Micro, small and *medium-sized enterprises* in Latin America

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This article presents the characteristics and situation of micro, small and medium-sized enterprises in a number of Latin American countries. First of all, it considers the most common definitions used in each country and establishes the number of enterprises in each category, together with their sectoral and regional distribution. It then analyses the influence that the business environment has on the management of enterprises, their problems and the public response, with consideration given to the degree of institutional development in the region and the impact of this on business behaviour. In the light of supply and demand aspects, lastly, it suggests areas for improvement and mechanisms for public-private coordination. It also identifies some problem areas for businesses and formulates proposals for greater and more effective involvement by those responsible for the design and implementation of development policies in the region.

I

Introduction

The conditions that generated interest in micro, small and medium-sized enterprises (MicSMEs) in Latin America more than 10 years ago have not only remained largely in place, but in many cases have become more acute owing to the presence of new elements that need to be taken into account in the international economic situation (the development of new technologies, the process of internationalization and others). Also, recurring economic crises in several of the region's countries have had a variety of effects on the performance of businesses of these kinds. All this has served to emphasize both the importance of these enterprises as generators of employment (albeit of an unstable kind) and drivers of progress at the local level, and their significant potential to complement the work of large enterprises.

In addition to these considerations, the commitment to their local areas shown by MicSMEs from the outset and the successful experiences of production systems based on them –both in their relations with large enterprises and in their reciprocal relations at the local level– show what can be achieved in terms of economic growth and redistribution of income. The results achieved in Italy (Emilia Romana), Germany (Baden-Württemberg) and the United States

(Silicon Valley) share the common denominator of dense networks of MicSMEs capable of generating competitive products on a collective basis.

At the same time, the fact that only about 20% of gross world product is traded internationally (Alburquerque, 1997) gives a clear idea of how important the local activities of MicSMEs are for the development of the Latin American countries.

One of the most important tasks for public- and private-sector institutions in the region, therefore, is to take advantage of the potential of MicSMEs at the local level, as approximately 80% of countries' economic decisions have an internal perspective.

This article aims to present a general overview of the situation of MicSMEs in a number of Latin American countries (where the FUNDES network operates)[1] and at the same time –at the aggregate level– to suggest some areas in which public-sector, private-sector and intermediate organizations in the region should participate in a more active way. For this purpose, an attempt is made to identify some gaps between supply and demand oriented towards MicSMEs or in segment insufficiently served by this group of enterprises, which is considered to be very dynamic and to have the greatest potential for productive development (in relation to size).

II

MicSMEs: how they are defined,

how many there are and where they are located

Given the need for information on smaller enterprises, the first question that arises is: why define economic

units by size? There are at least two possible responses: i) for purely statistical purposes, and ii) for policy purposes. Apart from these reasons, however, defining economic units in this way will always be useful for

[1] The FUNDES network covers 10 countries where the foundation provides consultancy, training, services to improve the business environment, e-business services and others. These countries are Argentina, Bolivia, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Mexico, Panama and Venezuela.

obtaining information on the size of each segment (and thus its impact on business activity), and for taking better focused production development measures.

The results obtained both from our documentary research and from the investigation within the FUNDES network provide a first indication of how heterogeneous the situation of MicSMEs in Latin America is. Countries in the region use different criteria to define enterprises: employment, turnover, assets and others (table 1), and some countries use more than one criterion (and hence more than one definition). Most frequently, however, definitions are based on employment (eight countries), turnover/revenue (six countries) and assets (four countries). Some countries also vary the definition depending on whether the economic unit concerned is engaged in manufacturing, trade or services. There are even countries where the definitions vary with the institution producing them, with each institution applying its own definition when formulating development policies.

On the basis of the definitions referred to in the previous paragraph, the number of enterprises was determined for each of the countries considered (table 2), using official sources –such as economic censuses, when available– or public- or private-sector calculations considered meaningful. Most of the information is for the second half of the 1990s (except for Colombia and Argentina). In some cases the data available relate only to the manufacturing sector, while in others use has been made of samples that are in some way representative; some countries only supply information on enterprises that are registered in some way. From this it may be inferred that the sample underestimates the real number of economic units in each country, and accordingly in Latin America as a whole. It nevertheless provides a starting point for considering the situation of enterprises in the region.

Although it does not make much sense to add together the figures in the table (in view of the problems mentioned in the previous paragraph), if we

TABLE 1

Definitions of enterprises

	Criterion	Microenterprise	Small enterprise	Medium-sized enterprise	Large enterprise
Argentina[a]	Turnover	Up to 0.5	Up to 3	Up to 24	More than 24
Bolivia[b]	Employment	Up to 10	Up to 19	Up to 49	More than 49
Chile[c]	Turnover	Up to 2,400	Up to 25,000	Up to 100,000	More than100,000
Colombia[d]	Employment	Up to 10	Up to 50	Up to 200	More than 200
Costa Rica[e]	Employment	Up to 10	Up to 30	Up to 100	More than 100
El Salvador[f]	Employment	Up to 4	Up to 49	Up to 99	More than 99
Guatemala[g]	Employment	Up to 10	Up to 25	Up to 60	More than 60
Mexico[h]	Employment	Up to 30	Up to 100	Up to 500	More than 500
Panama[i]	Revenue	Up to 150,000	Up to one million	Up to 2.5 million	More than 2.5 million
Venezuela[j]	Employment	Up to 10	Up to 50	Up to 100	More than 100

Source: Prepared by the BEE units of the FUNDES network using data from the Secretariat for Small and Medium-sized Enterprises and Regional Development (SEPYME) of Argentina; the Vice-ministry for Microenterprises, Ministry of Labour (Bolivia); the National Socio-economic Survey (CASEN) and the Production Development Corporation (CORFO) of Chile; the MicSME law of July 2000 (Colombia); the Ministry of Economic Affairs (Costa Rica); the Department of Statistics and Censuses (El Salvador); the National Institute of Statistics, the Chamber of Commerce and Promicro (Guatemala); the National Council for Micro, Small and Medium-sized Enterprises (Mexico), Law 33 and Law 8 of 2000 (Panama), and the Central Statistics and Informatics Office (Venezuela).

[a] In millions of pesos. Definition for manufacturing. There are others for trade and services, also based on annual turnover.

[b] Various criteria are used: employment, turnover and assets. The official definition, however, is based on employment.

[c] In *unidades de fomento* (UF). One UF is equivalent to approximately US$ 24. There is also another definition, based on employment.

[d] There are two definitions, one based on employment and the other on assets.

[e] There are other definitions, based on investment and annual turnover.

[f] The official definitions are based on employment and assets (National Commission on Micro and Small Enterprises - CONAMYPE).

[g] Definition of the National Institute of Statistics. There are two more, used by the Chamber of Commerce and Promicro respectively (all are based on employment).

