

Promoting SME Competitiveness in Africa

Data for de-risking investment



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DATA FOR DE-RISKING INVESTMENT

ABOUT THE PAPER

Most investors seek information about local suppliers before making decisions to invest. This report uses ITC data on small and medium-sized enterprise (SME) competitiveness at macro, meso and micro-level to de-risk investment decisions.

Survey results show: high-tech potential among youth, with two-thirds of IT firms run by youth in the Gambia; fast logistics development making a difference, with two-thirds of Moroccan SMEs rating quality as high; export certification importance, with more than 25% of companies in French-speaking African countries meeting international standards; and a financial literacy role for institutions, with Nigerian SMEs holding a bank account understanding loan applications better than non-account owners.

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For more information on SME Competitiveness Survey, see: <http://www.intracen.org/SMEBenchmarking/>

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FOREWORD

Africa has tremendous scope to become one of the most attractive investment destinations in the world. Foreign and domestic investment will be critical in closing the development gap, lifting incomes and creating jobs. However, the current level of investment – 23.5% of Africa's gross domestic product – is insufficient to meet spending needs for growth factors such as infrastructure, education and technology.

For investment to contribute to sustainable development and growth in Africa, there is a need to demystify the investment landscape on the continent and centre the discourse on the role of small and medium-sized enterprises (SMEs). SMEs employ the vast majority of any local labour force and have an integral role in any sustainable growth trajectory. At the International Trade Centre (ITC), we often refer to SMEs as 'the missing link' for inclusive growth. These enterprises generate more and better jobs when they can access new investments and build trade capacity and skills, and are empowered to become more competitive and connect to international markets.

Private sector investors face substantial uncertainty when investing in SMEs, especially in developing countries. The 2018 World Bank Global Investment Competitiveness Report highlights the appeal of investors for 'information about the availability of local suppliers'. They need to know which suppliers can meet quality, quantity and time requirements, and which are financially stable and/or may be able to expand or move up the value chain.

In times when transparency and availability of data are at a premium, greater efforts have to be made to ensure that national stakeholders in African countries have the necessary information to signal SME reliability and attractiveness to potential international investors.

ITC is helping to fill this gap by setting up a network of chambers of commerce, industry associations, trade and investment promotion agencies, government ministries and other national players to collect and analyse crucial data on local SME competitiveness. Results are regularly published in our SME Competitiveness Outlook. For the first time, findings for African countries are pulled together in this report.

The ITC SME Competitiveness Surveys, designed to assess the strengths and weaknesses of enterprises and their business ecosystem, build on more than 50 years of on-the-ground experience helping SMEs enter global markets. As illustrated in this report, these assessments can play a key role in diagnosing problems, highlighting strengths, aiding evidenced-based decision making and gauging the effectiveness of those decisions.

The data generated through the SME Competitiveness Surveys can also be used to assess the viability of individual businesses and their potential to grow. This is valuable intelligence for foreign firms seeking suppliers or foreign investors looking for investment projects. As such, surveys provide a vital link between the development community and private sector investors that will enable them to work together to realize the United Nations Sustainable Development Goals.



Arancha González
Executive Director
International Trade Centre

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A team led by Marion Jansen and under the supervision of Dorothy Tembo prepared this report. Valentina Rollo coordinated the report. The authors in the chief economist and export strategies sections include Nicolas Borzykowski, Mario Filadoro, Ruat Lalruatpuii, Dalal Moosa and Jasmeer Virdee. Eleonora De Falcis and Antonina Popova provided statistical assistance. The report has benefited from the input and comments of Olga Solleder.

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ACRONYMS

Unless otherwise specified, all references to dollars (\$) are to United States dollars.

CPCCAF	Permanent Conference of African and Francophone Consular Chambers
FDI	Foreign direct investment
GDP	Gross domestic product
ICT	Information and communications technology
MSME	Micro, small and medium-sized enterprise
NTM	Non-tariff measure
OECD	Organisation for Economic Co-operation and Development
SME	Small and medium-sized enterprise
SMECS	SME Competitiveness Survey
SYTDR	Strategic Youth and Trade Development Roadmap
TVET	Technical and vocational education and training
TISI	Trade and investment support institution
UNCTAD	United Nations Conference on Trade and Development

EXECUTIVE SUMMARY

SMEs make up the bulk of Africa's economy

Small and medium-sized enterprises form the backbone of the African economy, representing more than 90% of businesses and employing about 60% of workers, many of whom are women and youth.¹ Helping more small and medium-sized (SMEs) connect to international markets would ensure that the gains from trade are broadly distributed across the workforce. Their role in Africa can be particularly powerful with its young population, where children (aged 0–14 years) make up more than 40% of the population,² and where more than 900 million new workers are expected to enter the labour market by 2050.³

African SMEs, however, like many in developing countries, are less productive than larger companies and often struggle to survive and grow. Future growth, however, depends on greater SME productivity.

Investment is key to improve SME competitiveness

Domestic and foreign investments are necessary to ensure that SMEs play a bigger role in Africa's development. The continent faces a significant investment gap because of perceived risks. Despite reforms, most African countries are still ranked in the bottom half of the World Bank's *Ease of Doing Business* reports. Informality is also a problem: investors cannot invest in unregistered firms, which make up a significant share of African SMEs and cannot raise funds through formal channels.

Better data can reduce investment risk

Reducing investment risk in Africa is vital. Governments must understand the needs of investors, who consider good physical and digital infrastructure to be important in their investment decisions.⁴ At the same time, quality infrastructure can encourage investments in export-orientated enterprises by helping them to get certified, hence signaling the quality of their processes and products.

Investors seeking to scale up an acquisition will assess whether the target country can provide newly purchased businesses with skilled workers. The capacity and skills of local suppliers are considered important or critically important by 74% of interviewed investors. It is the most significant factor determining relationships between foreign firms and local suppliers, according to the 2018 *Global Investment Competitiveness Report*. Moreover, good financial records are needed to prove performance claims.

Information on suppliers is needed for investment decisions

Most investors identified 'information about the availability of local suppliers' as a critical element in their investment decisions.⁵ Here again, local country intelligence is essential. To help investors identify efficient suppliers and to address constraints faced by others, relevant data must be collected and analysed.⁶

Using data from the ITC SME Competitiveness Surveys (SMECS), this report sheds light on four areas that affect the competitiveness and attractiveness of African SMEs for investment:

- Quality infrastructure for firms to meet international standards and become certified;
- Quality of infrastructure, logistics providers and inventory management to determine SME ability to deliver on time;
- Human capital requirements at sectoral level and quality of education and training environment;
- Companies' ability to access finance and an appropriate financial ecosystem to support them.

Certification: A door to international markets

Meeting standards and acquiring certifications are essential to access foreign markets and become part of the global value chain. Certified firms are typically more productive and supply better-quality products. They also enjoy external benefits such as access to new markets, new investors and greater buyer satisfaction. Certification is often connected to upgraded and modernized production, which improves SME competitiveness and signals higher quality – both of which are essential for cross-border trade and foreign direct investment (FDI).

At the local level, the quality, accessibility and costs of the processes and institutions defining standards and regulations and carrying out conformity assessments will, to a large extent, determine how easy it is for SMEs and their products or services to become certified. Slow, inefficient or expensive quality infrastructure will hamper FDI.

In 2018, ITC collaborated with the Permanent Conference of African and Francophone Consular Chambers, which surveyed more than 9,000 enterprises in 16 French-speaking African countries. The findings showed more than 25% of companies in French-speaking African countries meet international quality standards, which confirms that countries with more internationally certified firms also have more exporting companies. Larger firms have a higher share of certified enterprises and exporters, which highlights the importance of further support for SMEs.

While most of the surveyed companies were satisfied with the quality of their national certification bodies, half found certifications to be costly and almost two-thirds said information about certification was limited. This is especially true in the agriculture sector.

The survey data underscore the positive relationship between transparency of information and certification. By making information more affordable and readily available, trade and investment support institutions (TISIs) can play an important role in helping more SMEs become certified.

Infrastructure and logistics: A foundation for connectivity

High-quality infrastructure is an important driver of SME performance and growth. It is also crucial for the development of efficient logistics services, which extend the reach of SMEs locally and globally. Good physical infrastructure – including roads, ports and telecommunication cables and the supply of electricity and water – is often cited as a central factor in decisions to invest in certain locations. However, high-quality infrastructure and logistics services often require supply-side investments.

An infrastructure gap still exists in Africa. The demand for modern infrastructure increases as populations grow and become more urbanized. The continent will need to spend an estimated \$6 trillion over the next 20 years to build, upgrade and maintain its infrastructure and achieve its development goals.⁷ Weak infrastructure aggravates a logistics gap that limits services such as road networks, payment systems and warehousing facilities, and leads to higher production and delivery costs for SMEs.

