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Bridging Economic Growth and Social Inclusion: The Role of SME Definitions in Global Development

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Abstract:

Small and Medium-Sized Enterprises (SMEs) play a pivotal role in global social welfare by fostering employment, reducing poverty, and promoting inclusive economic development. However, the definitions, classifications, and support mechanisms for SMEs vary across global institutions and national policies, affecting their access to financial resources, regulatory support, and social protection. This paper critically examines SME definitions from the European Union (EU), World Bank, Asia-Pacific Economic Cooperation (APEC), and South Africa to assess their implications for social welfare, economic justice, and poverty alleviation. Through a comparative analysis, we highlight the disparities in SME classifications and explore how these definitions shape policy interventions in developing economies. The study further investigates how SMEs contribute to job creation, gender equity, and financial inclusion, particularly for marginalized communities. Recommendations are provided to ensure that SME frameworks align with social development goals, including economic inclusion, social protection, and sustainable livelihoods. Findings highlights the importance of tailoring SME support structures to enhance their role in strengthening care service delivery, addressing economic vulnerabilities, and fostering long-term resilience in low-income regions.

Keywords: SMEs, social welfare, inclusive economic development, poverty alleviation, financial inclusion, social protection, sustainable livelihoods, economic justice, gender equality, employment generation.

JEL Classification

L26, O17, O43, I38, J46

1. Introduction

Small and Medium-Sized Enterprises (SMEs) are globally recognized as engines of economic growth, employment creation, and poverty reduction, particularly in developing economies (World Bank, 2022; OECD, 2023). SMEs contribute significantly to economic inclusion, offering opportunities to women, youth, and marginalized communities who often face barriers in the formal labor market (UNDP, 2023). Despite their crucial role, the definition and classification of SMEs vary across regions, leading to disparities in policy implementation, financial support mechanisms, and social protection measures (ILO, 2022). This variation directly impacts the extent to which SMEs can serve as tools for social welfare, community development, and economic justice (Klapper & Love, 2023).

In developing nations, SMEs account for over 90% of businesses and up to 50% of employment, yet they often operate in informal or semi-formal conditions, limiting their access to financial resources, legal protections, and government support (UNCTAD, 2022). The absence of a universally accepted SME definition creates challenges for cross-national policy standardization, investment mobilization, and poverty alleviation strategies (Wang & Purnamasari, 2023). While institutions such as the European Union (EU), World Bank, and Asia-Pacific Economic Cooperation (APEC) have established SME classifications, these frameworks primarily cater to macroeconomic stability rather than addressing the social determinants of SME sustainability in low-income regions (Amoah & Nyanzu, 2021).

This paper critically examines the definitions and classifications of SMEs by key global institutions—the EU, World Bank, APEC, and South Africa—to assess their implications for social welfare, poverty alleviation, and inclusive economic development. By integrating a comparative policy analysis, the study explores how different SME definitions influence access to financial inclusion, regulatory support, and business formalization, particularly in developing economies (Nasrullah & El Khoury, 2022). Additionally, this research investigates the role of SMEs in strengthening care services, social protection systems, and economic resilience amid recent crises such as global inflation, geopolitical conflicts, and climate-induced business disruptions (Cheng, Chen & Lee, 2022; OECD, 2024).

The findings highlight the need for a more holistic approach to SME policy, one that integrates entrepreneurial support with social welfare provisions, ensuring that SMEs are not only economic drivers but also key contributors to social equity and sustainable livelihoods (Manzaneque-Lizano, Alfaro-Cortés & Priego de la Cruz, 2023). By bridging economic and social policy gaps, policymakers can create inclusive SME ecosystems that foster long-term resilience, gender equality, and economic justice in both developed and developing contexts

2. Literature Review

Small and Medium-Sized Enterprises (SMEs) are widely recognized for their role in job creation, poverty reduction, and economic development (World Bank, 2023; UNCTAD, 2023). However, their impact extends beyond economic growth, as SMEs play a crucial role in social welfare, community resilience, and financial inclusion (OECD, 2024). The ability of SMEs to address social inequalities, improve livelihoods, and promote inclusive economic participation is shaped by national and international policy frameworks, financial regulations, and institutional support mechanisms (Klapper & Love, 2023).

