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**de Industria,
Energía y Minería**



Rapporteur's Report

Public Policy Index for MSMEs in Latin America and the Caribbean (IPPALC): Second edition

Economic Recovery

*Montevideo, Uruguay
27 and 28 June 2022
SP/IPPMipymes-ALC-LSE/IF-2022*

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I. GENERAL INFORMATION

- 1) On 27 and 28 June 2022, the [Workshop to launch the Public Policy Index for MSMEs in Latin America and the Caribbean](#) was held in Montevideo, Uruguay. This event, framed in the *Work Programme for 2022-2026*, was coordinated by the Permanent Secretariat in partnership with the Organisation for Economic Co-operation and Development (OECD) and CAF-development bank of Latin America, with the collaboration of the National Directorate for Handicrafts, Small and Medium-sized Enterprises (Dinapyme) of the Ministry of Industry, Energy and Mining (MIEM) of Uruguay.
- 2) The general purpose of the workshop was to determine the changes that have materialised as a result of the recommendations derived from the analysis of the first edition in order to expand it to new dimensions of interest to the countries and to identify the areas where major challenges remain. The objectives of this event were the following: i) Present the new virtual platform for accessing the assessment questionnaire; ii) discuss and approve the dimensions of analysis; iii) evaluate the contents of the new questionnaire; and iv) present and approve the work schedule.
- 3) This event was attended by the national coordinators of the participating countries in this second edition of IPPALC: Argentina, Bolivia, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Paraguay, and Uruguay. Representatives of the Organisation for Economic Co-operation and Development (OECD) and CAF-development bank of Latin America, which together with SELA are responsible for the execution of this project, also participated in the event.
- 4) At the opening and introductory sessions, the following authorities took the floor: Walter Verri, Acting Minister of the Ministry of Energy and Mining (MIEM) of the Eastern Republic of Uruguay; José Antonio Ardavín, Head of the Division for Latin America and the Caribbean of the Organisation for Economic Co-operation and Development (OECD); Jorge Srur, South Regional Manager, and François Borit, Representative for Uruguay at CAF-development bank of Latin America; and Clarems Endara, Permanent Secretary of the Latin American and Caribbean Economic System (SELA).
- 5) It should be noted that both the opening and introductory sessions were informative and aimed at a wider audience within the membership of SELA, which included representatives of the embassies of the countries participating in the IPPALC, as well as authorities from Central American countries. In addition, the representative of CENPROMYPE, the focal points of Central American governmental authorities responsible for MSMEs, and officials linked to the Uruguayan institutional framework had the opportunity to attend these presentations virtually.
- 6) During the opening session of the event, Mr. José Antonio Ardavín, Head of the Division for Latin America and the Caribbean of the OECD, extended his gratitude to SELA and CAF for organizing the event. He expressed his satisfaction for participating, precisely on the International MSMEs Day, in the launching of the second edition of the enhanced and improved IPPALC, which he stressed is oriented towards an inclusive, resilient and sustainable recovery.

He recalled that the first edition of the IPPALC was presented in 2019 in Lima, Peru, and noted that: i) it was a review of the landscape of MSME development in terms of design, implementation and monitoring of policies for these enterprises; ii) it provided guidance to policymakers regarding the areas on which they should focus their attention to improve the ecosystem of these enterprises and enable them to contribute to increased productivity and

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sustainable inclusive growth for their economies; iii) it allowed for ascertaining the efforts of the seven participating countries to improve business environments and deploy more effective programmes; iv) it identified areas of opportunity; and v) it formulated recommendations based on international best practices. He added that the IPPALC has had an impact on the design of policies aimed at MSMEs, and that this gives a profound sense of satisfaction and duty fulfilled to the institutions associated with this effort, namely: the OECD, CAF-development bank of Latin America and SELA.

He then expressed the need to continue with this effort and his conviction that the IPPALC is the most complete methodological framework available for the design, improvement and follow-up of the policy framework for MSMEs in the region.

He added that the second edition is being presented in a quite different context, characterised by the health crisis caused by the COVID-19 pandemic. He emphasised the effects of the pandemic in LAC and the effort of some countries to reduce business closures, especially MSMEs, despite which more than 25 million jobs were lost and almost 3 million businesses had to close their doors. He noted that this situation left many lessons and policy considerations for future emergencies.