In 2016, the Association Marocaine des Conseillers à l'Export, in collaboration with ITC, interviewed 149 Moroccan firms across the country, under the umbrella of the Ministry of Industry, Trade, Investment and Digital Economy. The survey found that two-thirds of Moroccan companies can rely on good logistics services and high-quality infrastructure to compete in higher quality segments. They report a relatively reliable electricity supply, in line with the country's continued investments in renewable and non-renewable energy, and good access to water.

The survey also found that, despite respondents rating positively the telecommunication infrastructure and despite the widespread use of internet in the sample, only 37% of respondents use online advertisements and marketing, a share that increases with firm size. SMEs would benefit from using more information and communications technology for outreach.

Human capital: A pillar of success

Human capital is an integral part of an effective business and investment ecosystem. Investors value skills and the productive capacity of companies, and multinationals tend to consider supplier skills when making investment decisions. More productive firms can maximize the benefits of foreign investment; they are better able to use relevant information and streamline their operations.

While many sub-Saharan African countries have greatly improved their educational systems in recent decades, some 15-to-19-year-olds in these countries still lack the foundational skills needed to complete primary and secondary education. Dropout rates are high and gender gaps are apparent. Youth perceive vocational and technical education as unappealing and few enrol in this track.⁸

Recognizing the importance of human capital and the challenges that SMEs face, ITC and the Gambia Investment and Export Promotion Agency conducted the SME Competitiveness Survey in the Gambia in 2017. They interviewed 110 enterprises in three key sectors: agriculture, tourism and ICT. The survey included a module on skills to solicit company perceptions about the preparedness of their staff – all of which was used to better inform the country's Strategic Youth and Trade Development Roadmap 2018–2022.

The results mirror the Gambia's young population. More than two-thirds of the workers in surveyed enterprises are below age 35, with a bigger percentage in the ICT sector. Youth lead a significant share of the surveyed SMEs, most evident among ICT companies and least evident among agricultural firms. This signals that the country's young workers have technological and entrepreneurial ambitions, which bodes well for growth, should they access better education and training.

The surveyed enterprises generally believe many of their workers are well prepared to do their jobs. However, junior staff coming from technical and vocational education and training (TVET) institutions are considered to be less prepared than university and college graduates. These results flag a potential disconnect between what industries need in terms of skills and what TVET institutions provide.

The results also highlight some of the obstacles that Gambian firms face in hiring youth – employment costs, subpar qualifications and poor attitudes and work ethics.

Accessing finance: Key for scale-up

Finance is the backbone of any business. It is crucial to start a company and important for scale-up and growth. However, SMEs in Africa face a large financing gap, estimated at more than \$136 billion annually.⁹ Many report finance as their biggest constraint to growth, due to high interest rates, large collateral requirements and a burdensome application process. It is especially difficult for women to obtain financing, as fewer African women have bank accounts, compared to men, and the legal rights of family capital and collateral can be restrictive, given local laws and customs about land ownership.

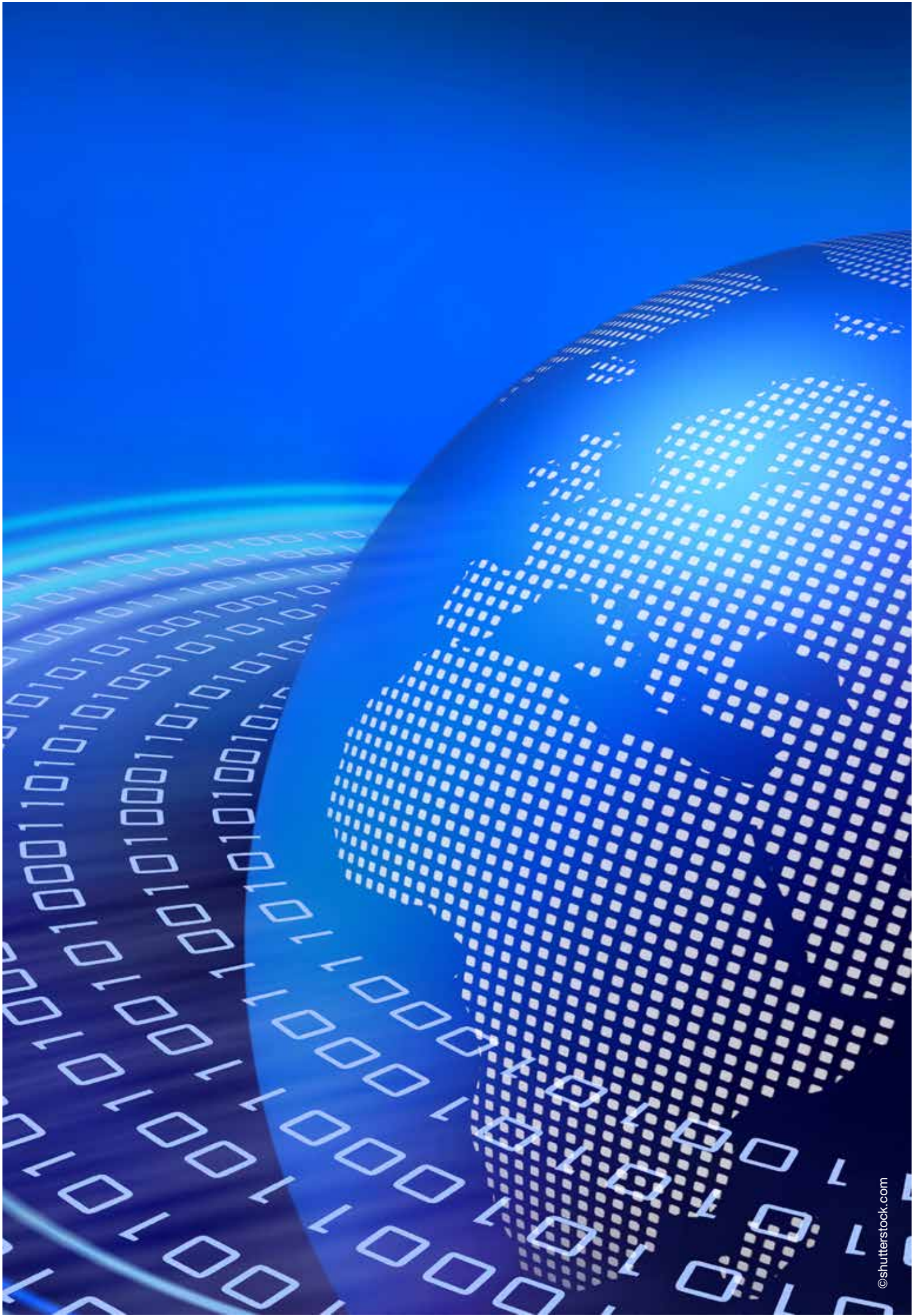
ITC carried out the SME Competitiveness Survey in Nigeria in 2018, with specific focuses on women entrepreneurs and SME financing. As part of the SheTrades Initiative, which aims to extend the international reach of women-owned enterprises, the survey interviewed 394 firms that are active in agriculture, mining, manufacturing and services.

The data show that 45% of surveyed women-owned companies, especially micro enterprises and those operating in the manufacturing sector, had no business bank account. The younger the firm (also related to the age of its entrepreneur), the less likely it was to have a bank account.

Two-thirds of respondents cited difficulty in accessing credit as a barrier to business expansion. Financing was a particular problem for enterprises that were not part of a value chain, highlighting the benefits that international trade can bring to SMEs, particularly if they can leverage their larger buyers' credit to finance themselves.

Only a quarter of surveyed firms had applied for financing in the previous three years. Fewer younger companies apply for credit than older firms, and they are more likely to be rejected because of insufficient collateral, uncertainty about their ability to repay and what banks perceive as less sound business plans.

Many SMEs have limited knowledge about loan application processes, especially those without a bank account. This highlights the importance of having a personal relationship with banks to access information about credit. Improved institutional support would also give SMEs better access to the information they need for financing and growth.



CHAPTER 1

SME COMPETITIVENESS IN AFRICA

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SME COMPETITIVENESS IN AFRICA

Small and medium-sized enterprises (SMEs) are the cornerstone of most economies. They account for about half of global gross domestic product (GDP) and 60%–70% of employment. In developing countries, SMEs tend to employ the poorer, more vulnerable segments of society, such as youth and women.¹⁰ They make up the lion's share of enterprises in Africa and hire a large portion of the workforce.¹¹ Investing in SMEs is a long-term and smart strategy, with sustainable returns that multiply across societies, regions and countries.