[h] Definition for manufacturing. There are others for trade and services, also based on employment.

[i] In balboas or dollars (one-to-one parity).

[j] Definition only for manufacturing. There are no definitions for trade or services.

TABLE 2

Latin America (10 countries): Number of enterprises

Country	Year of information	Micro-enterprises	Small enterprises	Medium-sized enterprises	Large enterprises	Total
Argentina[a]	1994	814 400	69 500	7 400	5 200	896 5000
Bolivia[b]	1995	500 000	1 007	326	234	501 567
Chile[c]	1997	432 431	78 805	10 870	4 814	526 920
Colombia[d]	1990	657 952	26 694		821	685 467
Costa Rica[e]	2000	58 620	14 898		1 348	74 866
El Salvador[f]	1998	464 000	12 398	502	316	477 216
Guatemala[g]	1999	135 000	29 024	9 675	2 438	176 137
Mexico[h]	1998	2 676 327	85 223	24 461	7 307	2 793 318
Panama[i]	1998	34 235	5 601	1 149	1 239	42 224
Venezuela[j]	2000	...	8 701	2 613	776	...

Source: Prepared by the BEE units of the FUNDES network using data from the sources cited in table 1.

[a] The total is 903,995 if so-called auxiliary enterprises are included. Data from the national economic census conducted by the National Institute of Statistics and Censuses (INDEC, 1994).

[b] Estimate of the Centre of Studies for Labour and Agricultural Development (CEDLA).

[c] CORFO data.

[d] Data from the economic census conducted by the National Administrative Department of Statistics (DANE, 1991). Other sources, however, indicate that in 1991 there were almost one million enterprises (Econometría Ltda.).

[e] There is no breakdown between small and medium-sized enterprises. Data from Castillo and Chávez (2001).

[f] Only industry, trade and services. Data from the Ministry of Economic Affairs and the National Commission on Micro and Small Enterprises, obtained from the annual economic survey (CONAMYPE, 2002) and the microenterprise survey (CONAMYPE, 1995).

[g] Industrial enterprises in the metropolitan area only. Data from the National Institute of Statistics, Industrial Census.

[h] Only manufacturing, trade and services; including other economic units, the total is 3.1 million. Data from the National Institute of Statistics, Geography and Informatics (INEGI), economic censuses.

[i] Data from the Directory of Establishments prepared by the Ministry of the Comptroller General and Administrative Development.

[j] Only industrial enterprises. Data from the National Institute of Statistics (formerly OCEI). There is no official information on microenterprises or on trade and services enterprises. The Bolívar programme made an estimate of about 480,000 enterprises (Páez, 2001).

nevertheless do so, we arrive at a figure of approximately 6.2 million economic units of various sizes in the countries considered.

Strictly speaking, and using the official definitions in each country, there are at least 400,000 small and medium-sized enterprises in nine countries (with the particularities and biases in the information already mentioned), excluding so-called "microempresas de acumulación" ("accumulation microenterprises") which form part of the "empresa media" or "middle class enterprise" level.

The term "empresa media" was coined in Mexico in order to create a single classification combining SMEs with microenterprises deemed to have development potential. This new classification goes beyond the usual practice of distinguishing between subsistence microenterprises and those with development potential solely on the basis of the number of workers employed. Although the number of workers does give a quantitative idea of a microenterprise, it gives no indication of its qualitative characteristics.

Other factors must be included to reflect business attitude.

To include such factors, use was made of some questions from the 1996 Mexican National Microbusiness Survey, prepared by INEGI. Four questions in particular were considered. The first two relate to structural aspects: the type of hierarchical structure in the enterprise, and some of its physical characteristics. The other two are concerned with the entrepreneurial aptitudes or characteristics of the person running the business: the reason for initiating it and the way he or she sees the enterprise developing.[2]

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[2] The first question concerned the position of the person operating the business; the options were employer (16.2%) or own-account worker (83.8%). The second asked whether the business had its own premises (71%) or not (21%). The third sought to ascertain why the owner had started the business, and the possible responses were: family tradition (6.2%); to supplement the family income (28.7%); to have a higher income than in wage employment (32.9%); failure to find wage employment (19.2%); flexible working hours (4.5%); laid off because of personnel cutbacks

A simple average of five variables (the four questions and the number of workers) was calculated on the basis of the statistics yielded by each response, giving an idea of the size of the middle class enterprise sector in Mexico. This sector is thus deemed to include all medium-sized and small enterprises and 25.3% of microenterprises. The percentage of microenterprises arrived at is similar to that indicated in other studies, such as one by the Organisation for Economic Co-operation and Development (OECD, 1997), where it is stated that a significant proportion of microenterprises, perhaps 25% or more, are growth-oriented and perform an important role in generating economic growth and flexibility.

On this basis, it may perhaps be speculated that about 25% of microenterprises can be categorized as middle class enterprises. If small and medium-sized enterprises are added in, we are looking at a little over 1.6 million enterprises in these countries in the region which could be targeted by initiatives to enhance competitiveness.[3]

For this group of countries, about 92% of all production units covered by the statistics in table 2 are defined as microenterprises, just over 7% are SMEs, and a little less than 1% are defined as large enterprises.

(3.2%); and other reasons (5.3%). Options 1 and 3 were considered indicative of entrepreneurial business owners, who thus accounted for 39.1% of microenterprises, with the remaining 60.9% operating subsistence enterprises. Lastly, people's plans for their businesses were considered, with the following results:

1) To continue with the business:

1.1	Without significant changes	67.7%
1.2	With a larger product line	7.2%
1.3	Making new investments	9.5%
1.4	Increasing the number of workers	0.8%
1.5	With another plan	2.2%
1.6	Don't know	0.8%
2)	To change the line of business	5.3%
3)	To give up and seek wage employment	3.9%
4)	To give up and follow another plan	1.3%
5)	Don't know	1.3%

Responses 1.2, 1.3, 1.4 and 1.5 were considered indicative of an entrepreneurial perspective. Thus, 19.7% have an entrepreneurial attitude, while 80.3% do not, at least not explicitly (Zevallos, 2000).

[3] Taking into account three groups of enterprises (microenterprises with development potential, middle class enterprises and large enterprises), each with different characteristics and needs. It should be borne in mind, however, that drawing inferences for the region is risky, because while the proportion of microenterprises in the middle class enterprise sector in Mexico (25.3%) is very similar to the figure given by OECD (25%), this does not necessarily mean that the entire region has the same business structure.

This information is at odds with the common perception of the weight of SMEs in the business structure, or at least with the frequent confusion between SMEs and MicSMEs. Adopting a concept like that of the "middle class enterprise" thus seems to be a step in the right direction for concerted business development policy planning between the public sector and the private sector in the region.