He went on to say that to speak of recovery is to put MSMEs at the centre and that society has realised their importance, as evidenced by the millions of families that depend on the activity of these companies, and that the economy and the dynamics of the region cannot be understood without the participation of MSMEs, which represent 99% of companies and generate around 60% of formal productive employment in the region. He expressed that the OECD is ready to do its part and that its recommendation on policies for SMEs was adopted on 10 June 2022, containing principles that provide a holistic framework to support countries in the development of efficient policies for SMEs in order to enhance their contribution to inclusive, sustainable growth for the benefit of all. He stressed that this recommendation frames the second edition of the IPPALC and invited the countries participating in the seminar to consider these principles and recovery strategies and adhere to this instrument, which is open to all countries in the region.

He stressed that the second edition of the IPPALC will be much more comprehensive, will consider the impact and implications of the COVID-19 crisis, will place greater emphasis on policies to boost the digitalisation of enterprises, and will have a broader perspective on MSMEs. He highlighted the interest of Bolivia, Paraguay and Brazil in this second edition because, he said, it will strengthen IPPALC and regional integration processes, opening the way to cover all members of the Pacific Alliance (PA), the Andean Community (CAN) and the Common Market of the South (MERCOSUR). He also underlined Central America's interest in joining this effort and the OECD's readiness to support any initiative in this direction.

Finally, he expressed his confidence that this event would refine this tool to make MSMEs the backbone of a sustainable and inclusive recovery that would give the region the capacity to have its own strategy in the complex post-pandemic world.

- 7) Mr. Jorge Srur, South Regional Manager at CAF-development bank of Latin America, then highlighted the importance of MSMEs in the region, not only from an economic perspective, but also from the viewpoint of social cohesion and upward mobility in a region with such a great need for economic growth and equality in all senses of the word. He pointed out that CAF is a bank of and for Latin America. He commented that the second edition of the IPPALC would be expanded and improved, with more participating countries and more topics of particular interest to the region. Finally, he said an index, rather than being precise, should

provide meaning or orientation, and that the IPPALC aims to indicate the direction that MSMEs in the region should follow.

- 8) Afterwards, Ambassador Clarems Endara, Permanent Secretary of SELA, expressed his gratitude to the OECD, CAF and the Ministry of Industry, Energy and Mining (MIEM) of Uruguay, through the National Directorate for Handicrafts, Small and Medium-sized Enterprises (Dinapyme), for their contribution in conducting the work that led to the first edition of the IPPALC. Without their support, trust and tireless effort for more than five years, he said, it would not have been possible to bring this project to fruition.

He pointed out that the IPPALC is a valuable analytical tool to optimise public action for the benefit of SMEs and that its innovative methodology allows for the construction of rigorous diagnoses, evaluations and policy recommendations based on evidence and international best practices. He added that its findings allowed the detection of multiple needs for institutional improvements in the processes of monitoring and evaluation of policies; the identification of major challenges in the business development environment; and the reaffirmation of the importance of MSMEs, both in terms of economic and social objectives such as poverty reduction and generation of quality jobs.

He went on to point out that the pandemic and recent military events have transformed the regional reality. In this regard, he referred to the impact of these events on the region's fiscal policies and cited figures referring to the increase in extreme poverty and food prices, to which he added: i) high levels of informality; ii) low insertion in value chains; iii) greater income inequality on a global scale; and iv) the projection for 2022 according to which the region will have the lowest economic performance in the world (1.8%), compared to a growth of 2.8% in the Euro Zone and the USA.

In view of the above, he said the countries of the region should direct their efforts towards a more solid recovery and take advantage of the necessary consensus and changes. For this reason, he explained, CAF, SELA and the OECD were launching the second edition of the IPPALC, which will include the participation of the seven countries of the first edition and will be joined by Bolivia, Brazil and Paraguay. In addition, it will offer a framework for analysis adapted to the modern times and aimed at supporting the work agendas of subregional and regional integration mechanisms. He said this edition is expected to achieve all the goals set, and reiterated SELA's commitment to accompany the participating countries and help them overcome the setbacks they face.

Finally, he invited all countries in the region to implement the IPPALC as part of their strategies to support MSMEs and the search for sustainable economic growth, and reiterated SELA's willingness to continue working to find support formulas that contribute to the achievement of these goals.

- 9) Mr. Walter Verri, Acting Minister of Industry, Energy and Mining (MIEM) of the Eastern Republic of Uruguay, pointed out that for MIEM the IPPALC is particularly important due to the significant presence (99%) of SMEs in his country. He noted that the index mainly covers business development and cited the different dimensions that make up the contents of the IPPALC. He added that the second edition would make it possible to detect the changes that have materialised as a result of the recommendations of the first edition and to broaden the analysis to other dimensions of interest to countries, as well as to identify areas where major challenges remained.