Despite their significance, SMEs face structural barriers that limit their potential as engines of social mobility and economic justice (Nasrullah & El Khoury, 2022). Key challenges include limited access to finance, regulatory burdens, informal sector constraints, and lack of social protections for employees (UNDP, 2023). These challenges are particularly pronounced in developing economies, where high unemployment rates, gender disparities, and financial exclusion exacerbate social inequalities (Amoah & Nyanzu, 2021).

This literature review examines existing research on SME development within the context of social welfare and inclusive economic policy. The section begins by exploring global and regional definitions of SMEs, highlighting the variations across the European Union (EU), World Bank, Asia-Pacific Economic Cooperation (APEC), and South Africa. A comparative analysis will assess how different SME classifications affect policy design, financial access, and economic participation. Furthermore, the review will explore the role of SMEs in strengthening social service delivery, addressing unemployment, and fostering economic resilience amid contemporary crises, including geopolitical tensions, rising inflation, and climate-induced business disruptions (OECD, 2024; UNEP, 2023).By critically examining recent studies, this section will highlight best practices and policy recommendations to enhance SME sustainability, social impact, and integration into broader economic and social welfare frameworks.

2.1 Definition of SMEs

Small and Medium-Sized Enterprises (SMEs) are fundamental to global economies, contributing significantly to employment creation, poverty alleviation, and inclusive economic growth (World Bank, 2023; UNCTAD, 2023). Although there is no universally accepted definition, SMEs are commonly classified based on employee count, annual revenue, and total assets (OECD, 2024). While these criteria provide economic benchmarks, the social dimensions of SMEs—such as their role in financial inclusion, job security, and social protection—are often overlooked (Klapper & Love, 2023). In many developing economies, SMEs serve as an essential economic lifeline for marginalized groups, including informal workers, women, and youth, providing opportunities where formal employment is scarce (Amoah & Nyanzu, 2021).

The way SMEs are defined and classified has far-reaching implications for their access to financial services, government support programs, and labor protections. Restrictive definitions can exclude micro-enterprises and informal businesses from policy benefits, limiting their ability to contribute to sustainable development (UNDP, 2023). In contrast, broad SME classifications, such as those used by the European Union (EU) and Asia-Pacific Economic Cooperation (APEC), facilitate greater economic participation and support social welfare outcomes (OECD, 2024). SMEs are particularly crucial in reducing poverty by offering low-barrier employment opportunities and fostering financial inclusion in underserved regions (Nasrullah & El Khoury, 2022). However, financial constraints, regulatory burdens, and limited social protections hinder their ability to drive long-term economic stability.

The link between SME classification and labor protections is also critical. In many developing countries, SME workers lack formal protections, exposing them to low wages and job insecurity (Amoah & Nyanzu, 2021). Formalizing SMEs and integrating them into social protection systems can help improve working conditions and reduce economic disparities (UNDP, 2023). Developed economies with well-defined SME policies, such as those in the EU, often provide stronger labor safeguards, including pension contributions and healthcare benefits (OECD, 2024). However, balancing labor protections with business sustainability remains a challenge, particularly in the informal and gig economy sectors (Klapper & Love, 2023).

SMEs are not just economic entities but also crucial drivers of social progress. Their classification should be designed to maximize their impact on poverty reduction, financial inclusion, and economic justice. An inclusive approach to SME policy, one that integrates economic and social objectives, can help ensure that SMEs serve as vehicles for long-term resilience and sustainable development.

2.2 European Union and World Bank Definitions of SMEs: Economic and Social Policy Implications

The classification of SMEs by global institutions such as the European Union (EU) and the World Bank plays a crucial role in shaping access to financial resources, social protections, and labor market opportunities. The EU defines SMEs based on employment size, annual turnover, and total assets, distinguishing micro, small, and medium enterprises. According to the European Commission (2005), a micro-enterprise employs fewer than 10 people and has an annual turnover or balance sheet total of less than €2 million. A small enterprise has fewer than 50 employees and turnover or balance sheet total of less than €10 million, while a medium-sized enterprise employs fewer than 250 workers, with turnover under €50 million or a balance sheet total of less than €43 million.