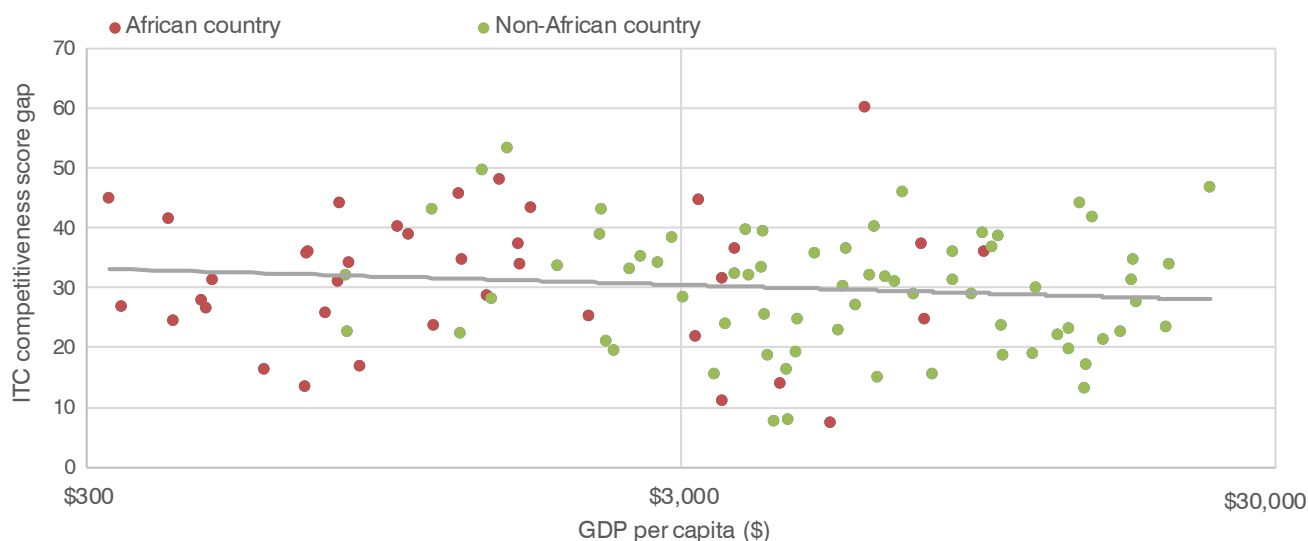
Larger businesses are more productive and more likely to export than SMEs.¹² This is the case in most countries,¹³ though the gap is more pronounced in developing economies than in industrialized nations (Figure 1). This is especially true for Africa. SMEs usually pay lower wages than larger firms because they are less productive, tend to operate in low value-added and labour-intensive sectors, and use little technology.¹⁴ Closing the productivity gap is likely

to have two direct effects: it would contribute to GDP growth because of increased SME productivity, and it would mean better jobs and higher pay in the low-wage segments of the economy.

SMEs could become more competitive by increasing their involvement in foreign markets, as internationalized enterprises typically report higher sales and growth.¹⁵ Evidence suggests that SME exporters grow 4% faster than non-exporters, with the difference more pronounced when comparing importers with non-importers.¹⁶

The good news is that trade and investment represent a massive unfulfilled business opportunity for African SMEs and those that choose to invest in them. Africa invests just 23.5% of its GDP today, and this must rise to 37% to meet the continent's development targets. That implies a gap of \$11.4 trillion by 2040.¹⁷ Africa's private sector will struggle to finance this gap alone, which means foreign investors have a role to play and an opportunity to seize.

Figure 1 The competitiveness gap narrows with development



Note: The trend line is calculated using data from all 107 countries. The competitiveness gap is the difference between the competitiveness scores of large and small firms. For more information on how the scores are calculated, please refer to the *SME Competitiveness Outlook 2018*.
Source: SME Competitiveness Outlook Database.

Policy reform, development of the trade support ecosystem and capacity building at the enterprise level can help African SMEs become more competitive globally and achieve investment-grade ratings. To bring about effective change and give reliable signals to investors, however, information is needed about the strengths of SMEs and the constraints they face.

Data are critical to diagnose problems, facilitate evidence-based decision making and assess the effectiveness of those decisions. Collected correctly, data can be the oil that lubricates African growth through more and targeted investment.

SMEs are key to Africa's most pressing challenges

Investing in SMEs means more jobs

SMEs in Africa can help resolve some of the continent's most pressing challenges. The World Economic Forum estimates that Africa's workforce will increase by a staggering 910 million people between 2010 and 2050, of which 830 million will be in sub-Saharan Africa.¹⁸ This creates a tremendous

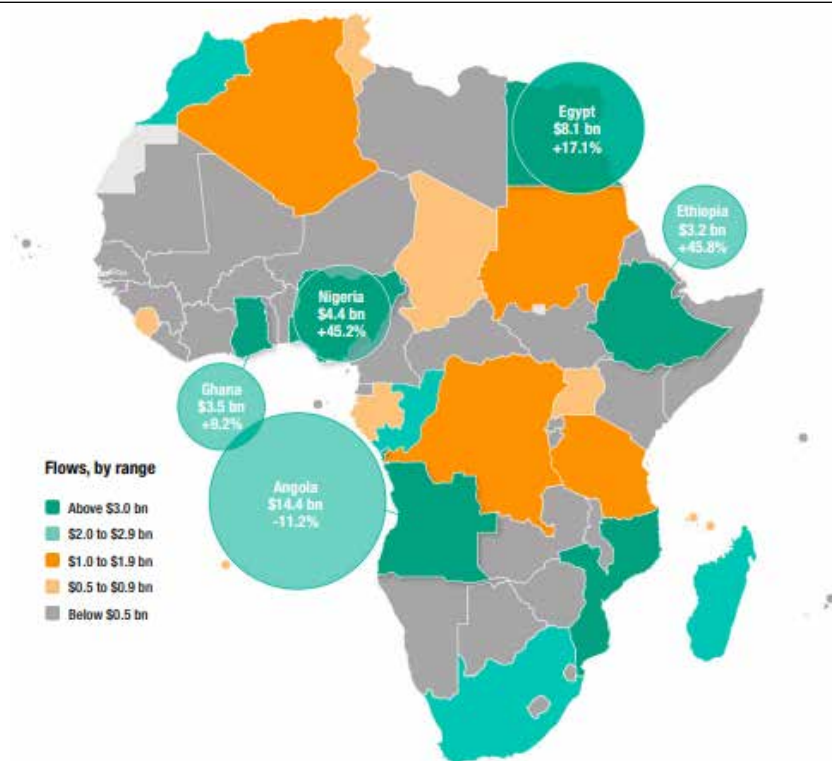
need for jobs. Although African SMEs generate about 80% of new jobs, they also account for most lost jobs. Smart investments can help tilt this balance in favour of positive and sufficient net job creation and contribute to solving one of Africa's greatest socio-economic challenges.

Africa suffers from an investment gap

Investing in Africa can be challenging. Each African country has its own investment regime, sector specialization, political environment and cultural quirks. This can make it difficult for investors to assess investment risks.

Although many governments in sub-Saharan Africa have undertaken reforms to improve the business ecosystem, most African countries are still ranked in the bottom half of the World Bank's Ease of Doing Business rankings – sub-Saharan Africa's latest regional average was 142 of the 190 economies that were ranked.¹⁹ It is therefore no surprise that the share of global FDI into Africa has declined over the last 40 years, from around 6% to just over 3.4% today. Africa receives just under \$60 billion of inward investment (Figure 2) compared to a nominal GDP of more than \$2 trillion.²⁰ The top investor economies are the United States of America, followed by the United Kingdom and France.

Figure 2 Foreign direct investment in Africa



Source: United Nations Conference on Trade and Development (UNCTAD). World Investment Report, 2017.



Low investment does not imply low investment potential, however. Projections based on current trends indicate that an \$11.4 trillion investment gap will open up by 2040. Substantial investment is needed for infrastructure – perhaps up to \$100 billion a year²¹ – but also for technology companies seeking to operate regionally and manufacturing firms hoping to expand production.

Targeted investments can help. Capital injections into Africa's manufacturing and services companies would help boost these enterprises' productivity, which would likely lead to higher wages in the low-wage segment of the economy.

Higher wages for female employees have knock-on effects on the general economy, as women in developing countries invest more in their families and in the community at large than men, leading to a positive impact for society as a whole.²²

Informality impedes investment

SMEs in Africa are less productive than large firms. This is exacerbated by the high proportion of African firms in the informal sector. The productivity gap between registered and unregistered firms in a study of 24 African countries is estimated at around 120%.²³

Informality limits investment options, because it is illegal to invest in unregistered firms. This crimps economic growth. The informal sector generates about 55% of sub-Saharan Africa's GDP and employs around 80% of the labour force.²⁴ This implies that most of sub-Saharan Africa's economic output is closed to investors.

Weak institutions contribute to the prevalence of informal activities. This creates risks for investors, who seek regulatory certainty and a judicial system that can protect their investments.