It is necessary to recognize the different characteristics of the categories that make up the "middle class enterprise" sector (medium-sized and small, and a percentage of microenterprises), as each type needs different kinds of development measures. In many cases it is the degree of relative development of each company type that determines support and/or development needs. In the case of microenterprises, the policies established over time have had a clear welfare-oriented bias that has only served to perpetuate their situation without bringing qualitative improvements. To remove the most dynamic group from this category and include it with "middle class enterprises" would be an improvement, as it would mean that group having access to measures better suited to its particular circumstances.

Meanwhile, the geographical and sectoral distribution of enterprises indicates where businesses are concentrated and what their main economic activity is. Patterns of geographical location are associated, in principle, with resource endowments or comparative advantages. For example, exporters seek locations with good physical infrastructure endowments (transport and communications), while economic units developing products are interested in proximity to educational institutions.

Research by the FUNDES network shows a high concentration of economic units in the countries' capitals, and in other large cities. This is because concentrating activities in large cities generates economies of agglomeration that help to reduce production costs in many economic activities. In clusters of this type, moreover, the cost-effectiveness ratio –i.e., efficiency– can be improved, owing to a number of factors that include the concentration of population, the large number of distributors, the availability of financial and commercial services and access to information on external markets and technology. In this situation, low-productivity enterprises (such as SMEs) also benefit from the production chains that are generated. As a result, SMEs too tend to concentrate in large cities.

The evidence on regional development processes in Latin America shows that concentrations of

population are the result of concentrations of economic activity, which in turn results from the identification of some comparative advantage or economies of agglomeration. Table 3 shows how heavily concentrated business activities are in some of the developing countries considered. Rather than being one-off cases, these reflect the general situation in the region.

In all cases, the greatest concentration of business is clearly in the capital and in the economically most important regions of the countries.

Some relevant sectoral information can also be obtained (based on the relative proportions of manufacturing, trade and services). As can be seen from table 4, the data also show that trading and service activities are highly concentrated in most of the countries for which information is available.

On average, the sectoral composition in these countries is 13% manufacturing, 53% trade and 34% services. This information suggests that although manufacturing is the activity that on average generates the greatest value added, trading and service activities are more common in the countries of the region. The reasons for this include the business environment, current regulations and the fact that manufacturing requires more in the way of skills and qualifications than do the other two sectors (the bulk of services in Latin America are what are known as personal services, which add little value).

TABLE 3

Latin America (eight countries): Number of regions (states/departments) where 50% of all enterprises are located

	Percentage	Number of regions out of the total
Argentina[a]	55.2	3 out of 20
Chile[b]	48.5	2 out of 13
Colombia[c]	49.0	1 out of 7
Costa Rica[d]	74.8	1 out of 6
El Salvador[e]	55.3	2 out of 14
Mexico[f]	48.1	6 out of 32
Panama[g]	52.4	1 out of 9
Venezuela[h]	51.5	2 out of 9

Source: Prepared by FUNDES using information collected by the BEE units of the FUNDES network.

[a] Federal Capital + Greater Buenos Aires + the rest of Buenos Aires.
[b] Metropolitan Region and Bío Bío.
[c] Bogota alone (followed by Valle with 15% and Antioquia with 14%).
[d] Central region.
[e] San Salvador and Santa Ana (then La Libertad with 11.4% and San Miguel with 10.6%).
[f] Mexico City, Mexico State, Veracruz, Jalisco, Puebla and Guanajuato.
[g] Panama City alone (followed by Chiriquí with 14.8%).
[h] Capital and central area (followed by the centre-west area with 16.7%).

TABLE 4

Latin America (eight countries): Sectoral distribution of enterprises[a]
(*Percentages*)

	Manufacturing	Trade	Services
Argentina	13	52	36
Colombia[b]	26	31	43
Chile[c]	11	41	16
Costa Rica[d]	19	33	48
El Salvador	11	62	27
Guatemala[e]	16	47	37
Mexico	13	52	36
Panama	8	55	36

Source: Prepared by FUNDES using information collected by the BEE units of the FUNDES network on the basis of official data or sectoral studies.

[a] In some countries the figures may not add up to 100% because there are other sectors not included here.
[b] SMEs only.
[c] In the service sector only personal services and restaurants are considered. Other sectors are not included.
[d] The figure for the service sector includes transport and communications and is for SMEs only.
[e] SMEs only.

III

The business environment for

MicSMEs in Latin America

The conditions under which MicSMEs in the region operate are not particularly favourable. This is largely due to their internal capabilities (low level of technology take-up, insufficiently skilled workers and/or owners themselves, poor management, low productivity), but it is also true that certain aspects of the business (and institutional) environment affect them to a greater extent than large enterprises.

This can be appreciated by considering the structural conditions that prevail in the region's economies, which have not adapted to new global trends quickly enough for their structures to be reshaped as required to meet the new challenges of a globalized world. These structures include institutions, defined as the ground rules within which citizens (and, obviously, enterprises) have to act.

1. The weight of institutions

Many processes associated with the period of economic stabilization that the countries of Latin America went through from the mid-1980s to the early 1990s affected company performance in different ways and to different degrees. One of these processes was trade liberalization, which created a new situation for enterprises and their relationship with domestic and external markets.

This process of change generated expectations among Latin American citizens, as the model it was replacing had run its course. Change has been slow, however, and there has been little sign of much favourable impact on society. As a result of these and other factors, the model has come to be viewed with scepticism by citizens, and some initial successes have not had the effect they might owing to adverse expectations (which in some cases could become self-fulfilling prophecies). The apathy and mistrust displayed by citizens towards certain public initiatives, and implicitly towards institutions and policies, is a consequence of this.

Citizen (and of course business) confidence in the basic institutions of the Latin American States is a key factor for understanding their economic performance. The situation is very different from that of the industrialized countries, where institutions and economic performance are largely independent of one another. In our region, by contrast, unfavourable expectations with regard to institutions are generally a prelude to adverse economic results. At times, such expectations are generated by interest groups that have lost out from policy measures in the "redistributive struggle".

Wiarda and Kline (1985) claim that Latin America has increasingly become a society in conflict, where old standards and institutions have been called into question as society has divided into new groupings, each with its own view of the direction the country should take. A democratic government may come briefly to power, only to be followed by a new military regime or by populist politicians calling for a reform programme, who are replaced in turn by an oligarchic-conservative government. They add that conflicts in the region are often profound, the gaps that divide contending groups and classes are immense, and there is intense resentment among those who are not in the government, be it left-wing, right-wing or centrist, but who may come to take part in it and govern effectively with the expectation of surviving for a long time.

Latin American society can be described as a society divided into groups or sectors, each of which has fought for its own interests (particularly important is the struggle for public resources, as a rent-seeking exercise), which to some extent are not complementary and may even be mutually exclusive among sectors. This has resulted in the disparities between the different economic and social development projects that each of the different groups has implemented whenever they have succeeded one another in power.

