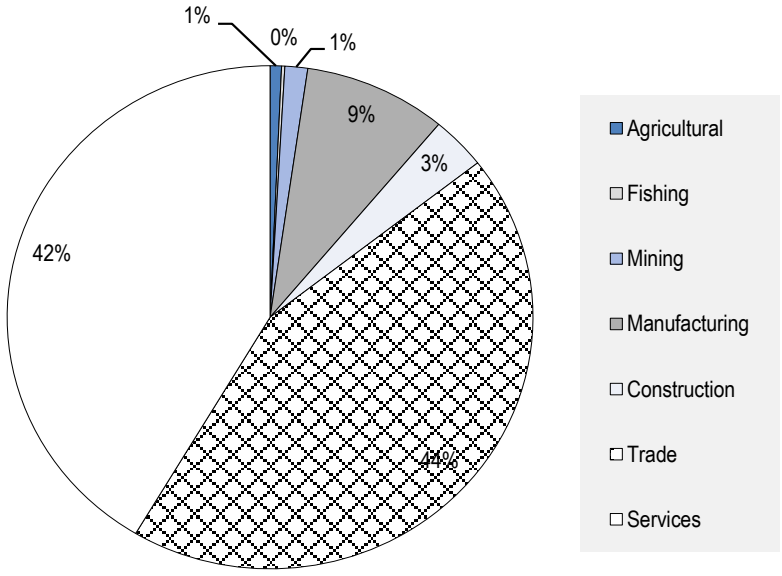
Size	Share of value added	Productivity per worker	Productivity (as share of large firms)	Compensation per worker	Compensation (as share of large firms)
1-10	14%	13.7	13%	1.9	8%
11-50	11%	48.5	47%	16.3	66%
51-200	16%	71.6	69%	22.7	92%
>200	59%	103.4	100%	24.7	100%
Total	100%	49.3	48%	12.2	50%

Source: Economic Census 2008 (INEI, 2008[18]).

Sectors of activity

Services and trade account for more than 80% of SME employment; wholesome and retail trade is the most relevant sector, employing 44% of SME workers, closely followed by the services sectors (42%, see Figure 16.3).

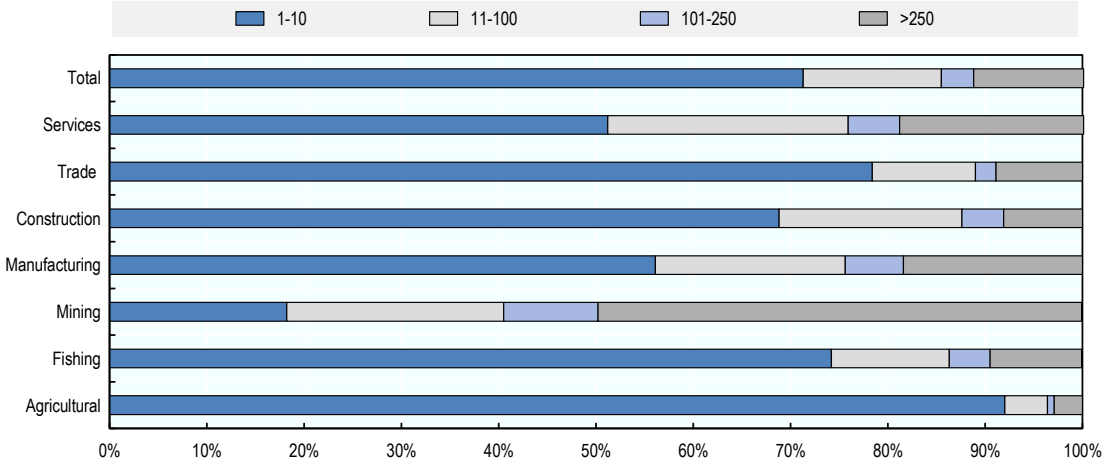
Figure 16.3. Formal SME employment by sector - 2016



Source: (PRODUCE, 2016[15]).

SMEs account for more than 50% of the employment of all sectors in Figure 16.4, with the exception of mining. Microenterprises are responsible for most of the employment in agriculture, trade, construction and fishing, while small firms are more relevant in services and manufacturing.

Figure 16.4. Sectoral employment by firm size - 2016



Note: SME categories do not correspond with official definition and are employment-based.
Source: (PRODUCE, 2016[15]).

International trade

In 2014, 8 269 firms were involved in exporting activities, constituting 4.3% of surveyed companies. For 3.1% of total firms, international markets were their primary market. 2.4% of microenterprises exported, which is below the regional average, while exporting rates for small (6.3%) and larger firms (13.2%) stood above the regional average (Table 16.7).

Table 16.7. Export activities by firm size - 2014

Size	% of firms with international markets as main market	% of firms that has exported in 2014
Micro	2.2	2.4
Small	3.6	6.3
Medium and Large	8.4	13.2
Total	3.1	4.3

Note: Firms sizes are based on official definition. Firms with annual turnover below of 20 UIT (26 760 USD in 2014) were not included in the survey.
Source: National Enterprise Survey 2015 (INEI, 2017[19]).

While most of the exporting firms are SMEs (72%), the participation of this type of firms in the total exported value is low (4%, see Table 16.8).

Table 16.8. Number of exports and value generated

Size	Number of exporting firms	Share of total exporting firms	Share of total exported value
Micro	2 536	35%	0.44%
Small	2 375	33%	2.62%
Medium	294	4%	0.77%
Large	2 073	28%	96.16%
Total	7 278	100%	100.00%

Source: (PRODUCE, 2016[15])

The growth or decline in exports from SMEs varies greatly by sector (see Table 16.9). The agricultural and mining sectors have seen a significant increase over the 2012-2016 period, while SME exports from fisherman, and of chemicals and textiles have declined.

Table 16.9. Exported amount from SMEs according to economic sector 2012/2016

Economic Sectors	2012	2016	Avg. annual growth rate
Agricultural	64	69	6.0%
Livestock	480	533	4.2%
Metal-mechanic	51	44	1.6%
Non-metallic mining	31	26	-0.2%
Mining	39	170	50.0%
Non-traditional fisherman	187	96	-12.5%
Traditional fisherman	17	9	-1.7%
Chemical	102	46	-15.4%
Other	157	105	-5.6%
Iron and steel industry	13	15	4.1%
Textile	693	200	-15.2%
Total	1837	1317	-2.4%

Note: In millions of USD FOB.
Source: (PRODUCE, 2016[15])

Assessment results

Institutional framework (Dimension 1)

Peru has received a relatively low score for this dimension of 3.64 on a scale of 5, slightly lower than the LA7 average (3.81) and lower than the average score recorded by the Pacific Alliance member states (4.00).

Its lowest score has been recorded on the sub-dimension dealing with the SME definition, due to the presence of a single-criterion definition. Scores close to the LA7 average have been recorded for the sub-dimensions related to strategic planning, policy design, and co-ordination (in view of the presence of a set of strategic documents) and on public-private consultations (given the existence of a consultative council for SME policy). The score for the sub-dimension focusing on measures to tackle the informal economy is relatively high (4.04), given the presence of a national formalisation strategy.

Institutional framework and SME definition

SME policy in Peru is placed under the mandate of the Ministry of Production (*Ministerio de la Producción*, or PRODUCE). The Ministry, established in 2002, is responsible for the elaboration and implementation of policies to develop the industrial and cooperative sectors. It is also responsible for fisheries, a major economic sector in Peru, and for SME development across all the productive sectors. It is important to clarify once again here that the concept of micro and small enterprises (MSE) arguably has a longer tradition in Peru than the "SME" concept; for example, the country's legal framework in this policy area is the Micro and Small Enterprises Law (*Ley MYPE – D.S. N° 007-2008-TR*). Accordingly, PRODUCE's policy mandate is assigned with a strong focus on micro and small enterprises.

SME policy is placed directly under the General Directorate of Business Development (*Dirección General de Desarrollo Empresarial*, or DGDE). The DGDE reports to the Vice

Minister for Industry and MSEs and has a total staff of 82 (at the end of 2017). The primarily role of the DGDE is to manage the implementation of financial and business development services (BDS) support programmes for SMEs and cooperatives. The role of policy elaboration is assigned to the General Directorate for Policies and Regulatory Analysis, which also reports to the Vice Minister for Industry and MSEs, but DGDE may also make proposals for policy interventions. Another relevant directorate for SME policy is the General Directorate for Innovation, Technology and Digitalisation (DGITTDF), which is in charge of technological upgrading and enterprise formalisation.

The SME definition is set by Article 5 of the Law Boosting Productive and Business Development *(Ley de Impulso al Desarrollo Productivo y al Crecimiento Empresarial*)[4], approved in 2013 (Decreto Supremo n. 013-2013 PRODUCE). The definition is consistently used by PRODUCE, but not across the entire public administration.

The definition is based on the single criterion of annual sales, expressed in *Unidades Impositivas Tributarias* (*UIT*), an account unit whose value is regularly revised by the Ministry of Finance to reflect the country's inflation rate, and which is used for tax payments (see Table 16.3). Until 2013 the SME definition included an employment criterion, but it was later dropped due to the difficulty of measuring fixed employment in SMEs. The government (Ministry of Labour and Employment Promotion) also maintains a National Micro and Small Enterprises Register (*Registro Nacional de Micro y Pequeña Empresa,* or REMYPE); while registration is required in order to receive certain public labour and taxation benefits, it is not a requirement for all public support programmes. While records on medium-sized enterprises are not kept, these enterprises are also eligible for public-sector support, depending on the eligibility criterion set by each support measure, and utilizing the official definition to define medium enterprises by annual sales.

Strategic planning, policy design and coordination

Peru has made a considerable effort to define its strategic SME policy orientations and link them with the country's overall development objectives. It has not elaborated a stand-alone SME strategy, but the strategic SME orientations are presented in PRODUCE's Multiannual Sectorial Strategic Plan (*Plan Estratégico Sectorial Multiannual*, or PESEM).

The PESEM has been elaborated by the National Centre for Strategic Planning (CEPLAN), the central planning body of Peru, through a process of consultation and dialogue with the other ministries and the main associations representing the productive sectors. Its purpose is to set the strategic objectives and guidelines for PRODUCE.

The PESEM has adopted a conceptual approach based on four components:

1. *Promotion of entrepreneurial development*, including productive diversification, technological upgrading and productivity growth for the entire enterprise population;
2. *Policy management* aimed at improving the capacity of government bodies to design, implement, monitor and evaluate public policy supporting the productive sector;
3. *Regulatory analysis* directed to support sustainable development and raise quality standards; and
4. *Research* aimed at promoting research activities by the productive sectors.

The Plan includes an extensive diagnostic section and the elaboration of a main scenario defining the expected level of development of the country's productive structure in 2021.

The scenario sets a number of quantitative objectives for the SME sector in relation to its 2014 situation. These include the increase of the sector's gross turnover by 27% as a result of the programmes of assistance and support; an increase in the SME digitalisation rate from 6.3% to 32.6%; the expansion of the number of SMEs with access to the financial system from 7.2% to 10.3%; an increase, not quantified, in the amount of small enterprises with access to international markets; and an increase in the number of small and medium-sized enterprises incorporating good environmental and clean-production practices of up to 44% of the enterprise population. The PESEM also includes tables detailing the actions planned in relation to each objective and a matrix of the annual quantitative intermediary targets.

The objectives of the PESEM are in theory aligned with the broader objectives set in the National Development Plan for 2011-2021 (*Plan Estratégico de Desarrollo Nacional*, also known as the "*Plan Bicentenario*"), elaborated by CEPLAN,[5] as well as other planning documents (see this chapter's section on "Productive Transformation"). However, in practice, this alignment is not always clear (see this chapter's section on "SME Development Services and Public Procurement" for an example).

The DGDE of PRODUCE is in charge of implementing the set of actions included in the PESEM for the SME sector and the fulfilment of the PESEM's SME-related objectives. It acts on the basis of annual budgets approved by Congress, integrated with loans from international organisations, in particular from the Development Bank of Latin America (CAF) and the Inter-American Development Bank (IDB). The Ministry reckons that budget allocations are consistent with the strategic objectives and that support programmes are generally well funded. The main implementation modality is through calls for proposals (*convocatorias*), as will be explained later in this chapter.

CEPLAN is in charge of monitoring the PESEM's implementation; every six months it conducts an evaluation of the implementation based on information issued by PRODUCE and in particular the DGDE. Beyond this, there is currently no internal monitoring system within PRODUCE; at the time of writing, however, a system was under development that would incorporate information from regional PRODUCE directorates (dependent on regional governments) as well as central DGDE actions.

As most of the competences for SME policy are internal to PRODUCE, policy co-ordination mostly takes the form of inter-directorate consultation. Inter-ministerial co-ordination is conducted through the National Council for the Development of Micro and Small Enterprises (*Consejo Nacional para el Desarrollo de la Micro y Pequeña Empresa*, or CODEMYPE), which comprises representatives from PRODUCE, the Ministry of Economy and Finance (MEF), and the Ministry of Labour and Employment Promotion, as well as representatives from local governments and private sector associations. However, PRODUCE itself notes that co-ordination with regional and local governments needs to be amplified and improved to facilitate better SME policy impact. There is already some legal basis for this co-ordination, as the aforementioned Micro and Small Enterprises Law (*Ley MYPE*) mandates that all regional governments must make their own SME development plans, which in turn must be co-ordinated with national policies, primarily the PESEM.

Peru has developed a comprehensive SME database, and PRODUCE annually publishes a report entitled *Las MIPYMEs en Cifras* ("SMEs in Figures") containing detailed information on the composition of the SME population, its geographical distribution and development trends.[6] The data sources are the national business and economy surveys (*Encuesta Nacional de Empresas* and *Encuesta Económica Anual*) conducted by the

national statistics institute (INEI), as well as data sourced from the Unique Taxpayer Registry (RUC) and household surveys.

Peru has thus made good advances in strategic planning areas and established a set of measurable strategic objectives for the SME sector. However, programme implementation remains relatively weak, lacking the presence of a detailed action plan and continuity in the DGDE management. Overall, Peru has not yet fully developed effective policy co-ordination mechanisms, either at inter-ministerial level or between central and local administrations.

Public-private consultations

Peru has put in place a multi-layered system of public-private consultations (PPCs). At national level, Peru has established procedures for collecting citizens' comments and suggestions on new legal and normative proposals (in accordance with the dispositions of the Decreto Supremo 001-2009-Jus)[7] as part of its transparency policy on executive acts. The standard consultation time is 30 days. There is no single government website that hosts all the legislative and normative acts for consultation; rather, citizens have to consult either the website or the publication of the ministry or public institution in charge of the legislative or normative modification.

At the level of SME policy, the main PPCs body is constituted by CODEMYPE. The Council operates both as the main co-ordination body for SME policy and as the main consultation channel. As mentioned above, its composition includes representatives from the main economic ministries, one representative from the presidency, one university representative, and one representative from the National Council of Competitiveness and Formalisation (*Consejo Nacional de Competitividad y Formalización*, or CNCF),[8] as well as representatives of the regional and local administration and five representatives of selected SME organisations and professional associations, designated through an electoral process extended to the members of each association. As mandated by the country's aforementioned Micro and Small Enterprises law (*Ley MYPE*), national plans for MSE policy (such as the PESEM) must be submitted to CODEMYPE for approval. CODEMYPE also co-ordinates public and private sector activities. The council meets on average eight times per year and is supported by a secretariat located within the DGDE of PRODUCE. There has not been a recent review of CODEMYPE's operations.

At a more strategic level, PPCs take place in the framework of the CNCF, co-ordinated by the MEF, which is in charge of the implementation of the 2014-2018 Competitiveness Agenda (see section on "Productive Transformation" for more information).

Measures to address the informal economy

Peru's informal sector is among the largest in Latin America. According to ILO data (ILO, 2014[20]), the share of informal employment in non-agricultural sectors vs. total employment was 68.6% in 2012, down from the 75% recorded in 2004. Data released by INEI (Medina, 2018[21]) indicates that labour informality in 2017 remained extremely high and even increased over the last few years to reach 72% of total employment. The highest labour informality rates are recorded among employees of microenterprises and the self-employed, in line with a pattern observed in other Latin American countries.

There have been several reports on informality elaborated by international institutions, as well as by Peruvian public institutions and researchers.[9] Informality in Peru is structural; its roots are in the high rate of urbanisation, the lack of development in sectors generating

large formal employment opportunities (such as the export-oriented manufacturing sector), and the high regulatory burden, which pushes enterprises towards informality.

Reducing informality is a high priority for the Peruvian government. One of the global objectives of the 2014-2018 Competitiveness Agenda is the reduction of labour informality by 5% between 2014 and 2018, an ambitious objective that will be difficult to achieve.

The Ministry of Labour and Employment Promotion is implementing its own strategy for labour formalisation, while the CNCF is mandated to co-ordinate a wider formalisation strategy. However, few concrete actions have actually been implemented in the areas of labour registration (the *Ventanilla Única de Promoción de Empleo*, or single window for employment promotion, remains at an early stage) or on administrative simplification (see next section for more information). The Ministry is monitoring data on labour registration, but the monitoring system for the wider formalisation strategy is still in a development phase.

Operational environment and simplification of procedures (*Dimension 2*)

Peru's performance for this dimension is one of the lowest among the LA7 countries. Its overall score is 2.68, against an average score for the members of the Pacific Alliance (PA) of 3.14 and for the LA7 of 2.96, on a scale of 1-5.

Peru's performance is relatively weak (2.33) for sub-dimension 2.1, related to regulatory simplification, given its lack of a comprehensive regulatory reform agenda and the very early stage of regulatory impact analysis (RIA) application. Its score on sub-dimension 2.2 (2.98), related to company registration, reflects the relative high cost of the procedures to start a business, particularly the notary fees incurred in the pre-registration phase and the length of the procedures. Its score for sub-dimension 2.3 on the ease of filing taxes (2.33) is also relatively low, due to the very poor score received in the post-tax filing index. The score for sub-dimension 2.4 on e-government (3.26) is relatively higher, given the presence of a good range operational electronic services for enterprises and the availability of the electronic signature; yet it still falls below the LA7 average.

Legislative simplification and regulatory impact analysis

Enterprises operating in Peru face relatively highly restrictive regulations and a heavy administrative burden, while regulatory reform processes are in an early phase of implementation.

Results from the 2019 World Bank *Doing Business* report confirm that Peru's regulatory reform implementation is slow and inconsistent across various administrative areas. Peru ranks 68th out of 190 economies, while its "distance to frontier/ease of doing business"[10] ranking, measuring the distance from the best performing country across the ten indicators of the *Doing Business* report, stands at 68.83 (out of 100). Furthermore, the relative overall rank of Peru has significantly deteriorated in comparison to the rank recorded in 2018, losing a total of ten positions (from 58th to 68th) (World Bank Group, 2018[22]).

Peru lacks a comprehensive agenda for regulatory reform. Instead, it has introduced ad hoc reforms and administrative simplifications through a series of legislative decrees (OECD, 2016[23]). In the SME policy area, a major simplification and reorganisation of the regulatory regime concerning SMEs was introduced by the 2013 Law Boosting Productive and Business Development *(Ley de Impulso al Desarrollo Productivo y al Crecimiento Empresarial*), mentioned earlier.

Following the approval of this law, a number of legislative modifications and administrative simplification decrees were issued aiming mainly at increasing the rate of enterprise formalisation and a simplified tax regime for SMEs.

In 2016, the government introduced the requirement to conduct a "Regulatory Quality Analysis" (*Análisis de Calidad Regulatoria*, or ACR), which amounts to a softer version of standard RIA. In 2017, the Decreto Supremo 075-2017 of the Presidency of the Council of Ministers set the guidelines for the application of ACR to existing and new administrative procedures and a timetable for reviews of regulations pertaining to different sections of the public administration; meanwhile, a manual for the ACR application has been completed. The regulatory review is at an early stage of implementation, and less than 25% of the existing stock of regulations affecting economic activities has been reviewed to date. Each line ministry is responsible for the first review of administrative procedures concerning its area of competence, while the technical secretariat of the Multisectoral Commission of Regulatory Quality (*Comisión Multisectorial de Calidad Regulatoria*) under the Presidency of the Council of Ministers is in charge of monitoring the process and validating the reviews.

Company registration

This sub-dimension combines a number of indicators related to the institutional framework for company registration, including the presence of one-stop shops, the use of a single company identification number, and the availability of online registration facilities, with indicators on performance of company registration and starting a business procedures based on the results of the 2019 World Bank *Doing Business* Report.

The procedures for company registration and starting a business in Peru remain quite complex and time-consuming as well as relatively costly. Companies in Peru carry two identification numbers: the number issued by the company register (*Superintendencia Nacional de los Registros Públicos*, or SUNARP), and the number issued by the tax administration following the registration into the Consolidated Taxpayer Registry (*Registro Único de Contribuyentes,* or RUC) by the tax administration (*Superintendencia Nacional de Administración Tributaria,* or SUNAT).

One-stop shops, operating according to the single-window configuration, are not yet in place in Peru. However, the "Centres for Better Citizen Services" (*Centros de Mejor Atención al Ciudadano*, or MACs) offer orientation services to new entrepreneurs, and in a number of cases they host the various institutions involved in the company registration process, operating essentially as one-stop shops with a single-location configuration. Currently there five MAC centres in operation across the country, but the government plan is to establish a total of 24 centres by 2021 and transform them into one-stop shops, in accordance with Legislative Decree 1211.

It is not currently possible to complete all the company registration procedures online, but the "Citizen's Services" portal allows users to download the information needed to register firms. SUNARP and SUNAT also offer online guidebooks for new entrepreneurs and for notaries, dealing respectively with the company registration procedures and the tax regime applied to new enterprises.

Across the country, SUNARP monitors the performance of the institutions in charge of company registration in terms of the time needed to complete the procedures, publishing the performance data on its webpage.

Peru ranks 125th out of 190 on the "starting a business" indicator of the 2019 World Bank *Doing Business* Report, while in the 2018 report it ranked 114th. However, the gap between Peru and the best-performing country in this area is measured by the "distance to frontier/ease of doing business"[11] ranking; in 2019, this was equal to 82.44 for Peru, which is slightly higher than the level listed in the 2018 report (78.15, 100 = best performing country). Starting a business in Peru requires eight administrative steps; the time required to complete them is considerable (24.5 days), and the cost is equal to 9.9% of the GNI per capita. Registration with SUNARP takes eight days, while a considerable number of days is also spent to complete the notification procedures and obtain a business licence from the local municipality. The bulk of the cost to new entrepreneurs of completing the starting-a-business process is related to the notary costs incurred in the pre-registration phase (World Bank Group, 2018[22]).

Ease of filing taxes

The assessment for this sub-dimension is based exclusively on a set of indicators drawn from the "paying taxes" section of the 2019 World Bank *Doing Business* Report. These indicators cover the number of annual tax payments, the time required to perform those payments, and the post-tax-filing index, which takes into consideration the time required for an enterprise to apply for and obtain a VAT refund and complete an income tax correction.

Peru's performance in the tax-filing area is low compared with OECD countries, but in line with the average performance of the LA7 countries. A critical area is the time required to perform the tax payments (260 hours, compared with an average of 159.4 in the OECD area), while the post-tax-filing index is particularly low, as in the 2019 report it stood at 19.24 (against an average of 84.4 in the OECD area). The number of tax payments per year is nine, which is lower than the OECD average (11.2). The indicators are based on standard procedures only and do not take into account the availability of online tax-filing and payment facilities (World Bank Group, 2018[22]).

E-government

In 2014, the Presidency of the Council of Ministers of Peru launched the "Zero Papers" Initiative (*Cero Papel*) to promote the transition towards a digital government and the introduction of e-government services in Peru. The Secretariat of Digital Government (*Secretaría de Gobierno Digital*) is in charge of the initiative's implementation, with the support of the other institutions that form part of the National Computing System (*Sistema Informático Nacional*) and in particular the National Registry of Identification and Civil Status (RENIEC).