Encouraging informal businesses to register would strengthen the business environment and, in turn, promote investment. In Burkina Faso, for example, an improved business registration process cut the cost to open a business by more than half and greatly reduced the time needed to start a company.²⁵

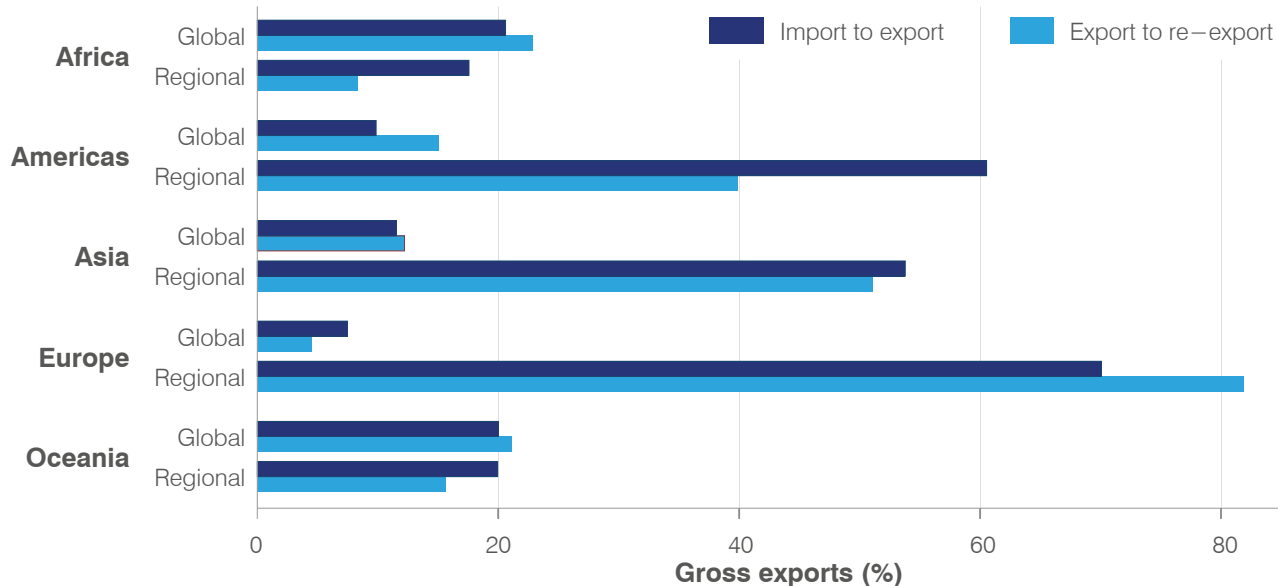
Investment opens up value chain connections

Investments can help connect businesses to global value chains. This would help small African producers find new suppliers and buyers, and give them access to knowledge and innovation.²⁶ In addition, further investments can flow through value chains.²⁷

Africa is not particularly well integrated into global supply chains.²⁸ It is a continent split into two, with North Africa oriented towards markets in Europe and sub-Saharan Africa towards markets in North America and Asia.

Some of the continent's most integrated countries (e.g. Morocco, Tunisia) are well positioned to serve 'headquarter economies' in the European Union. But they are in a tough competitive position vis-à-vis Eastern and Central European countries.

Figure 3 Value chains tend to be regional, except in Africa



Note: Import-to-export, also known as vertical specialization, can be seen as a buyer measure for value chain integration because it measures the amount of foreign value added that is exported. Export-to-re-export measures domestic value added that is exported for further processing before being re-exported. It can measure value chain integration as a seller. Data refer to 2013.

Source: Boffa, Jansen and Solleder (2017).

Despite its size, sub-Saharan Africa has no clear headquarter economy. South Africa leads the SME competitiveness score in Africa, but lags significantly behind top performers in other regions. As a result, African firms are more likely to join production networks outside the continent, as illustrated in Figure 3.

The lack of regional integration may be one reason that regional value chains are less active in Africa than elsewhere.²⁹ Thus, regional trade integration, like that foreseen in the recently signed African Continental Free Trade Agreement, should logically support investment, too. Investment in infrastructure is also needed to facilitate intraregional trade. Increased investment in physical infrastructure helps lower the cost of economic activity, making SMEs more productive.³⁰

Supply-side investments are needed to attract investors

When weighing investments in a foreign country, investors examine the business ecosystem closely. For instance, evidence suggests that countries which protect intellectual property receive more FDI.³¹ Similarly, effective standards and certification institutions (otherwise known as technical

infrastructure) can encourage investments in export-orientated enterprises. Certification itself can help enterprises attract investors, because it signals quality. Slow, inefficient or expensive technical infrastructure will hamper FDI.

Physical and digital infrastructure are as important as quality infrastructure. Good roads, railways and electricity networks can unlock investment potential by reducing transport costs and delivery times. High-quality digital infrastructure helps foreign investors integrate their global business operations and procedures with their acquisitions. The 2018 Global Investment Competitiveness Report found that 71% of respondents considered 'good physical infrastructure' to be important or critically important to their investment decisions.³²

Investors seeking to scale up an acquisition will assess whether the labour force in the target country has the skills they need. Empirical evidence suggests that the availability of skilled workers contributes to FDI.³³ National investment in schools, universities and vocational training institutions can therefore encourage FDI. A targeted approach works best, especially for smaller economies. For example, strategically selecting sectors with export or investment potential, and then investing in courses to equip people with the skills they need to be productive can be a powerful combination.

Innovation hubs also attract foreign investors. By definition, entrepreneurs that build their enterprises under the auspices of such institutions are growth-oriented, highly motivated and innovative.

Finally, businesses must have good financial records to prove performance claims. This typically involves using basic accounting methods such as double book accounting, recording all transactions and having a good credit history. Enterprise surveys can measure whether companies adopt best practices, such as the ones outlined, which would help assess the investment grade of firms.

Better data, less risk, more investment

Pan-African SME statistics either do not exist or are fragmented and inconsistent. This is unsurprising, as Africa is a large, diverse continent with economies in different stages of development. But even at the country level, information on enterprise characteristics, application of best practices or constraints they face is often limited.³⁴

Policy reform, development of the trade support ecosystem and capacity building at the enterprise level can all help boost the competitiveness of SMEs in Africa. However, relevant data must be collected and studied to help investors understand the obstacles SMEs face to scaling up and entering international markets.³⁵ The 2018 Global Investment Competitiveness Report found that 68% of respondents considered 'information about the availability of local suppliers' to be important or critically important to their investment decisions.³⁶

Few African countries have systems in place to regularly collect data on the characteristics or capabilities of their trade support ecosystem. This is due primarily to limited institutional capacity. The first challenge is typically the quality of enterprise lists, which often include inactive companies or obsolete information about active SMEs. Systems must be put into place to regularly remove firms that have gone out of business and to require that any status changes be reported.

Trade and investment promotion organisations with broad client databases will be better positioned to tell prospective investors about the capabilities of firms in different sectors, and to produce lists of investment-grade SMEs.



Data exploited for this report

In this report, data from ITC SME Competitiveness Surveys are used to assess the international competitiveness of enterprises.

Defining enterprise competitiveness is challenging. Numerous factors that depend on a company's choices and its business ecosystem make an enterprise competitive. ITC's definition seeks to give a holistic view of enterprise competitiveness:

Competitiveness is the demonstrated ability to design, produce and commercialize an offer that fully, uniquely and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business environment, and achieving a sustainable return on the resources employed.

In practice, the definition translates into the ITC SME Competitiveness Grid, which has three pillars and three levels:

- **Capacity to compete** is the static dimension of competitiveness. It assesses whether firms are able to meet time, cost, quantity and quality requirements at any given moment in time.

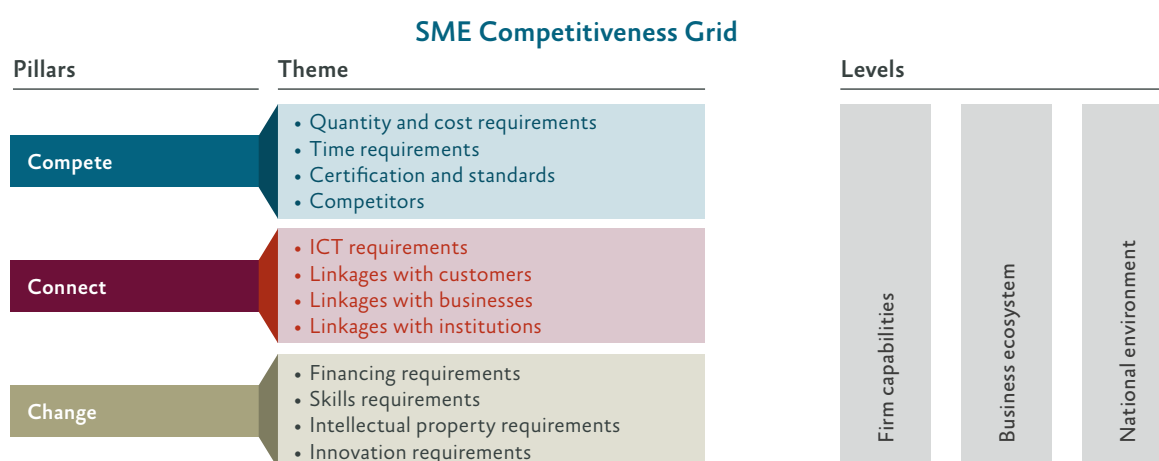
- **Capacity to connect** is the connectivity dimension of competitiveness. To be competitive, firms must connect to customers, businesses and institutions, and be literate in ICT.
- **Capacity to change** is the dynamic dimension of competitiveness. It assesses whether firms have the capacity to make human and financial investments to adapt to fast-changing markets.