The organization of society into economic and political interest groups has thus been the basis for conflicts between capital and labour, between exporters and industrialists and even among regions. Although SMEs are not necessarily part of this conflict (since, at least at present, they are not strong enough politically to become an interest group in the region), their participation in this process will probably vary depending on who the winners and losers in the redistributive struggle are.

The visible signs of such conflicts are to be found in the economic policy issues that are decided whenever "regime change"[4] takes place in the Latin American countries, including such important matters as:

– The role of the State in the economy
– The existence or otherwise of income redistribution policies
– The choice of "priority areas" for government
– The tax structure
– The type of trade policy
– Interest rate policy (rates set by the market or regulated by the State to meet "strategic objectives" or serve the needs of "priority sectors")
– Exchange-rate policy (floating, controlled or regulated exchange rate)
– Prices policy
– Monetary policy
– Labour market policy (employment terms and wages decided by the market, State involvement in determining these, mixed regimes)
– The role of foreign investment (free, regulated or restricted entry)
– The role of the State in law-making (to regulate life in society, promote certain activities, etc.)
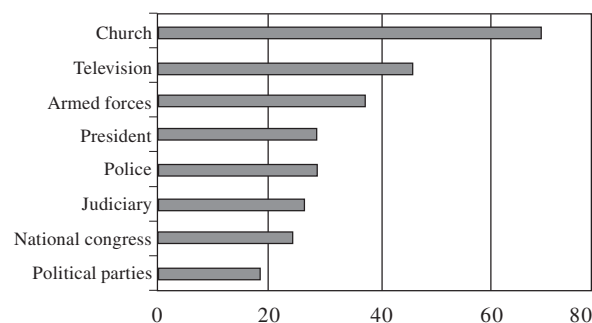
All these economic policy variables are constantly being altered by governments, making it impossible for investors to regard new measures as permanent and plan accordingly. The effect of such changes in the policy variables mentioned has been to create uncertainty and thus cause investors to delay or simply withhold investment, resulting directly in lower economic activity. This uncertainty is reflected in the degree of trust felt by citizens in the institutions on which national States are based. As we see in figure 1, the institutions that inspire most trust among citizens are not those on which States are based.

Lack of citizen trust in such important institutions as the presidency, political parties or congress has a negative impact on economic activity: i) if the conditions obtaining in economies that are in a state of transition include the presence of old, outmoded practices from the previous model and heavy bureaucratic structures that confirm citizens' perceptions and tend to reduce the inherent competitiveness of economic units; ii) if the lack of

FIGURE 1

How much confidence do you have in the following institutions?[a]

Source: Taken from *The Economist* of 13 December 2001 (www.economist.com), with information from *Latinobarómetro*.

[a] Percentage saying "a lot" and "some".

"visible results" undermines the confidence of citizens, who hardly distinguish between public-sector actions (positive and negative) and the institutions that carry them out, which they see as ineffective; iii) if citizens take an attitude of apathy and scepticism towards institutions and policies whose visible effects include lower investment and sales. These variables have a tremendous impact on economic expectations in the region.

Political instability and economic instability in Latin America (the two are closely connected and have been extensively studied)[5] exacerbate any problems since, by undermining the trust of citizens and the credibility of institutions, they have a negative impact on consumption, investment and, ultimately, gross domestic product (GDP). By way of example, table 5 shows the performance of GDP in two groups of countries (developed and developing) and their standard deviations with respect to average growth.

The standard deviation of the GDP growth rate shows how variable this has been in relation to its average value.[6] This variability is markedly higher in the Latin American countries than in the industrialized ones, although on average their growth rates have been similar. One result of such unstable growth is that investors have little faith in the continuity of policies.

These are the conditions of institutional credibility in which public policies and business development

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[4] The expression "regime change" is used here to refer not so much to changes of government –whether or not these come about democratically– but to changes in the direction of economic policy as a result of political and/or economic crises (although the one is unlikely to occur without the other).

[5] See, among others, Alesina and Perotti (1994); Borner, Brunetti and Weder (1992); Knack and Keefer (1995).

[6] A high value for this variable indicates great variability in the rate of GDP variation (instability), while a low value reflects a low degree of variability (stability).

TABLE 5

Some developed and developing countries: Mean and standard deviation of the real GDP growth rate, 1961-1996

Country	Mean	Standard deviation
Germany	2.95	2.27
Canada	3.78	2.44
United States	3.02	2.13
France	3.32	2.02
Italy	3.45	2.56
Japan	5.53	3.60
United Kingdom	2.31	2.13
Developed country average	3.48	2.45
Argentina	2.35	5.37
Bolivia	3.42	3.15
Chile	4.09	5.62
Costa Rica	4.59	3.60
Mexico	4.62	4.02
Peru	3.27	5.54
Uruguay	2.07	3.95
Developing country average	3.49	4.47

Source: Zevallos (1998).

initiatives have to be carried out. There are also the requirements of the new economy, which in the process of globalization has developed a new production and institutional framework requiring enterprises to make substantial improvements in their processes and ensure flexibility, quality and low prices, and requiring countries to establish systemic policies to promote production. In these circumstances, what are the exogenous factors that affect the performance of MicSMEs?

2. The business environment as seen by enterprises

The FUNDES Business Enabling Environment Conditions Programme has conducted research in different countries of the region to ascertain the conditions under which businesses operate and the relative importance they assign to them. From our own research, we had an "inventory" available for three countries in the region: Argentina, Colombia and Costa Rica.

Although the following do not represent all the problem areas for enterprises, we concentrate on them because, from the methodological point of view,[7] they

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[7] We use the FUNDES/IDB (2002) classification.

do include the largest quantity of important aspects of the difficulties facing smaller enterprises:
– Finance
– Technology and information
– Marketing and external trade
– Regulatory structure and competition
– Organization and cooperation
– Human resources
– Other factors

Each of these areas in turn has its particular set of problems with an order of importance that is not necessarily the same for all countries but that is sufficiently representative of the general issues. The most representative elements for the business environment in three countries are presented in table 6.

Some of the main issues in the different areas are as follows. With regard to finance, businesses complain that they lack access to the formal financial system as a mechanism for obtaining credit. In the area of technology and information, the main difficulty is the lack of appropriate technology for enterprises and the dearth of relevant information on markets, supply, demand and other aspects. With regard to marketing, again, the problems result from asymmetry in the relationship between small and large enterprises. This asymmetry is also reflected in the regulatory structure, and in the relationships of patronage and corrupt practices that prevail in many dealings with the authorities.

Cooperation among enterprises is being seriously neglected because of the enormous asymmetry in the relationship between large and small enterprises, owing to the market power of the former. The absence (or scarcity) of organizations representing SMEs also reduces the opportunities for them to make their demands known. Meanwhile, the inappropriate orientation of school, technical and occupational education has resulted in some specialities becoming over-subscribed to the detriment of others. In addition, poor linkages between enterprises and the school system have meant that the education provided is inappropriate for business needs. It is for these reasons among others, in the opinion of business people themselves, that enterprises are unable to improve their competitiveness.