Table 1: Definition of Small and Medium Enterprises with European Union Standards

Enterprise Category	Headcount: Annual Work Unit (AWU)	Annual Turnover		Annual Balance Sheet Total
Medium-sized	< 250	< € 50 million	or	< € 50 million
Small	< 50	< € 10 million	or	< € 10 million
Micro	< 10	< € 2 million	or	< € 2 million

Source: Berisha et al., 2015

The World Bank uses a similar approach but incorporates additional financial indicators, categorizing SMEs based on total assets, total annual sales, and employee count. A micro-enterprise has fewer than 10 employees and total assets or sales below $100,000, a small enterprise employs up to 50 people with total assets or sales below $3 million, and a medium-sized enterprise has up to 300 employees with assets or sales below $15 million (Berisha & Pula, 2015).

Table 1: Definition of Small and Medium Enterprises with European Union Standards

Enterprise Category	Headcount: Annual Work Unit (AWU)	Annual Turnover		Annual Balance Sheet Total
Medium-sized	< 250	< € 50 million	or	< € 50 million
Small	< 50	< € 10 million	or	< € 10 million
Micro	< 10	< € 2 million	or	< € 2 million

Source: Berisha et al., 2015

The differences in classification between the EU and World Bank impact SME access to financial support, regulatory frameworks, and government assistance programs. The EU's focus on turnover and balance sheet structure allows for flexibility, ensuring that SMEs in different economic conditions qualify for various support mechanisms. In contrast, the World Bank's classification incorporates total assets and sales turnover, which may create barriers for micro and small enterprises in low-income countries, where businesses often lack formalized financial records (OECD, 2024). This has implications for SMEs in developing economies, as stringent financial criteria may exclude smaller businesses from credit facilities, grants, and other forms of institutional support.

Beyond financial accessibility, SME definitions also shape labor market inclusion and social protections. The EU's well-defined SME classification system enables enterprises to benefit from regional funding, digital transformation initiatives, and employment programs that support job creation for marginalized groups (European Commission, 2023). These policies have facilitated youth employment, gender equity, and migrant entrepreneurship within the EU's labor markets. By contrast, the World Bank's SME classification primarily informs macroeconomic policies, prioritizing economic stability and formal sector growth over targeted social protections (Nasrullah & El Khoury, 2022). Consequently, informal sector SMEs, particularly those led by women and minority entrepreneurs, often struggle to access institutional financing and social security benefits in developing countries.

A key challenge in both classifications is balancing economic stability with social welfare objectives. The EU's approach incorporates structural support for SMEs in workforce development, sustainability initiatives, and regional economic integration, yet administrative burdens—such as compliance costs—may disproportionately affect micro-enterprises. On the other hand, the World Bank's emphasis on financial performance indicators prioritizes economic resilience but does not explicitly address labor rights or social inclusion policies for SME employees (World Bank, 2023). This limitation affects workers in small enterprises, where labor protections, pension contributions, and social security measures are often inadequate.

The classification of SMEs further influences gender equity, youth employment, and migrant entrepreneurship. Within the EU, SMEs benefit from frameworks supporting female entrepreneurship, youth-led startups, and migrant business development through access to funding, mentorship programs, and skill-building initiatives (European Commission, 2023). The World Bank's SME policies, while promoting economic participation, tend to focus on credit access rather than addressing gendered labor market disparities or migrant integration (UNDP, 2023). This creates a gap in developing countries where women-led SMEs frequently encounter barriers such as discriminatory lending practices, limited collateral access, and informal work structures (Klapper & Love, 2023).

Understanding how SME classifications shape financial inclusion and labor market policies is critical for designing more inclusive and socially responsive economic policies. The EU's model offers a comprehensive regulatory framework that supports social welfare outcomes, while the World Bank's approach prioritizes financial viability and macroeconomic stability. A more integrated approach, considering both financial sustainability and social protections, would enhance SME resilience and broaden their contribution to inclusive economic development.

2.3 SME Definitions in Asia-Pacific Economic Cooperation (APEC): Regional Perspectives on Social Inclusion

The Asia-Pacific Economic Cooperation (APEC) defines Small and Medium-Sized Enterprises (SMEs) through country-specific classifications based on employment size, total assets, annual turnover, and sector-specific considerations. Unlike the European Union (EU) and World Bank, which provide a standardized SME definition, APEC allows member economies to set their own criteria, reflecting regional economic diversity, industrial specialization, and market conditions (APEC, 2023). Despite this variability, APEC promotes SMEs as engines of trade, regional economic growth, and technological innovation, but there are concerns that its SME frameworks prioritize economic integration over social welfare and inclusion (OECD, 2024).