The two institutions are expected to work together in designing and implementing documentary processing systems, as well as on the diffusion of the electronic signature. Peru has achieved moderate progress to date in providing digital government services. The country ranks 77th out of 193 countries in the 2018 UN E-Government Survey, which is the second lowest rank among the LA7 countries, with an index of 0.64 (maximum score 1) but a significantly higher index (0.81) in the online service component (UN, 2018[24]).

E-tax filing is available and fully operational through SUNAT, which allows for the completion online of a number of tax administration and customs procedures. Online filing and payment of social security contributions to the two social security institutions (one public, the National Pension System, managed by the Office of Pension Normalisation (ONP); and one private, the Private Pensions System), are also operational. Peru is also

currently implementing the mass diffusion of the electronic signature, or *Documento Nacional de Identidad Electrónica* (DNIe), by RENIEC.

The Secretariat of Digital Government, with the support of the OECD, is in the process of developing a monitoring system covering the implementation of e-government services.

Access to finance (*Dimension 3*)

Peru has much to improve in terms of access to finance for SMEs, as suggested by its average score of 3.55 points in this section. Areas of particular importance are financial education, access to multiple properly regulated credit alternatives, and expansion of the regulatory framework for handling insolvency situations. It should be noted that in the case of Peru, incomplete information was received that prevented a comprehensive evaluation of all the topics covered by this sub-dimension.

Legal, regulatory and institutional framework for access to finance

As evidenced by the *Doing Business* indicators considered in this sub-dimension, Peru has a legal framework for guaranteed operations aligned with internationally accepted practices. In addition, although no information was provided in this section, Peru has a system of registration of assets used as collateral based on notices, which is managed by the National Superintendence of Public Registries *(Superintendencia Nacional de los Registros Públicos)*, as well as a registry of land ownership under the co-ordination of the Peruvian Institute of Cadastre *(Instituto Peruano de Catastro)*.

Peru appears well positioned in terms of access to the stock market for smaller companies after the creation of the Alternative Stock Market (*Mercado Alternativo de Valores*, or MAV) in 2012, which reduced the requirements and obligations to make a primary public offering. However, the requirements of this market were designed for companies with annual revenues of less than PEN 350 million,[12] not necessarily for SMEs.

Diversified funding sources

One of the barriers SMEs often face in accessing trade credit is the lack of sufficient collateral to apply for financing. To address this, the Peruvian government created the *Fondo de Garantía para Préstamos a la Pequeña Industria* (FOGAPI) in 1979 to facilitate access to credit by providing guarantees to financial intermediaries when entrepreneurs lack sufficient assets to be delivered as collateral. Peru also has a number of savings and credit microfinance institutions with a national presence whose business strategies and lending technologies are more adapted to the needs of small entrepreneurs.

In addition to the presence of these traditional actors, the Peruvian government has sought to promote other financing mechanisms for SMEs, such as Law 29623 of 2010, whose purpose is to promote the use of commercial invoices as a source of financing in line with the needs of SMEs. Peru has an incipient presence of other private capital financing tools and collective financing schemes ("crowdfunding"), none of which yet has a legal framework to regulate such transactions.

Financial education

In 2015, Peru launched the National Financial Inclusion Strategy (*Estrategia Nacional de Inclusión Financiera*, or ENIF), which intended to integrate the efforts of different actors in the public sector with a view to improving the financial knowledge of the population. Among the groups identified in this programme are small entrepreneurs for whom specific

training contents and projects are planned. This strategy includes a framework to monitor the impact and implementation of the strategy, including clear indicators of impact and implementation success, as well as the entities responsible of collecting the information. The main challenge in financial education for Peru will therefore be to successfully implement the guidelines of this national strategy, as well as harnessing the lessons learnt from the monitoring efforts to refine the design and implementation of the different initiatives suggested therein.

One of the main lines of action identified as part of this financial education strategy is the inclusion of financial and business issues as an obligatory part of the national curriculum that forms part of the basic education program for social sciences. In addition, in a concerted effort by the Superintendence of Banking, Insurance and AFP *(Superintendencia de Banca, Seguros y AFP*, or SBS), the Ministry of Education and other government entities, Peru has sought to expand the "Finance in My School" (*Finanzas en mi colegio*)[13] pilot project, which to date has provided teaching materials to more than 13 000 teachers in all regions of the country.

Efficient procedures for dealing with bankruptcy

In Peru, bankruptcy proceedings are co-ordinated by the National Institute of Competition and Intellectual Property Protection (*Instituto Nacional de la Competencia y de la Protección de la Propiedad Intelectual*, or Indecopi) under the governance of Law 27809,[14] which includes proceedings at the request of the debtor and the creditor, as well as the possibility of preventive bankruptcy proceedings that can be initiated by the debtor before incurring bankruptcy. In addition to being published in national newspapers, all bankruptcy proceedings are available on a freely accessible online platform.[15] However, Peruvian law does not include provisions for the exoneration of bankruptcy, so such registration is permanent.

With respect to the performance of bankruptcy schemes, although the costs incurred in insolvency proceedings are relatively low (7% of the capital of the company in insolvency), these proceedings are usually delayed by an average of more than three years, and result in modest recovery rates that are generally less than one-third of the value of the debts incurred.

SME development services and public procurement (*Dimension 4*)

Peru has ample scope to improve its strategic approach to business development services (BDS) and SME policy in general; indeed, Peru's overall score of 3.80 for this dimension, which is below the LA7 average of 4.09, reflects the country's moderate level of development in this policy area.

Peru's national development plan (*Plan Bicentenario*) outlines a few actions for the development of BDS as an element to contribute to a diversified, competitive, sustainable and productive economy. However, the Ministry of Production's (PRODUCE) Multiannual Sectorial Strategic Plan (PESEM) for 2017-2021, which aims to build on the *Plan Bicentenario,* provides no elaboration on BDS. In terms of policy implementation, Peru has a diverse offer of BDS through its network of business development centres, PRODUCE, Start-Up Peru and others. However, information on the support available is scattered.

Business development services for SMEs and entrepreneurs

Peru's national development documents call for the provision of BDS for SMEs and entrepreneurs. The National Development Plan (*Plan Bicentenario*), issued in 2011 with a horizon of 2021, provides the broad policy framework for the government. As in comparable documents in the region, the Plan identifies a number of broad strategic axes or pillars, including human development and rights, governance, natural resources, and infrastructure. Its fourth pillar on the Economy, Competitiveness and Employment focuses on a number of priorities, including SME development and comprising the provision of BDS. A specific objective in this area is to achieve a diversified, competitive, sustainable and productive economy, for which the Plan proposes a few very explicit BDS-related actions (CEPLAN, 2011, pp. 174-175[25]):

1. Promote the provision of services for the development of business skills (training, consultancies, etc.) both with direct actions and through the promotion of private organisations that provide these services based on competition and quality.
2. Establish formal mechanisms of communication and co-ordination between the private sector and agencies in charge of the promotion of productive activities.
3. Provide transparent and timely information that facilitates the development of companies and the market for business development services.
4. Properly disseminate the services provided by the State and by regional and local governments to economic agents.

To achieve its many objectives, the Plan outlines a number of strategic programmes (including a Programme to Increase Productivity in Micro and Small Enterprises), although the document gives no details on its foreseen substantive activities. Furthermore, the Plan also sets a series of indicators and goals in this area, including increasing average productivity and increasing the share of value added of the manufacturing sector in the economy; there is no explicit link, however, between these indicators and the provision of BDS.

Similar to a few other countries in the region, PRODUCE developed a relatively explicit Multiannual Sectorial Strategic Plan (PESEM) for 2017-2021, which builds on the *Plan Bicentenario* and considers other strategic guidelines and exercises, such as the OECD Country Programme with Peru[16] and the UN Sustainable Development Goals (SDGs). The PESEM, however, provides no specific details on BDS and includes no mention either of the four BDS-related points or of the aforementioned strategic programme under the *Plan Bicentenario*. Rather, the PESEM identifies three strategic objectives with broad indicators and goals – two of which could be directly linked to the implementation of BDS for SMEs and entrepreneurs (increasing the competitiveness of the economic agents in the production sector; and strengthening business development among SMEs) (PRODUCE, 2017[25]).[17] However, the actions and indicators put forward by the PESEM make no reference to the implementation of a BDS strategy or any specific BDS programmes. Instead, the strategic actions focus on generic matters such as facilitating SME formalisation, fostering SME access to finance and promoting access to new markets (see Table 16.10).

Table 16.10. Objectives and strategic actions under PESEM

Strategic objectives	Indicators	Strategic actions	Indicators of strategic actions
Increasing the competitiveness of economic agents	Volume of exports of manufactured products of medium and high technology	Promoting the use of improved production technologies by firms	Share of exports of medium to high technology products in manufactured exports
		Incentivising the productive innovation in enterprises	Share of firms that undertake R&D expenditures
		Promoting quality standards in firms	Quality infrastructure index
Strengthening the development of SMEs	SME production volume	Facilitating SME formalisation	Share of formal SMEs
		Promoting SME access to finance	Share of SMEs with access to the financial system
		Promoting SME access to new markets	Exporting SMEs accessing international markets
			Share of small and medium-sized firms implementing good environmental practices and clean technologies.
			Share of SMEs with access to digital technologies

Source: (PRODUCE, 2017[27]).

In terms of implementation, as noted earlier in the "Institutional Framework" section, PRODUCE is the main government institution in charge of the design, execution and supervision of SME policy, as well as industrial, fisheries and aquaculture policies. PRODUCE operates a network of 36 Business Development Centres (CDEs) in collaboration with public and private organisations across the country. The CDEs offer a variety of services, including:[18]

- *Crea and emprende* (roughly, "create and undertake") workshops, which help entrepreneurs and business owners to identify and undertake innovative business opportunities;
- *Gestionando mi Empresa* ("Managing my Firm"), which corresponds to business planning tools;
- *Alternativas de financiamiento* (financing alternatives);
- *Gestión de tecnologías de la información* (IT management); and
- *Gestión de la Relación del Estado* (management of relations with the State), which focuses on labour, legal, fiscal and accounting matters to facilitate the formalisation of firms.

Apart from the CDE network, PRODUCE implements a number of BDS flagship programmes. These include *Tu Empresa* (Your Enterprise), which supports micro and small enterprises (MSEs) through personalised advice in such areas as digitalisation, management, access to finance, and productive development[19]; *Kit Digital* (part of *Tu Empresa*), an interactive platform providing BDS[20]; *Innóvate Perú*, which supports the entrepreneurial ecosystem (i.e. entrepreneurs and support institutions such as incubators and accelerators), especially for innovative entrepreneurship; and *Start-Up Perú*, which focuses on projects with technological content and international orientation (further details are provided under Dimension 5, Innovation and Technology).[21]

This variety of BDS is apparently well-aligned with the specific actions in this area mentioned in the *Plan Bicentenario*. However, there is no evidence of a consistent M&E mechanism to measure the effectiveness of those programmes as, while the PESEM does have an elaborated M&E system (see the "Institutional Framework" section of this chapter), as previously noted, the PESEM does not include any specific actions on BDS.

Public procurement

Public procurement in Peru represents more than 50% of total government expenditure (compared to 30% in Brazil, Chile and Mexico) and 12% of GDP (similar to the OECD average), which points to the importance of this market for the country. Furthermore, according to an OECD report on this matter in Peru, public purchases from SMEs represent about 40% of overall purchases made by public entities (OECD, 2017[28]).

The procurement system is framed by Law No. 30225 of 2016 and its regulations, which cover the purchase by the State of goods, services and works and which concern all public bodies, except *PetroPerú*. The Law and its regulations include a few stipulations that can facilitate the access of SMEs to this market. For example, suppliers are not forbidden to form consortia: Article 31 establishes the minimum content or documentation to present offers, including the need to provide information on consortia and the prohibition for firms to form part of more than one consortium. Furthermore, Article 149 states that payments for goods and services should be paid for within 15 natural days after being received under the conditions established by the contract, and Article 69 gives priority to MSEs in case of a tie between offers. It is not clear, however, that tenders can be split into lots: Article 18 states that the contracting entity can contract in lots or tranches, although it gives no other details. Article 19, on the other hand, establishes a prohibition to fraction tenders, except when this is done under framework agreements or when the contracting body did not have enough funds to undertake a full contract within a single fiscal year.

The key management bodies of the procurement system in Peru are the Ministry of Economy and Finance (MEF), which acts as the regulatory entity; the Public Procurement Supervisory Agency (*Organismo Supervisor de Contrataciones del Estado*, or OSCE), which, as its name indicates, acts as supervisory body and manages the National Registry of Suppliers (RNP); and the central purchasing body (*Perú Compras*), which acts as the execution agency. Furthermore, Peru has in place an e-procurement system: SEACE (*Sistema Electrónico de Contrataciones del Estado*), which handles almost all procurement phases electronically.

There is no evidence of the existence of help desks or specific programmes to help SMEs to participate in public procurement apart from the information published in the website of OSCE on "how to sell to the State."[22]

Innovation and technology (*Dimension 5*)

Peru also has scope for improvement in terms of innovation policy for SMEs, as evidenced by its 3.50 overall score for this dimension, which is below the LA7 average of 3.75.

In general, this assessment shows that Peru has yet to adopt a strategic approach to innovation policy, including for SMEs and entrepreneurs. The *Plan Bicentenario* puts forward a few actions in this area, although there is no evidence on their level of implementation.

Peru is working on the adoption of a "Special Programme to Strengthen Innovation for Competitiveness" and on operationalising a National Innovation System, which would provide better co-ordination and policy direction in this area.

Institutional framework

Like most other countries in the region, Peru does not yet have an explicit innovation strategy. The *Plan Bicentenario* (the Strategic Plan for National Development to 2021) includes science and technology elements under its pillar four on The Economy, Competitiveness and Employment. The Plan includes a few indicators and goals in this area, such as increasing the yearly number of patents and increasing investment in research, science and technology. The Plan also identifies a few concrete actions, including:

- Establishing a unified National Fund for Science and Technology;
- Implementing new methodologies and financing instruments for science and technology;
- Identifying sub-sectors with medium and high technological intensity and which show comparative advantages for the country, and developing these sectors including by increasing domestic and foreign investment in them;
- Creating awards, distinctions and fiscal incentives to stimulate the development of projects on science and technology; and
- Creating a National Centre for Scientific and Technological Research for the development of priority sectors, and for the execution of basic research to support medium- and high-technology sectors.

The Plan also puts forward the creation of a strategic Programme for Science and Technology, with the broad aim of providing funds to promote innovation in firms, encouraging applied research associated with the needs of enterprises, and improving the capacities of researchers and professionals. However, the Plan provides no other details on this area.

Peru is, however, working to develop a national innovation strategy under a proposed draft Special Programme to Strengthen Innovation for Competitiveness, led by the CONCYTEC (the National Council for Science, Technology and Technological Innovation).[23] At the time of writing, a draft of the Programme was available for public consultation, though there were no details on or timeline for its finalisation. Furthermore, in Section 3 under "Duration of the Programme," the draft states that the foreseen implementation period is 2017-2021, which indicates that the adoption of the strategy is already late and is no longer in accordance with the *Plan Bicentenario* to 2021 (as declared in the document of the Programme), unless its implementation period is shortened.

The draft Programme notes that one of the areas to tackle to improve innovation policy in Peru is to strengthen the National Science, Technology and Innovation System (SINACYT), which lacks co-ordination mechanisms and an information system that can describe the innovation efforts being undertaken across the country (CONCYTEC, 2016, p. 28[29]). Furthermore, unlike other countries covered in this assessment, there is no publicly available information on the SINACYT, including its members or how often it meets. The document also points to weak innovation strategies and capacities in business associations and lack of innovation governance at the highest levels, among other institutional shortcomings.

The draft Programme provides an extensive diagnostic of other factors considered to be hampering the innovative capacity of Peruvian firms and institutions. Those include

insufficient and inadequate human capital formation, insufficient financing, and an inadequate infrastructure for the development of innovation and technological services. The document also proposes a number of actions to tackle these factors and includes detailed goals, indicators and budgets. However, as noted above, the draft Programme is not approved and there are no details as to when it might enter into force.

Support services and financing for innovation

Despite the lack of a strategic framework for innovation policy, Peru implements a number of initiatives to support innovation in the private sector, including among SMEs and entrepreneurs. One of the most important mechanisms is the National Programme of Innovation for Competitiveness and Productivity (*Innóvate Perú*), implemented since 2014 by PRODUCE.[24] *Innóvate Perú* aims to increase innovation in firms, promote innovative entrepreneurship and facilitate the absorption of technologies by enterprises. The Programme provides co-financing, generally via calls for proposals (*convocatorias*) to organisations supporting innovative entrepreneurship such as incubators, projects promoting social innovation, technological extension centres, and clusters. It also supports events to raise awareness on innovative entrepreneurship. In addition, the programme assists individual entrepreneurs through seed capital and SMEs through innovation support services and co-financing of innovative activities. *Innóvate Perú* also includes calls for proposals that focus on key topics related to productive transformation, such as associativity (see the next section, "Productive Transformation", for more information).

Another important PRODUCE programme is *Start-Up Peru,* which since 2012 has provided direct support to groups of between two and five entrepreneurs introducing innovative products, services, processes and commercialisation channels.[25] In addition, it provides subsidies to innovative start-ups (up to five years of operation) and technology-based businesses (from two to seven years of operation).

The Technology Institute of Production (ITP) is a decentralised organism of PRODUCE that focuses on the application of research, development and innovation to the private sector, including through technology transfers.[26] The ITP operates a network of 46 public and private Centres of Productive Innovation and Technology Transfers (CITE) that specialise in specific activities such as fisheries and aquaculture, agriculture and food industries, garments and textiles, creative industries, and marketing and logistics.

Finally, through CONCYTEC, Peru offers tax incentives for firms undertaking research, development and innovation activities and publishes a National Directory of Science, Technology and Innovation Institutions (DANI).

In spite of the many initiatives, mostly by PRODUCE, to foster innovation among SMEs and entrepreneurs, Peru does not yet have an M&E system in place to measure the effectiveness of those programmes. The implementation of a fully-fledged innovation strategy could prove helpful in that regard.

***Productive transformation* (*Dimension 6*)**

Peru has made an especially concerted effort since 2014 to increase the productivity and competitiveness of its business sector, including dedicated efforts to support SME associativity and integration in value chains.

Its 3.93 overall dimension score reflects the generally well-developed nature of these efforts related to planning and design and implementation. This score is pulled down

slightly below the LA7 average of 4.01 mostly because of the lack of full M&E results at this time, in connection with the pilot nature of the majority of ongoing programmes.

Productivity-enhancing strategies

At this time of this assessment, Peru used two principal strategies to guide their productive transformation efforts over the 2013-18 period: the Ministry of Economy and Finance (MEF)'s Competitiveness Agenda 2014-18, which is applicable for the entire federal government; and the National Productive Diversification Programme 2016-2024 (PNDP), developed to guide the actions of the Ministry of Production (PRODUCE). Unlike the majority of LA7 countries, these strategies differ from the principle strategies used to guide SME policy, which were covered earlier in this chapter (principally, the PESEM, which also guides the actions of PRODUCE).[27]

However, both of these productive transformation strategies have direct relevance for SME development. For example, the 2014-2018 Agenda includes a number of time-bound, measurable objectives, under the category of "Productive Business Development", some of which are specifically related to SME associativity and inclusion in value chains – such as "increase by 20% the sales of SMEs that participate in the government's supplier development programme" (see "Integration into Global Value Chains" sub-section) and "design and execute ten plans to improve cluster competitiveness" (see next sub-section).

These lines of action were reflected and operationalised in PRODUCE's Strategic Diversification Plan 2014-16, which created specific cluster and supplier development support programmes for SMEs within Peru's existing National Programme of Innovation for Competitiveness and Productivity (*Innóvate Perú* – see previous sub-section on "Support Services and Financing for Innovation"), among other actions. The PNDP 2016-2024 follows from this Plan, narrowing its focus to infrastructure and national supply markets, with the overall goal of facilitating the "adequate access of businesses to specific productive infrastructure at national level".

Unlike most LA7 productivity-enhancing strategies, each of these strategies includes a robust action plan with corresponding quantifiable, time-bound targets. The PNDP 2016-2024 includes both process- (e.g. number of studies to produce) and performance-related KPIs, such as the percentage of businesses located in industrial parks that lower their logistics costs. However, the implementation of past strategies shows that follow-up is sporadic and/or lacks transparency; the 2014-2018 Competitiveness Agenda has not been publicly reported on since 2016, and no public report was delivered on PRODUCE's "Strategic Diversification Plan" 2014-16, including following its closure in 2016.

The implementation of each of these strategies has also been accompanied by public-private dialogue on productivity. Within the framework of PRODUCE's aforementioned "Strategic Diversification Plan" 2014-16, a Permanent Multisectoral Commission for Productive Diversification (*Comisión Multisectorial Permanente para la Diversificación Productiva*, or CMDP) was established, with the Minister of Production presiding over the commission representatives. These consist of various other ministers and representatives of private associations, such as the National Confederation of Private Business Institutions (CONFIEP), the National Society of Industry (SNI), the Chamber of Commerce of Lima (CCL) and the Association of Exporters (ADEX). The Vice Minister for Industry and MSEs serves as the Commission's technical secretariat. The Commission originally had the responsibility to lead and co-ordinate the execution of PRODUCE's "Strategic Diversification Plan" 2014-16, which has extended to the subsequent PNDP 2016-2024. However, no public information is available about commission meetings, beyond the

creation of various additional working groups on specific subjects, such as high-impact entrepreneurship.

In addition, in May 2017 the MEF launched a series of public-private "Executive Roundtables to Elevate the Productive Competitiveness of Peru", focusing on three priority sectors,[28] as well as the transversal themes of public procurement and administrative simplification. The roundtables agreed to meet regularly, but no summary records or resulting action plans have been published to date. Furthermore, the National Competitiveness and Formalisation Council (CNCF) is responsible for monitoring and publicly reporting on the advancement of the 2014-2018 Competitiveness Agenda each semester, though, as previously mentioned, public reports have ceased since 2016. Its Board of Directors includes two regional representatives (Huánuco and Pacarán), as well as the President of the National Confederation of Private Business Institutions.

The following sub-sections will explore various support mechanisms, developed in alignment with these strategies, related to associativity and value chains.

Productive association-enhancing measures

To deliver on the aforementioned objective within the 2014-2018 Competitiveness Agenda to "design and execute ten plans to improve cluster competitiveness", PRODUCE created the "Support Programme for Clusters" programme in 2015, which functions as a call for proposals (*convocatoria*) operated by *Innóvate Perú*. Selected applicants, which much constitute a cluster of at least five SMEs, first receive co-financing (up to 70% of the total amount, with a ceiling of roughly USD 200 000), to contract an external consultant to undertake a diagnostic and create an improvement road-map for the cluster. Then, based on this plan, further co-financing (50-70% of total project cost, up to roughly USD 100 000) can be solicited in order to implement elements of the plan. The first component has an implementation period of 6-12 months, and also includes workshops to strengthen the cluster and elect a formal managing group. The second component then lasts for an additional 24-36 months. Approximately USD 7.5 million was allocated for a first two-year programme implementation round in 2015; since then, three calls for proposals have been conducted, resulting in ten selected projects out of 27 total applicants – thus meeting the aforementioned 2014-18 Competitiveness Agenda goal. The results of past calls for proposals are publicly available,[29] but no further information on the progress or performance of selected applicants had been made available at the time of this assessment.