Table 6 provides a summary, from the demand side, of the situation of enterprises in relation to the business environment. Its significance becomes clear when it is compared with the public and/or private activities (the supply side) carried out for the benefit of enterprises as part of a systematic support policy, in the form of isolated initiatives, or as a combination of the two.

TABLE 6

**Argentina, Colombia and Costa Rica: Problems
of small enterprises, by area**

Area	Argentina	Colombia	Costa Rica
Finance	Bank commercial platforms inappropriate/little access to financing	Access to credit/ venture capital	Borrowers undefined/excessive requirements and formalities/ high rates and restrictive repayment schedules/limited options
Technology and information	Inadequate consultancy services (soft technology)	Little access to technology/ lack of information systems	Lack of advanced technologies/ inadequate technology infrastructure
Marketing and external trade	Ineffective export promotion/ excessive bureaucratic formalities for foreign trade	Export provisions/smuggling/ informal economy	Restricted access to foreign markets
Regulatory structure and competition	Overpayments and corruption in procedures/concentration of supply and/or demand/lack of legal security	Protection of trademarks and patents/environmental requirements/complexity of company start-up process/ inconsistency and arbitrariness	Barriers to entry in internal market/ excessive general operating formalities
Organization and cooperation	Large enterprises do not favour modernization of SMEs/inadequacy of employers' organizations	Interests poorly represented	Ineffective production chains (sectoral linkages)/lack of entrepreneurial culture
Human resources	Inadequate training services	Social security contributions/ lack of qualified personnel/ other labour provisions	High level of social security contributions
Other	Little use of public support instruments/cost of infrastructure services	Fiscal charges/encroachment of public space (inadequate guarantee of ownership rights)/ centralization	High cost of public services/ ineffective promotion and support policies/inadequate support network

Source: Prepared by FUNDES on the basis of Yoguel, Moori and others (1999), Howald (2001) and Castillo and Chávez (2001).

3. Business development policies

How has the public (and/or private) sector reacted to the problems of smaller enterprises? There is no single answer to this question. One feature that is common to all the countries, however, is the power which has been assigned, at least in theory, to the law as an instrument for responding to business problems.

In many countries of the region there is a tendency to think that passing laws is the way to solve many of the problems for which public action is required, and hence legislation, regulations and rules are enacted. These measures, in turn, tend to generate new organizations, instead of direct public action. A clear example of this is the law enacted in Panama in 2000 (Law 8, creating the Authority for Micro, Small and Medium-sized Enterprises, or AMPYME), the purpose of which is to "generate employment, improve wealth distribution and reduce poverty levels (37% of the country's population)" (Cuevas, 2001).

Unfortunately, there is no sign in Latin America of any positive correlation between the creation of new regulations and the solution of the problems they are intended to address. In fact, the new regulations often go to swell a body of existing ones, generating higher transaction costs (associated with the need to study and understand the new rules) for enterprises and individuals.

Another frequent response to business (or social) demands are development measures. Here again, the countries are not all similarly placed. There is, however, a tendency to place great faith in initiatives designed to strengthen business competitiveness.

Some authors[8] suggest, furthermore, that development policies are more rhetorical than real if they are not backed by the necessary financial and human resources.

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[8] See Dussel Peters, 2001, for an analysis of the situation in Mexico.

In all cases, efforts (real or simulated) to shape a structure that meets the needs of smaller enterprises are constrained by the need to maintain macroeconomic stability.

Accordingly, three options are available (although the most common, these are not necessarily the only ones): i) a specific legal framework (for example a MicSME law) which usually, but not always, provides for some kind of organization to coordinate public-sector initiatives; ii) a general legal framework with a MicSME dimension, i.e., some provision is made for MicSMEs in general laws (such as preferential treatment in fiscal, labour and other laws), and iii) specific development measures with varying degrees of coordination among them. In relation to such measures, table 7 shows the whole range of policy proposals.

In many of the region's countries there seems to be a groundswell of support for the creation of enterprise development laws. Although this has not yet brought observable results in most countries, it seems to indicate that governments are taking MicSMEs into account in their public policies. There are legal initiatives of this type in Argentina, Colombia, El Salvador, Mexico, Panama and Venezuela, among the countries considered here.

Table 7 illustrates some of the characteristics of what could be called a "development policy", in terms of whether or not there is a specific legal framework and/or a MicSME dimension in the general legal framework. It also shows whether or not there is a national programme for business development, who formulates and implements the policy, the degree of

TABLE 7

Latin America: Basic aspects of MicSME development policy

	ARG	BOL[a]	CHL	COL	CRI	SLV	MEX	PAN	VEN[b]
There is a specific legal framework for SMEs	Yes	No	No	Yes	No	No	Yes	Yes	Yes
There is an SME dimension in general legislation (e.g., specific articles for SMEs in fiscal and labour law, etc.)	Yes	No	No	No	Yes	No	No	Yes	NR
There is a national SME development programme	No	No	Yes	Yes	No	Yes	Yes	No	Yes
There is an SME dimension in general development programmes	No	No	Yes	Yes	Yes	No	Yes	No	Yes
There are public-sector organizations specializing in SMEs	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
SME development policies are decentralized	Yes	No	No	No	No	No	Yes	No	Yes
The operators of SME development programmes are public-sector, private-sector or both	Both	Both	Both	Both	Both	Both	Both	Both	Both
The private sector provides direct support services to SMEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
If the answer to question 8 was yes, who provides them? (e.g., chambers of commerce, universities, NGOs, etc.)	c	c	c	c	c	c	c	c	c

Source: Prepared by FUNDES on the basis of a survey of BEE unit consultants.

[a] The support policies are for micro and small enterprises.
[b] Answers refer to small and medium-sized enterprises.
[c] The responses to the last question are as follows: *Argentina*: all; *Bolivia*: non-governmental organizations (NGOs), foundations; *Chile*: private-sector enterprises and consultants, universities through third party agreements, etc.; *Colombia*: chambers of commerce, Colombian Association of Manufacturers (ACOPI), Business Development Centre (CDE), Technology Development Centre (CDT), private consultants, universities, foundations, NGOs; *Costa Rica*: chambers of commerce, NGOs; *El Salvador*: non-profit foundations, employers' associations, consultancy enterprises; *Mexico*: chambers of commerce, universities, NGOs; *Panama*: For non-financial services: FUNDES, National Union of Small and Medium-sized Enterprises (UNPYME), National Network of Organizations of Small and Medium-sized Enterprises (REDNOMIPEN), Latin American University of Science and Technology (ULACIT), Universidad Santa María La Antigua (USMA), Universidad Latina (ULAT), Panamanian Association of Executives (APEDE). For financial services: Credit Corporation (CREDIFUNDES), Cooperative of Small and Medium-sized Businesses (CACPYMER), El Educador Veragüense Saving and Credit Cooperative (COOPEVE), San Antonio Saving and Credit Cooperative (CACSA), Multicredit Bank, Mibanco, Global Bank, etc.; *Venezuela*: employers' associations (Conindustria, Fedeindustria), NGOs such as the Bolívar programme and the Popular Action Service Centre (CESAP).

policy decentralization, and the involvement of the private sector as a significant input for support measures.