APEC's SME classifications vary significantly across member states. For example, in Japan, an SME in the manufacturing sector is defined as a business with fewer than 300 employees or an annual capital investment below ¥300 million, while in Singapore, an SME is any enterprise with an annual turnover below SGD 100 million or fewer than 200 employees (APEC, 2023). In contrast, in Indonesia, an SME is defined as a business with fewer than 100 employees, making its classification narrower than developed economies within APEC (Makinde, Ajike & Babatunde, 2021).

Table 3: Definition of SME in Asia Pacific Cooperation (APEC)

Country	Definition of SMEs		Measurement
	Number of Employees	Annual turnover / Total Assets	
United States	< 1 500	< $ 50 million	Employment and assets
Canada	< 50 (service industry) < 500 (manufacturing)		Employment

Country	Definition of SMEs		Measurement
	Number of Employees	Annual turnover / Total Assets	
Hong Kong	< 50 (retail) < 100 (manufacturing)		Employment
Indonesia	< 100 (manufacturing)		Employment
Japan	< 50 (retail) < 100 (wholesale) < 100 (service industry)	< ¥ 50 million (retail) < ¥ 100 million (wholesale) < ¥ 50 million (service industry)	Employment and assets
Malaysia	< 50 (service industry) < 150 (manufacturing)	< MYR 5 million (service industry) < MYR 25 million (manufacturing)	Employment and shareholder funds
Philippines	< 200	< ₱ 60 million	Employment and assets
Republic of Korea	< 100 (wholesale) < 300 (manufacturing)	< ₩ 10 billion (wholesale) < ₩ 8 billion (manufacturing)	Employment assets and sales revenue
Singapore	< 200 (service industry)	< SGD 15 million (manufacturing)	Employment and assets

Source: Makinde, Ajike & Babatunde, 2021

While APEC's SME frameworks encourage entrepreneurship, export competitiveness, and cross-border trade, there is limited focus on social welfare provisions, labor protections, and financial inclusion for marginalized groups (Nasrullah & El Khoury, 2022). Unlike the EU, which integrates SMEs into regional funding mechanisms and social development programs, APEC's SME policies largely revolve around market-driven growth, digital trade, and innovation-based scaling (OECD, 2024). As a result, SMEs operating in low-income APEC countries often struggle with limited access to financing, regulatory support, and worker protections (UNDP, 2023).

Despite these challenges, some APEC economies have developed inclusive SME policies that support women entrepreneurs, youth-led businesses, and micro-enterprises in informal sectors. For instance, South Korea's SME Promotion Act provides tax incentives, skill development programs, and financial assistance to startups and social enterprises that focus on sustainability, gender equality, and rural development (Cheng, Chen & Lee, 2022). Similarly, the Philippines' Magna Carta for Micro, Small, and Medium Enterprises (MSMEs) Act mandates that 10% of government procurement contracts be allocated to SMEs, enhancing their participation in public-sector economic activities (APEC, 2023).

Another example is Vietnam, where SMEs have played a crucial role in poverty alleviation and rural development. The Vietnamese government, through its National SME Development Fund, offers low-interest loans and infrastructure support to agriculture-based SMEs, empowering local farmers and small-scale producers (UNDP, 2023). However, across much of the Asia-Pacific region, informal SMEs, particularly those led by women and migrants, continue to face exclusion from financial and policy frameworks, limiting their ability to scale and contribute to long-term social development (Klapper & Love, 2023).

While APEC's SME policies successfully promote trade, economic growth, and digital transformation, they often lack the labor protections, social safety nets, and targeted inclusion strategies found in EU SME frameworks. For SMEs to serve as drivers of inclusive growth, APEC economies must integrate social policies into their SME development strategies, ensuring that financial inclusion, gender equity, and worker protections become core elements of the regional SME agenda.