PRODUCE's current efforts are more focused on productive infrastructure, including the development of industrial parks. The country's National Industrial Park System, created in 2015, establishes various criteria for a park to be formally recognised, including a business plan that demonstrates economic viability and sustainability, and an integrated management model. It then provides incentives for recognised parks, such as priority access to public innovation funds and the installation of integrated laboratories in collaboration with the country's national quality institute, INACAL. The PNDP 2016-2024 builds on the establishment of this system; included in its foreseen activities is the undertaking of diagnostics of various proposed industrial parks, and the provision of technical assistance and capacity-building services to various existing industrial parks or other productive infrastructure projects, such as free trade and special economic development zones. Results of these activities are not yet available, as the plan was in its first year of implementation during the time of this assessment. However, as explained in the previous section, both process- and performance-related KPIs are already established within the PNDP 2016-2024 implementation plan.

Overall, while concrete measures are clearly in place, Peru scores slightly lower on this sub-dimension (3.68) relative to its LA7 peers (average of 4.04), as its efforts are still in pilot phases.

Integration into global value chains

The majority of LA7 countries, including Peru, have developed a similar type of supplier development programme to facilitate SMEs' inclusion in value chains. These programmes take the form of a call for proposals (*convocatoria*), with co-financing for proposal implementation offered by the government. In the case of Peru, a supplier development programme was launched within *Innóvate Perú* in 2015, to deliver on the aforementioned 2014-2018 Competitiveness Agenda. As in most LA7 programmes, the call for proposals is directed at large companies, both national and foreign, which must submit a proposal for the development of at least five of their SME suppliers (at least ten in the case of the agricultural sector).

Approximately USD 9 million was allocated for a first two-year implementation round of this programme in 2015, with the goal of financing at least 42 projects. Since then, two calls for proposals have been conducted, resulting in 12 selected projects out of 28 total applicants. Selected applicants first receive co-financing (up to 80% of total cost, with a ceiling of roughly USD 15 000) to undertake a diagnostic and create an improvement road-map for their supplier within a four-month period, if either of these does not exist already. Then, based on this plan, further co-financing (up to 70% of total project cost, with a ceiling of roughly USD 180 000) can be solicited to implement elements of the plan over the next two years. The results of past calls for proposals are publicly available,[30] but no further information on the progress or performance of selected applicants had been made available at the time of this assessment. However, the 2016 annual report on the implementation of the 2014-2018 Competitiveness Agenda notes that 90 businesses, associations and cooperatives have thus far been involved across both this programme and the "Support Programme for Clusters" explained in the previous section.

Additionally, Peru has also benefitted from the support of the government of Switzerland in implementing its 2014-18 Competitiveness Agenda. Included within this USD 14 million co-operation programme (of which Switzerland provided approximately half of the financing), is a component dedicated to increasing regional competitiveness through the development of value chains connected to cocoa, coffee, organic bananas and quinoa, asparagus, and tourism. This component also employed a call-for-proposals co-financing system, with USD 3.6 million in total financing. Selected applicants were eligible to receive up to 30-50% co-financing of the total costs for their project, which must correspond to one of the five priority areas of the 2014-2018 Competitiveness Agenda.[31] It is also interesting to note that applicants must have an associativity component – applications are restricted to regional governments, national public sector institutions, chambers of commerce, trade unions, universities, and NGOs. Results of these activities are not yet available, as this component's implementation was ongoing during the time of this assessment.

Access to market and internationalisation of SMEs (Dimension 7)

Peru is making clear efforts to support SME internationalisation, including specific measures related to trade facilitation, e-commerce, quality standards and regional integration. The country's overall score of 4.10 for this dimension reflects these generally well-developed efforts; it is slightly lower than those of its LA7 peers only due to the ongoing development of strategic and legal mechanisms related to e-commerce.

Support programmes for internationalisation

As noted in Chapter 10, all LA7 countries, including Peru, have relatively well-advanced policies and programmes in place to promote SME exports. Peru's investment and export promotion agency (EPA), PromPerú, which reports to the Ministry of Foreign Commerce and Tourism (MINCETUR), was guided by two strategies during the period of this assessment. First, the Strategic National Export Plan 2025 (*Plan Estratégico Nacional Exportado,* or PENX 2025) was established in 2015 with a ten-year horizon, building on a previous 2003-2013 strategy. The strategy is guided by four strategic objectives related to 1) internationalisation of businesses and diversification of markets, 2) a diverse and sustainable export basket, 3) trade facilitation and logistics efficiency, and 4) capacity-building and the consolidation of an "export culture".[32]

Second, the aforementioned 2014-18 Competitiveness Agenda established by the Ministry of Economy and Finance (MEF) also includes a number of related time-bound, measurable objectives, such as the following:

- Increase by 60% the amount exported by users of the "Easy Export" trade facilitation programme (see next sub-section);
- Increase by 90% the number of businesses that received information from PromPerú's international offices (OCEX) about business opportunities;
- Increase by 3.5 times the number of Peruvian franchises located abroad;
- Increase by 70% the value of exports of goods by SMEs; and
- Increase by 30% the number of Peruvian businesses that participate in international fairs/events dedicated to biodiversity.

PromPerú offers training support to SMEs in a similar way to the EPAs of both Chile and Ecuador. Its *RutaExportadora* integrated training programme is open to the entire SME population, after the SME undertakes an export diagnostic, available online via the government's "Integrated Foreign Trade Information System (SIICEX)".[33] The diagnostic serves to place each SME in a category (beginner/intermediate/advanced), which then corresponds to a training programme, covering various subjects (i.e. quality standards, trade facilitation, marketing) and activities (e.g. participation in trade fairs), intended to support the SME in either beginning to export or expanding its existing export operations.[34]

Since its establishment in 2012, the programme has reached slightly over 4 000 SMEs, assisting 883 of them in 2017. PromPerú publishes a dedicated annual summary of the programme's actions each year and includes an "Index of Exporting Potential" in its public annual report.[35] The Index sets a baseline for each SME's performance when it enters the programme, and measures the impact after the company has engaged in *RutaExportadora*, allowing for an evaluation of whether the SME's exporting potential has increased, stayed the same, or decreased. In 2016, roughly half of the SMEs in the programme increased their Index score; this KPI was not reported on for 2017.

Beyond this dedicated programme, the SIICEX portal provides an important resource to SME exporters, bringing together information on both general and specific (e-commerce, quality standards, etc.) support programmes, free-trade agreements (FTAs), commercial intelligence, and export guides. This includes a link to a dedicated web portal on requirements for access to international markets, which users can filter for information by both destination and product.[36] MINCETUR also has a dedicated website consolidating information related to certification of origin processes, including self-certification, linked to the country's active FTAs.[37]

Beyond this training support, MINCETUR launched an "Internationalisation Support Programme" in 2017, with approximately USD 7.5 million in resources from the country's SME Fund set aside to benefit a targeted 200 SMEs over the 2017-2020 period. The programme utilises a call for proposals (*convocatoria*) system, providing co-financing to selected applicants to first finance an external consultant to undertake a diagnostic of the selected SME, and then formulate an internationalisation plan. Subsequently, the co-financing received can be used to undertake various activities related to the internationalisation plan. The programme has four modules within which applicants can submit proposals: one for companies that do not export regularly, another to develop franchises, another aimed at the development of strategic alliances for regular exporters, and a final category directed towards groups of 3-6 experienced exporters that want to undertake joint promotional activities. Two call-for-proposal rounds were launched in 2017, with the first round selecting seven applicants to receive close to USD 200 000 in co-financing. Five of the selected SMEs pertained to the "new exporters" category, while the others were successful in the franchises and strategic alliances categories, respectively. A press release was published with details on the selected enterprises and their projects.[38]

PromPerú's Board of Directors comprises both inter-ministerial and private sector representatives, including an elected representative of the country's SME associations. Furthermore, as noted already in relation to *RutaExportadora*, PromPerú appears to have concrete M&E mechanisms in place both in general and for its targeted SME support programmes (including quarterly public reporting on the implementation of its annual institutional plan) as well as time-bound measurable objectives set by the 2014-18 Competitiveness Agenda. However, the implementation of this Agenda has not been publicly reported on since 2016, and even the 2016 report did not include specifics on the aforementioned indicators related to internationalisation.[39]

The PRODUCE's "SMEs in Figures" annual publication includes a chapter on international trade; the latest version at the time of this assessment, analysing 2016 data, found that while SMEs represent 71.5% of all Peruvian exporters, they exported only 3.8% of the country's total exported value during 2016. Overall, only 0.4% of Peruvian enterprises directly export, though this rises to 23.4% if only large enterprises are considered, and 10.7% in the case of medium-sized enterprises. SME exports are concentrated in the agricultural sector, with 48% consisting of primary goods, and only 0.6% consisting of high-technology manufactured goods – a percentage that stayed consistent over the 2014-16 period (PRODUCE, 2016[15]).

Trade facilitation

Peru, like its LA7 peers, scores relatively well here (4.67 vs. LA7 average of 4.35), as it has a specific "Easy Export" programme to facilitate basic SME exports, provides exporting guides and inquiry points, and has established both a single window for trade procedures and an Authorised Economic Operator (AEO) programme.[40] However, despite the existence of these latter two programmes, Peru, like its LA7 peers, lacks targeted support services for SMEs related to AEO certification and document preparation. However, its score is tied as one of the highest in the LA7 for this sub-dimension, due to high performance on the OECD Trade Facilitation Indicators (TFIs).

Peru's "VUCE" single window was established over 2006-2010, beginning operations in 2010. The system currently has over 50 000 registered users and has resulted in significant achievements, such as receiving ISO 9001 certification for all of its processes, achieving domestic inter-operability since 2016 with the country's tax administration and customs

agency (SUNAT), and achieving international inter-operability within the Pacific Alliance (PA) regarding certification of origin and phytosanitary certificates. The system is continuing to undertake improvements thanks to a project, co-financed by the government and the IDB, that will result in an information portal on regulations and operational support for SMEs, among others. Peru also benefits from its membership in the IDB's Inter-American Network of International Trade Single Windows (RedVUCE), which provides a forum for the exchange of best practices and support for regional integration.

As demonstrated in Figure 10.4, Peru generally exceeds the average performance of its LA7 peers across all four TFI categories included in this assessment (information availability, fees & charges, documents and procedures), though it lags somewhat behind the LA7 average regarding the latter. Yet, its average performance across all TFI indicators remains below the OECD average (1.43 vs 1.67, respectively, best=2). The OECD notes that Peru matches or exceeds the average performance of upper-middle-income countries in all TFI areas; furthermore, its performance has improved between 2015 and 2017 in the areas of information availability, fees and charges, documents, and streamlining of procedures (OECD, 2017[31]). However, the Organisation notes that further reforms in the areas of information availability, fee and charges, documents, and procedures, among others, should be prioritised to increase the amount of information available to stakeholders and reduce the number of fees and documents required for export procedures.

Peru's AEO programme was established in 2013. At the time of this assessment, it had certified close to 70 exporters, with the incorporation of importers ongoing; however, no SMEs were included. Peru's "Easy Export" *(Exporta Fácil)* programme was established in 2007, as the first programme of the LA7, and facilitates exports of up to USD 7 500 in value and 30 kilograms via the postal service, without the need for a customs broker. The programme is clearly advertised as one of various support tools available for SME exporters within the government's SIICEX portal. Peru is the only LA7 country to have an additional "Easy Import" programme that facilitates imports of up to USD 2 000 in value in a similar manner. No public information is available regarding the users of and export/import value facilitated by these programmes.

Use of e-commerce

Peru lags behind its LA7 peers in this sub-dimension due to both legal and strategic elements. While Peru does have four separate laws that cover the topics of consumer protection, cybercrime, data protection and privacy, and e-signature, respectively, it is only now developing a comprehensive legal framework to govern e-commerce. Peru is also the only LA7 country, along with Argentina, to lack a digital transformation and/or e-commerce strategy; however, at the time of writing, a more specific institutional framework on digitalisation was being set up, with the creation of a Digital Government Secretariat in 2017 (Decreto Supremo N° 022-2017-PCM), made up of two sub-secretariats on digital technology and the digital transformation, respectively, and the creation of a High Level Committee for a "Digital, Innovative and Competitive Peru" (Decreto Supremo N° 118-2018-PCM). Furthermore, macro-monitoring efforts are underway: PRODUCE's "SMEs in Figures" annual publication includes a chapter on SME use of ICT – the latest version at the time of this assessment, analysing 2016 data, found that 15.8% of SMEs utilise e-commerce to make purchases, while only 5% sell using the internet. However, 96% of businesses have internet access, and close to 40% have a website (PRODUCE, 2016[15]).

Despite the lack of a strategic framework, PromPerú has invested efforts in e-commerce training, These have been stimulated mainly by Peru's membership in the Asia-Pacific

Economic Co-operation (APEC), which begin its "APEC Digital Opportunity Centres" (ADOC) project in 2005, with the installation of the project's first centre in PromPerú's main Lima office. The project's main goal is to reduce the digital divide among APEC members. To date, there are currently 14 ADOC centres in Peru,[41] which have trained more than 30,000 Peruvians via more than 1,700 workshops and seminars on the topics of ICT, e-commerce, e-business, digital marketing and foreign trade. According to PromPerú's annual public report, over 16,000 participants attended more than 500 ADOC workshops in 2017 alone. Peru's "Easy Export" programme was developed as a result of feedback obtained from ADOC trainings, and PromPerú's *RutaExportadora* integrated exporter training programme has also developed various modules related to these topics, drawing from the ADOC experience. An "ADOC award" has also been developed and is rewarded to *RutaExportadora* participants that demonstrate best practices in ICT and e-commerce.

Key structural barriers remain, however, that could be better tackled by an integrated strategy. For example, Peru has among the lowest internet access rates in the Latin American region, with home internet access for only 14.1% of the population. Yet the future is promising, with a high internet usage rate (77%) among 18-25 year olds, and 55% of the population under the age of 30 (International Trade Administration (ITA), U.S. Department of Commerce, 2017[29]).

Quality standards

Peru has a variety of specific SME quality-standard support programmes, implemented within various wider programmes and by different government entities. INACAL, established in 2014 as part of the country's "National Quality System", offers various courses, including ones targeted at SMEs regarding standardisation. In 2017 INACAL launched a pilot project to help to 20 SMEs in the footwear, textiles, wood, and agro-industry sectors implement the Peruvian technical norm (NTP) on SME Management Systems. Using the results of this pilot, the intention is to scale up the programme at national level, via the publication of guidelines and training of consultants, to promote the technical formalisation of SMEs. INACAL produces a public annual report containing established KPIs set in alignment with their annual work plan. However, the KPIs related to training and the SME pilot program are process- rather than performance-related, focusing on the number of participants and training events conducted. Over 2017-18, INACAL planned to provide 56 training workshops and 37 courses; 28 of these were conducted in 2017.[42]

Innóvate Perú also manages a call for proposals that then provides co-financing to selected applicants to obtain quality certifications, whether they be for products, processes/services, or management systems. The programme began in 2014 and has published seven call-for-proposal rounds since then; the results of each round, including all applicants and those ultimately selected, are available on *Innóvate Perú's* website – however, no consolidated results or performance indicators are available. Up to roughly USD 150 000 in co-financing is provided to each selected applicant.

Finally, PromPerú's *RutaExportadora* SME exporter training programme includes two modules. The beginner module trains participants in the Japanese "5S" workplace organisation system, which is related to process and management systems. The intermediate module varies by sector, incorporating courses on specific quality standards for the manufacturing, services, and food and beverages sector, with an overall focus on ISO 9001. In 2016, 16 SMEs undertook the beginner "5S" training; no reporting was available on the other specific modules.

Overall, the aforementioned 2014-2018 Competitiveness Agenda includes a dedicated component on "strengthening quality infrastructure", which includes the objectives of duplicating the number of businesses with management system certifications by 2018 (in comparison to 2013 levels) and increasing by 120% the number of accredited laboratories. As of the end of 2016, 46 new laboratories had been accredited, though no further report on the implementation of this strategy has been published since this time.

Taking advantage of the benefits of LAC regional integration

Peru has made concrete efforts as a member of both the Pacific Alliance (PA) and the Andean Community (CAN) to support SME development within regional integration efforts. In the case of the PA, this is the responsibility of the bloc's "SME Technical Working Group", one of the PA's 24 thematic working groups. The group derives its work programme from the presidential mandates delivered at the PA's annual summit; during the time of this assessment, it was focusing on various projects related to trade facilitation, business and entrepreneurial development, and public procurement, as well as measures related to collection and monitoring of data and private sector involvement.[43]

Like the PA, CAN has also established a specific working group on SMEs: the Andean Committee for Micro, Small and Medium Enterprises (CAMIPYME). Following CAMIPYME's creation in 2011, a 2012-2017 action plan was approved, with four main strategic lines of action, including facilitating greater participation of SMEs in the Andean economic integration process, developing Andean trade fairs and events, improving SME's access conditions to the Andean market, and promoting associativity between Andean SMEs. While the Action Plan was well formulated, with clear objectives and corresponding actions and indicators (as well as a division of short-, medium-, long-term and permanent goals and actions), CAMIPYME faced difficulty in the consistent implementation of the plan, due to the annually rotating CAN pro-tempore presidency, as well as lack of a dedicated budget for implementation. Thus, no follow-up report on the overall status of implementation of the plan has been conducted. Rather, in practice, each pro-tempore president has selected various priority projects and worked to facilitate their development and implementation under their mandate.

While the 2012-2017 Action Plan was thus not systematically implemented, and no further action plan for the current period has been or is in development, actions taken to date correspond to some of the main lines of action established within the 2012-17 plan. These actions include investment in commercial intelligence to inform the development of regional value chains and targeted trade facilitation measures, such as the development of "Easy Export" Programmes in CAN member states (similar to the PA). To date, CAMIPYME has invested in various research projects to better understand existing and potential opportunities for Andean value chains. At the end of 2017, the UN Economic Commission for LAC (ECLAC) published a study on Colombian-Ecuadorian value chains[44] and, at the time of this assessment, was finalizing a statistical productive matrix (MIP), developed at CAN's request, systematising national accounts information on trade flows, employment, value chains, productive complementarity, and necessary intra-sectoral inputs by sector in each CAN member state. CAMIPYME was also developing a call for proposals to finance an external study on value chains with the greatest export potential to the EU market. In terms of trade facilitation, CAN also established a strategic plan dedicated to this subject in 2012, with the development and improvement of "Easy Export" programs for SMEs as an established project. In addition to these existing projects and results, further support measures related to BDS are under development.[45]

The PA also lacks a dedicated budget for its SME working group, whose projects are mainly funded on an ad-hoc basis by external donors. Current M&E efforts for both blocs are limited to the regular SME Working Group meetings and their summary records, but do not include any quantitative indicators to measure outcomes and impact. However, SME observatories are under the process of construction by both SME working groups. Both groups are also in the process of institutionalising private sector feedback mechanisms, as their membership is limited to public officials from each bloc member country with responsibility for SME-related public policies.

Overall, Peru thus scores somewhat lower than its LA7 peers who are solely PA members (Chile, Mexico) on the sub-set of indicators within this sub-dimension measuring action to support SME development at the *bloc*-level. This is because CAN's current actions are somewhat less developed than those of other regional trade blocs, being concentrated in the planning and design and research phases. Yet the country's overall score for this sub-dimension is higher than that of Chile and Mexico, thanks to strong *national* efforts to disseminate information about the benefits of regional integration. The PENX 2025 includes two strategic objectives (1.1 and 4.1) that are concerned with regional integration; while the first objective is more general (being concerned with government actions to finalise and take advantage of existing free-trade agreements, or FTAs), the second focuses on the need for a "system of attention and orientation" for the private sector in matters related to international trade. Building on this mandate, MINCETUR has a specific website[46] dedicated to the country's FTAs which includes a dedicated webpage for each existing FTA, with sections on specific "Business Opportunities" and "Frequently Asked Questions". This webpage is also clearly advertised and integrated within the SIICEX portal,[47] which displays further information on the benefits and preferential tariffs associated with each FTA.

The way forward

Institutional framework

Peru has made good advances in strategic planning areas and established a set of measurable strategic objectives for the SME sector. However, programme implementation remains relatively weak, lacking the presence of a detailed action plan and continuity in DGDE management.

Going forward, the country could consider:

- **Reinforcing the programme/project implementation mechanisms.** Strategic orientations and general policies are quite clearly identified, but implementation mechanisms are not properly developed.
- **Reviewing the system of calls for proposals (*convocatorias*)**, which tend to delegate policy implementation to intermediary institutions, creating a potential information gap.
- **Establishing an SME Development Agency**, in line with the experience of Mexico and Chile.
- **Upgrading PPCs and moving towards the establishment of partnerships with the most dynamic private sector organisations** through efforts including the co-financing and co-management of entrepreneurship and SME support projects.
- **Reviewing the national formalisation strategy** to integrate the labour formalisation component into the broader national strategy, set a number of realistic

intermediary targets, develop an effective monitoring system, and set up a network to support formalisation at local and sectoral level.

Operational environment and simplification of procedures

Peru's performance is relatively weak for this dimension, given its lack of a comprehensive regulatory reform agenda and the very early stage of regulatory impact analysis (RIA) application – as well as the relative high cost of the procedures to start a business (particularly the notary fees incurred in the pre-registration phase), the length of the procedures, and the country's poor post-tax filing index. However, there is already a good range of operational electronic services for enterprises, and good availability of the electronic signature.

Going forward, the country could consider:

- **Elaborating a medium-term agenda for regulatory reform**, establishing medium-term quantitative objectives and intermediary targets and assigning clear responsibility for agenda implementation.
- **Making a plan to move from the *Análisis de Calidad Regulatoria* (ACR) to the application of a fully-fledged RIA.**
- **Introducing a single company identification number.**
- **Transforming the "Centres for Better Citizen Services" (MACs) into one-stop shops,** adopting the single-window configuration.
- **Reviewing the procedures for starting a business** and reconsidering the need for the municipal business licence, as well as the need to rely extensively on notary services in the pre-registration phase.
- **Reviewing the procedures related to VAT reimbursement and company tax auditing.**
- **Extending the range of e-government services and introducing mechanisms to monitor and evaluate their diffusion and effectiveness.**

Access to finance

Peru is one of the lagging countries in the region in this dimension, as suggested by its average score of 3.5 points. The main priorities for the Peruvian government to improve access to finance should be:

- **Establish a regulatory framework for alternative financing mechanisms.** In addition to facilitating a wider range of asset-based transactions, this legal framework should encompass other, more recently developed products such as collective financing schemes.
- **Continue the implementation of its financial education strategy, including information and training services targeted at small entrepreneurs.** Important lessons could be learnt from the M&E mechanisms that Peru has put in place as part of its strategy, which should be used to improve the delivery, implementation and impact of the initiatives identified therein.
- **Simplify bankruptcy procedures with a view to reducing their duration**. Although these procedures have relatively low costs compared to other countries in the region, their average duration is usually long and their recovery rates poor.

SME development services and public procurement

Peru has ample scope to improve its strategic approach to business development services (BDS) and SME policy in general. Its national development plan (*Plan Bicentenario*) outlines a few actions to develop BDS so they can contribute to a diversified, competitive, sustainable and productive economy. However, PRODUCE's Multiannual, Sectorial and Strategic Plan (PESEM) for 2017-2021, which aims to build on the *Plan Bicentenario,* provides no elaboration on BDS. Hence, going forward, Peru could consider:

- **Building a more explicit strategic agenda for the provision of BDS** as an integral element of enterprise development policy.