Just as there is a degree of support for measures to enhance business competitiveness (which in Latin America is reflected in the growing interest in establishing specific regulations for SMEs), there have also been visible efforts to favour particular approaches or components in the structure of support measures and/ or business development programmes. Thus, for example, these measures and programmes:

–   Seek to remedy market failures
–   Are based on the principle of subsidiarity
–   Are demand-oriented
–   Seek private-sector participation (in financing, implementation, etc.)
–   Are based on (uniform) horizontal policies
–   Development programmes cover different needs
–   The variable (if any) normally used for evaluating programmes is the number of enterprises covered

In several of the region's countries, however (especially those that are more institutionally advanced and have more highly developed support policies), some of these characteristics are beginning to be replaced by others that are more oriented towards market sectors or segments.

Accordingly, the market orientation-based criterion of analysis used by the model now prevalent is beginning to be complemented by criteria such as systemic competitiveness (Esser, Hillebrand and others, 1994), microeconomic competitiveness (Porter, 2001) and others. With these, hybrid solutions for State involvement in the economy are being sought: there has been a movement away from the "facilitating" State along the lines of the minimal State (Nozick, 1991), which confines itself to protecting citizens from violence and theft and upholding contracts, and towards the State as "promoter", which seeks to eliminate or diminish obstacles in the commercial environment in order to enhance the competitiveness of enterprises, thus maximizing the impact of public- and private-sector support initiatives.

The policy options adopted by countries and the characteristics of the policies applied give rise to specific actions in each of the areas listed in table 6. Table 7 provided an overview of the countries' support structure ("development policy") for SMEs. Table 8 below shows (for the same areas as were indicated in table 6) the support measures and respective programmes available to MicSMEs, this information being based on the findings of a short survey we conducted among consultants with the FUNDES network in nine countries. This article does not seek to evaluate either the efficiency of the programmes or their internal consistency; the aim is merely to report on the support tools available in the countries of the region considered.

The description we give here is not exhaustive, but simply the result of an investigation of the promotional actions most frequently pursued in the Latin American countries and, within this context, of a set of areas also recognized as the most common. The aim is to identify gaps between support measures and company demands and, at the same time, to generate a debate on the way economic resources invested in promotion are used, with a view to optimizing this.

4.   Some gaps

Despite the length of the list of basic development policy elements that appears in table 7, the demands of businesses tend to be numerous, not so much because initiatives are lacking but because they are ineffective. Hence the importance of conducting more in-depth research on the operations of the actual programmes. As part of the international research carried out by the Business Enabling Environment Conditions Programme some of the problems indicated by businesses have been identified:

–   There are severe information problems that result in decisions (in both the public and private sectors) being taken on the basis of incomplete information
–   The (more or less informed) perceptions of those responsible for development policies become the basis for action, often without consultation with the businesses that are supposed to benefit from them
–   The financial and human resources needed to apply a determined policy of decentralization are not always available
–   Programmes are not well publicized at the national (federal), departmental (state) and local levels (information problems)
–   Programmes are heavily concentrated in the capital or in more developed areas (large cities). Although this reflects business concentration, it leaves enterprises in other areas disadvantaged and perpetuates the concentration of supply
–   There is little coordination among development institutions in the public sector (ministries and other agencies), between the public and private sectors (between the government and business chambers and associations), and between national government and state (departmental) governments

TABLE 8

Latin America and the Caribbean: Most common lines of support for MicSMEs

Exists = X   Does not exist = 0   No response = NR

	Argentina	Chile	Colombia	Costa Rica	El Salvador	Guatemala	Mexico	Panama	Venezuela
Financing									
Loan guarantee systems	X	X	X	0	0	0	X	0	X
Loans for MicSMEs	X	X	X	X	X	X	X	X	X
Venture capital funds	X	X	0	0	0	0	X	0	0
Leasing	X	X	X	X	0	X	X	X	0
Factoring	X	0	X	X	X	0	X	X	0
Discounted credit insurance premiums	0	X	0	0	0	0	X	NR	0
Discounted (subsidized) interest rates	X	0	0	0	0	0	X	0	X
Microcredits (to microenterprises/small loans)	X	X	X	X	X	X	X	X	X
Credit invoice (duplicata); supplier financing	X	0	0	X	X	0	X	X	NR
Financial assistance services	X	X	X	X	X	X	X	X	NR
Other financial instruments	X	X	X	0	0	0	X	NR	X
Loans for MicSMEs run by women	X	0	X	X	0	X	X	X	X
Financial assistance for new undertakings (seed capital)	0	X	X	0	0	0	X	0	0
Regional investment funds	X	0	NR	0	0	0	X	0	0
Technology and information									
Financial support	X	X	X	X	0	0	X	X	X
R&D tax credit	NR	X	X	0	X	0	X	X	X
Technological consultancy services	0	0	X	0	X	0	X	X	X
Enterprise incubators	X	0	X	X	X	0	X	X	X
Technology parks	X	0	X	X	0	0	X	X	X
One-stop shops	0	0	NR	NR	X	0	X	0	NR
Other technology and information programmes	X	X	NR	NR	X	0	X	NR	X
MicSME restructuring and management support programmes	X	0	NR	NR	X	NR	X	X	X
– Business advisers	X	0	X	0	0	0	X	X	0
– Competitiveness measures	X	0	X	0	X	X	X	X	X
– Quality programmes	X	0	X	X	0	0	X	X	X
– Other special programmes	X	0	X	0	0	0	X	X	NR
Technical assistance funds	X	X	NR	0	X	0	X	X	X
Marketing and external trade									
Special programmes	0	X	NR	NR	0	0	X	X	X
– Funds	0	X	X	NR	0	0	X	X	X
– Programmes for new exporters	0	X	X	NR	0	0	X	X	X
– Other programmes	X	NR	X	NR	0	0	X	X	X
Market information	X	NR	X	NR	X	0	X	X	0
Trade promotion support	X	X	X	NR	X	0	X	X	0
Attendance at trade fairs	X	X	X	NR	X	0	X	X	X
Brochures	X	X	X	NR	X	0	X	X	0
Export promotion services	X	X	X	NR	X	0	X	X	X
Regulatory structure and competition									
Evaluation of business impact	X	0	NR	NR	0	0	0	X	0
Review of tax structure	0	0	NR	NR	X	X	X	X	X
Simplified procedures for:	X	0	NR	NR					0
– registering companies	NR	0	NR	NR	X	X	0	0	0
– paying taxes	NR	0	NR	NR	X	X	X	0	0
– exporting (drawback)	NR	X	NR	NR	X	X	X	0	0
Labour market deregulation	X	0	NR	NR	0	0	0	X	X
Modernization of public administration	X	0	NR	NR	0	X	X	X	X