2.4 SME Definitions in Developing Economies: The Case of South Africa

South Africa's official classification of Small, Medium, and Micro Enterprises (SMMEs) is defined under the National Small Business Act of 1996, with subsequent revisions in 2003 and 2019. The definition categorizes SMMEs based on sector, total full-time equivalent of paid employees, total annual turnover, and total gross asset value (Department of Small Business Development, 2019). According to the latest Government Gazette, a micro-enterprise employs up to 10 workers, a small enterprise has between 11 and 50 employees, a medium enterprise ranges from 51 to 250 employees, and all enterprises must meet specific turnover thresholds according to their industry (National Small Business Act, 2019).

Table 4: National Small Business Act Definitions

Sectors or sub-sectors in accordance with the Standard Industrial Classification	Size or class of enterprise	Total full-time equivalent of paid employees	Total annual turnover
Agriculture	Medium	51-250	< R 35 million
	Small	11-50	< R 17 million
	Micro	0-10	< R 7 million
Mining and Quarrying	Medium	51-250	< R 210 million
	Small	11-50	< R 50 million
	Micro	0-10	< R 15 million
Manufacturing	Medium	51-250	< R 170 million
	Small	11-50	< R 50 million
	Micro	0-10	< R 10 million
Electricity, Gas and Water	Medium	51-250	< R 180 million
	Small	11-50	< R 60 million
	Micro	0-10	< R 10 million
Construction	Medium	51-250	< R 170 million
	Small	11-50	< R 75 million
	Micro	0-10	< R 10 million
Retail, motor trade and repair services	Medium	51-250	< R 80 million
	Small	11-50	< R 25 million
	Micro	0-10	< R 7.5 million
Wholesale	Medium	51-250	< R 220 million
	Small	11-50	< R 80 million
	Micro	0-10	< R 20 million
Catering, Accommodation and Other Trade	Medium	51-250	< R 40 million
	Small	11-50	< R 15 million
	Micro	0-10	< R 5 million
Transportation, Storage and Communication	Medium	51-250	< R 140 million
	Small	11-50	< R 45 million
	Micro	0-10	< R 7.5 million
Finance and Business Services	Medium	51-250	< R 85 million
	Small	11-50	< R 35 million
	Micro	0-10	< R 7.5 million
Community, Social and Personal Services	Medium	51-250	< R 70 million
	Small	11-50	< R 22 million
	Micro	0-10	< R 5 million

Source: National Small Business Act, 2019

These definitions are significant as they determine access to government funding, financial assistance, tax incentives, and business development support programs. However, South Africa's SME classification has been critiqued for excluding many informal businesses, particularly those run by women, Black entrepreneurs, and township-based enterprises, which do not meet the formal registration requirements (OECD, 2024). The strict adherence to employee and turnover metrics often limits micro-enterprises and survivalist businesses from participating in national SME programs (UNDP, 2023).

The South African government has developed several policy interventions to support marginalized groups within the SME sector. The Broad-Based Black Economic Empowerment (B-BBEE) Act encourages SME development by facilitating Black-owned business participation in corporate supply chains (DTI, 2023). Additionally, the National Informal Business Upliftment Strategy (NIBUS) aims to integrate informal businesses into the mainstream economy by providing training, infrastructure support, and access to markets (Department of Small Business Development, 2023). Despite these efforts, many township-based SMEs and women-led enterprises struggle to access financing, as traditional banks require collateral and extensive credit histories, which most informal businesses lack (Nasrullah & El Khoury, 2022).

One of the greatest challenges for South African SMEs is limited financial access. While institutions such as the Small Enterprise Finance Agency (SEFA) and Industrial Development Corporation (IDC) provide funding, approval rates for small and Black-owned enterprises remain low due to risk assessments based on formal financial records (OECD, 2024). Many SMEs turn to informal lending, microfinance institutions, or digital fintech solutions, but high interest rates and short repayment terms often hinder business growth (Klapper & Love, 2023).

Regulatory compliance also presents significant barriers for SMEs. Registering a business in South Africa involves multiple administrative procedures, including tax registration with the South African Revenue Service (SARS) and compliance with labour laws, which many micro-enterprises struggle to navigate (World Bank, 2023). For SMEs in the informal sector, the high cost of formalization, licensing fees, and compliance reporting discourages registration, pushing many businesses to operate outside the formal regulatory framework (UNDP, 2023).