In terms of policy implementation, Peru has a diverse offer of BDS through its network of business development centres, PRODUCE, Start-Up Peru and others. However, information on the support available is scattered. Peru could therefore:

- **Establish an online portal** containing structured and comprehensive information on the various support schemes available to entrepreneurs and SMEs.
- **Establish programmes to help SMEs take advantage of procurement opportunities** – for example, training programmes showing SMEs how to sell to the state, or supplier development programmes focused on the public sector. The authorities could also design a system to track how SMEs benefit from legal statutes designed to facilitate their access to public procurement.

Innovation and technology

Peru also has scope for improvement in terms of innovation policy for SMEs. In general, this assessment shows that Peru has yet to adopt a strategic approach to innovation policy, including for SMEs and entrepreneurs. The *Plan Bicentenario* proposes a few actions in this area, although there is no evidence on their level of implementation (e.g. there is no evidence on the National Fund for Science and Technology or a National Centre for Scientific and Technological Research). As noted, Peru has been working on the adoption of a Special Programme to Strengthen Innovation for Competitiveness (by CONCYET) and on operationalising a National Innovation System, which would provide better co-ordination and policy direction in this area. The Programme, however, is not yet adopted.

Thus, going forward, Peru could consider:

- **Taking advantage of these existing efforts by establishing an effective innovation strategy and co-ordination system.** This could also help the authorities perform M&E of measures at the overall policy level, instead of at the individual programme level.

Productive transformation

Peru has made considerable recent efforts, especially since 2014, to support SMEs in driving the country's productive transformation. To further build on existing efforts, Peru could pursue the following actions:

- **Improve the transparency of follow-up related to strategy implementation.** While Peru stands out in relation to its LA7 peers in terms of the action plan and KPIs associated with its productive transformation strategies, transparent follow-up has been sporadic. Various solutions could be considered, including a comprehensive annual report at the ministry (PRODUCE) or programme (Innóvate

Perú) level. However, as both entities are guided by multiple strategies, a dedicated annual strategic report for each established strategy (PESEM, PNDP 2016-2024), as in the case of Mexico's PRODEINN, may be more appropriate.

  - **The transparency of public-private dialogue could also be improved.** PRODUCE could consider establishing a dedicated website for its Permanent Multisectoral Commission for Productive Diversification (CMDP) – using it to publish summary records of commission meetings, as well as implementation progress reports for the PNDP, based on the strategy's pre-established action plan and KPIs. This website could also serve to consolidate information on PNDP initiatives, thereby increasing the visibility of ongoing public support efforts.

- **Bolster the information base related to cluster initiatives.** Building on the establishment of PRODUCE's cluster support programme in 2015, a background study could be undertaken to establish a baseline for the performance and support needs of Peru's existing clusters. This study could be a useful mechanism to incorporate impact assessment measures, by comparing the performance of clusters that have received support from the aforementioned programme with those that have not. This study could also serve as a basis for creating a full cluster mapping/support platform, to encourage further associativity and engagement of existing clusters with public support mechanisms. The experiences of both Colombia ("Colombian Cluster Network" – see Chapter 13) and Chile ("Strategic Programmes of Intelligent Specialisation" – see Chapter 12) could be useful to draw from.

Access to market and internationalisation of SMEs

Peru is implementing a number of measures to support SMEs in their internationalisation efforts, including support in the specific areas of trade facilitation, e-commerce and quality certifications. To further build on existing efforts, Peru could pursue the following actions:

- **Include AEO training in PromPerú's exporter training programme, and consider providing further support to SMEs, such as expedited exam processes, more flexible security standards, subsidised fees, customs-business partnerships, and/or quotas.** These methods have proved successful in facilitating SME AEO certification in both OECD and APEC countries (APEC Policy Support Unit, 2016[33]).
- **Incorporate and strengthen existing ad-hoc e-commerce support programmes and data collection within a dedicated, inter-ministerial digital transformation strategy, and establish a corresponding observatory to facilitate M&E efforts.** The organisation and transparent implementation and monitoring of Chile, Colombia, and Mexico's ongoing digital transformation strategies could be instructive.
- **Undertake an impact assessment of the existing, disperse support mechanisms for SMEs related to quality certifications, to inform the future policy and support mix.** While various parts of the government (INACAL, Innóvate Perú, PromPerú) have made a concerted effort to support SMEs in obtaining quality certifications through both training and financing mechanisms, current efforts lack performance-related KPIs. Undertaking a survey of the satisfaction and comparative performance of beneficiaries to date of existing mechanisms could serve to better co-ordinate and effectively design future support to ensure the best use of public funds.

- **Explore ways to incorporate quantitative indicators (KPIs) into various projects led by the PA SME Technical Working Group, allowing them to measure outcomes and impact and thus inform future efforts.** These indicators should go beyond measuring participation/funding, and instead seek to capture real world impact. Clear communication of these efforts, via mechanisms such as the Working Group's website, could also bolster its efforts to build a dialogue with the private sector.
- **Take advantage of CAMIPYME's investment in diagnostic research and project development to establish a robust future SME development strategy, with quantitative indicators to measure outcomes and impact.** CAMIPYME's efforts since its establishment have resulted in a valuable set of diagnostic research on SMEs' contribution to Andean value chains and corresponding opportunities – as well as project proposals related to BDS and institutionalising private sector participation and inter-Andean networking. CAMIPYME has also formed a robust network of partners and donors, including the IDB, CAF, ECLAC and the ILO. Looking to the future, CAMIPYME could consider taking advantage of these efforts by establishing a multi-annual action plan, drawing on support from partners to secure an overall implementation budget.

Notes

[1] Group 1 comprises countries with high equality in HDI achievements between women and men (absolute deviation of less than 2.5%), group 2 comprises countries with medium to high equality in HDI achievements between women and men (absolute deviation of 2.5– 5 percent), group 3 comprises countries with medium equality in HDI achievements between women and men (absolute deviation of 5–7.5 percent), group 4 comprises countries with medium to low equality in HDI achievements between women and men (absolute deviation of 7.5–10 percent), and group 5 comprises countries with low equality in HDI achievements between women and men (absolute deviation from gender parity of more than 10%).

[2] See http://www2.congreso.gob.pe/sicr/cendocbib/con4_uibd.nsf/29793AB3817C627505257EF400034156/$FILE/30056.pdf.

[3] See http://www.leyes.congreso.gob.pe/Documentos/Leyes/28015.pdf.

[4] See https://busquedas.elperuano.pe/normaslegales/aprueban-texto-unico-ordenado-de-la-ley-de-impulso-al-desarr-decreto-supremo-n-013-2013-produce-1033071-5/.

[5] Accessible via https://www.ceplan.gob.pe/sinaplan/plan-bicentenario-2/.

[6] See http://ogeiee.produce.gob.pe/index.php/oee-documentos-publicaciones/publicaciones-anuales.

[7] Accessible via http://www2.osinerg.gob.pe/MarcoLegal/docrev/pdf/DS-001-2009-JUS-CONCORDADO.pdf.

[8] See https://www.cnc.gob.pe/.

[9] See (Finn, 2017[34]), (CEPLAN, 2016[35]), and https://perureports.com/world-bank-recommends-peru-loosen-labor-regulation/2422/ for more information.

[10] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure

- a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[11] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[12] Equivalent to USD 105 million at the time of writing.

[13] http://www.sbs.gob.pe/Portals/0/jer/BOLETIN-SEMANAL/Boletin_Semanal_N12.pdf.

[14] https://www.indecopi.gob.pe/documents/51767/203503/04+ley27809.pdf/4f23b875-a030-4ad1-959c-e5a69125fcec.

[15] http://servicio.indecopi.gob.pe/e-value/pgw_infoXDeudor.seam.

[16] See http://www.oecd.org/latin-america/countries/peru/ for more information.

[17] The third objective is "To improve the value chain of hydro-biological products."

[18] http://www.produce.gob.pe/landing/cde/index.html.

[19] http://www.tuempresa.gob.pe.

[20] http://www.kitdigital.pe.

[21] www.innovateperu.gob.pe and www.start-up.pe.

[22] http://portal.osce.gob.pe/osce/content/guia-de-como-venderle-al-estado.

[23]https://portal.concytec.gob.pe/images/noticias/Programa_Especial_de_Fortalecimiento_de_Innovaci%C3%B3n_para_la_Competitividad.pdf

[24] https://www.innovateperu.gob.pe.

[25] http://www.start-up.pe.

[26] https://www.itp.gob.pe.

[27] Table 9.3 in Chapter 9 provides more information about the relationship between these different government strategies.

[28] Forestry and aquaculture, agro-exports, and tourism.

[29] See https://www.innovateperu.gob.pe/convocatorias/por-tipo-de-concurso/concursos-para-empresas/178-programa-de-apoyo-a-clusters for more information.

[30] See https://www.innovateperu.gob.pe/convocatorias/por-tipo-de-concurso/concursos-para-empresas/177-programa-de-desarrollo-de-proveedores for more information.

[31] 1) Productive business development; 2) science, technology and innovation; 3) internationalisation; 4) human capital; 5) business climate.

[32] See https://www.mincetur.gob.pe/wp-content/uploads/documentos/comercio_exterior/plan_exportador/Penx_2025/PENX_FINAL_101215.pdf for more information.

[33] See http://www.siicex.gob.pe.

[34] See http://www.siicex.gob.pe/siicex/portal5ES.asp?_page_=791.00000 for more information.

[35] See http://www.transparencia.gob.pe/enlaces/pte_transparencia_enlaces.aspx?id_entidad=10003&id_tema=5&ver=D#.W74TrWgzaM8 for all public reports related to PromPerú.

[36] See http://ram.promperu.gob.pe.

[37] See https://www.mincetur.gob.pe/comercio-exterior/certificacion-de-origen.

[38] See https://www.mincetur.gob.pe/mincetur-entrego-mas-de-s-590-mil-a-primeros-ganadores-del-programa-de-apoyo-a-la-internacionalizacion-pai.

[39] See https://www.cnc.gob.pe/agenda-competitividad/2014-2018/avances/tercera-rendicion for more information.

[40] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[41] See http://www.apecdoc.org/news/information/country.php?id=11 for more information on each of the centres. Information on trainings is available at: http://www.siicex.gob.pe/siicex/portal5ES.asp?_page_=392.38700#anclafecha.

[42] See pgs. 70-73 of the annual report for more information, available at http://www.inacal.gob.pe/repositorioaps/data/1/1/2/jer/documentos-de-gestion/files/EVALUACI%C3%93N%20ANUAL%20POI%20%20MODIFICADO%202017%20VISADO.pdf.

[43] For more detailed information, see the sub-sections on sub-dimension 7.5 of Chapter 12 on Chile and Chapter 15 on Mexico.

[44] See https://www.cepal.org/en/node/45914.

[45] For more detailed information, see the sub-section on sub-dimension 7.5 of Chapter 14 on Ecuador.

[46] See http://www.acuerdoscomerciales.gob.pe.

[47] See http://www.siicex.gob.pe/siicex/portal5ES.asp?_page_=850.00000.

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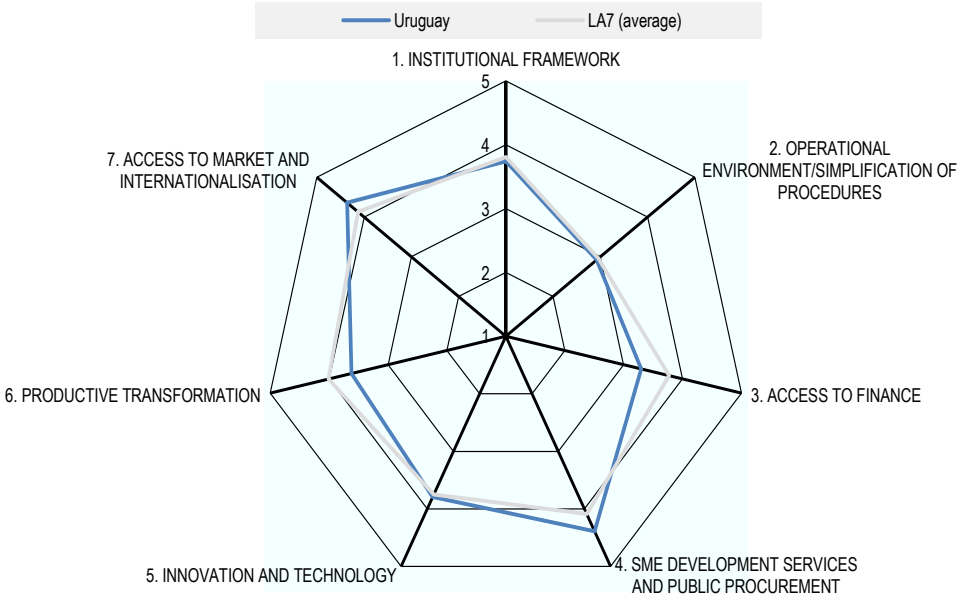
Chapter 17. Uruguay

Uruguay performs relatively well in this assessment, outperforming the LA7 average for the assessment dimensions related to business and entrepreneurial development services (Dimension 4) and access to market and internationalisation (Dimension 7). This is due to the large offer of SME support services currently available in Uruguay for these dimensions, as well as their delivery by specialised agencies. However, Uruguay never reaches the level of a top LA7 performer, demonstrating room for peer learning, especially in the area of access to finance (Dimension 3).

While Uruguay does not have an explicit SME strategy, it is in the process of linking its SME support programmes to the country's First National Plan for Productive Transformation and Competitiveness (2017-2021). It has made good progress in the strategy elaboration and planning phase, but is still in an ongoing phase of developing a new institutional architecture to support the implementation of this Plan and strengthening it through the introduction of effective monitoring and evaluation (M&E) mechanisms.

Key findings

Figure 17.1. 2019 SME Policy Index scores for Uruguay



Uruguay performs relatively well in this first SME Policy Index assessment focusing on Latin America, outperforming the LA7 average for the assessment dimensions related to business and entrepreneurial development services (Dimension 4) and access to market and internationalisation (Dimension 7) (Figure 17.1). This is due to the large offer of SME support services currently available in Uruguay for these dimensions, as well as their delivery by specialised agencies. However, Uruguay never reaches the level of a top LA7 performer, demonstrating room for peer learning especially in the area of access to finance (Dimension 3).

While Uruguay does not have an explicit SME strategy, it is in the process of linking its SME support programmes to the country's First National Plan for Productive Transformation and Competitiveness (2017-2021), which was developed over 2016-2017 in the framework of the "Transform Uruguay" inter-governmental co-ordination system (*Sistema Nacional de Transformación Productiva y Competitividad*, or *Transforma Uruguay*). It has achieved good progress in the strategy elaboration and planning phase, but it is still in an ongoing phase of developing a new institutional architecture to support the implementation of *Transforma Uruguay*. The strategic plan also has to be strengthened by the introduction of explicit quantitative and qualitative objectives and by the introduction of effective monitoring and evaluation (M&E) mechanisms.

Overall, many of the projects included in the First National Plan have a clear, if not actually explicit, SME orientation. They both build on existing work and, in some cases, foster the development of wholly new projects. The inclusion in the First National Plan responds to the need to refocus those projects towards the country's productive transformation, as well as better co-ordinate efforts with other public and private actors. The shift towards a productive transformation approach will require a review of the existing SME support programmes, in order to adapt them to the new objectives. This will likely lead to more-selective targeting of the SME population and subsequently to greater effectiveness, assertiveness and/or specificity on the part of the support programmes.

Thus, going forward, Uruguay could expect its scores to improve – especially in the areas of the institutional framework (Dimension 1), innovation and technology (Dimension 5), and productive transformation (Dimension 6) – as the *Transforma Uruguay* system is more firmly established, including its M&E and consultative mechanisms.

Furthermore, within and alongside its *Transforma Uruguay* system, Uruguay must also continue to prioritise the further improvement of the country's environment for enterprise creation, operation and access to finance. Access to finance (Dimension 3) is the only area in which Uruguay receives the lowest LA7 score; this assessment identifies various future reform priorities, such as developing a legal framework for collective financing mechanisms and private investment funds, enhancing the offer of financial education aimed at SMEs, and simplifying insolvency proceedings. In the area of operational environment/simplification of procedures (Dimension 2), the country should continue developing a comprehensive agenda for regulatory reform, as planned in *Transforma Uruguay,* including enterprise surveys to identify main barriers and the introduction of regulatory impact analysis (RIA).

Overview

Economic structure and development priorities

Table 17.1. Macroeconomic indicators - Uruguay

Indicator Name	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth (annual %)	-1.9	7.5	7.8	5.2	3.5	4.6	3.2	0.4	1.7	2.7
GDP per capita (current US$)	6 871	5220	11938	14166	15092	16881	16737	15524	15298	16245
GDP per capita, PPP (current international $)	10204	11553	16736	17904	18817	19942	20887	21117	21669	22562
Unemployment, total (% of total labour force)	13.3	12.2	7.2	6.3	6.4	6.4	6.6	7.5	7.8	7.9
Inflation, GDP deflator (annual %)	3.5	0.7	4.9	9.0	8.6	8.2	9.4	9.0	7.3	4.0
Exports of goods and services (% of GDP)	16.7	30.4	26.3	26.4	25.9	23.4	23.5	22.5	21.4	21.6
Imports of goods and services (% of GDP)	20.0	28.5	25.4	26.8	29.1	26.4	25.5	22.9	19.9	18.4
External balance on goods and services (% of GDP)	-3.3	1.9	1.0	-0.4	-3.2	-3.0	-2.0	-0.4	1.5	3.1
Current account balance (% of GDP)	-2.5	0.2	-1.8	-2.7	-4.1	-3.4	-3.1	-0.8	0.8	1.6
Services, etc., value added (% of GDP)	61.1	56.7	58.2	58.3	59.3	59.1	59.1	59.3	59.7	61.2
Foreign direct investment, net inflows (% of GDP)	1.2	4.8	5.4	5.6	11.8	1.3	6.7	4.6	-0.7	-1.6
Foreign direct investment, net outflows (% of GDP)	0.0	0.1	-0.4	0.4	7.5	-3.5	2.3	3.0	0.9	0.4
General government total expenditure (% of GDP)	29.1	28.8	30.5	29.2	30.5	31.8	32.3	32.3	33.2	33.3
General government net lending/borrowing (% of GDP)	-3.3	-0.6	-1.1	-0.9	-2.7	-2.3	-3.5	-3.6	-3.8	-3.5
Domestic credit to private sector (% of GDP)	45.1	22.5	22.3	23.1	23.5	26.0	27.0	30.1	28.0	26.3

Source: (World Bank, 2018[1]; IMF, 2018[2])

Activity, labour markets and economic structure

Uruguay's economic performance has been excellent over the past decade. Its average annual growth rate (5%) exceeded the LAC average by almost 2%, and GDP per capita in PPP terms more than doubled between 2000 and 2015 (see Table 17.1). Consistent macroeconomic policies and a favourable external environment enabled growth, while strong social policy made it inclusive (OECD/ECLAC, 2014[3]). Growth slowed down after the fall in commodity prices in 2015, but is expected to exceed 3% after 2018 (IMF, 2017[4]).

Unemployment reached a peak of 17% in 2002, during the last major economic crisis. In the following years it fell steeply, hitting 6.3% in 2011 (see Table 17.1); more recently, unemployment has risen slightly as economic activity has cooled down. Poverty was reduced to 9.4% in 2016, a quarter of its 2003 level (40%) (World Bank, 2018[5]). Inequality (the Gini was 0.39 in 2016) is low by Latin American standards, but still high compared to OECD countries (OECD, 2018[6]; World Bank, 2018[1]; ECLAC, 2018[7]). The number of people in the informal economy was drastically reduced from its 2004 peak, but remains at one in four Uruguayan workers (Amarante and Gómez, 2016[8]).

In terms of sectoral composition, agriculture accounts for around 9% of GDP, which is higher than the LAC average. On the other hand, mining is almost negligible when compared to LAC peers. Manufacturing represents 15% of value added, similar to the regional average. Services' share of GDP is also in line with the region and has been expanded recently, but still has not reached the pre-2002 level. Financial intermediation and business services play a much more significant role in value added than in most LAC countries (ECLAC, 2016[9]).

The amount of domestic credit provided to the private sector is not as expansive as in the rest of the region (averaging 25% of GDP compared to 40% for LAC in the past decade; see Table 17.1).

Being a small country, Uruguay's regional disparities are not as sharp as in other LAC countries. However, they are not negligible. Montevideo is the largest department, concentrating 40% of population. Average income there is almost 21% higher than the national average and 1.8 times higher than in Cerro Largo, the poorest region (Rodríguez Miranda, 2014[10]).

Uruguay faces challenges in order to maintain a sustained path of inclusive growth, for which increasing labour productivity will be crucial. Investing in skills, deepening financial markets and solving infrastructure bottlenecks will be some of the key means of addressing this challenge (OECD/ECLAC, 2014[3]).

As shown in Table 17.2, Uruguay ranks 55th worldwide within the United Nations' (UN) Human Development Index (HDI) (United Nations, 2018[11]), placing it inside the group of *very high human development countries*, along with Argentina and Chile from the LA7. The HDI considers that a country whose indicators are all ranked in the top third can be considered as a country with the highest quality of human development; the majority of Uruguay's indicators meet this criterion. In particular, Uruguay has a high gender development index (GDI) for the region, alongside Argentina, Colombia and Ecuador, placing it inside the top group of countries with high equality in HDI achievements between women and men.[1] Overall, Uruguay has made improvements since the 1990s by increasing life expectancy at birth by 5.0 years, mean years of schooling by 1.5 years and expected years of schooling by 3.0 years.

Table 17.2. Selected Human Development Index (HDI) Scores – Uruguay 2018

Variable	Uruguay	LA7 Average
HDI Ranking (2017)	55th	69.3
HDI[1] (scale of 0-1, with 1=best; 2017 value)	0.804	0.785
Life expectancy at birth (in years; as of 2017)	77.6	76.8
Gender Development Index Ranking[2] (scale of 0-1, with 1=best; 2017)	1.01	0.98
Quality of Health[3]		
Lost Health Expectancy[4] (2016)	10.7	11.3
Physicians (per 10,000 ppl.; 2007-2017)	37.4	22.2
Hospital beds (per 10,000 ppl.; 2007-2014)	25	22
Quality of Education[3]		
Pupil-teacher ratio primary school (pupils per teacher; 2012-2017)	12	20.7
Primary school teachers trained to teach (2009-2017)	100.0%	93.5%
Proportion of schools with access to internet (2008-2013)	96%	56%
Math (PISA[5] score 2015)[6]	418	413.7
Reading (PISA score 2015)	437	436.2
Science (PISA score 2015)	435	431.0
Quality of Living Standards[3]		
Vulnerable employment (% of total employment; as of 2017)	23.9%	38.1%
Share of rural pop. with access to electricity (2016)	100%	96%
Share of pop. using improved drinking-water sources (2015)	99.2%	96.6%
Share of pop. using improved sanitation facilities (2015)	95.7%	89.6%

1. The HDI score is based on a set of indicators covering the dimensions of "long and healthy life", "knowledge" and "a decent standard of living". For more information, see (United Nations, 2018[11]).
2. The GDI is calculated by comparing the female and male HDI values of the country. Countries are divided into five groups by absolute deviation from gender parity in HDI values.
3. Indicators under the categories "Quality of Health", "Quality of Education" and "Quality of Living Standards" are taken from the HDI Dashboard 1 on Quality of Human Development.
4. The relative difference between life expectancy and healthy life expectancy, expressed as the percentage of life expectancy at birth.
5. The Programme for International Student Assessment (PISA) is a triennial international survey which aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. In 2015 over half a million students in 72 countries and economies took the PISA test, and were assessed in science, mathematics, reading, collaborative problem solving and financial literacy. For more information and assessment results, see http://www.oecd.org/pisa/aboutpisa/.
6. The highest average national score for Math, Reading and Science is held by Singapore with 564, 535 and 556 points, respectively.
Source: (United Nations, 2018[11]).