These pillars have three levels:

- **Firm capabilities** assesses whether enterprises can manage resources under their control.
- **The business ecosystem** evaluates the quality of services provided by support institutions and relevant private sector service providers.
- **The national environment** assesses the macroeconomic and regulatory environment under which enterprises operate. The national environment is primarily set by government.

Figure 4 illustrates how the pillars and levels combine to create the SME Competitiveness Grid.

Figure 4 The SME Competitiveness Grid



Source: SME Competitiveness Outlook, 2015: Compete, connect and change for inclusive growth.



SME dataset on Africa

ITC is expanding the information it collects on beneficiaries to better understand their characteristics and the challenges they face. In Africa, ITC has collected data on 1,003 enterprises from six countries: Ghana, the Gambia, Kenya, Morocco, Nigeria and Uganda (see Figure 5). ITC also collaborated with the Permanent Conference of African and Francophone Consular Chambers (known under its French acronym CPCCAF) to collect SME Competitiveness Survey data from 16 French-speaking countries.

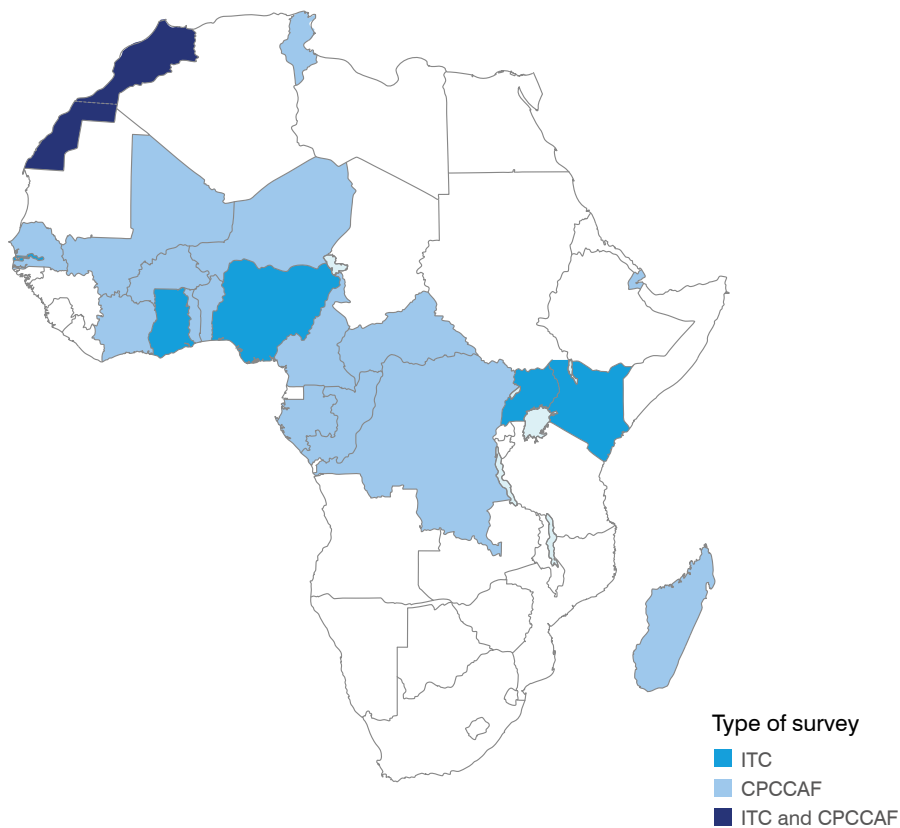
Basic features of the dataset

The ITC dataset on African SMEs contains a broad range of companies – from Ghana, The Gambia, Kenya, Morocco, Nigeria and Uganda –, whose size and legal status are shown in Figure 6. Firm sizes are defined according to the

following thresholds: micro (fewer than five employees), small (5–19 employees), medium-sized (20–99 employees) and large (100 or more employees). More than 70% of the enterprises surveyed by ITC are micro or small; only 11% are large.

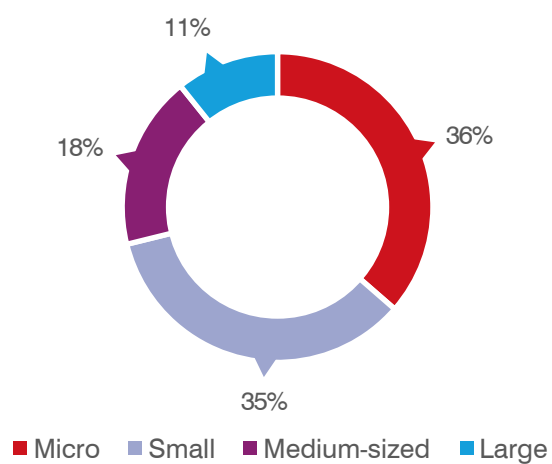
Most of these companies, 72%, are registered. This differs from other informality estimates, reflecting the difficulty in finding and surveying informal firms. Unsurprisingly, informality is linked to enterprise size, with almost all unregistered firms employing fewer than five people (Figure 7).

Figure 5 African countries where SME Competitiveness Surveys have been undertaken



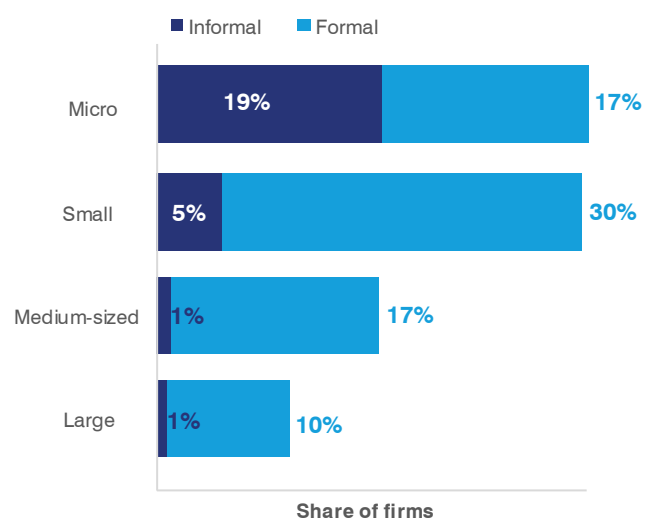
Note: The software generating map does not apply United Nations definitions of national borders.
 Source: SME Competitiveness Survey database.

Figure 6 Micro and small firms make up 71% of ITC's Africa database



Note: Based on firms surveyed between 2016–2018.
 Source: SME Competitiveness Survey database.

Figure 7 Most informal firms are micro enterprises



Note: Based on firms surveyed between 2016–2018.
 Source: ITC's SME Competitiveness database.

Wide variety of sectors represented in ITC's Africa database

The ITC SME database contains firms across a range of sectors, many of which ITC supports through its technical assistance work (Figure 8). These sectors include crop and animal production, manufacturing and information technology.

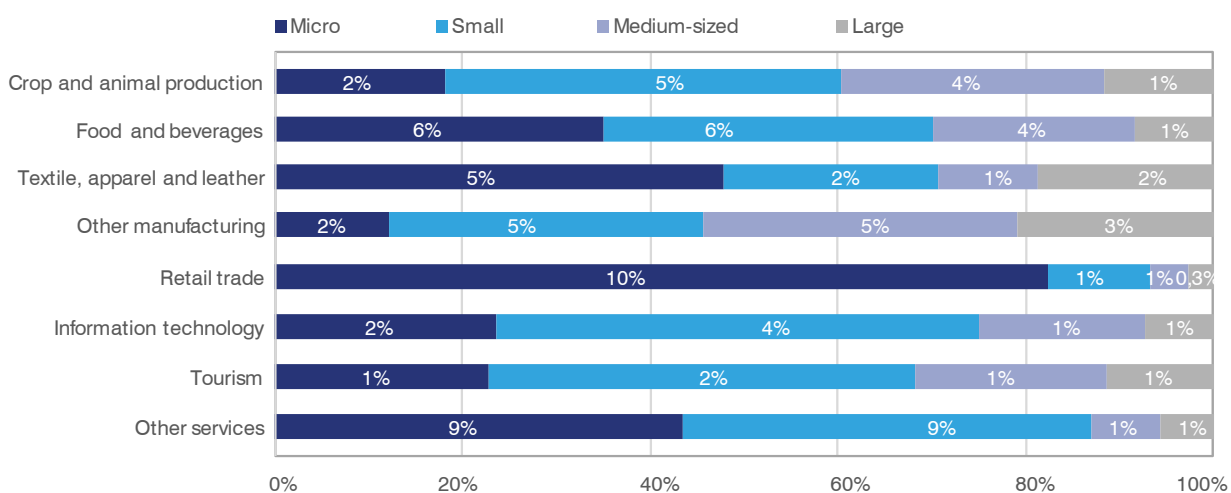
Micro enterprises dominate the retail sector in this dataset. Small and medium-sized enterprises are typically involved

in other sectors, such as manufacturing in areas besides textiles, apparel and leather, and crop and animal production.