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He noted that the index is a source of information that combines the public and private visions of SMEs, which, he said, have experienced changes both in the behaviour of the public and in the needs to be satisfied and in management, so he said that we must not only accompany the process but anticipate it and face the new challenges.

The commitment of the institutions involved in the first edition will allow the application of this tool in the preparation of a renewed analysis that responds to the requests of the countries and becomes a framework for the development of instruments to support SMEs as a driver of inclusive and sustainable development in the countries of the region.

He went on to say that the second edition of the IPPALC is fundamental for the fulfilment of the objectives: to approve the dimensions of analysis, evaluate the contents of the new questionnaire and approve the work schedule. He added that it will also allow to detect the changes that have materialised as a result of the recommendations of the first edition and to expand the analysis to new dimensions of interest to the countries, as well as to include the areas where there are still challenges.

II. SUMMARY OF PRESENTATIONS

27 June 2022

- 10) The first day began with the introductory session, which consisted of a general presentation on the [*Public Policy Index for MSMEs in Latin America and the Caribbean: Contributions for sustainable recovery*](#), by José Antonio Ardavín, of the OECD; Francois Borit, of CAF; and Ambassador Clarems Endara, Permanent Secretary of SELA. The following is a summary of the main ideas and concepts presented by the speakers:
 - i) Much remains to be done to address the low levels of SME productivity, to accurately assess the results of policy efforts and to strengthen coordination and dialogue between the various actors that help entrepreneurs and small businesses thrive; ii) the response of governments to the COVID-19 pandemic was an important support to the SME economy, but the effectiveness of that response will depend on the ability of States to support SMEs with a sound environment and institutional framework that facilitates their recovery; iii) the versatility of SMEs will be crucial to meet the challenges they face; iv) *IPPALC 2022* will support governments in designing and implementing effective policies for SMEs, with the aim of gathering information on the conditions under which SMEs are created, grow and transform and analysing SME support programmes; and v) using international standards and best practices to benchmark SME policies, programmes and performance.
- 11) The speakers then emphasised the cross-cutting nature of the *IPPALC 2022* with respect to regional challenges and summarised its purpose by pointing out that this tool aims to: generate competitive business ecosystems; accelerate economic recovery times; take advantage of opportunities in times of change; and promote more agile and efficient public actions. They also highlighted that the support of the participating institutions includes the implementation of the Index and a permanent accompaniment throughout the transformation process.

Likewise, they pointed out the purpose of extending the implementation of the IPPALC to Central America and the Caribbean in search of greater integration and cooperation, through the promotion of regional learning; the promotion of convergence; the articulation of strategies and the generation of spaces for synergy and reflection. They then outlined

what they called the keys for the future: to multiply and optimise country support strategies; to innovate; to continue collaborative and complementary work; and to incorporate new countries and actors.

- 12) Finally, a summary was made of the strategic line of CAF and the IPPALC, whose dimensions, it was highlighted, are key for the development of SMEs in the region and are aligned with CAF's strategy as the Development Bank of Latin America.
- 13) Subsequently, and until its conclusion, the meeting had an eminently technical character with the exclusive participation of the representatives of the OECD, CAF, SELA and the national coordinators of the ten countries participating in the project.

Methodology used for the construction and assessment of the IPPALC

- 14) The methodology was briefly summarised and referred to for each edition. The evaluation mechanism of the *Index* was also summarised, and the advantages of the tool were pointed out.

First edition. The specific assessment framework for the seven Latin American countries covered in this study (Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay, referred to as "LA7") was prepared in consultation with LA7 national coordinators, CAF-development bank of Latin America and SELA (Latin American and Caribbean Economic System), referring to the SME PI methodology and the OECD experts in several relevant policy areas.

Second edition. It considers the careful revision of the questionnaire used to clarify ambiguous questions and eliminate duplicated or obsolete ones, as well as the inclusion of new questions in the eight dimensions that make up the questionnaire. The methodology used in the first edition is maintained to facilitate comparison between the two editions.

The assessment framework is composed of "dimensions" (policy areas) that are further divided into components called "sub-dimensions," and a set of indicators is identified for each sub-dimension. Most of them are qualitative, but there are a number of quantitative indicators to measure the "intensity" of policy interventions. The results of this assessment are expressed as numerical indices (scores) on a scale of 1 to 5, calculated for the dimension and sub-dimension levels. To calculate these results, indicator scores are weighted on the basis of perceived importance and relevance.