Public sector, money and prices

Government spending was already relatively high in Uruguay at the beginning of the 21st century (see Table 17.1). By 2017 it had further increased to 33.3% of GDP. Revenues also rose, yielding a relatively small budget deficit as compared to the LAC region during the past decade (1.7% of GDP compared to 2.9%). However, a closer look shows that the fiscal deficit has increased more than 2% since 2012. The government approved tax increases and spending cuts for 2017 and has announced a process of consolidation to reach a deficit of 2.5% of GDP by 2019 (IMF, 2017[4]). Hence, the fiscal space for counter-cyclical fiscal policy is limited in a moment in which the economy has not yet resumed its growth path.

Inflation has been persistently above the regional average for most of the past decade, and above the monetary authority targets for many years. More recently, the Central Bank has tightened monetary policy, but inflation remains above desired levels (see Table 17.1).

External sector

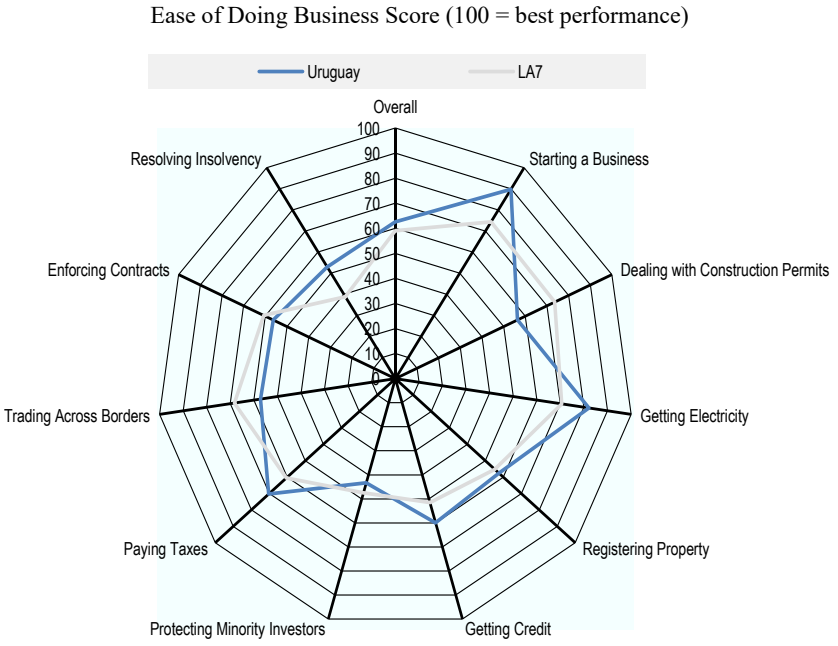
Uruguayan imports and exports constitute 40% of GDP, as compared to the regional 42.5%. The exports destination portfolio is relatively diversified, as the five main partners take only 55% of the exported value. Brazil, the European Union (EU) and China are the main buyers. The origin of imports is less varied, as the same three partners account for 54% of the value. Argentina (also a MERCOSUR member) is the second regional trading partner.

The country ranked 54th in the MIT Economic Complexity Index in 2017 (MIT, 2017[12]), which is the second highest ranking of the LA7, falling behind only Mexico (21st). Agricultural products are predominant in the exports basket (75%) (WTO, 2017[13]). Bovine meat (15%) and soya beans (12%) are the top exporting products. Oil, electric generators and motor cars are the main imports. Trade in services represents 12% of GDP, double the regional average.

Foreign direct investment (FDI) averaged 5.3% of GDP between 2005 and 2015 (Table 17.1), a figure outstripped only by Chile in South America.

Business environment

Figure 17.2. Doing Business Indicators 2019 - Uruguay



Note: *LA7* is the simple average for the seven countries studied in this report: Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay. The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.
Source: (World Bank Group, 2018[14])

Uruguay's business environment, although strong from a regional perspective, has weakened over the last decade, its place in the 2019 Ease of Doing Business ranking (World Bank Group, 2018[15]) falling from 70th to 95th. Good performances can be observed in the "getting electricity" (55th) and "starting a business" (65th) dimensions. The cost of getting

energy is 1% of the average cost in LAC, while starting a business takes less than a week compared to a month on average for the rest of the region. Downsides include "dealing with construction permits" (155th) and "trading across borders" (152nd). The former takes 10 weeks longer than the regional average, while the latter costs roughly twice as much as the regional average. During the past decade, large improvements have been made in "resolving insolvency" (70th) by introducing legislation that enabled many financially distressed firms to keep operating as a going concern.

Between 2008 and 2018, Uruguay climbed 22 places in the WEF Global Competitiveness Index, to 53rd (WEF, 2018[16]). Uruguay has the highest level by far of ICT adoption in the region (ranking 12th out of the 140 total countries assessed), topping advanced economies such as Chinese Taipei and Switzerland. However, Uruguay's performance on ICT has not translated to equal progress regarding innovation capability (70th). The next strongest dimension is the country's "institutions" (34th), including solid property rights and low corruption and undue influence. The major liabilities are the country's small market size (93rd), financial system (81st) and business dynamism (79th). Compared to 2007, major improvements have been made in the financial markets, but the efficiency of labour markets has deteriorated further.

The main obstacles identified by firms in the Enterprise Survey (World Bank, 2017[17]) were tax rates, followed by the informal sector, both of which are higher than in the rest of the region. Small firms agree with this diagnosis, while medium-sized firms invert the order, mentioning the informal sector first. Large firms care more about labour regulations and an inadequately trained workforce. Regulation and corruption are seen as much less of a burden compared to the rest of the region. Furthermore, around 18.5% of firms export, a figure in line with the regional average. On the other hand, firms rely more heavily on internal finance (70%) and less on bank finance (31%) than in the rest of the region (63% and 38%, respectively).

The US Department of State's Investment Climate Statement highlights that the judiciary system is independent and transparent, but that rulings can take too long (US DOS, 2017[18]). Property rights are strongly enforced, including intellectual property rights to some extent. The report also highlights the bankruptcy law passed in 2008. However, financial markets are underdeveloped even after recent attempts to deepen them.

SME sector

Definition and employment

The Uruguayan SME definition, updated by Executive Decree 504 in 2007, is based on both employment and turnover criteria (see Table 17.3). Notably, while the turnover criterion resembles that of the other countries in this study, the employment-based criterion is more restrictive, reflecting the economy's smaller size.

Table 17.3. SME definition in Uruguay

Criterion		Micro	Small	Medium
Employment (number of employees)		1-4	5-19	20-99
Turnover	IU	≤ 2 000 000	2 000 000 - 10 000 000	10 000 000 - 75 000 000
	USD	≤ 260 000	260 000 - 1 300 000	1 300 000 - 9 750 000

Note: The value for the Indexed Unit (IU) is approximately 4.02 Uruguayan pesos (UYU) (12/12/2018). 1 USD = approximately UYU 32 (12/12/2018). UI value in US Dollars (12/12/2018): 0.13.
Source: Decree 504/2007 (MIEM, 2007[19]) and (BCU, 2017[20])

Based on administrative records (see Table 17.4), the total number of firms was estimated as 175 605 in 2016. Around 99.5% of them were SMEs, with microenterprises playing a preeminent role (83%). SMEs accounted for two-thirds of the reported employment, shared in almost equivalent parts between micro, small and medium-sized enterprises.

Table 17.4. Firms and employment by size - 2016

Size	No. of firms	% of total firms	No. of employees	% of total employment
1–4	146 510	83	225 207	25
5–19	23 190	13	197 997	22
20–99	5 071	3	192 989	21
>99	834	0	297 899	33
Total	175 605	100	914 092	100

Note: Based on administrative records from tax and social security agencies.
Source: Directorio de Empresas y Establecimientos (INE, 2017[21]).

If household survey data are analysed (see Table 17.5), the relevance of the SME sector increases. In particular, micro and small enterprises account for 56% of employment, instead of 47%. This is due to the large incidence of the informal economy, particularly in terms of self-employment and other microenterprises. The proportion of these types of workers that do not contribute to social security (and, hence, are not included in administrative records) reaches 67% and 41%, respectively. This number drops drastically (13%) for firms with 5-19 employees, and to only 1% of workers in firms with more than 49 employees.

Table 17.5. Employment and informal sector by firm size - 2016

	No. of employees	% of total employment	% of total employees that are not affiliated to pension system
Self-employed	382.686	23	67
2-4	285.905	17	41
5-19	256.666	16	13
20 - 49	101.766	6	4
>49	618.944	38	1
Total	1.645.967	100	25

Note: Size categories do not correspond with the official SME definition because of lack of data.
Source: Encuesta Continua de Hogares (INE, 2016[22]) .

In terms of geographical concentration, 53% of firms (and 40% of the population) are located in Montevideo, making it the department with the highest firm density: 61 for every

1 000 inhabitants, compared to an average of 46 for the whole country (INE, 2014[23]). Maldonado, Colonia, Rocha and Flores, all in the south of the country, also have high firm density. On the other hand, Artigas, Salto and Rivera, all close to the northern border, have firm densities around 26 per 1 000 inhabitants.

Productivity and value added

According to the available data (see Table 17.6), firms with less than 50 workers accounted for one-third of total value added and 57% of workers in 2001.[2] Labour productivity for microenterprises is 21% that of firms with 50 workers or more, and rises to 41% for small and medium-sized enterprises (5-49 workers).

Table 17.6. Value added, productivity and average worker compensation - 2001

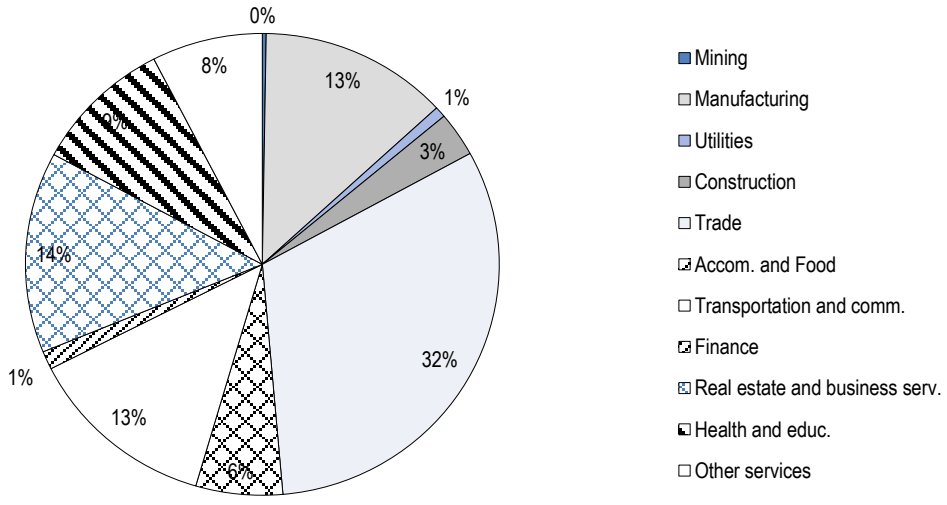
Size	Share in Total Value Added	Share in total Workers	Value added per worker (as % of large firms)	Average salary per worker (as % of large firms)
<5	16%	26%	41%	21%
5-49	17%	31%	36%	41%
>49	67%	43%	100%	100%
Total	100%	100%	65%	61%

Note: Size categories do not correspond with the official SME definition due to lack of data. Sampling framework was built on administrative records. Hence, many informal firms were left out, particularly for smaller-size categories.
Source: Encuesta de Actividad Económica (INE, 2001[24]).

Sectors of activity

Services account for 82% of SME employment in Uruguay (see Figure 17.3). Main activities include trade (32%), real estate and business services (14%) and transportation (13%). Manufacturing also has a substantial role (13%).

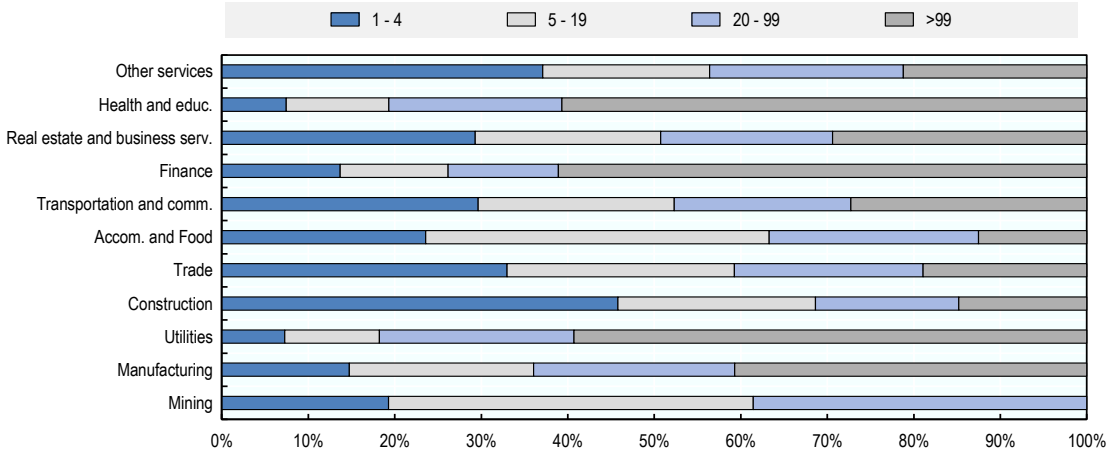
Figure 17.3. SME employment by sector - 2016



Source: Directorio de Empresas y Establecimientos (INE, 2017[21]).

The sectors in which SMEs are more relevant as employers (see Figure 17.4) are mining (a sector in which no large company was registered), accommodation and food, and construction. As usual, large firms dominate utilities and finance, and are also prevalent in health and education. Microenterprises are particularly significant in construction, small firms in accommodation and food, and medium-sized firms in mining.

Figure 17.4. Sectoral employment by firm size - 2016



Source: Directorio de Empresas y Establecimientos (INE, 2017[21]).

International trade

In 2017, 1 094 Uruguayan firms were involved in exporting activities; although 83% of them were SMEs, they represented only 19% of total exported value. Furthermore, most of this value is accounted for by medium-sized companies (16% of total exported value) (Table 17.7).

Table 17.7. Exporting firms and value exported by size - 2015

Size	No. of firms	% of total exporting firms	Share of total exported value
Micro	231	21%	0%
Small	362	33%	3%
Medium	317	29%	16%
Large	184	17%	81%
Total exporters	1 094	100%	100%

Source: (Instituto Uruguay XXI, 2018[25])

Assessment results

Institutional framework (Dimension 1)

Uruguay is in the process of linking its SME support programmes to the country's plan of productive transformation. It has achieved good progress in the strategy elaboration and planning phase, but it is still in an ongoing phase of institutionalising the internal and external coordination architecture to support the implementation of *Transforma Uruguay*. The strategic plan also has to be strengthened by the introduction of both explicit quantitative and qualitative objectives and effective monitoring and evaluation (M&E)

mechanisms. The shift towards a productive-transformation approach will require a review of the existing SME support programmes, in order to adapt them to the new objectives. This will likely lead to more-selective targeting of the SME population and, subsequently, to greater effectiveness, assertiveness and/or specificity on the part of the support programmes.

Uruguay's total score for this dimension is 3.74 on a scale of 1-5, slightly below the LA7 average (3.81). Uruguay has received a score of 5.0 for the sub-dimension related to the SME definition, as it is one of the only LA7 countries, along with Argentina, to include an independence criterion. Its score of 3.59 in the sub-dimension related to strategic planning, policy design and co-ordination, which is below the LA7 average (3.76) is largely due to the early implementation phase of *Transforma Uruguay*. Its score of 2.92 in the sub-dimension related to Public-Private Consultations, also below the LA7 average (3.45), is due to the largely informal consultation mechanisms and the early phase of implementation of the consultative committees linked to *Transforma Uruguay*. Finally, Uruguay has achieved a score of 3.61 on the sub-dimension related to the reduction of informality – reflecting the relative success of the government's actions but also the relative weakness of the monitoring system.

Institutional framework and SME definition

In Uruguay, the mandate over SME policy is assigned to the Ministry of Industry, Energy and Mining (MIEM). The Ministry has a wide-ranging portfolio and is in charge of the elaboration and implementation of both horizontal policies aiming at promoting the country's productive transformation as well as vertical policies targeting specific industrial sectors.

The National Directorate for Artisans and Small and Medium-Sized Enterprises (*Dirección Nacional de Artesanías, Pequeñas y Medianas Empresas*, or MIEM-Dinapyme), one of MIEM's eight directorates, has guided the country's SME policy since 1991. MIEM-Dinapyme is divided into four operational units, covering artisan development, enterprise development (including the management of the *Registro PYME*, or SME Register), territorial development, and entrepreneurship promotion (which also covers start-up support). Furthermore, since MIEM-Dinapyme's creation, various other institutions have begun lines of work with the SME sector (see next section for more information).

The country's current SME definition was established by governmental Decree 504, issued in 2007. The definition is based on two criteria: annual turnover and employment. Turnover is expressed in terms of indexed units (*Unidades Indexadas*), whose value is regularly adjusted in line with the country's inflation rate. The definition includes three sub-classes for micro, small and medium-sized enterprises (see Table 17.3). The upper threshold for each class is set at quite a low level compared with the other LA7 countries, reflecting the relatively small scale of the enterprises in Uruguay, in relation to other LA7 countries. The definition also includes an independence clause.

SMEs have to register with MIEM to have their SME status confirmed; this allows them to access all MIEM support programmes, as well as those run by other parts of the government, and the incentives accorded SMEs in relation to public procurement. The registration is free of charge and can be either performed online or in person; it is valid for one year.

Strategic planning, policy design and co-ordination

Public policy in support to the SME sector is guided by two programmatic/strategic documents. First, there are the strategic guidelines issued by MIEM for the period 2015-2020, and the subsequent yearly work plans of MIEM-Dinapyme, specifically for SMEs, entrepreneurs and artisans. Second, and representing a key new development for the country, the First National Plan for Productive Transformation and Competitiveness (2017-2021), developed within the framework of the "Transform Uruguay" inter-governmental co-ordination system (*Sistema Nacional de Transformación Productiva y Competitividad - Transforma Uruguay*), also includes strategic guidelines for SME development.

Transforma Uruguay is defined by the government as a system to promote productive and innovative economic development, which builds on the relevant policies and institutions created over the past decade, prioritising articulation, co-ordination and co-operation.[3] The system's governing body is the Ministerial Cabinet for Productive Transformation and Competitiveness, which includes eight line ministries, the Office of Planning and Budget (OPP), and the Secretariat of Science and Technology. The Cabinet is supported by a secretariat attached to the OPP, which is responsible for the articulation and co-ordination of actions; and a co-ordination council comprising working-level representatives from the members of the Ministerial Cabinet. The legislation creating *Transforma Uruguay* also foresees the creation of various public-private consultative committees to support the processes of productive transformation and improving the country's competitiveness.

The First National Plan is organised around four main pillars: business climate; internationalisation; capabilities, including human capital development; and innovation. It aims at linking and creating synergies among key selected initiatives and support programmes conducted by the government around the four pillars of the Plan, and to steer them towards productive transformation objectives. The Plan also foresees the creation of an information system (to foster the inter-institutional exchange of information regarding relevant instruments and support programmes) and the development of an inventory of all existing support mechanisms. The Plan includes three types of projects:

- Complex or systemic projects, such as those linked to science and technology or human capital development;
- Projects connected to specific programmes or instruments, such as the establishment of a network of enterprise competitiveness centres, or the programme for the technological upgrading of SMEs; and
- Activities structured as functions (e.g. FDI promotion) that should be steered towards attracting investment, in line with the country's productive-transformation objectives.

In total, the Plan lists 53 initial projects, but the aim is to develop additional new projects beginning in 2018.

Many of the listed projects have a clear, even if not explicit, SME orientation. They both build on existing work while fostering the development of wholly new projects in some cases. However, most of the projects were already in place prior to the Plan, and several of them were included in the MIEM-Dinapyme programme of work. Their inclusion in the Plan responds to the need to refocus those projects towards the country's productive transformation, as well as better co-ordinate efforts with other public and private actors.

The strategic objective of the First National Plan is to promote economic development based on innovation, sustainability and social equity. The Plan also includes a number of overall objectives, such as the enhancement of the technological up-grading of Uruguayan

enterprises, their closer integration into global value chains (GVCs), the development of new activities, and the building up of new knowledge and capacities. However, the Plan lacks specific quantitative and qualitative objectives. Instead, it consists of a collection of project fiches, which mention the institutions in charge of project implementation and implementation milestones, but not do not go so far as to state specific objectives or key performance indicators (KPIs).

Various Uruguayan public institutions have designed and implemented programmes and tools for SME development, including MIEM-Dinapyme, the National Development Agency (ANDE), the Ministry of Social Development (MIDES) and the OPP. MIEM-Dinapyme's support programmes are operated through calls for proposals (*convocatorias*) or open-window registration. MIEM-Dinapyme elaborates the programme, defines the eligibility criteria and allocates the budget, with the training/advice/support delivered through training institutions or selected external advisors. ANDE, created in 2015 with a 40% share of the assets of the National Development Corporation (*Corporación Nacional para el Desarrollo,* or CND),[4] benefits from significant autonomy and is supported by a dedicated fund. Its remit is to promote economic development with an emphasis on territorial development and SME support.

Other relevant public agencies are the National Agency for Research and Innovation (ANII – see this chapter's section on "Innovation and Technology for more information), operating in the innovation area; and the National Institute of Employment and Vocational Training (INEFOP), operating in the areas of human capital and skills development.

MIEM-Dinapyme has established a unit to monitor its support programmes and produces a detailed annual activity report, which is integrated into the MIEM annual report (*Informe de Gestión*). ANDE, ANII and INEFOP all also have their own dedicated M&E units. However, the M&E mechanisms of *Transforma Uruguay* are still under development. Currently, each of the institutions in charge of the specific *Transforma Uruguay* projects perform its own M&E activities and reports to the Co-ordination Council, while the OPP produces an annual report on the First National Plan's implementation. Within this framework, one of the lines of action of the *Transforma Uruguay* Secretariat is to contribute to disseminating standards and good practices in M&E among the institutions of the system. The objective is that each new project within the framework of the System has an M&E plan that allows it to track its performance, evaluate its execution, analyse its reformulation after a prudential time, and lay the foundations for a potential evaluation in the medium-to-long term. This M&E plan must specify the theory of change of the chosen intervention and justify the indicators that will be introduced in a results matrix. Likewise, it should also detail a baseline, the frequency of monitoring of the indicators, and the goals to be achieved, as well as the strategy for conducting an impact evaluation in the medium-to-long term.

Uruguay has established a comprehensive SME database. MIEM publishes ad hoc SME surveys, with the latest at the time of writing published in 2017 (*Encuesta Nacional de Mipymes*).[5] These provide an in-depth and comprehensive overview of the structure, trends and characteristics of the SME sector, relying on a combination of survey data, administrative data from the Unique Taxpayer Register (RUT) and the General Public Commercial (Company) Register (*Registro Público y General de Comercio*), and official statistical data collected by INE, the country's national statistics agency.

Public-private consultations

Public-private consultation (PPC) mechanisms in Uruguay are still in a development phase within the framework of *Transforma Uruguay*. Uruguay has recently introduced mandatory

public consultations for regulations concerning major economic sectors (such as the energy sector, telecommunications or environmental regulations), and the MIEM has introduced a web platform to handle public consultation.