ITC works with traders and non-traders

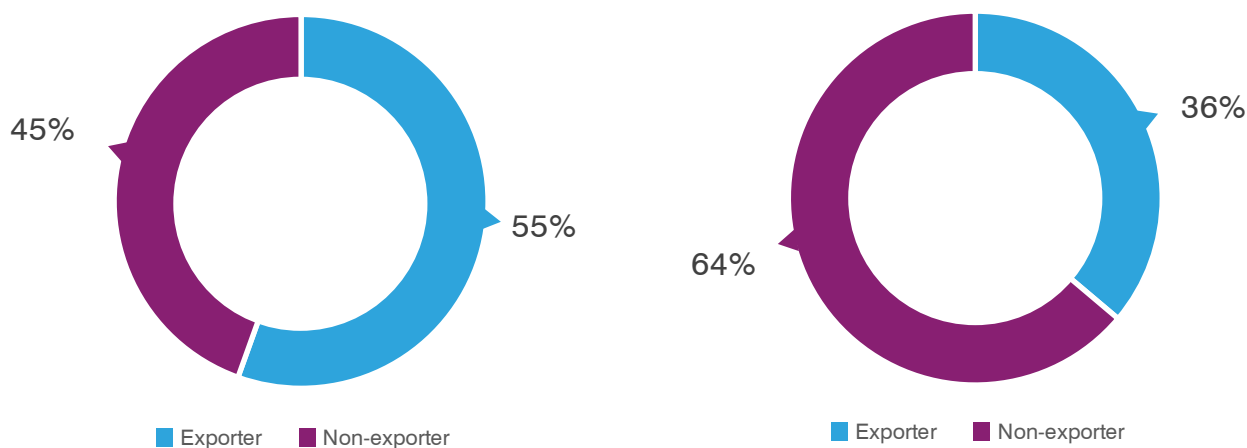
ITC technical assistance targets businesses that already export, but want to increase exports or enter new markets, as well as aspiring exporters. Figure 9 shows the breakdown of exporters and importers in the ITC African enterprise database. Exporters make up 55% of the sample and importers, 36%.

Figure 8 Enterprises from many sectors included in ITC's Africa database



Note: Based on firms surveyed between 2016–2018.
Source: ITC's SME Competitiveness database.

Figure 9 ITC's Africa database by export and import status



Note: Based on firms surveyed between 2016–2018.
Source: ITC's SME Competitiveness database.



CHAPTER 2

CERTIFICATION: A DOOR TO INTERNATIONAL MARKETS

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CERTIFICATION: A DOOR TO INTERNATIONAL MARKETS

Standards are essential to international trade and value chains. They determine whether inputs are compatible with the next stage in the value chain and if products are safe. In addition to public standards and regulations, voluntary sustainability standards mark today's trade landscape. These standards contribute to better traceability, transparency and efficiency in global trade.

Navigating the maze of standards is not easy, however, especially for small and medium-sized enterprises. They may find it difficult to pay the costs to comply with standards and regulations. This is particularly relevant in developing countries, where businesses tend to be smaller, less productive and less able to comply than those in developed economies. Companies in developing countries may also face a more challenging business ecosystem, due to poor governance or a lack of testing facilities and a logistics infrastructure.³⁷

Many African enterprises report obstacles to complying with standards. These include lengthy and burdensome processes to obtain certifications, including product testing, labelling and other requirements; lack of testing and control facilities, relevant infrastructure and trained personnel; informal or unusually high payments related to certifications; and limited information about standards and certification requirements.³⁸

Evidence collected through the ITC NTM Business Surveys in Africa confirms this. As one respondent put it: '[Exporting] products need to be tested, but proper equipment is needed for testing, and facilities in our country are limited' and 'the Ministry of Health takes time to deliver health certificates [required to export] and the Ministry of Fisheries takes too long to issue the export authorization.'³⁹

Nevertheless, SMEs seeking to expand locally and globally must comply with international standards. Despite the costs, investing in standards and regulations can make a business

more competitive and better able to export and participate in value chains.

TISIs can play an important role by ensuring that standards promote 'better' trade. Effective standards and certification institutions (otherwise known as technical infrastructure) can encourage investments in export-orientated enterprises. Certification can help enterprises attract investors, as it is a signal of quality. However slow, inefficient or costly technical infrastructure will hamper FDI.

Investment decisions in technical infrastructure have serious long-term implications; they ultimately influence the content of countries' export baskets. As such, it is important to support policymakers in thinking through their investment decisions. Data can help them to make informed decisions.

Certification can help SMEs compete, connect and grow

Standards and certifications can be an important signalling mechanism for SMEs seeking to grow. They address information asymmetries in the market about the quality and type of product that an enterprise offers, and about its ability to design, produce and commercialize goods that meet various standards. In this way, certification also carries an additional signal: producer reliability.

Standards and certifications can also help firms connect to and compete in international markets. For developing economies, where most companies are SMEs and where integration in the global value chain is increasing, certification is even more important.

Costs can be financial and non-financial

Complying with standards may involve costs that are too high for some SMEs. Firms and managers must pay to collect and

understand what standards and certifications their products need – which is no easy feat and can be quite expensive. Compliance and certification itself may also bring costs, such as investing in new technologies and logistical processes and paying various fees.⁴⁰

For example, as a result of EurepGAP (the predecessor of GlobalGAP), large exporters dropped 60% of the smallholder farmers in Kenya as sources of horticultural products because they failed to meet the new standards. Many of these smallholders cited funding, rather than the lack of technical knowledge, as the main reason they were unable to satisfy the standards.⁴¹ Other papers have argued that standards benefit middle-income farmers who can bear their costs, rather than their low-income counterparts,⁴² and middle-income developing countries rather than low-income ones.⁴³

Firms may also incur substantial procedural costs that involve waiting time, unpleasant interactions with officials and other fees stemming from non-tariff measures (NTMs).⁴⁴ Evidence from several countries in Africa shows that procedural obstacles related to certification include border delays. These are particularly harmful for agricultural and perishable products, emphasizing the need for steps to tackle these obstacles.⁴⁵

Internal improvements for SMEs, welfare gains for households and workers

Still, certification and standards can bring significant advantages. For example, the considerable body of research into the effect of the ISO 9000 standard shows both internal and external benefits (and motivations) from adherence.

Internal benefits include organizational improvements, such as productivity gains, reduced product defect rates, better delivery times and product quality, improved personnel responsibilities and better overall internal communication. External benefits include access to new markets and potential investors, better marketing and greater customer satisfaction.⁴⁶

Further findings from a panel of 140 countries from 1994–2004 showed that abiding by ISO standards increased exports, especially in developing countries.⁴⁷ In Kenya and Zambia, following EurepGAP and GlobalGAP, compliance led to better hygiene, more access to credit and improvements in farm safety and other areas.

These advantages come from upgrading and modernizing production and supply systems – which improves competitiveness, sales and prices⁴⁸ – as well as lower transaction costs for cross-border trade and a show of higher quality.⁴⁹

The positive effects of certification and standards eventually reach workers and households. Research into Fair Trade certification in Uganda found significant declines in poverty, higher living standards and increased consumption. The authors argued that these gains were partly due to the increased price of products after its certification. Certification also bolstered investments in cooperative facilities and infrastructure.⁵⁰

Standards were found to increase Senegalese vegetable exports, raise income and lower poverty. They caused farmers to switch from contract farming to large-scale production that vertically consolidated multiple farming activities, the authors said.⁵¹ Increasing standards were a factor in this vertical consolidation and in the changed supply chain structure, they argued, because large enterprises wanted to ensure better traceability of their goods and have more control over their supplies.⁵² The benefit of certification in Senegal was captured through the labour market, via new jobs in these consolidated firms, rather than in the product market per se.⁵³ Such vertical consolidation can be valuable, provided smallholder farmers are not marginalized.⁵⁴

Complying with certain standards and obtaining certification can be seen as investing in the upgrade and further integration of enterprises in local and world markets. However, SMEs need a supportive business ecosystem. This system, whether local or international, includes institutions that measure product quality, provide certifications and test and inspect goods – the so-called ‘technical’ or ‘quality’ infrastructure. This infrastructure eases harmonization and integration into the global value chain and encourages technology diffusion and innovation.⁵⁵ The extent of institutional support for firms seeking or possessing certification, especially with voluntary standards, differs depending on the type of standard and the location of the company.⁵⁶

Data are vital to assess the supportiveness of the business ecosystem and to determine which types of companies need support. The ITC Competitiveness Surveys evaluate whether firms are certified – meaning they are export ready – and whether their business ecosystem gives them access to information about certification. The survey also provides information about certification costs, from the company’s point of view. This will help policymakers determine which

firms need support and whether business ecosystems must be improved.