Advantages of the IPPALC

- 15) The advantages of the IPPALC compared to other tools that assess the business environment in Latin America and the Caribbean were then summarised:
 - i) The IPPALC goes beyond statistics to examine the SME policy environment across a wide range of areas;
 - ii) adopts a participatory approach to assessment and measurement through the involvement of policy makers, the private sector and partner organisations;
 - iii) provides guidance on how to improve the SME policy framework in each country through policy recommendations and examples of best practices;
 - iv) incorporates relevant data from other organisations and enterprise surveys;
 - v) uses country context and broader factors affecting SME development to complement the analysis emerging from the scores; and
 - vi) focuses on the Latin American and Caribbean region as it moves towards greater economic integration, allowing policy makers to identify challenges that may be faced in the future.

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- 16) Afterwards, the OECD, based on the interaction and collaborative work developed with the different National Coordinators and with representatives of CAF and SELA, summarised each of the dimensions present in the *IPPALC 2022*, highlighting the results obtained and the identification of areas of opportunity or possible actions to strengthen each dimension.

Dimension: 1. Institutional framework

Results: i) experience in the area of private sector development, including policies for SMEs; ii) highly articulated institutional frameworks had been designed; iii) institutions in charge of SME policies had been established and are operational; and iv) strategic orientations had been identified and coordination and consultation mechanisms have been put in place.

Areas of opportunity: i) further embed policies for SMEs in their broader national strategies for economic and social development; ii) make consultation and coordination mechanisms more effective; iii) improve monitoring mechanisms; and iv) conduct impact assessments at the policy and programme levels.

Dimension 2: Operational environment/simplification of procedures

Results: i) in general, results in this dimension are weak compared to other dimensions; ii) support to SMEs in innovation, internationalisation and associativity operates in a sub-optimal business environment; iii) regulations related to business activity had not been systematically reviewed, with the exception of Chile and Mexico; iv) procedures for starting a business and filing taxes were problematic; and v) e-government initiatives had been developed, but data interoperability was partial.

Areas of opportunity: i) ensure that SME support works within an optimal business environment; ii) improve the overall business environment and provide continuous support to enterprises with high growth potential; iii) conduct systematic reviews of legislation relevant to business activity; iv) improve procedures for starting a business and filing taxes; and v) increase data interoperability in the areas of e-government.

Dimension 3: Access to finance

Results: i) most LA7 countries have a sound regulatory and institutional framework and a diversified environment of financing opportunities conducive to SME financial inclusion; ii) specific challenges remain in relation to financial literacy strategies for SMEs and improved legal procedures to deal with bankruptcies; and iii) there is room for improvement with respect to the legal framework, but it is underlined that a favourable environment exists in the region.

Areas of opportunity: i) there is a pressing need to address lengthy and costly bankruptcy procedures through measures such as the improvement of the regulatory framework for secured transactions, the creation of insolvency registries and the improvement of procedures; and ii) LA7 countries should focus their efforts on developing a unified strategy (properly implemented at different levels of influence and supported by an appropriate assessment framework) in order to promote the universalisation of financial literacy to enable SMEs to make better business decisions.

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

Results: i) countries generally had an established BDS system for SMEs and entrepreneurs; ii) there was a weak link between the use of BDS as a policy tool and overall strategic objectives; iii) there were no explicit details on the impact their BDS actions would have on productivity, economic sophistication, diversification, among other strategic objectives; iv) there were laws and regulations that facilitated SME participation in public procurement; and v) there were e-procurement systems and electronic records with suppliers in all countries.

Areas of opportunity: i) develop a more coherent and strategic approach to targeted SME programmes; ii) strengthen the link between the use of BDS as a policy tool and overall strategic objectives; iii) make explicit the impact of BDS actions on productivity, economic sophistication and diversification; iv) increase the capacities of e-procurement platforms to manage the entire procurement process; and v) develop programmes that support SMEs to take advantage of public procurement opportunities.

28 June 2022

17) The presentation of the rest of the IPPALC presentations (5-8) continued.

Dimension 5: Innovation and technology

Results: i) the promotion of innovative SMEs and entrepreneurship was already a priority for all countries in the region and a component to address the challenges of increasing productivity and competitiveness; ii) national innovation systems were in place in most countries; iii) there were no specific SME committees focusing on the promotion of SME innovation; and iv) there was a wide offer of services covering support to incubators, accelerators, research and development incentives, etc.

Areas of opportunity; i) strengthen national innovation systems to include elements for the promotion of innovation in SMEs and start-ups; and ii) consolidate a more structured approach to disseminate information on innovation support programmes, including through online platforms.