Employment benefits and worker protections in SMEs remain limited compared to large firms. Many small businesses do not provide pension contributions, medical aid, or formal contracts, making workers vulnerable to job insecurity and wage exploitation (Nasrullah & El Khoury, 2022). The introduction of South Africa's National Minimum Wage (NMW) Act has helped to standardize wages across industries, but compliance remains low among micro and small enterprises due to financial constraints and enforcement challenges (OECD, 2024).

South Africa's SME landscape presents a dual challenge—while formal SMEs benefit from government support programs, many informal and micro-businesses struggle with financial exclusion, regulatory burdens, and limited social protections. A more inclusive approach to SME policy, one that streamlines business registration, expands financial accessibility, and enhances labor protections, is necessary to maximize the sector's contribution to economic development and social welfare.

3. Methodology

This study employs a systematic comparative literature review methodology to analyze the definitions, classifications, and policy implications of Small and Medium-Sized Enterprises (SMEs) across different institutional and regional frameworks. The study systematically reviews existing research, policy reports, and institutional definitions from global organizations, including the European Union (EU), World Bank, Asia-Pacific Economic Cooperation (APEC), and South Africa. A comparative analysis is conducted to assess how different SME classifications influence social welfare outcomes, financial inclusion, labor market access, and economic justice, particularly in developing economies.

The study follows a qualitative research design, utilizing secondary data sources from peer-reviewed journal articles, policy briefs, government reports, and institutional publications. The research process includes:

- Selection of Sources – Academic databases (e.g., Scopus, Web of Science, Google Scholar) and institutional reports (e.g., World Bank, OECD, UNDP) were reviewed. Only sources published within the last five years (2019–2024) were included to ensure contemporary relevance.
- Comparative Analysis – A structured framework was developed to compare SME definitions, policy interventions, and their implications for social welfare across different regions. Key dimensions of comparison included:
    - Definition criteria (e.g., employment size, revenue thresholds, sector classifications)
    - Policy impact (e.g., SME access to financial resources, regulatory support, social protection)
    - Economic and social inclusion (e.g., employment opportunities for marginalized groups, informal sector recognition)

- Synthesis and Interpretation – Findings were critically analyzed to identify commonalities, gaps, and inconsistencies in SME classification systems, linking them to broader policy and social welfare implications.

A comparative literature review was chosen because SME classification varies significantly across global institutions, affecting their integration into social and economic policies. By comparing EU, World Bank, APEC, and South African SME frameworks, this study highlights best practices and challenges in aligning SME policies with social development goals, financial inclusion, and employment generation.

4. Discussion: Comparative Analysis of SME Definitions and Their Social Implications

The classification of Small and Medium-Sized Enterprises (SMEs) varies significantly across global institutions and regional frameworks, impacting their access to financial resources, regulatory benefits, and social welfare support. While the European Union (EU), World Bank, Asia-Pacific Economic Cooperation (APEC), and South Africa each define SMEs based on employment size, turnover, and asset value, their approaches reflect different economic priorities and policy objectives. A comparative analysis highlights key gaps and inconsistencies that limit SMEs' contributions to inclusive economic growth, social welfare, and labor protections.

Table 5: Comparative Summary of SME Definitions Across EU, World Bank, APEC, and South Africa

Institution / Region	Micro-Enterprise Definition	Small Enterprise Definition	Medium Enterprise Definition	Policy Focus	Social Welfare Considerations	Financial Inclusion Impact
European Union (EU)	Fewer than 10 employees; Turnover < €2 million	Fewer than 50 employees; Turnover < €10 million	Fewer than 250 employees; Turnover < €50 million	Balanced economic and social policies; strong labor protections	Access to funding, employment protections, regional SME support	Broad access to EU regional funding and support programs
World Bank	Fewer than 10 employees; Assets/Sales < $100,000	Up to 50 employees; Assets/Sales < $3 million	Up to 300 employees; Assets/Sales < $15 million	Economic stability; financial performance indicators	Limited focus on social welfare; emphasis on economic resilience	Primarily serves macroeconomic stability; limited SME financing for micro-businesses