To date, however, PPCs concerning SME policy issues have been conducted in an informal way, mainly during the preparatory phase of policy initiatives. The main private sector institutions consulted are the Industrial Chamber of Commerce (*Cámara de Industrias*, or CIU), the National Chamber of Commerce and Services of Uruguay (CNCS), the Centre for Retail Stores, Baristas, Self-Servants and Allied Workers of Uruguay (CAMBADU), the National Association of Micro and Small Businessmen (ANMYPE), and the Chamber of the Digital Economy of Uruguay (CEDU). Most of these institutions are part of the Confederation of Entrepreneurs of Uruguay (also CEDU). The CIU has lobbied for structured and formal consultation mechanisms, which are now under development within *Transforma Uruguay*.

While various public institutions that work with the SME sector already have private sector participation in their boards of directors (e.g. Uruguay XXI, INEFOP, ANII, LATU), the government intends to expand and further institutionalise public-private dialogue via a series of public-private consultative committees in the framework of *Transforma Uruguay*, involving relevant private sector organisations. The initiative is still at an early stage, but it appears to be advancing in line with the participative approach advocated by the First National Plan. During May 2018, the system held its first consultative committee meeting, inaugurating the Consultative Council on Enterprise Development (CCDE). The CCDE consists of public, private and academic members as well as representatives of local governments and financial institutions, but the names of the specific institutions/organisations and/or persons present are not made public. Its overall objective is to facilitate consultation, public-private counselling, collaboration and joint monitoring in matters that affect the sustainable development of SMEs. At the CCDE's second meeting In September 2018, it established sub-committees on financing, innovation and the social economy. These sub-committees each met for the first time during 2018, and the financing sub-committee had a specific meeting to discuss and validate the planned work programme for *Transforma Uruguay* over the 2018-19 period. Press releases on the *Transforma Uruguay* website give a summary of the Council and sub-committee discussions, but no formal summary records are made public.

Measures to address the informal economy

In Uruguay, the incidence of informality and, in particular, labour informality is economically relevant, but well below the level recorded in other Latin American countries. According to a CEPAL study (Amarante and Gómez, 2016[8]), in 2014, 23.5% of the total working population was employed informally, a sharp reduction from the 40.7% recorded in 2004. The study credits this improvement to the 2007 reform of the tax regime, and in particular the introduction of the *Monotributo* (see below); the resumption of tri-partite wage bargaining; the introduction and revaluation of a minimum salary; and pension and health reforms, combined with better enforcement of labour regulations.

The government has developed a set of various programmes, policy reforms and incentives dealing with the most relevant factors related to informality; however, it has not placed those initiatives within the framework of a medium-term strategy for reducing the informal economy. The most relevant initiative is the *Monotributo*, a single payment that includes corporate tax and social security contributions. The *Monotributo* regime is open to microenterprises and the self-employed. To benefit, the enterprise has to complete a joint

registration with the tax administration and the Social Security Bank (*Banco de Previsión Social*). Uruguay has also particularly focused on youth informality and vulnerable employment – through, for example, measures to formalise the status of domestic employees as well as various capacity-building, paid-internship, and training programmes for youth.[6] In addition, MIEM-Dinapyme and the Ministry of Social Development (MIDES) are conducting awareness-raising initiatives among the categories of workers and enterprises more prone to operating informally, while the tax administration has introduced a series of incentives promoting the registration of newly established enterprises (see next section on "Operational Environment/Simplification of Procedures" for more information). Specifically, in 2017, MIEM-Dinapyme held formalisation workshops for entrepreneurs, informal companies and technicians in nine localities in the interior of the country, with 160 total participants.

Monitoring activities are relatively limited. The government regularly monitors the number of new registrations that benefit from the *Monotributo* regime, and the Ministry of Labour and Social Security (MTSS) recently completed a report on informality.[7] Data on informality is collected through the continuous household surveys conducted by the INE and cross-checked against information provided by the Social Security Bank.

Operational environment and simplification of procedures (Dimension 2)

Uruguay's performance for this dimension varies considerably across its four sub-dimensions. Its overall score is 2.92, which is only slightly below the LA7 average of 2.96, on a scale of 1-5.

Uruguay's performance is low (1.76) for the sub-dimension focusing on regulatory simplification and regulatory impact analysis (RIA) application, since the entire regulatory reform process is in an early phase of design and no significant progress has been made on RIA application. Uruguay's score is also low regarding the ease of filing taxes (2.33). Performance on sub-dimension 2.2, on company registration, (3.51) is among the best of the LA7 countries, while performance on sub-dimension 2.4 on e-government (4.64) is also relatively high, given the advanced stage of implementation of the country's Digital Agenda and the availability of e-government services for enterprises.

Legislative simplification and regulatory impact analysis

Uruguay, in line with most of the LA7 countries, has a relatively complex regulatory system and Uruguayan enterprises bear a considerable regulatory burden.

The 2019 World Bank *Doing Business* report's overall rank for Uruguay is 95th out of 190 economies, which is slightly lower than the rank recorded in 2018 (94th). Uruguay's score in the "distance to frontier/ease of doing business"[8] ranking, measuring the distance from the best performing country across the 10 indicators of the *Doing Business* report, is 62.60, marginally above the score obtained in 2018 (62.26, out of 100) (World Bank Group, 2018[14]). Although Uruguay is a mid-level performer among the LA7 countries in terms of *Doing Business* ranking, its performance is relatively modest when compared with countries with the same income per capita and economic development level.

Uruguay's ranking varies considerably across the ten *Doing Business* indicators. It is relatively strong in areas such as getting electricity (55th), starting a business (65th), and resolving insolvency (70th), while it is markedly low in some areas such as dealing with construction permits (155th), trading across borders (152nd) and protecting minority investors (132nd) (World Bank Group, 2018[14]). Such a wide dispersion in the country's

performance is an indication that the regulatory reform process is uneven, with interventions focusing only on specific areas.

In fact, Uruguay does not have in place a comprehensive strategy/agenda for regulatory reform. However, the government considers regulatory reform as a crucial area for increasing the country's competitiveness. Among the projects included in *Transforma Uruguay*, the document outlining the strategic orientations for the transformation and upgrading of the productive sector for the period 2017-2021 (see the previous section on "Institutional Framework"), is a project – project no. 4, part of the strategy's pillar dedicated to the business climate – designed to improve the business environment and increase the efficiency of the public administration. The project fiche specifically mentions the need to focus on the weak areas listed in the *Doing Business* report and calls for a company survey to identify the main constraints and administrative barriers. It then proposes the elaboration of a work plan (2017-2021) for regulatory reform, to be conducted across various ministries under the co-ordination of the *Transforma Uruguay* system.

Another area for reform identified by *Transforma Uruguay* is international trade. Project no. 5 of *Transforma Uruguay* includes an analysis of the costs related to import-export procedures, the improvement of port operations and the simplification of import-export operations for a number of selected sectors/products.

Regulatory reform is, however, in an early implementation phase. One of the main regulatory reforms recently implemented concerns the unification of the registration procedures of the General Tax Directorate (DGI) and the Social Security Bank (*Banco de Previsión Social*) in charge of social security provision. Overall, less than 25% of the legislative and normative acts related to economic activities have been reviewed to date.

RIA is not applied in Uruguay, except for impact evaluations of fiscal measures conducted by the Centre for Fiscal Studies (CEF). There are no plans to extend the application of RIA to other areas. Monitoring mechanisms for regulatory reform measures are under development, and will constitute part of the overall *Transforma Uruguay* monitoring system.

Company registration

This sub-dimension combines a number of indicators related to the institutional framework for company registration, including the presence of one-stop shops, the use of a single company identification number, and the availability of online registration facilities, with indicators on the performance of procedures for company registration and starting a business based on the results of the World Bank's *Doing Business 2019* report.

Procedures for company registration and, more broadly, starting a business in Uruguay are generally less complex than in other LA7 countries, with the exception of Chile; they are relatively fast, but also relatively costly.

Companies in Uruguay receive several registration numbers as a result of the starting-a-business procedures. However, the registration number issued by the *Registro Único de Tributación* (RUT) operates as single identification number across the public administration.

In Uruguay, entrepreneurs have two options for completing company registration. First is the online option, which allows them to perform most of the registration and notification procedures through the *Empresa en el Día* ("Business in One Day") portal managed by AGESIC (Agency of Electronic Government and Information and Knowledge Society), the

agency providing digital government services. In principle, this platform allows for registration within 24 hours for certain types of companies. Alternatively, the entrepreneur may use the traditional procedure, which involves registering with DGI-BPS (*Dirección General Impositiva – Instituto de Seguridad Social*). Since August 2018 this process has been streamlined through the use of single windows covering Montevideo and other cities.

Uruguay ranks 65th out of 190 economies in the 2019 *Doing Business* ranking for the "starting a business" indicator, and therefore occupies the upper tier in the *Doing Business* rankings for this indicator and records the best performance among the LA7 in this area (World Bank Group, 2018[14]). The gap between Uruguay and the best-performing country in this area, as measured by the "distance to frontier/ease of doing business"[9] ranking, is relatively contained, standing at 89.78 (100 = best performing country). Overall, Uruguay is penalised by the relatively high cost of its procedures, due to high notary and registration charges, so that the cost of starting a business reaches 22.6% of the GNI per capita.

Ease of filing taxes

The assessment for the sub-dimension on the ease of filing taxes is based exclusively on a set of indicators from the "paying taxes" section of the 2019 World Bank *Doing Business* report. These indicators cover the number of annual tax payments, the time required to perform those payments, and the post-tax-filing index, which takes into consideration the time required for an enterprise to apply for and obtain a VAT refund and complete an income tax correction.

Uruguay performs relatively well in this area compared with both OECD and LA7 countries. For example, the time required to perform tax payments (163 hours) is in line with the average for the OECD area. It does less well, however, in areas related to the low level of the post-tax-filing index, standing at 49.54 against an average of 84.4 in the OECD area; and the high number of tax payments per year, totalling 20 against an average of 11.2 in the OECD area. The indicators cover the standard procedures only and do not take into account the availability of online tax-filing and payment facilities.

E-government

Uruguay has been developing e-government services for more than a decade and has reached a relatively advanced stage in this area. The country has also reached a level of information and communications technology (ICT) connectivity that is among the highest in Latin America and comparable to that of OECD countries (ITU, 2018[27]).

In 2016, the government launched its latest Digital Agenda, covering the 2016-2020 period, and following a planning process started in 2007. The Agenda defines strategic guidelines and sets a number of quantitative and qualitative targets to be met by 2020. It includes specific objectives for the SME sector (e.g. to extend broadband connection to 90% of all SMEs at a competitive price) and contains a section on "integrated and intelligent government" that calls for an upgrading and integration of public databases, complete inter-operability, and the full digitalisation of public registries.

The co-ordination of the implementation of the Agenda has been assigned to AGESIC, a public body that also co-ordinates the development of e-government services. The government is actively promoting the extension of electronic signature to the entire population, thereby pursuing an inclusive approach to digitalisation.

Electronic services for tax and social-security filing are already available, while inter-operability is under development. AGESIC conducts regular surveys of the level of satisfaction of users of e-government services.

Access to finance (Dimension 3)

Uruguay's score in the dimension of access to finance (3.30) is the lowest of the LA7. Its strategies for increasing the population's financial knowledge (1.91 points) and regulating bankruptcy procedures (2.86 points) require special attention.

Legal, regulatory and institutional framework

Uruguay received a moderately high score of 4.25 regarding its legal and regulatory framework for access to finance.

In Uruguay, there is no regulatory requirement of guarantees to access credit, although these are usually considered by commercial banks for the approval of business loans. Information from the Central Bank of Uruguay *(Banco Central de Uruguay*, or BCU*)* suggests that financial institutions require collateral of moderate values, commonly between 100% and 125% of the value of the debts incurred. The use of real estate and movable guarantees is also facilitated by the existence of a system of cadastre and registration of movable property under the mandate of the Directorate of National Cadastre (*Dirección de Catastro Nacional*). However, land and real estate registries are not regularly updated or fully accessible online. In the case of movable property, the information is partially available on the website of the Directorate of National Cadastre and work is underway to develop a system that will allow the registration of other documents associated with movable property. In addition to modernizing this asset registration system, Uruguay must also consider the development of a specific legal and regulatory framework for secured transactions that includes, among other aspects, the possibility of registering present and future commitments, with or without a specific description of the goods used in the form of collateral.

From the standpoint of commercial banking, it is also important to have access to accurate sources of financial information. In Uruguay, this role is fulfilled by two private organizations that process credit information: Lideco and Equifax.

Finally, Uruguayan state entities have also shown interest in facilitating SMEs' access to the securities market. For example, through Circular 2.283 of the BCU,[10] changes were recently proposed to simplify compliance with the rules for making a public securities offer. However, this simplified regime has not been implemented to date.

Diversified funding sources

Despite being restricted by the small size of its market, Uruguay has a wide range of financial products available to SMEs. With respect to banking products, Uruguay has sought to facilitate access to commercial credit through the creation of the National System of Guarantees for Companies (SIGA), which is affiliated with the largest financial institutions in the country and offers coverage of up to 60% of the guarantees needed to access credit with an amount that can range from USD 4 300 to 78 000 with an annual cost of 2% of the value of the guaranteed capital.[11] Uruguay also has several entities specialized in offering financial solutions to small entrepreneurs and other microfinance initiatives, such as Microfinance Republic (*Republica Microfinanzas*[12]) and the Rural Microcredit

Program of the General Directorate of Rural Development.[13] Likewise, there are other financial institutions who target the SME sector that are regulated by BCU.

In addition, Uruguay has multiple financial instruments based on assets (such as those contemplated in laws 17.202[14] and 17.781[15]), as well as alternative financing mechanisms like collective financing platforms ("crowdfunding") and venture capital funds, although collective investment mechanisms are neither described nor regulated under the existing legal framework.

Financial education

Uruguay lags behind the rest of the LA7 concerning financial education issues, where it obtains only 1.91 points. Although the national government, and particularly the BCU, has a financial inclusion strategy that contemplates some financial knowledge issues, it does not specifically deal with small entrepreneurs because its focal point is educating children, youth, teachers and families – for example, through its *BCU Educa*[16] platform, which offers workshops and courses. With regard to the offer targeted at school-age young people, financial education is not yet part of the mandatory teaching curriculum, but BCU's training offerings include special programmes for teachers interested in incorporating these contents into the educational programs of their institutions.

Other efforts that have been made include the collaboration between the University of the Republic *(Universidad de la República)* and the Office of Planning and Budget *(Oficina de Planeamiento y Presupuesto)* to create the Observatory of Financial Inclusion (*Observatorio de Inclusión Financiera, or* OIF), which collected and centralized information on the financial offer available to SMEs. However, the activities of the OIF came to a close shortly after its creation.

Uruguay should define clear guidelines for its strategy regarding financial education. This should include a specific M&E framework with defined indicators, periodically collected, to measure the financial knowledge of the population. However, some initial efforts had been made in this sense, as the BCU has financed three rounds of household surveys (in 2012, 2013-2014 and 2017) that collected socio-demographic and financial information on households, including questions on the ownership and use of different investment mechanisms, savings and access to credit. Future measurements could consider the inclusion of financial literacy issues as there may be a gap between the use of financial products and the possession of tools for making informed financial decisions.

Efficient procedures for dealing with bankruptcy

Insolvency proceedings in Uruguay are governed under the 2008 Law of Contests and Business Reorganization (*Ley de Concursos y Reorganización Empresarial* 18.387).[17] This legislation does not require the maintenance of a single, accessible national register with information on companies in insolvency, but it does comply with internationally recommended practices in prioritizing tax debts and secured lender claims. The Uruguayan government could also consider creating services focused on disseminating information and technical skills to entrepreneurs seeking a new business opportunity after incurring bankruptcy. An additional shortcoming is that even if the insolvency proceedings are relatively inexpensive, the closure of judicial proceedings is a lengthy process that lasts 475 days on average.

SME development services and public procurement (Dimension 4)

Through the First National Plan for Productive Transformation and Competitiveness 2017-2021, Uruguay has established a good basis for the provision of business development services (BDS) for SMEs and entrepreneurs, especially through the ongoing introduction of business development centres and other mechanisms to increase the reach of this policy tool.

In terms of public procurement, Uruguayan laws and regulations include most SME-related elements measured in this report, except for ensuring that payments are made in time and that penalties apply in case of late payment (there is a regulation in this area, but it is not enforced). Furthermore, although Uruguay has in place an e-procurement mechanism, not all phases of the procurement process are done electronically and not all tendering agencies are required to use the system.

The country's overall score of 4.39 for this dimension, which is above the LA7 average of 4.09, reflects this relatively well-developed state of affairs, with the sub-dimension on public procurement (score of 3.99) signalling the most room for improvement.

Business development services for SMEs and entrepreneurs

Like the rest of the countries covered in this report, Uruguay lacks an exclusive or specific SME strategy – although it does have a general economic agenda under the First National Plan for Productive Transformation and Competitiveness 2017-2021, driven by the inter-institutional platform *Transforma Uruguay* (see under "Institutional Framework" earlier in this chapter). As noted earlier in this chapter, the Plan comprises four pillars: investment and business climate; internationalisation; science, technology and innovation; and development of human and entrepreneurial capacities. A few of the actions under those pillars relate to the provision of BDS for SMEs and entrepreneurs, namely:

1. *The creation of a network of Enterprise Competitiveness Centres (CCE),* where SMEs and entrepreneurs in a given territory can access an integrated BDS offer from various support organisations (MIEM-Dinapyme, OPP, ANDE, INEFOP, etc.). At the time of writing, there were pilot centres in two regions (Rivera and Tacuarembó), with five planned by mid-2019.[18]
2. *The establishment of a Network of Enterprise Development Agents* that will support SMEs and entrepreneurs in geographical areas lacking a CCE. Like the centres, the agents will orient SMEs and entrepreneurs to the various support mechanisms available through different institutions. The network of agents will operate under the same logic as the CCE, adopting the existing framework agreements with all support organisations. At the time of writing, the project was still at the planning stage.
3. *The design and implementation of a Single Registry of Consultants* (individuals and institutions) to help the various public-support organisations in the implementation of their programmes. This project will include the categorisation of all institutions and individual consultants providing BDS for enterprises; the standardisation of the criteria under which BDS providers will form part of the registry; and the definition of common criteria for evaluating the quality of the services from the point of view of the beneficiaries and the support entities. This project is expected to be operational by end of 2018.
4. *The establishment of an 'Uruguay Emprendedor' entrepreneur's portal* as part of a national system for the support of entrepreneurship. The Portal consolidates all relevant information for entrepreneurs (support programmes, services, events, etc.).

Its aim is (a) to direct entrepreneurs to the type of support that best corresponds to their needs and (b) to establish a registry of entrepreneurs, institutions and services classified according to the stage of the business and to geographical areas. At a future stage the initiative will serve to promote the exchange of experiences among entrepreneurs, online incubation services and others.

The main aim of these measures is to consolidate information and increase access to BDS for SMEs and entrepreneurs. These measures will give greater coherence to the rich BDS offer already existing in Uruguay, which is provided by a number of institutions, such as MIEM-DINAPYME.[19] MIEM-Dinapyme has programmes to support entrepreneurs to create firms with growth and employment potential (*C-Emprendedor*) and to assist SMEs. MIEM, together with other institutions, supports business incubators (including one for co-operatives, *Incubacoop*) and young entrepreneurs (*Espacio Germina*) and implements an Industrial Extension Centre (CEI) to strengthen innovation and competitiveness in industrial firms (see next section on Innovation and Technology).

The National Development Agency (ANDE) is another important institution providing support to SMEs and entrepreneurs, including in the area of BDS. Its programmes include nurturing an entrepreneurial culture (e.g. co-financing events organised by universities, incubators, and others); providing subsidies to individual entrepreneurs and to business incubators (*Semilla ANDE*); and supporting "tractor" and supplier enterprises (*Programa de Desarrollo de Emprendedores*), among others.

Other important agencies in this area include the National Agency of Research and Innovation (ANII), which provides support to innovative ventures (see next section on Innovation and Technology); the National Institute of Employment and Professional Training (INEFOP), which supports human capital development in firms; the Ministry for Social Development (MIDES), which focuses on "necessity driven" entrepreneurship and employment alternatives, including social co-operatives; and Uruguay XXI, which supports businesses with an international orientation (see this chapter's section on Access to Market and Internationalisation of SMEs).

Although there is no explicit division of responsibilities between these organisations, they target different audiences of SMEs and entrepreneurs. Furthermore, according to the information for this assessment, their work is co-ordinated through *Transforma Uruguay* and is monitored through yearly operational plans that must be validated by the system's Ministerial Cabinet (one of the governance mechanisms of *Transforma Uruguay* – see the previous "Strategic planning, design and co-ordination" sub-section for more information). It is not clear, however, whether that co-ordination and monitoring concerns the entire BDS spectrum. Ultimately, the aforementioned First National Plan does not intend to be a comprehensive SME strategy, but rather a set of initiatives and institutions working towards greater productivity and competitiveness in the overall economy.

In terms of the dissemination of information on the diverse offer of BDS, the platform *Uruguay Emprendedor* provides a consolidated space (both online and in physical centres) where entrepreneurs and SMEs can consult the various programmes available across the country.[20] MIEM is responsible for the platform, in collaboration with other institutions involved in BDS provision.

Public procurement

Uruguay has a complex framework of laws and regulations framing the participation of SMEs in public procurement. Law 18.362 of 2008 on Accountability and Balance of

Budgetary Execution (*Rendición de Cuentas y Balance de Ejecución 2007*) creates a Programme of Public Procurement for Development, which provides a framework for special procurement regimes and procedures designed to foster the development of domestic suppliers, in particular SMEs and small agricultural producers, and to stimulate scientific-technological development and innovation. Article 43 of that Law notes that in the Programme framework the contracting institutions can use preferential price margins and market set-asides of up to 10% of a contract in favour of domestic suppliers. In addition, Article 44 stipulates the use of the following sub-programmes:[21]

- A sub-programme of Public Contracting for the Development of Micro, Small and Medium Enterprises, which is under the co-ordination of the MIEM, through MIEM-Dinapyme. (The information provided by Uruguay notes that in 2017 this programme supported only nine enterprises and the organisation of five information workshops about this programme.)
- A sub-programme of Public Contracting for the Development of Small Agricultural Producers, which would be co-ordinated by the Ministry of Livestock, Agriculture and Fisheries. (The programme has not been implemented.)
- A sub-programme of Public Contracting for Scientific-Technological Development and Innovation, which will be co-ordinated by the National Research and Innovation Agency. (This programme is not yet under implementation.)

The Programme of Public Procurement for Development is, however, limited to a cap of maximum amounts that are based on the value of the total procurement exercised by the different state institutions during the previous year.[22] Decrees 371 of 2010 and 164 of 2013 stipulate the conditions under which SMEs and domestic suppliers can benefit from the Programme.[23] A series of other decrees establish the preferential regimes of the Programme.[24]

Other legal stipulations outside the Programme allow for splitting tenders into lots and for forming consortia of firms for joint bids. The former is reflected in Article 36 of the Ordained Text of Accounting and Financial Administration (TOCAF), which stipulates the general conditions for the establishment of framework agreements.[25] The latter is reflected in Articles 501-509 of Law 16060 on Commercial Companies. Furthermore, in terms of laws regulations to ensure timely payment to suppliers, Article 71 of TOCAF addresses this issue – although, according to the information gathered for the assessment, this article is not yet regulated, which could weaken its application.

Article 50 of TOCAF establishes the mandatory character of e-procurement. It notes that public administrations should publish their procurement offers (including their specific conditions, modifications or clarifications) through the website of the Contracting and Purchasing Agency of the State (ACCE). It also notes that those agencies should disseminate information on those offers and should publish other information such as adjudication, declaration of deserted tenders or the rejection of offers. ACCE is also responsible of administering the Single Registry of Suppliers of the State (RUPE), which maintains up-to-date information on natural and legal persons interested in supplying to the state. With regard to helping SMEs participate in public procurement, ACCE publishes a number of manuals explaining how to supply to the state and provides a series of training courses to firms (with no restriction to the size). In addition, MIEM-Dinapyme implements a programme to improve the management of public procurement that aims to help firms improve in the areas of strategic planning, logistics and quality.