Dimension 6: Productive transformation

Results: i) a focus on SME development as an industrial policy tool requires a selection of SMEs that are able to contribute to productive diversification, make efficiency gains in value chain participation and succeed in export activities; and ii) establishing priority areas for productive transformation at a strategic level could help formulate policies to separate between general development measures and more specific interventions in priority sectors related to productive transformation.

Areas of opportunity: i) governments had made significant efforts to facilitate productive transformation by identifying obstacles to competitiveness, growth and access to information; ii) there was a solid level of implementation of policies aimed at promoting economic diversification, building productive capacities and developing new comparative advantages; iii) most programmes in this area were pilot or relatively new.

Dimension 7: Market access and internationalization

Results: i) countries made significant progress in the areas covered by the dimension; ii) there was strong political support for promoting exports to SMEs; there was a solid trade facilitation

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infrastructure with specific programmes and support for small exporters and for SMEs to incorporate e-commerce in their operations; and iii) institutional frameworks with specific programmes to support SME development had been developed in each of the main regional trade blocs to which LA7 countries belong.

Areas of opportunity: i) strengthen the M&E of efforts to support SME development; and ii) prioritise and strengthen existing M&E systems to effectively measure policy impact and ensure effective use of public funds to support SME access to international markets.

Dimension 8: Digitalisation as an axis for the transformation and competitiveness of MSMEs

It should be noted that this dimension is new. Therefore, a review was made of the implications of why it should be considered within the indicator, including the following:

- i) Its incorporation is associated with a cross-cutting strategic approach that includes specific and horizontal measures and is articulated in 15 principles structured in three pillars, namely: policy coordination and governance; transitions and resilience; and access to resources in the SME ecosystem in general;
- ii) The increased digitalisation of SMEs in the region implies that this sector is already embedded in the digital economy;
- iii) Access to e-commerce has been essential for the survival of many SMEs because it has meant new opportunities, mainly for those that were already digitally mature (greater number of digital applications used);
- iv) Some gaps have widened because only forward-looking SMEs have been able to take advantage of the opportunities created by the crisis;
- v) There is a need to improve efficiency in the management of resources and accelerate the transition to sustainability (twin transition), in which most SMEs are lagging behind; this is precisely one of the gaps between SMEs and large companies;
- vi) Digital technologies help reduce the aggregate environmental footprint of SMEs (60-70% of industrial waste) and, at the same time, generate new market opportunities for green entrepreneurs, sustainable products and businesses;
- vii) A considerable challenge is related to security, because, in general, SMEs do not have the necessary capacity to manage digital risk arising from the acceleration of digitalisation;
- viii) Structural weaknesses of SMEs remain, namely: lack of knowledge in terms of not being able to link digital adoption to the business needs of the company; lack of digital culture, organisational and technical skills; and risk aversion and lack of trust;
- ix) The axes of a policy for the digitalisation of SMEs should include the following elements: quality of access to digital networks, access to complementary services, development of digital skills, and innovation (digital payments, digital accounting, among others);
- x) The public policy approach for SMEs should consider the following aspects: a) strengthening the internal capacity of the company; b) facilitating access to strategic resources; c) cooperation with the business ecosystem (large technology companies and

- SMEs, business associations, etc.); d) appropriate business environment (regulatory framework, e-government, and e-services, among others); and e) comprehensive governance approach;
- xi) Building a digitalisation platform for governments, large and small businesses, financial institutions and associations to ensure that SMEs can reap the benefits of digitalisation.

Considerations on green economy and gender issues

- 18) The inclusion of a ninth dimension on SMEs in a green economy was considered, although it was rejected for the second edition due to budgetary limitations and technical and time reasons, since it would require making another adjustment to the existing weightings for the eight dimensions, with all the extra work and time that this implies. It was suggested to distribute and review the available environmental questionnaire and select a sample of questions to obtain a first idea of the topic that could be considered for the eventual inclusion of this dimension in the third edition of the IPPALC, taking as a basis some indices that include it, such as those of the countries of Southeast Europe, after identifying the indicators that allow comparison with other regions.

With regard to a possible gender dimension, it was not included in the second edition for the same reasons given for the green economy issue, but it was agreed to carry out an analysis for which each National Coordinator, within a period of two weeks, should submit between three and five open cross-cutting questions that could serve as a basis for the analysis required to determine the potential inclusion of this dimension in the third edition of the IPPALC.

CONCLUDING REMARKS

In line with the objectives set, on this occasion, the new virtual platform for accessing the evaluation questionnaire was presented; the dimensions of analysis were approved; the contents of the new questionnaire were evaluated; the analysis of the green economy and the gender approach linked to MSMEs was approved; and the work schedule was adopted.