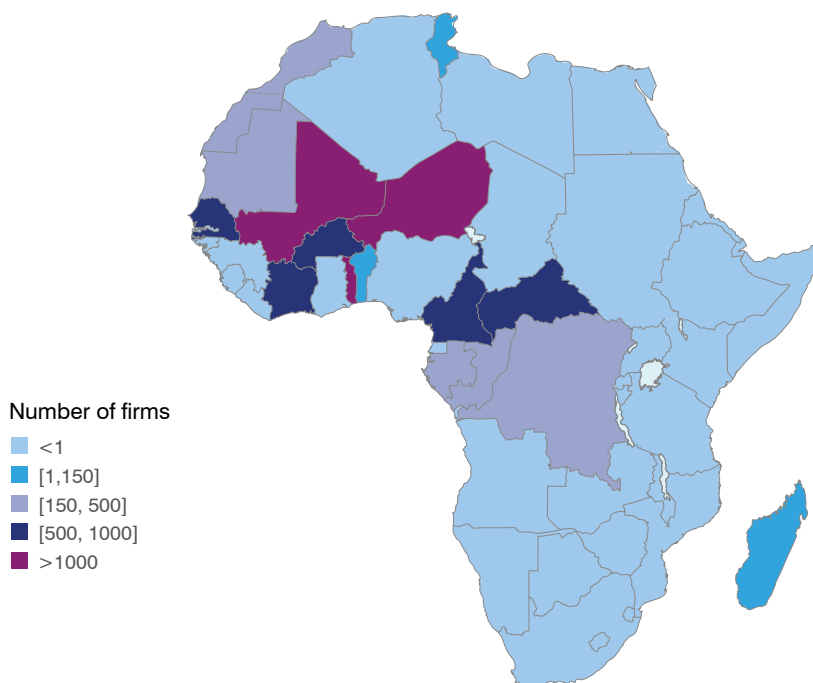
Insights from Francophone Africa

In 2018, ITC worked with the CPCCAF to collect data in 16 countries in French-speaking Africa. The annual CPCCAF Barometer was used as the baseline questionnaire, complemented by the SMECS module on quality

requirements. The survey focused on the opinions of micro, small and medium-sized enterprises (MSMEs) about their situations and development.

The survey sample covered 9,396 enterprises from Benin, Burkina Faso, Cameroon, the Central African Republic, the Republic of Congo, Côte d'Ivoire, the Democratic Republic of Congo, Gabon, Madagascar, Mauritania, Morocco, Niger, Senegal, Togo and Tunisia. Figure 10 shows the distribution of the firms.

Figure 10 Geographic distribution of surveyed firms in 16 Francophone African countries

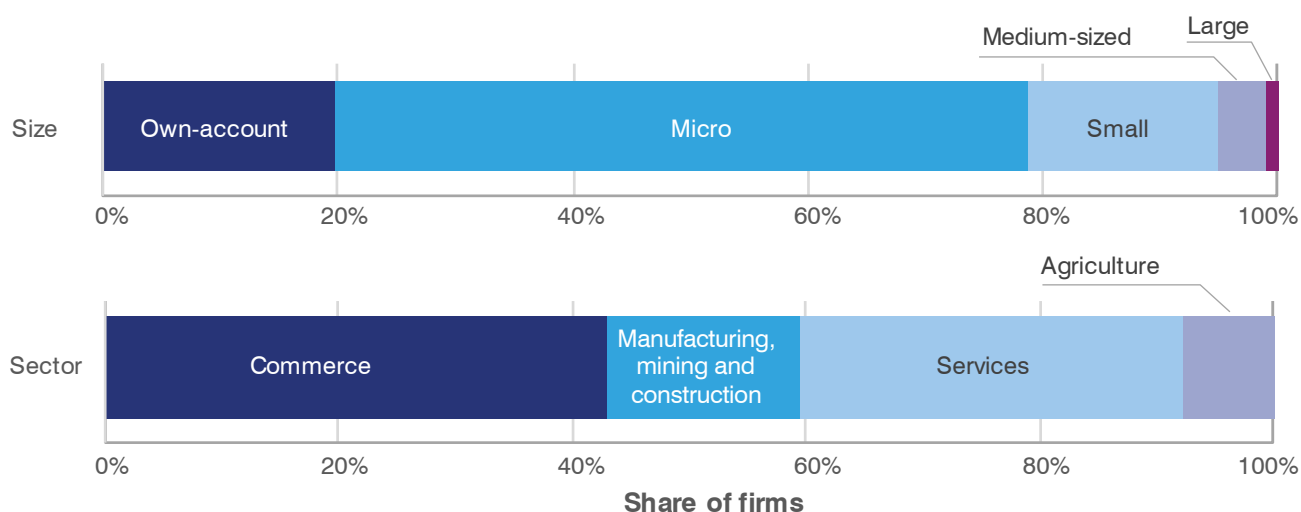


Note: The software-generating maps do not apply UN definitions of national borders.
 Source: Data collected by the CPCCAF in 2018.

Figure 11 shows the breakdown of the companies by size and sector. About 20% are own-account firms, meaning a single owner/worker and no employees. About 59% are micro firms, defined here as having 1–9 employees (besides the entrepreneur/manager), 16% are small firms (10–49 employees), 4% are medium-sized (50–249 employees) and 1% are large (250+ employees).⁵⁷ Finally, 43% of the firms are active in the commerce sector, 33% in services, 16% in manufacturing, mining and construction, and 8% in agriculture.

Own-account businesses are primarily involved in commerce, selling wholesale and retail goods such as food and drinks, clothing, furniture, pharmaceutical items and electronics. This sector also includes import-export companies. Medium-sized and large firms engage more in manufacturing, mining and construction and less in agriculture than smaller companies.

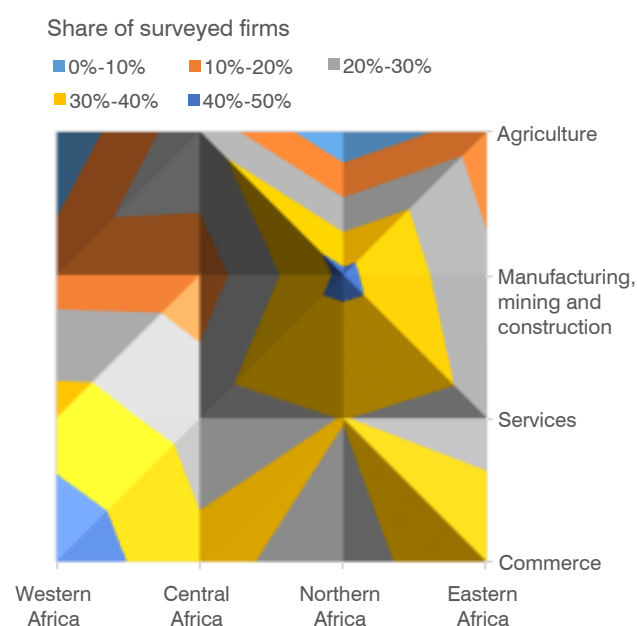
Figure 11 Most respondents are micro firms in the commerce and other services sectors



Source: CPCCAF Survey (2018).

Figure 12 shows the sectoral distribution of the surveyed companies, which varies by region.⁵⁸ Many of those in North Africa operate in the manufacturing, mining and construction sector, while participating firms in Western, Central and Eastern Africa are more active in commerce.

Figure 12 Sectoral distribution of surveyed firms differs by African region



Note: The graph is based on 9,396 firms.
Source: CPCCAF Survey (2018).