Table 8 (continued)

	Argentina	Chile	Colombia	Costa Rica	El Salvador	Guatemala	Mexico	Panama	Venezuela
Organization and cooperation									
Organizations that encourage entrepreneurial values, through forums, documents, etc.	X	X	NR	NR	X	0	X	X	NR
Clusters	0	0	X	NR	X	0	X	X	X
Strengthening of local government	X	X	X	NR	X	0	X	X	X
Improvement of human resources management	0	0	X	NR	X	0	X	X	X
Encouragement for regional location	X	0	X	NR	0	0	X	X	0
Local non-financial service centres	X	0	X	NR	X	0	X	X	0
Regional development agencies (to bring national instruments to the local level)	X	0	NR	NR	X	0	X	X	0
Human resources									
Tax credit for training	X	X	NR	0	X	X	X	0	X
Occupational training:	X	X	X	0	X	X	X	X	X
– women/young people	X	X	X	NR	X	X	X	X	X
– businessmen/women	X	X	X	NR	X	X	X	X	X
– workers	X	X	X	NR	X	X	X	X	X
National training programme	X	0	NR	0	X	X	X	0	X
Private-sector training services	X	X	X	X	X	X	X	X	X
Public-sector training services	X	X	X	X	X	X	X	X	X
Other activities									
Improvements to public services (infrastructure)	NR	NR	NR	NR	X	0	X	X	NR
(Special) programmes involve joint financing or a particular degree of subsidy to the enterprise	X	0	NR	NR	X	0	X	0	NR
Other activities (specify)									

Source: Prepared by FUNDES on the basis of a survey among consultants with the BEE units of the FUNDES network in nine countries.

– There is little integration between enterprises and the school system (reflected in growing professional unemployment or underemployment owing to a lack of dialogue about investment in programmes useful for business)

– The access requirements of a number of support programmes tend to take a large number of enterprises out of the market. If the objective is selectivity this approach is appropriate, but this cannot be the case in situations where horizontality is presented as a principle of public initiatives

Perhaps the most representative feature of the situation described, seen from the supply side, is the lack of coordination among national government agencies, and between these and local governments.

In turn, coordination is inadequate because development initiatives are generated in isolation, those affected by them have little involvement in the generation of solutions, public agents have little contact with business realities, and there is a lack of collaboration among State organizations that compete for space within the system of government.

IV

Opportunities for improvement

Comprehensive business development action involves a range of measures, from deciding on a medium- and long-term economic orientation to fostering the values of entrepreneurialism and

collaboration. This is clearly a long-term task. In the areas indicated, however, there are several ways of bridging the gap between the demands of businesses and the services on offer.

1. Finance

A recurring problem for enterprises is that of access to capital. This problem is derived from failings in the capital market, such as the low level of venture capital financing, excessive bureaucracy, high rates and short repayment schedules.

Among the lines of support examined, however, are MicSME loans and microcredits. The paradox is that lines of credit for economic units of these types are supposed to exist in all the countries. Our task therefore is to find out why the supply is not reaching the demand, at least in sufficient amounts (or with appropriate repayment terms and/or conditions), and also to ascertain the degree of market penetration of the financing available and what mechanisms can be created to improve access and financing conditions. This is an area of special interest in countries where institutional reforms are beginning, or where there is no experience with modern financing mechanisms.

2. Technology and information

In this area, the main problems are the lack of appropriate technology at accessible costs and the low level of access to the technology that is available for modernizing equipment or machinery, for product design and the like, and for management tasks and training. In addition, the lack of effective information systems (for supplier and customer records, among other things) also constrains the competitive development of economic units.

With regard to technology, unlike the financial area, there is greater heterogeneity in the lines of support, which clearly shows the lack of direction of programmes in this area. In several of the countries considered, either such programmes do not exist or they are not known about. Although it is their relative underdevelopment that usually limits their technological potential, it still provides an opportunity for them to implement effective technological projects. An important factor is that in almost all these countries financial support is available for technological development.

With regard to information, most of the Latin American countries considered lack one-stop shop systems. With the support of national or international intermediate organizations, however, some of them have begun to establish "*ventanillas únicas*" (single windows) for official formalities. This offers an opportunity for them to apply the lessons of successful experiences in other countries of the region.

3. Marketing and external trade

This topic is growing in importance for MicSMEs, as a small but growing number of them are beginning to enter foreign markets with some success. The problems that afflict them are clearly those of access to information and services, along with some provisions and/or procedures that are an obstacle to trade, among other things. With regard to markets, unfair competition from the informal sector also constitutes a limitation for formal enterprises (and even amounts to an incentive to "informalize" some activities).

Obviously, the opportunities for MicSMEs to enter foreign markets depend on their internal conditions (such as the quality of their output, price and market access opportunities). A good-quality transport and communications infrastructure, however, and the existence of a logistical and information support infrastructure that facilitates the task of the exporter, are competitive advantages in which the public and private sectors can collaborate and which can help exporting MicSMEs to enter new markets. Mechanisms for providing assistance and information to exporting MicSMEs may be generated on the basis of one-stop shops that complement the single window function with information and assistance services.

On the other hand, resolving the issue of informality is beyond the capacity of institutions, so this must be dealt with by a joint effort of the whole of society. The generation of mechanisms to "formalize" enterprises under simplified schemes, although not a solution, usually improves the conditions under which enterprises can operate in the formal economy, thereby reducing the incentive to join or remain in the informal sector.

4. Regulatory structure and competition

Most of the countries in the region have already passed through a process of structural adjustment and reform and are now at varying stages in a second process, known as institutional reform. At this point, bureaucracy and its more negative aspects (arbitrariness, corruption, discretionality) are the obstacles that businesses mention with the greatest frequency. The lack of trademark and patent protection (piracy), environmental requirements and a lack of legal security are also becoming a particularly sensitive problem for business.

At this stage in the process, however, the policy response tends to be slower, because the habits acquired by institutions[9] (and their informal rules of operation)

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[9] The case of Mexico and the Solidarity Programme is a good

are usually more difficult to change. In this area, most of the countries are revising their procedures, modernizing their administration and even adding flexibility to legislation that has an impact on competitiveness (for example, labour legislation). In this process, "best feasible practice"[10] should be reviewed and adapted to our circumstances.