Innovation and technology (Dimension 5)

Uruguay's First National Plan for Productive Transformation and Competitiveness 2017-2021 includes a specific element on innovation policy, with a number of specific actions in this area.

Uruguay's score of 3.79 for this dimension, which is aligned with the LA7 average of 3.75, reflects the ongoing developments in this policy area.

Institutional framework

Three strategic instruments guide innovation policy in Uruguay. First, the National Strategic Plan of Science, Technology and Innovation (PENCTI) of 2010 provides the wider framework in this area.[26] The PENCTI considers research, innovation and education to be the engines of economic activity and has three corresponding strategic objectives:

1. To consolidate the scientific-technologic system and its association with the social and productive realities;
2. To increase the competitiveness of the productive sector in a context of globalisation; and
3. To develop capabilities and opportunities for the social appropriation of knowledge and inclusive innovation.

More specifically related to SME development, the PENCTI aims to stimulate innovation in small firms, especially those inserted in dynamic clusters based on regional specialisations.

Second, the yearly operative plans of the ANII (National Agency of Research and Innovation), which is the executive/operative arm of the PENCTI, put the agency in charge of, among other activities, articulating research with social and economic realities; fostering human capital for science, technology and innovation; and fostering innovation in firms, including SMEs.[27] According to the Uruguayan authorities, although the PENCTI is not directly monitored, the ANII's instruments and activities related to the PENCTI are closely monitored through its M&E Unit.

Third is the innovation-related actions in the First National Plan for Productive Transformation and Competitiveness 2017-2021 of *Transforma Uruguay* (see this chapter's first section on the Institutional Framework), which is the key instrument driving productive policy in Uruguay (see next section on Productive Transformation). The Plan outlines eleven actions or projects in the area of innovation, including the following:

- The establishment of a public-private venture capital fund;
- The implementation of support programmes for innovative start-ups ("pre-acceleration" of technological enterprises);
- The introduction of a programme for innovative public procurement (foreseen in Law 18.362 of 2008 – see section on Public Procurement);
- The establishment of a programme to improve innovation management in SMEs; and
- The introduction, expected at the end of 2019, of a web portal for the National Innovation System.

In terms of policy co-ordination and implementation, Uruguay does not have a broad National Innovation System along the lines of those implemented (*albeit very partially*) in other countries (the set of ministries, institutions, universities, academics and others in

charge of co-ordinating the wider innovation policy agenda). Nonetheless, the governance mechanism of *Transforma Uruguay* includes strategic direction (a ministerial cabinet) and a secretariat, and various consultative committees are currently being developed. Such a governance structure could prove effective in the implementation of the actions and objectives of the First National Plan, although it seems to lack other consultative committees that can be relevant for innovation policy (e.g. academics and research institutions).

Support services and financing for innovation in SMEs

ANII is the main agency in charge of innovation policy in Uruguay, including the promotion of innovation in the private sector. In this area, the Agency deploys over 20 instruments aimed at all sizes of enterprises (i.e. not exclusively at SMEs).[28] The government of Uruguay considers that the ANII effectively has an innovation strategy with a specific section focused on SMEs through its support schemes to the entrepreneurship ecosystem and the generation of innovative entrepreneurship. The basis for this assertion is that 92% of all firms supported by the Agency in 2016 were SMEs. Furthermore, of the USD 30 million spent by ANII in the promotion of innovation in private firms between 2008 and 2016, USD 7.22 million corresponded to the development of the entrepreneurship ecosystem. For example, ANII implemented a Network for the Support of Future Entrepreneurs (RAFE) that brings together various types of organisations (public, private, universities, enterprises, foundations, NGOs, business associations, etc.) to help entrepreneurs at various stages in the development of their business.[29] The RAFE organises entrepreneurship competitions and provides partial subsidies to various types of projects. By 2019 the RAFE's coordination was transferred to ANDE since the associated institutions to RAFE are diverse and cater to a wide audience of entrepreneurs (i.e. no exclusively innovative ones).

ANII has also designed and implemented a set of instruments aimed at sharing the risk of innovating in companies and promoting articulations between various sectors (academia, the productive sector, research centres, etc.) for the development of innovation activities. The support was designed in a sequential manner, so that companies incorporate innovation activities as a daily and permanent element of their management. The sequence includes three phases: the Development and Strengthening of Business Capacities to Innovate (phase 0); Business Innovation (phase 1); and the Development of Innovative Projects (phase 2). Also, there are instruments that seek articulation between academia and companies through the promotion of Partnerships for Innovation (ALI)[30] and Sectoral Technology Networks (RTS).[31]

As noted in the BDS section, the MIEM also implements an Industrial Extension Centre (CEI) to strengthen innovation and competitiveness in industrial firms. The CEI brings together the government (MIEM, ANII and ANDE), the private sector (the Chamber of Industries of Uruguay), and academia (the University of the Republic) to provide free diagnostics and action plans for SMEs in the chemicals, food, metallurgical, plastics and wood sectors.[32]

Uruguay implements a variety of programmes supporting innovation in firms, many of them specifically targeting SMEs. As is the case of other countries in the region, these support schemes are monitored and evaluated at the programmatic or individual level rather than at the strategic or overall policy level. The implementation of the M&E mechanism foreseen in *Transforma Uruguay's* First National Plan could be an important step in this direction.

Productive transformation (Dimension 6)

Uruguay entered a new phase in its productive transformation efforts over 2016-17 with the establishment of *Transforma Uruguay* and its First National Plan for Productive Transformation and Competitiveness. While many of the strategy's projects remain in development or initial implementation phases, they strategically build on previous efforts and programme evaluations in the areas of associativity and value chains.

Uruguay's overall score of 3.62 for this dimension reflects this development-phase state of affairs, and could be expected to improve as the strategy matures and moves fully into implementation, including the development of its overall M&E apparatus.

Productivity-enhancing strategies

While Uruguay has more than a decade of institutionalised government support for productivity-enhancing measures, the establishment of *Transforma Uruguay*, and its corresponding First National Plan, marked a new phase. Prior to the establishment of *Transforma Uruguay*, the country had in place three ministerial cabinets, on the themes of productivity, innovation and foreign trade. These cabinets achieved important advances over the period 2005-2016, including the establishment of public-private sectoral councils for selected priority sectors,[33] with corresponding sectoral development plans; the creation of the ANII (National Agency of Research and Innovation) and the PENCTI[34]; and the establishments of the Foreign Trade and Investment Information System (SIICEX)[35] and VUCE single trade window.

However, despite these important advances, the institutional environment in Uruguay (including that related to SME development) remained complex, with numerous institutional actors working on similar topics with their own disconnected, and sometimes overlapping, instruments (Silva Córdoba, 2017[28]).

In recognition of this complex background – and of the interrelated nature of the country's challenges with regard to productivity, innovation and foreign trade – the creation of *Transforma Uruguay* combined the three previous ministerial cabinets into a single "Productive Transformation and Competitiveness" Cabinet comprising eight ministries, the Office of Planning and Budget (OPP) and the Secretariat of Science and Technology. As explained previously in this chapter, *Transforma Uruguay* is organised around four thematic pillars: business environment, internationalisation, innovation, and capacity development (human and business). Under these pillars various project fiches are organised that present scheduled milestones for implementation and list the responsible and participating government entities – but do not go so far as to set quantitative objectives and/or indicators. The strategy includes various SME-related and/or dedicated projects throughout (see this chapter's Institutional Framework section for more details on the overall organisation of the *Transforma Uruguay* system).

The scores for Uruguay within this assessment focus on the *Transforma Uruguay* strategy as an important new stage in the country's SME and productive development efforts. The 3.29 score for this sub-dimension, which is on the lower end of the LA7 scores, reflects the fact that, at the time of this assessment, *Transforma Uruguay* was still in the beginning stages of implementation. Thus, this score should serve as a useful baseline, and could be expected to increase as the strategy moves more fully into implementation. For example, while the strategy includes a dedicated section with projects related to inter-ministerial co-ordination and M&E, these projects were not yet implemented at the time of the assessment because, although *Transforma Uruguay* was created in December 2016, its First National

Plan was only approved in November 2017. The strategy does, however, foresee the establishment of a system for the institutional interchange of information, an M&E network, a programme inventory, and a productive observatory to measure KPIs on productive transformation – all of which will serve to strengthen the strategy's M&E capabilities. In the meantime, the System's Secretariat has begun producing a public annual report on the strategy's implementation.[36]

Overall, the establishment of *Transforma Uruguay* marks an important step in linking the country's SME support programmes to its plan of productive transformation. Many of the listed projects have a clear, if not explicit, SME orientation. They build on existing work while at the same time fostering the development of wholly new projects in some cases. The inclusion in the First National Plan responds to the need to refocus those projects towards the country's productive transformation, as well as better co-ordinate efforts with other public and private actors. The shift towards a productive transformation approach will require a review of the existing SME support programmes, in order to adapt them to the new objectives. This will likely lead to more selective targeting of the SME population and to the focusing of the support programmes towards the enterprises with the highest growth potential.

Productive association-enhancing measures

Uruguay has had over a decade of experience with established support programmes designed to enhance productive association. They were conducted with the support of the IDB and the EU in 2004-2014, and since then have continued in the form of the associativity programmes led by ANDE. Uruguay initially worked with the IDB in the context of its Competitiveness Programme for Conglomerates and Productive Chains (PACC). Implemented via calls for proposals (*convocatorias*), the programme offered co-financing to either establish new clusters/associations or strengthen existing groups to achieve various strategic goals (incorporation of innovative technology, amplification of export markets, etc.). Over 2005-2012, PACC issued four calls for proposals and selected 16 clusters for support; these clusters then received a free diagnostic assessment, resulting in an improvement plan for the cluster's operation, and were then eligible for up to USD 500 000 in co-financing and subsidised additional consultancy or training in order to implement their improvement plans. The programme was designed with set impact indicators, and included a post-implementation evaluation report on this basis, as well as a wider reflection paper on lessons learned. These evaluations were positive overall, with the programme achieving all of its set objectives, which were related to beneficiary satisfaction, export performance of the selected clusters, and programme coverage.

On this basis, ANDE has developed a set of associativity support programmes, based again on a call for proposals and co-financing structure. The "Public Goods Programme", developed in 2017, has thus far selected and provided 1.2 million USD in financing for eight projects[37] via its first call for proposals, with a second underway at the time of writing. These eight proposals were selected from 17 overall applications, according to pre-defined and publicly available evaluation criteria. While information on all applicants is not publicly available, ANDE does post a report on their website at the close of all calls for proposals, listing the selected projects and the amount of co-financing awarded per project.[38] The project must co-finance a "public good"[39] to fix market, co-ordination and/or information failures for an entire sector. Calls for proposals are accepted from single businesses and do not have any sectoral targeting/limitations; however, in practice, seven of the eight proposals selected thus far have been submitted by business organisations, such as sectoral chambers of commerce.

ANDE also runs a "Productive Articulation and Competitiveness Programme" that is currently working with one specific regional tourism cluster in Piriápolis. The programme has already financed an external consultant (to create a cluster improvement roadmap) and a part-time cluster manager, and has issued a call for proposals to co-finance specific related initiatives, undertaken by either the whole cluster or members of it. However, while project evaluation workshops have been held periodically, no public written M&E system exists.

Regarding industrial parks, Uruguay, like various other LA7 countries (Colombia, Ecuador, Peru) is in the process of updating its relevant legal frameworks. In the case of Uruguay, this constitutes Project #2 of *Transforma Uruguay*, which seeks to update the legislation governing industrial parks in order to incentivise (a) associativity through the development of common infrastructure and services and (b) the development of scientific/technology parks, including research centres. The legislative update began in December 2017 and was still ongoing at the time of writing.

Uruguay's score of 3.68 for this sub-dimension reflects the high-quality planning and design of the aforementioned programmes as well as their ongoing implementation. However, the ongoing implementation nature of ANDE's current programmes means that no detailed evaluation information is yet available, drawing down the overall score. However, there is clearly presented and consolidated monitoring information on ANDE's website regarding the beneficiaries of each *convocatoria* issued by the agency,[40] as well as an annual public report.[41]

Integration into regional and global value chains

To facilitate SMEs' inclusion in value chains, Uruguay has developed a type of supplier development programme similar to that developed by most LA7 countries. As in Chile, Colombia, and Peru, a call for proposals (*convocatoria*) is directed at large companies, both domestic and foreign, who must submit a project for the development of their Uruguayan suppliers – whether existing suppliers or potential new suppliers. ANDE's programme then co-finances an external consultant to undertake a diagnostic of both the selected applicant and its suppliers. In the case of a positive diagnostic (i.e. one showing potential for development), the consultant formulates a project plan, to be reviewed and approved by ANDE, for co-financing and implementation over a maximum three-year period, and for up to USD 300 000, or 70% of the project. This financing must also be used to contract a programme co-ordinator, selected by ANDE and the applicant.

While this programme was only established in mid-2017, selected pilot supplier development initiatives had previously been conducted over 2012-2016 in two places: the department of Río Negro, under the leadership of MIEM-Dinapyme; and the city of Tacuarembó, through its local development agency in co-operation with the IDB. The positive evaluations of these pilot initiatives – including useful lessons learned and the overall conclusion that the pilots could be replicated in a variety of sectors and contexts – contributed to the design and rollout of ANDE's current efforts. These pilot programmes found that the large enterprises involved increased their local purchases, remained highly involved throughout the programme, and were interested in continuing this form of collaboration in future. The SMEs involved were found to have successfully developed into new suppliers and/or to have developed new products and invested in the completion of quality standard certifications and improvement of their management structures.

Uruguay's supplier development programme is the most recent in the LA7 and has not yet reached the M&E stage, as the pilot call for proposals was issued at the time of the assessment. Uruguay's score of 3.89 for this sub-dimension reflects this state of affairs, and

could be expected to improve as programme implementation matures. Indeed, an M&E system has been pre-developed and incorporated into the existing call for proposals for this programme. This includes biannual written reports from the project co-ordinator on implementation, against set project objectives and actions. Furthermore, information on *convocatoria* beneficiaries exists, thanks to the public reporting provided by ANDE at the close of all calls for proposals run by the agency.[42] This report states that five projects were selected within this first call for proposals round, submitted by large companies in the agricultural, livestock (cattle, sheep and sheep wool), chemicals, industrial (meat processing), and logistics (port operation) sectors. Each project received USD 15-20 000 to undertake the aforementioned diagnostic phase, with additional co-financing subject to the diagnostic results. The planned projects vary in their scope and focus, addressing areas such as facilitating adherence to quality standards to facilitate exports to the US market; developing information-sharing/co-ordination platforms between large companies and their suppliers; and implementing new technical processes to increase productivity, among others. Within *Transforma Uruguay*, an additional programme component is also under development, which would be directed to public Uruguayan companies[43] and their suppliers.

While ANDE's programme does not have any sectoral targeting/limitations, MIEM's "Industrial Fund", created in 2016, assists various priority value chains[44] with the co-financing of investments in product and supplier development, promotion of good practices, productive sectoral infrastructure, and associativity. Sixty-one projects were selected via annual calls for proposals over 2016-2017, with information on beneficiaries publicly available.[45]

Access to market and internationalisation of SMEs (Dimension 7)

Uruguay is making clear efforts to support SME internationalisation, including specific measures related to trade facilitation, e-commerce, quality standards and regional integration. Its overall score of 4.36 for this dimension, one of the top LA7 scores, reflects these generally well-developed efforts across the policy-making cycle of planning and design, implementation and M&E. Going forward, further strengthening M&E systems and using the results to inform future policy-making cycles will be essential to effectively evaluate the performance of these efforts in improving Uruguay's export environment and SME export performance.

Support programmes for internationalisation

As noted in Chapter 10, all LA7 countries have relatively well-advanced policies and programmes in place to promote SME exports. However, Uruguay receives the top LA7 score of 4.78 for this sub-dimension. This is because, beyond active and SME-targeted internationalisation support programmes, its government also has conducted formal consultations with SMEs to inform programme design and evaluation, published clear M&E results that have informed next steps, and designed programmes to facilitate linkages between SMEs and multi-national enterprises (MNEs), including with foreign MNEs (see previous sub-section on "Integration to Global Value Chains").

Uruguay's investment and export promotion agency (EPA), Uruguay XXI, is a key part of the *Transforma Uruguay* strategy, which has "Internationalisation" as one of its four key thematic components. While this strategy does not encompass all of Uruguay XXI's work, it includes key measures for future development, including the SME export training programme "ProExport+". This builds on a previous programme, "ProExport", which was

found to be an effective support mechanism for SME exporters – thanks to a Uruguay XXI impact evaluation, which used sectoral control groups as a measure of the programme's impact. While only 67% of the 164 total SMEs that were assisted by the programme over 2011-2015 successfully exported during this period, the control group study found increases in export values of between 3% and 33% in all but one sector (wine) assisted by the programme, while control groups registered losses in all but two sectors. Based on this evaluation, Uruguay XXI decided to continue the programme, but to raise the co-financing limit per project – and to include free, dedicated help from its staff for selected SME beneficiaries working to develop comprehensive export plans.

The ProExport+ programme, launched in September 2017 with an initial annual budget of USD 1 million,[46] was used to fund 41 SME beneficiaries through a call-for-proposals selection process. Uruguay XXI helps the selected beneficiaries, who can be either new or existing exporters, to develop a strategic exporting plan on the basis of a free diagnostic, provided by the agency, of their current capabilities and potential; the firms then receive up to USD 40 000 in co-financing to execute said plan. During its first year of implementation, 20% of beneficiaries were exporters of goods, while 80% were exporters of services. Uruguay XXI also conducts various training sessions, including a multi-session "Exporting Step by Step" curriculum. These workshops are recorded and available on Uruguay XXI's website[47] to facilitate access for those unable to attend in person.

In addition to these SME-specific programmatic efforts, Uruguay XXI has developed an online information centre that breaks down relevant information by country, product destination, sector, and department as well as providing statistical data.[48] MIEM-Dinapyme is also developing an interesting academic partnership to further extend tailored commercial intelligence to SMEs. As a first result of an agreement with the *Universidad Católica del Uruguay* (UCU), advanced students in their "International Business and Integration" bachelor's programme undertook market studies for eight microenterprises, exploring specific destination opportunities for their products.

At the strategic and institutional level, Uruguay XXI sets various annual strategic objectives and corresponding measurable performance indicators, which are publicly available on its website. While the results of this internal system are not public, an annual report is published on the Uruguay XXI website each year,[49] and its board of directors is composed of seven inter-ministerial and eight private sector representatives, including a representative of the National Association of Micro and Small Enterprises (ANMYPE).

Trade facilitation

Uruguay, like its LA7 peers, scores relatively well here (4.25 vs. LA7 average of 4.35), as it has a specific "Easy Export" (*Exporta Fácil*) programme to facilitate basic SME exports, provides exporting guides and inquiry points, and has established both a single window for trade procedures and an Authorised Economic Operator (AEO) programme.[50] However, despite the existence of these latter two programmes, Uruguay, like its LA7 peers, lacks targeted support services for SMEs related to AEO certification and document preparation.

Uruguay's "VUCE" single window was established in 2013 and its AEO programme the following year; however, since this time, no SMEs have been included among the more than 50 entities certified. More than 30 training courses per year are offered to VUCE users, and biannual user satisfaction surveys are conducted to inform platform improvements. Uruguay also benefits from its membership in the IDB's Inter-American Network of International Trade Single Windows (RedVUCE), which provides a forum for the exchange of best practices and support for regional integration. The OECD's Trade Facilitation

Indicators (TFIs), which cover selected RedVUCE members, currently rank Uruguay as one of the top cumulative RedVUCE performers, along with Chile, Colombia and Mexico. Uruguay performs particularly well in matters related to data content and structure (minimising repetition and costs), legal framework (privacy, confidentiality, data protection and dispute resolution), and technological architecture (usability and capability for future developments), though it lags somewhat behind its REDVUCE peers regarding institutional aspects and scope (number of public and private entities included; funding and array of services offered) (OECD, 2018[29]). Internal reporting shows that 71% of all relevant administration procedures can currently be completed within the VUCE system, and that 65% of all relevant agencies are fully integrated. Total users have grown from 73 to more than 17 000 during the system's first five years of existence, The results of user satisfaction surveys to date have been very positive, with over 90% of users stating that the VUCE service is either "good" or "very good", and 88% considering that the platform is "good" or "very good".

Uruguay's "Easy Export" programme was established in 2009, as the first of the LA7, and facilitates exports of up to USD 3 500 in value and 30 kilograms via the postal system. The programme website links to other support services offered by the government for both SMEs and exporters, and also provides information about the benefits of becoming a "certified SME" via MIEM-Dinapyme, which is necessary for programme participation. Among these benefits is a 50% discount on Uruguay XXI training courses and its website design services. A user satisfaction survey undertaken in 2015 showed that 64 total businesses/entrepreneurs had utilised the system, with 22% of these classified as "frequent users". The evaluations received were generally positive, and also resulted in interesting lessons learned to increase programme relevance and impact. For example, the evaluation made clear that users had little to no knowledge about access conditions beyond the programme for reaching international markets (such as free trade agreements, preferential tariffs, or certifications) or about various programme benefits beyond the fundamental service of shipping. This latter finding was thought to be connected to the perception among respondents that the programme was too expensive for the benefits that it provided.

As demonstrated in Figure 10.4, Uruguay generally matches the average performance of its LA7 peers across all four TFI categories included in this assessment (information availability, fees & charges, documents and procedures). However, its average performance across all TFI indicators falls below the average OECD performance (1.39 vs 1.67, respectively, best=2). The OECD notes that Uruguay matches or exceeds the average performance of upper-middle-income countries in all TFI areas, and that it has close to the best performance across the sample as regards involvement of trade community, appeal procedures, fees and charges, formalities, and governance and impartiality. However, the OECD also advises that Uruguay would benefit from continued improvements in exactly the four aforementioned indicators that the SME PI focuses on in particular. (OECD, 2017[30]).

Use of e-commerce

Uruguay, alongside the majority of its LA7 peers, is relatively well advanced in terms of programmes to support SME access to and use of e-commerce. The work of the AGESIC (*Agencia de Gobierno Electrónico y Sociedad de la Información y de Conocimiento*), which is the government agency in charge of providing digital government services, is led by Uruguay's 2020 Digital Agenda, and was established on the basis of market research conducted by the agency in 2014 to understand Uruguayan enterprises' current use of e-commerce and the principal barriers for its further development. The plan consists of four

pillars,[51] within which "sustainable economic development" has two objectives to increase the use of e-commerce by SMEs, setting a goal of training 3 000 SMEs and 4 900 entrepreneurs by 2020.

As explained in Chapter 10, LA7 countries' support programmes in this area can be divided into three categories: 1) training programmes, 2) construction of public e-commerce platforms and/or modernisation of e-commerce systems/legislation, and 3) provision of co-financing. Beyond the aforementioned focus on training, Uruguay's Digital Agenda also seeks to "deepen the process of financial inclusion through measures to facilitate access to and reduce the costs of financial services". To do so, a "Financial Inclusion Programme" was established in 2016, with the objectives of universalising access to the financial system (with a focus on SMEs) and modernising the country's payment systems. The programme has implemented various cost-reduction measures for SMEs, including value-added tax reductions for the use of debit and credit cards, establishment of a 24-hour payment window to businesses by banks for debit card sales, subsidies for the lease of point-of-sale (POS) systems, and subsidies for the establishment of electronic receipt systems. According to M&E reports, these measures have resulted in a clear increase in installation of POS systems, with 20% more systems installed in the first half of 2017 alone than in the entire year 2015; and use of debit cards, rising to 24.7% of all purchases in the first half of 2017, from only 6.3% in 2014.