Institution / Region	Micro-Enterprise Definition	Small Enterprise Definition	Medium Enterprise Definition	Policy Focus	Social Welfare Considerations	Financial Inclusion Impact
Asia-Pacific Economic Cooperation (APEC)	Country-specific; varies across APEC members	Country-specific; varies across APEC members	Country-specific; varies across APEC members	Trade, digital transformation, economic growth	Minimal labor protections; focus on trade and market expansion	Highly variable; access depends on national policies
South Africa	Fewer than 10 employees; Industry-specific turnover limit	11-50 employees; Industry-specific turnover limit	51-250 employees; Industry-specific turnover limit	Economic transformation; social equity (B-BBEE, NIBUS)	Attempts to integrate informal businesses; challenges in implementation	Targeted funding for Black-owned SMEs; informal sector faces financial exclusion

The EU's SME classification is standardized across its member states, enabling financial support, market access, and social protection programs. EU SMEs benefit from regional funding, trade incentives, and structured labor market policies, promoting worker security, gender equity, and social inclusion (European Commission, 2023). The World Bank's SME framework, on the other hand, primarily serves economic stability and financial sector assessments, emphasizing firm size and turnover as indicators of business sustainability (World Bank, 2023). However, it lacks explicit provisions for social protections and employment benefits, making it less responsive to labor market inclusion challenges in developing economies (Nasrullah & El Khoury, 2022).

APEC economies adopt flexible SME classifications, allowing country-specific definitions that align with national trade and industrial policies. While this decentralized approach promotes economic growth and regional competitiveness, it often neglects worker protections and financial inclusion for marginalized groups (OECD, 2024). In contrast, South Africa's SME framework attempts to address economic disparities through policies like the Broad-Based Black Economic Empowerment (B-BBEE) Act and the National Informal Business Upliftment Strategy (NIBUS) (DTI, 2023). However, its classification system still excludes many informal enterprises, limiting their access to funding, formal employment benefits, and regulatory support (UNDP, 2023).

A key challenge across these SME definitions is the exclusion of micro-enterprises and informal businesses. In many developing economies, informal SMEs—especially those owned by women, migrants, and young entrepreneurs—fail to qualify for formal financing and government incentives due to registration barriers and financial reporting requirements (Klapper & Love, 2023). While the EU model incorporates labor protections and worker benefits, the World Bank and APEC frameworks focus predominantly on economic criteria, often overlooking social development indicators (OECD, 2024). South Africa's SME policies, while more socially conscious, still struggle with implementation challenges, particularly in extending social security benefits and business formalization incentives to township-based and rural enterprises (Department of Small Business Development, 2023).

5. Recommendations

To enhance the role of SMEs in both economic development and social welfare, the following key policy recommendations should be considered:

- Standardize SME Definitions for Inclusivity – Broader definitions that include micro-enterprises and informal businesses should be adopted to ensure they benefit from financial support and government incentives (World Bank, 2023).
- Integrate Social Protections into SME Policies – Governments should link SME development programs to labor protections, healthcare benefits, and pension schemes, ensuring workers receive fair wages and job security (Nasrullah & El Khoury, 2022).
- Expand Financial Access and Credit Mechanisms – More flexible lending structures, microfinance initiatives, and government-backed credit guarantees should be introduced, especially for women entrepreneurs and youth-led SMEs (UNDP, 2023).
- Encourage Formalization of Informal SMEs – Reducing registration costs, simplifying tax procedures, and providing incentives can help informal businesses transition into the formal sector, increasing access to financial and regulatory benefits (OECD, 2024).
- Strengthen Gender and Social Equity Measures – Targeted support for women-owned SMEs and migrant entrepreneurs should be integrated into SME policies to enhance economic participation (European Commission, 2023).
- Promote Sustainability and Digital Transformation – SMEs should be incentivized to adopt eco-friendly business models and digital solutions, ensuring long-term resilience and global competitiveness (OECD, 2024).

6. Conclusion

In conclusion, SMEs play a crucial role in economic growth, employment generation, and poverty reduction, but their impact on social welfare and financial inclusion is often limited by inconsistent definitions, regulatory barriers, and financial constraints. The EU's structured SME framework integrates social protections and labor policies, while the World Bank and APEC models prioritize economic stability and trade expansion. South Africa's SME classification system attempts to address historical inequalities, yet challenges remain in formalizing micro-enterprises and extending financial access to marginalized groups.

To maximize SMEs' contributions to inclusive economic development, policies must balance economic growth objectives with social welfare considerations. A more inclusive SME classification framework, expanded access to financial services, and stronger labor protections will be critical in ensuring SMEs serve as vehicles for economic transformation and social progress globally.

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