5.   Organization and cooperation

In this area there are three perceptions among businesses that we should take into account: i) the lack of cooperation among economic units, a particularly complex aspect because it involves the human factor and people's willingness to cooperate or organize into groups; ii) the existence of a markedly asymmetrical relationship between MicSMEs and large enterprises, which favours the latter, and iii) the absence of an entrepreneurial culture in our societies.

Two of these perceptions are connected with the issue of education as training for life. This issue is beyond the scope of intermediate organizations, as it forms part of public education policy, although it is also related to education in the home and the fostering of habits of collaboration, among other aspects.

At the same time, one of the most important problems with regard to associativity is the lack of institutional representation: in most of the countries examined in the region, employers' associations represent less than 1% of all enterprises. This is even more marked in the case of MicSMEs, whose representation is generally subsumed into employers' associations dominated by large enterprises, which have different interests. This is in contrast, for example, to

the situation in Taiwan, where the representation of MicSMEs has great political weight. A medium-term project could be to generate MicSME representation mechanisms.

The asymmetrical relationship between large enterprises and MicSMEs –one aspect being the absence of production linkages– is a major obstacle to the development of the latter. The public-sector (and private-sector) response to this issue is very fragmented and sometimes non-existent. Some countries have sought legal solutions based on regulations to encourage competition, but their scope has been very limited.

6.   Human resources

There are two important and interrelated issues in this area: i) the view of businesses regarding the social security contributions they have to pay for workers, and ii) the effectiveness of occupational training instruments. Besides job skills, business skills also need to be considered.

The social security contributions payable in many countries differ greatly in relative impact. Labour-market deregulation has taken place in Latin America either through the legal framework (changes in laws) or in a de facto manner, through informal employment mechanisms. In this case, the State needs to strike a balance between encouraging business competitiveness and providing workers with the necessary protection.

In relation to the second point, almost all countries in the FUNDES network now have public- and/or private-sector training programmes. It is necessary to inquire, however, how wide their reach is, what purpose they serve and what their price-quality ratio is. Such questions are particularly relevant for the organizations that offer such services. One line of institutional action would be to make an inventory of training instruments (for job and business skills) in the countries, to evaluate the effectiveness of these instruments in comparison with the tools of the provider organization, and to offer governments services that come with an assessment of effectiveness (certified, for example, by an outside organization).

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example. As it was impossible to modernize bureaucratic structures in order to improve the efficiency of this programme, President Salinas de Gortari created a "parallel bureaucracy" to implement it. The outcome was obviously better than it would have been with the established bureaucracy.

[10] A concept coined by Albert Berry to indicate the possibility of "adapting" solutions generated in countries where the degree of economic and institutional development provides initial conditions that are greatly superior to those of the less developed countries.

V

Conclusions

The situation of MicSMEs in the region displays major shortcomings in areas ranging from the statistical information available to public policies in the countries and specific development activities. There are great challenges to be overcome, but also interesting opportunities.

The present article provides information on the range of enterprises that exists, their geographical and sectoral distribution, and the demand from MicSMEs and supply of "products" for smaller enterprises, which is very significant.

Most of the countries in the region classify MicSMEs by the numbers employed. In general, SMEs make up between 3% and 20% of all economic units, depending on the number of microenterprises in each country. But if we include "accumulation" microenterprises or those with "development potential" in the SME group, the percentage increases significantly. This leads us to consider the possibility of adopting a broader concept of SMEs (such as the "middle class enterprise" concept used in Mexico). This broader definition would help widen the scope of business development policies to include economic units which at present only have access to support mechanisms that perpetuate a survival situation.

At the same time, the business environment in the region reflects situations that are far wider than specific aspects of support, such as the very economic and political structure of the countries, the variability of their economic policies and the uncertainty that this variability generates.

If we wished to characterize the public environment for smaller enterprises in the region, three main components would have to be mentioned: i) the instability of our economies, which discourages investment and distorts relative prices and thence the incentive structure, reducing confidence in economic performance and potentially in cooperation among enterprises; ii) the failure of governments properly to appreciate the problems of MicSMEs, and iii) the ineffectiveness of the institutional mechanisms of the State (structure) when it comes to resolving public policy dilemmas relating to business.

These three components have a significant influence on the way enterprises operate. The first has an impact on economic activity as a whole, increasing the instability of the economy and thence uncertainty; the impact on smaller economic units is greater because they are less well equipped to cope with economic fluctuations than are large enterprises. The second makes it harder for enterprises to find effective mechanisms for dealing with their problems, since there are gaps in development policy or excessive concentration on initiatives in one area that are ultimately redundant, further reinforcing the competitive disadvantages of MicSMEs. The third component has an impact that is essentially operational in nature, as it has to do with problems in the day-to-day working relationship between enterprises and the State (bureaucracy, discretionality, degree of compliance with rules).

Where economic instability is concerned, it is governments –in collaboration with private enterprise, intermediate organizations and other appropriate social partners– that have to set a medium-and long-term course, generate minimum agreements and take measures consistent with these goals. The action of intermediate organizations is peripheral, being confined to supporting measures that tend to generate stability (both economic and political) in national economies.

With the other components, the role of intermediate organizations becomes more significant. With regard to the second, most national governments have a variety of instruments in each of the areas identified as problematical by businesses. The measures they take, however, are not based on a prior diagnosis of demand, but rather on the more or less informed perceptions of politicians and public-sector agents. For a number of years, the idea of outsourcing services formerly provided by the State has been gaining ground. In such areas, the States should take advantage of the institutional experience of intermediate organizations.

As for the third component, the effectiveness with which solutions are implemented is dependent on programme design, which in turn is closely linked to the diagnosis of problems. A proper understanding of these problems is the basis for finding appropriate solutions, and so it is advisable to approach those who know them best, namely the people running businesses. Their participation in creating solutions is a guarantee of success.

FUNDES has been working to identify the "obstacles in the business environment"[11] which affect the performance of smaller enterprises. This work has served as a basis for the design and implementation of specific initiatives to solve business problems in a number of the region's countries. Initiatives such as the single window (Argentina), simplified official formalities (Costa Rica) and the development of a tax system for MicSMEs (Colombia) have resulted from efforts to diagnose the problems of the business environment.

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[11] Defined as all the main problems affecting SMEs at the start-up, development or diversification stage of their businesses (FUNDES, 2000, p. 6).

Small but consistent efforts form the basis for more integrated initiatives. Latin America has been making progress in this direction; lack of information, however, continues to be a critical obstacle to the development of better oriented strategies. Good diagnoses are another prerequisite for developing policy that is consistent with the needs of producers. Plans and programmes with well defined objectives make it possible to generate attainment indicators, which are important when resources are scarce. Lastly, joint effort by a cohesive and collaborative private sector and a professional and committed public sector is an important supplementary factor for successful implementation of a business development strategy.

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