The Digital Agenda has a dedicated website (www.uruguaydigital.uy) which provides consistently updated reporting on the implementation status of each of the agenda's 47 objectives. As of the close of this assessment, the online training platform related to Objective #22, SME and entrepreneurial e-commerce training, was still under development. Objective #23 on the Financial Inclusion Programme was 82% complete, based on the following established indicators: install 63,000 POS systems, have 32% of all payments conducted with debit cards, and have the total of all debit card operations equal USD 130 million in 2020. Beyond this, no systematic KPI information on e-commerce is collected, though MIEM's 2017 SME Survey did included a dedicated sub-section on e-commerce, which found that 30% of SMEs had made online sales in the prior three months.[52]

Quality standards

While some LA7 countries have specific SME quality-standard support programmes, Uruguay's support measures are integrated into wider, disperse programmes led by multiple agencies. For example, quality standard certification is an approved spending category under Uruguay XXI's ProExport+ programme, and the Laboratorio Tecnológico del Uruguay (LATU) also (a) provides support to the food and beverage sector via free certification of various products (for all Uruguayan companies) and (b) works with Quality Austria, under the name "LSQA",[53] to certify management systems, including a specific framework for SMEs. Uruguay's quality standard agency, INACAL, has also developed specific management system self-certifications for SMEs using an online questionnaire. Furthermore, MIEM-Dinapyme runs the "Procertificación" support programme, which offers partial subsidies to SMEs that can be used to cover the costs of undertaking and implementing quality certification procedures, including those for technical norms and/or management systems, such as ISO 9001.

Uruguay XXI has also developed various promotional mechanisms related to the quality of Uruguayan goods and services. The "National Brand" (*Marca País*) is a dedicated graphic[54] that Uruguay XXI can grant companies the right to use on their products, as a mark of

national origin and quality. Thus far, 561 businesses are able to use the brand, concentrated in the tourism, technology, gastronomy and clothing sectors. *Transforma Uruguay* is supporting the brand's further development and dissemination via a dedicated project to establish annual promotion plans and events. For the services sector, Uruguay XXI developed the bilingual (English/Spanish) "Uruguay Smart Services" brand and platform[55] to better promote the country's advantages related to the provision of global services, in four categories: corporate services; ICT; pharmaceutical and health; and architecture and engineering.

Consistent M&E information is not available for these initiatives, with ProExport+ only launched in the latter half of 2017, and no public information from LATU, LSQA or INACAL on their work with SMEs. Uruguay XXI does set specific, measurable annual objectives related to the "National Brand", and also publishes a dedicated annual report for this programme; yet, the information contained in the report does not include reporting on the aforementioned annual objectives.[56]

Taking advantage of the benefits of LAC regional integration

As a member of MERCOSUR, Uruguay has made concrete, longstanding efforts to support SME development within regional integration efforts. Within MERCOSUR, this is the responsibility of the bloc's "Productive Integration Group" (GIP), whose "Productive Integration Programme" (*Programa de Integración Productiva*, or PIP), established in 2008, comprises seven lines of action covering topics such as human resources development, trade facilitation, financing and investment in research, development, and technology transfer. [57]

The bloc's structural convergence fund (FOCEM), set up in 2004 and operational since 2006, has been used to support these goals. A wide range of projects are financed through the fund, with information available online broken down by country and thematic area.[58] During its first ten years of existence, the fund supported 43 projects and provided more than USD 1 billion in financing. While the fund is not specifically for SME development, specific projects are often targeted at the SME sector, within the fund's overall goals of lessening intra-regional asymmetries and strengthening integration processes. Projects must fit into one of the fund's four overall programmes, which focus on structural convergence; development of competitiveness; social cohesion and strengthening of institutions; and integration. A good example in the case of Uruguay is the "Internationalisation of Productive Specialisation Project" (*Proyecto de Internacionalización de la Especialización Productiva*, or PIEP), which serves as a both a business development and regional value chain support programme. To be selected for project financing, SMEs must come from a priority value chain, incorporate innovative technology, and demonstrate the export potential of their product intra-regionally.

Thus, within the LA7, MERCOSUR stands out as the bloc that has oriented its SME development efforts more towards integration in and strengthening of regional value chains. Mercosur is also currently the only bloc to have a multiannual strategy oriented to SME development; however, the M&E situation of this strategy is not easy to evaluate because, as with many LA7 strategies, the 2008 PIP does not go beyond a collection of lines of action to state specific key performance indicators at strategic level. According to the authorities, regular and extensive M&E activities take place at the programmatic level and, at the strategic level, an assessment is necessary in order to obtain continued funding. This is supported by the FOCEM Rules of Operation, which require that all fund-supported projects provide biannual updates on their implementation and be subject to both internal

and external audit. However, none of this resulting information is publicly available, and was also not eligible to share with the OECD in the context of this assessment. This results in an important knowledge gap between implementation agents and stakeholders in (a) understanding the impact of these interventions and (b) learning from both good practices and areas where adjustments could be made. A 2016 report summarising the first ten years of the fund's existence did narrow this gap somewhat, as it provided information on specific programmatic achievements.[59] However, the information was not provided in relation to any specific pre-set KPIs, and the report serves more to communicate the fund's successes rather than to publicly evaluate the fund's operations.

At the national level, Uruguay's Ministry of Foreign Affairs works on the basis of a multi-annual (2015-2020) strategic plan, which includes specific objectives and expected results related to its Mercosur membership, namely, to "deepen the relationship between MERCOSUR and the rest of the world." However, the strategy does not focus on the dissemination of information about the benefits of regional integration, including business opportunities linked to FTAs. While consolidated information on Uruguay's FTAs is provided online by Uruguay XXI, this information does not go beyond the text of the agreements to explore related business opportunities.

The way forward

Institutional framework

Uruguay is in the process of linking its SME support programmes to the country's plan of productive transformation. It has made good progress in the strategy elaboration and planning phase, but it is still in an ongoing phase of developing a new institutional architecture to support the implementation of *Transforma Uruguay*. The strategic plan also has to be strengthened by the introduction of explicit quantitative and qualitative objectives and by the introduction of effective M&E mechanisms. The shift towards a productive transformation approach will require a review of the existing SME support programmes, in order to adapt them to the new objectives. This will likely lead to more specific targeting on the part of support programmes.

In this context, the country could consider as next steps:

- **Setting key performance indicators (KPIs) at the programme/call for proposal level.** While detailed evaluation of individual projects is important, it fails to capture the overall programme/call for proposal impact and is often too difficult/diverse to report publicly. *Transforma Uruguay's* M&E Network should consider setting KPIs for each strategic project fiche included in the First National Plan for Productive Transformation and Competitiveness 2017-2021. These KPIs should go beyond measuring participation/funding, and instead seek to capture real-world impact (number of beneficiaries that export for the first time, etc.) and participant satisfaction. They would be particularly useful when assessing the performance of the country's SME support offer related to other assessment dimensions, such as business development services (BDS), innovation and technology, and productive transformation and internationalisation.

- **Incorporating impact assessment measures.** Robust impact assessment is an important tool for governments to ensure the efficient investment of public funds. *Transforma Uruguay* could benefit from budgeting funds for an external independent evaluation of its first strategic plan (2017-2021). At the programmatic

level, programmes should retain contact with applicants that are not selected as programme beneficiaries, in order to create a control group for further impact assessment.

Operational environment and simplification of procedures

Uruguay's regulatory reform process is in an early phase of design and no significant progress has been made on RIA application. Uruguay also faces challenges regarding the ease of filing taxes. However, the country's relative performance regarding procedures to start a business is high, both globally and in relation to the LA7, and the country has a number of e-government services currently operational for enterprises.

Going forward, the country could consider:

- **Developing a comprehensive agenda for regulatory reform,** as planned in the context of *Transforma Uruguay*, including a set of medium-term objectives and intermediary targets.

- **Moving ahead with the organisation of enterprise surveys** to identify the main regulatory barriers to enterprise development and the areas with the heaviest administrative barriers.

- **Introducing RIA**, including the identification of the public agency mandated to organise its application, the elaboration of a medium-term work plan, and planning for the training of civil servants who will be in charge of RIA application.

- **Extending the one-stop-shop services** to a wider typology of companies and investigating how a reduction of notary costs could be achieved.

- **Monitoring the implementation of the Digital Agenda** and making sure that SMEs, particularly microenterprises, are in a condition to fully benefit from e-government services.

Access to finance

Among the LA7, Uruguay is the country that requires the greatest improvement in terms of its policy to facilitate access to credit for SMEs – as suggested by the low average score of 3.30 points it receives in this dimension. Some of the priorities it could address in this regard are as follows:

- **Unify, update and modernize access to movable and immovable property records.** The Uruguayan Directorate of Cadastre is currently working on a programme to update its registries, which should guarantee the periodic updating of the information stored there and also facilitate free access through an online platform. This could provide an opportunity to also integrate it into a system of warnings on the goods used in guarantees.

- **Develop a legal framework for collective financing mechanisms and private investment funds**. Although both types of investment mechanisms have incipient participation in the Uruguayan market, prudential regulation of these tools could pave the way for greater penetration.

- **Strengthen the offer of financial education to include programmes for SMEs**. Uruguay has a financial education strategy, but it does not identify specific lines of action to improve entrepreneurs' financial literacy. Uruguay could also consider including financial issues as part of the compulsory curriculum in schools and should develop a structured monitoring and evaluation plan for the various efforts in financial education.

- **Simplify insolvency procedures**. Although the legal processes described under the existing legislation are not very onerous, the closure of these legal processes takes about a year and a half.

SME development services and public procurement

Through the First National Plan for Productive Transformation and Competitiveness 2017-2021, Uruguay has established a good basis for the provision of BDS for SMEs and entrepreneurs, especially through the ongoing introduction of business development centres and other mechanisms to increase the reach of this policy tool. The Plan and its governance framework (*Transforma Uruguay*) also provide a structure for co-ordination among the many agencies involved in this area (MIEM-Dinapyme, ANDE, ANII, INEFOP, etc.).

Going forward, the authorities could consider:

- **Taking advantage of the diversity of BDS and the many agencies supporting SMEs and entrepreneurs from different perspectives, to develop a wider and more detailed SME development strategy.**

In terms of public procurement, Uruguayan laws and regulations include most SME-related elements measured in this report, except ensuring that payments are made in time and penalties are assessed in case of late payment (there is a regulation in this area, but it is not enforced). Furthermore, although Uruguay has in place an e-procurement mechanism, not all phases of the procurement process are made electronically and not all tendering agencies are required to use the system.

This indicates that going forward, Uruguay could

- **Work on the development of legal clauses or other instruments to facilitate timely payments to suppliers and expand the use of e-procurement.**

Innovation and technology

As noted before, although the First National Plan for Productive Transformation and Competitiveness includes a specific element on innovation policy that contains specific actions in this area, there is no evidence on the level of implementation of those actions. Uruguay lacks a national innovation system – in other words, a governance mechanism for innovation policy. And although *Transforma Uruguay* comprises a governance mechanism, its platform does not have a specific innovation committee (the only consultative committee currently operational is that of enterprise development). Uruguay could therefore benefit from:

- **Establishing a national innovation system**, with strategic direction at the ministerial level, involving the participation of universities, research centres and academics as well as representation from the private sector, including SMEs. There are efforts in this area under the ANII (i.e. the Partnerships for Innovation and the

Sectoral Technology Networks) and MIEM (the Industrial Extension Centre); however, those are specific programmes or support tools and do not yet constitute a national innovation system.

Productive transformation

Uruguay has made considerable recent efforts in the establishment of its new *Transforma Uruguay* strategic framework to support SMEs and various strategic projects in driving the country's productive transformation. At this relatively early stage of the strategy's implementation, investing in a quality M&E framework, and providing quality public information on implementation efforts, is important, and could be improved in the following ways related to this dimension:

- **Improve the availability of public information on project implementation results.** The ongoing implementation nature of ANDE's current programmes in this domain means that no detailed evaluation information is yet available. In the future, the agency's annual public report should draw from each project's pre-established objectives and KPIs in order to provide meaningful information on results, achievements and lessons learned.

- **Deepen sectoral targeting and visibility.** *Transforma Uruguay's* First National Plan, much like previous public-private sectoral councils, focuses on transversal themes instead of specific sectors. A future version of the strategy could consider more concretely establishing a set of priority sectors – as is the case, for example, with MIEM's Industrial Fund. Indeed, authorities notes that this is already foreseen as a future step. Like the ANDE programmes analysed in this dimension, new programmes could then be targeted towards these priority sectors, and/or towards specific sectoral strategies developed in the context of the overall strategy.

Access to market and internationalisation of SMEs

Uruguay is implementing a number of measures to support SMEs in their internationalisation efforts, including support in the specific areas of trade facilitation, e-commerce and quality certifications. To further build on existing efforts, Uruguay could pursue the following actions:

- **Develop a more systematic training programme for SME exporters.** Uruguay XXI could learn from PromPerú and ProEcuador's Ruta Exportadora programmes, and consider expanding and consolidating their "Exporting Step by Step" training courses into an integrated programme, with set curriculums for all SMEs that interact with the agency.

- **Provide further support to SMEs to become AEOs**, such as expedited exam processes, more flexible security standards, subsidised fees, customs-business partnerships, and/or quotas. These methods have proved successful in facilitating SME AEO certification in both OECD and APEC countries (APEC Policy Support Unit, 2016[31]).

- **Further expand e-commerce support for exporters.** Building on current basic training focused efforts, Uruguay could consider specific programmes to support exporters via e-commerce, such as facilitating the inclusion of SMEs on

international e-commerce platforms, learning from pilot projects underway in Argentina with Alibaba and logistics services.

- **Raise the visibility of public sector support for quality certifications, building on existing and pilot efforts.** Uruguay XXI could consider the inclusion of a dedicated webpage on quality standards, bringing together information on existing training and financing support across the government (Uruguay XXI, INACAL, LATU). A survey could also be of use, in order to assess SMEs' satisfaction with existing, disperse initiatives related to quality certifications (ProExport+, LATU and LSQA services, INACAL management system self-certification) and develop a more integrated and visible SME strategy and action plan in this area.

Uruguay is also part of a strong set of efforts at the MERCOSUR level to support SME development in the framework of regional integration efforts. Building on the bloc's more than a decade of experience in this area, it is suggested to:

- **Undertake an assessment of the last decade of PIP implementation, then use the results to establish a robust future MERCOSUR strategy, with quantitative indicators to measure outcomes and impact.** The PIP, established in 2008, completed a decade of implementation in 2018, marking a prime opportunity to assess the impact of existing efforts against the programme's set objectives, and to strengthen the oversight of future strategic efforts. The results of this evaluation should be made publicly available.

- **Increase the transparency of M&E activities undertaken with the bloc's structural convergence fund (FOCEM).** While not all M&E activities necessarily need to be public, some transparency is essential to facilitate learning from both good practices and areas where adjustments could be made. As a first step, performance-oriented KPIs could be established for each approved project and published on FOCEM's website. Regular (every 1-2 years) FOCEM activity reports could then provide updates based on these KPIs, while also providing context in terms of corresponding achievements and lessons learned.

Notes

[1] Group 1 comprises countries with high equality in HDI achievements between women and men (absolute deviation of less than 2.5 percent), group 2 comprises countries with medium to high equality in HDI achievements between women and men (absolute deviation of 2.5– 5 percent), group 3 comprises countries with medium equality in HDI achievements between women and men (absolute deviation of 5–7.5 percent), group 4 comprises countries with medium to low equality in HDI achievements between women and men (absolute deviation of 7.5–10 percent) and group 5 comprises countries with low equality in HDI achievements between women and men (absolute deviation from gender parity of more than 10 percent)

[2] This is the last year for which data on value added for different firm sizes is publicly available on the national statistics agency website.

[3] See the section on "Productive Transformation" for more information about how this new system differs from and builds on the country's past efforts.

[4] See Article 40 of Law 18602.

[5] Accessible via http://www.miem.gub.uy/mipymes-y-emprendedores/encuesta-nacional-de-mipymes.

[6] For more information, see the following ILO studies:
Formalizando la informalidad juvenil. Experiencias innovadoras en Uruguay (https://www.ilo.org/americas/publicaciones/WCMS_362136/lang--es/index.htm) and *Reducción del empleo informal en Uruguay: políticas y resultados* (https://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/publication/wcms_245623.pdf).

[7] See https://www.mtss.gub.uy//c/document_library/get_file?uuid=cf6ff492-ffee-49c3-89be-fd3fb96ec895&groupId=11515.

[8] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[9] In the 2019 version of *Doing Business*, the World Bank changed the name of the former "distance to frontier" score to "ease of doing business score", to "better reflect the main idea of the measure - a score indicating an economy's position to the best regulatory practice". Nevertheless, the process for calculating the score remains the same.

[10] https://www.bcu.gub.uy/Circulares/seggci2283.pdf.

[11] See http://www.siga.com.uy/garantias/siga/item/102-preguntas-frecuentes#comoseaccede. The Uruguayan authorities note that, since the time of this assessment, the SIGA system has expanded, now offering dedicated programmes for microenterprises and entrepreneurs ("SIGA MICRO" and "SIGA EMPRENDE"). See https://ande.org.uy/noticias-2017/item/265-nuevas-lineas-de-garantias-siga-micro-y-siga-emprende.

[12] http://www.republicamicrofinanzas.com.uy/

[13] http://www.mgap.gub.uy/sites/default/files/multimedia/microcredito_web.pdf.

[14] https://legislativo.parlamento.gub.uy/temporales/leytemp59767.htm.

[15] https://legislativo.parlamento.gub.uy/temporales/leytemp9921122.htm.

[16] http://www.bcueduca.gub.uy.

[17] https://legislativo.parlamento.gub.uy/temporales/leytemp9626004.htm.

[18] www.transformauruguay.gub.uy/es/institucional/noticia-ampliacion/comienzan-a-funcionar-los-primeros-centros-de-competitividad-empresarial-del-pais.

[19] http://www.miem.gub.uy/contenidos/Mipymes%20y%20emprendedores/programas.

[20] http://www.uruguayemprendedor.uy/quienes-somos.

[21] https://www.comprasestatales.gub.uy/inicio/proveedores/regimenes-de-preferencia%28p%29/programa-contratacion-publica-desarrollo-p.

[22] https://www.comprasestatales.gub.uy/wps/wcm/connect/pvcompras/558af060-009f-4082-96d6-fba62bde963a/Anexo+Decreto+N%C2%B0+26_018+-+Montos+2018.pdf?MOD=AJPERES.

[23] http://www.impo.com.uy/bases/decretos/371-2010.

[24] https://comprasestatales.gub.uy/inicio/normativa/leyes-decretos-por-tema/regimenes-de-preferencia.

[25] https://www.comprasestatales.gub.uy/wps/wcm/connect/pvcompras/1bee4e09-6b7e-4a6f-a381-780e97f966c0/TOCAF_+2017.pdf?MOD=AJPERES.

[26] http://www.anii.org.uy/institucional/documentos-de-interes/23/plan-estrategico-nacional-de-ciencia-tecnologia-e-innovacion-pencti.

[27] http://www.anii.org.uy/upcms/files/listado-documentos/documentos/poa-2018.pdf.

[28] http://www.anii.org.uy/apoyos/innovacion.

[29] http://www.rafe.org.uy.

[30] http://www.anii.org.uy/apoyos/innovacion/132/alianzas-para-la-innovacion.

[31] http://www.anii.org.uy/apoyos/innovacion/66/redes-tecnologicas-sectoriales.

[32] http://www.centrocei.org.uy/es.

[33] Automotive, naval, pharmaceutical, bio and nanotechnology, wood and clothing. See https://www.presidencia.gub.uy/comunicacion/comunicacionnoticias/gabinete-productivo-lanza-planes-industriales for more information.

[34] See the sub-section of this chapter on "Innovation and Technology", as well as Chapter 8, for more information.

[35] See https://www.siicex.gub.uy.

[36] See https://www.transformauruguay.gub.uy/es/institucional/secretaria.

[37] The programme funds up to 85% of each project's total cost, with a maximum cost ceiling of USD 200 000.

[38] See https://www.ande.org.uy/ver-todas for more information.

[39] A *public good* in this sense is defined as the development or implementation of a strategic sectoral plan. This includes internationalisation plans, regulatory frameworks or standards, observatories, or other access to information mechanisms.

[40] See https://www.ande.org.uy/ver-todas for more information.

[41] See https://www.ande.org.uy/instituciona/documentos-de-interes#materiales-de-comunicaci%C3%B3n.

[42] See https://www.ande.org.uy/ver-todas for more information.

[43] A list of these enterprises is available here: https://transparenciapresupuestaria.opp.gub.uy/inicio/datos-abiertos/listado-de-empresas-p%C3%BAblicas.

[44] 1) "Strengthening the productive base": biotechnology, nanotechnology, chemical industry, among others; 2) "Innovation-intensive value chains": electronics, pharmaceutical, among others; 3) "value chains generating employment and local productive development": automotive and auto parts, mining, plastics, footwear, leather manufactures, among others; and 4) "Value Chains Motors of Growth": manufactures of wood, metalworking, processed foods and beverages, among others.

[45] See http://www.miem.gub.uy/industria/fondo-industrial-convocatorias-anteriores.

[46] Provided by ANDE, INEFOP and Uruguay XXI.

[47] See https://www.uruguayxxi.gub.uy/es/quiero-exportar/servicios/formacion/ for more information.

[48] The portal is accessible at https://www.uruguayxxi.gub.uy/es/centro-informacion/.

[49] See https://www.uruguayxxi.gub.uy/es/quienes-somos/informacion-gestion-contable/.

[50] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[51] 1) Complete and encourage the deployment of telecommunications infrastructure, 2) increase the penetration of ICT services in the population, 3) ensure the use of ICT for economic and social development and 4) establish the basis for the development of a long-term IT industry.

[52] This number rises to 59% if only medium enterprises are considered, and falls to 26% if only micro-enterprises are considered.

[53] See http://www.lsqa.com/quienes-somos/vision-mision for more information.

[54] See http://marcapaisuruguay.gub.uy/# for more information.

[55] See http://www.smartservices.uy/innovaportal/v/908/8/innova.front/smart-services:-pagina-principal.html for more information.

[56] See http://marcapaisuruguay.gub.uy/anuario-marca-pais/.

[57] See http://www.gipmercosur.org/programa/programa-de-inversion-productiva-pip.

[58] See https://focem.mercosur.int/es/proyectos/ for more information.

[59] See https://focem.mercosur.int/docs/FOCEM_es.pdf to access the report.

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SME Policy Index

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POLICIES FOR COMPETITIVE SMES IN THE PACIFIC ALLIANCE AND PARTICIPATING SOUTH AMERICAN COUNTRIES

The SME Policy Index is a benchmarking tool that assists emerging economies in monitoring and evaluating progress in policies that support small and medium-sized enterprises. This first application of the Index methodology in the Latin American and Caribbean region covers the four Pacific Alliance member countries (Chile, Colombia, Mexico, Peru) and three participating South American countries (Argentina, Ecuador, Uruguay). Divided into seven policy dimensions, this report assesses the strengths and weaknesses that exist in different areas of SME policy design, implementation, and monitoring and evaluation, and provides guidance to policy makers in identifying policy areas for future reform according to international good practices. This report is a joint effort between the Development Bank of Latin America (CAF) and the OECD through its Latin America and the Caribbean Regional Programme (LACRP), in co-operation with the Latin American and Caribbean Economic System (SELA) and the "Foundation for the Strategic Analysis and Development of the SME" (FAEDPYME).

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