Firm certification

Most surveyed firms are active domestically – only 13% export to foreign markets. As certification and exports are often related, it is unsurprising that just 25% of the surveyed companies hold international certifications.⁵⁹ Having certifications and adhering to standards increases firm's export values as well as geographic diversification of exports.⁶⁰ Research also suggests that certification improves firm sales in developing countries.⁶¹

When its products are not certified, a company has less capacity to export to high-value market (see Figure 14). This also affects FDI, as inflows are positively correlated with adherence to standards and certification.⁶² Evidence from Organisation for Economic Co-operation and Development (OECD) countries directly links the adoption of standards to higher FDI inflows in developing countries.⁶³

Lack of certification limits opportunities in global markets

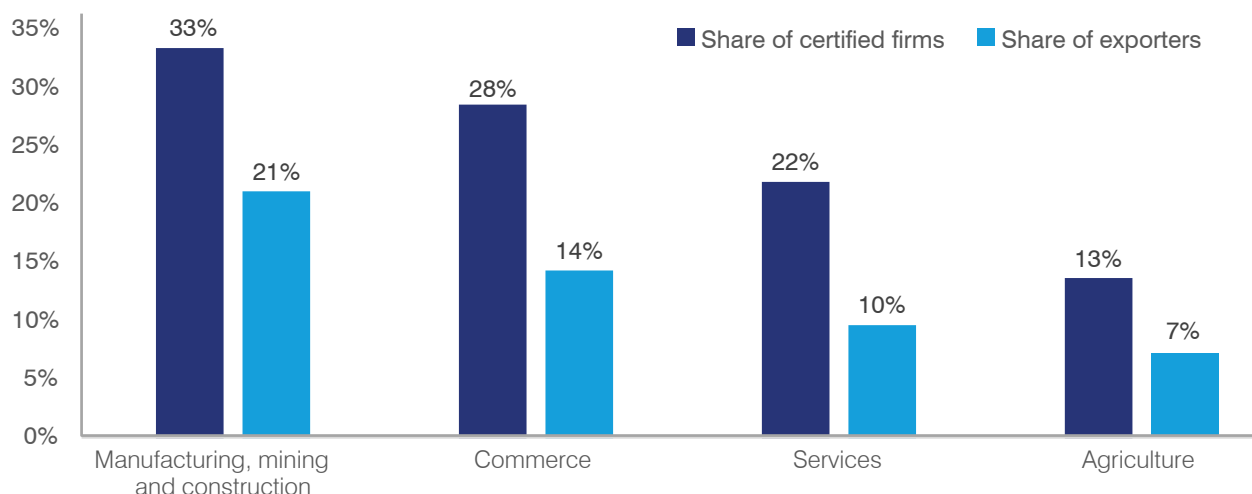
The biggest share of exporters and certified firms are in the manufacturing, mining and construction sector, at 21% and 33%, respectively (Figure 13). Only 7% of respondents in the agriculture sector export their goods, and just 13% have any type of certification.

More standards and certifications are needed for agricultural goods, especially fresh foods, than for other products. An

ITC NTM survey in Mali, for instance, finds that farmers face tougher technical and quality burdens than other producers and that their exports often require extra official authorizations. Firms cited these standards and certification

requirements as a major constraint for their exporting activities.⁶⁴ This is similar to ITC NTM survey findings from Egypt and other countries.⁶⁵

Figure 13 Most exporters and certifications are in manufacturing, mining and construction sector



Note: The graph is based on firms' responses to the following questions: "Do you have export sales?" and "Does your institution's primary product or service hold any of the following internationally recognized types of certificates (safety certificate, quality or performance certificate, sustainability certificate, other certificate) or no certificate?"
Source: CPCCAF Survey (2018).

As Figure 14 shows, the bigger the firm, the more likely it is to hold international certification and to export. About 60% of large firms have certification, compared to 51% of medium-sized firms, 37% of small businesses and fewer micro and own-account firms. Similarly, more large and medium-sized companies export, compared with smaller companies.

Smaller firms may also find it more difficult to bear the financial, administrative or other costs to satisfy standards and obtain certification. An ITC NTM survey in Uganda, for instance, highlights the difficulties that technical regulations (relating to product standards) and conformity assessments (relating to certifications) present to smaller businesses. All firms find these standards burdensome, but smaller enterprises appear to be more severely affected. Firms cite processing delays and related fees and costs, as well as limited, and sometimes inadequate, testing facilities for their goods.⁶⁶

Empirical evidence from the ITC on developing countries shows that burdensome technical regulations can affect the number of exporters and the value of exports.⁶⁷ Most importantly, the findings show how small enterprises

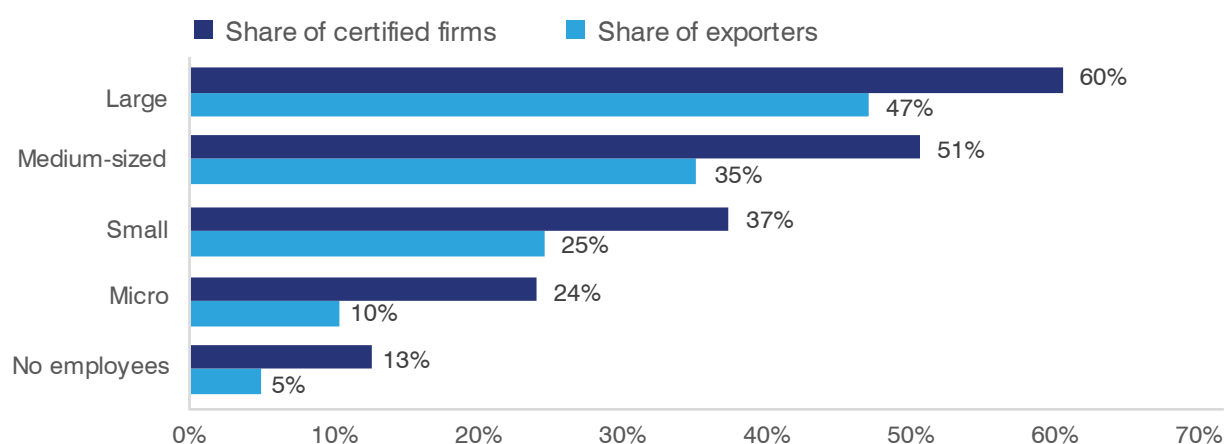
are more affected than larger companies, in line with the prediction of the heterogeneous firms trade theory (Melitz, 2003): the added costs of exporting will deter some firms from exporting, reducing the number of exporters.

Quality infrastructure

Two-thirds of the survey respondents perceive their certification bodies as adequate to high-level quality, though half say certification costs are high to very high (see Figure 15). Agricultural firms in particular report these costs as very high.

ITC NTM surveys show that these costs affect businesses in different ways. Tunisian exporters, for example, cite very high certification costs resulting from formal and informal fees, lengthy procedures that often cause delays and high opportunity costs. Delays are not only administrative, but are related to what firms view as inadequate laboratories and accrediting agencies – meaning the technical infrastructure itself. This is especially the case for agricultural products and fishery exports.⁶⁸ The findings in Rwanda⁶⁹ and other countries were similar.

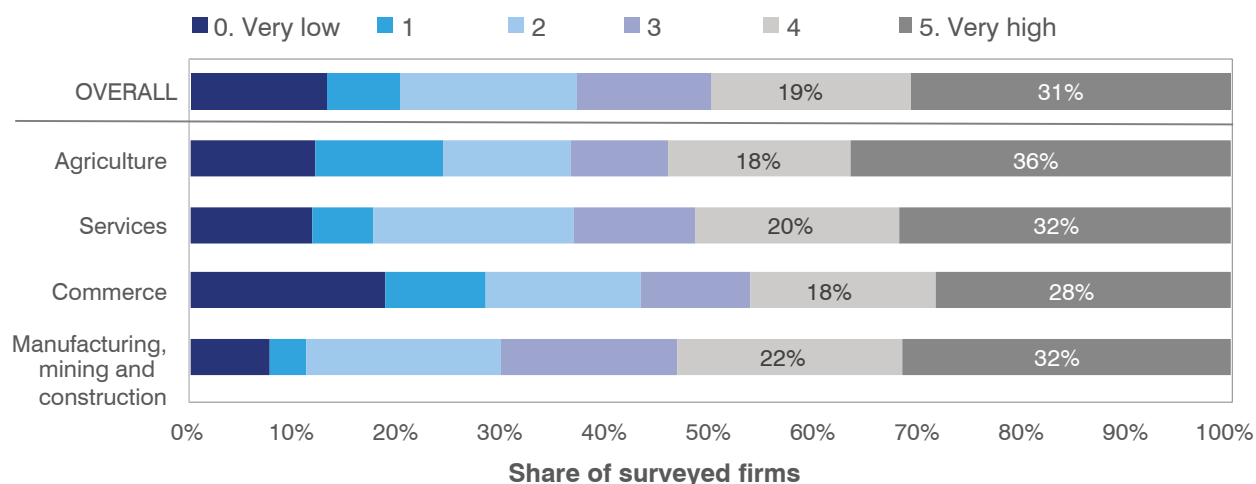
Figure 14 Certification and export status increase with company size



Note: The graph is based on firms' responses to the following questions: "Do you have export sales?" and "Does your institution's primary product or service hold any of the following internationally recognized types of certificates (safety certificate, quality or performance certificate, sustainability certificate, other certificate) or no certificate?"

Source: CPCCAF Survey (2018).

Figure 15 Certification is considered expensive



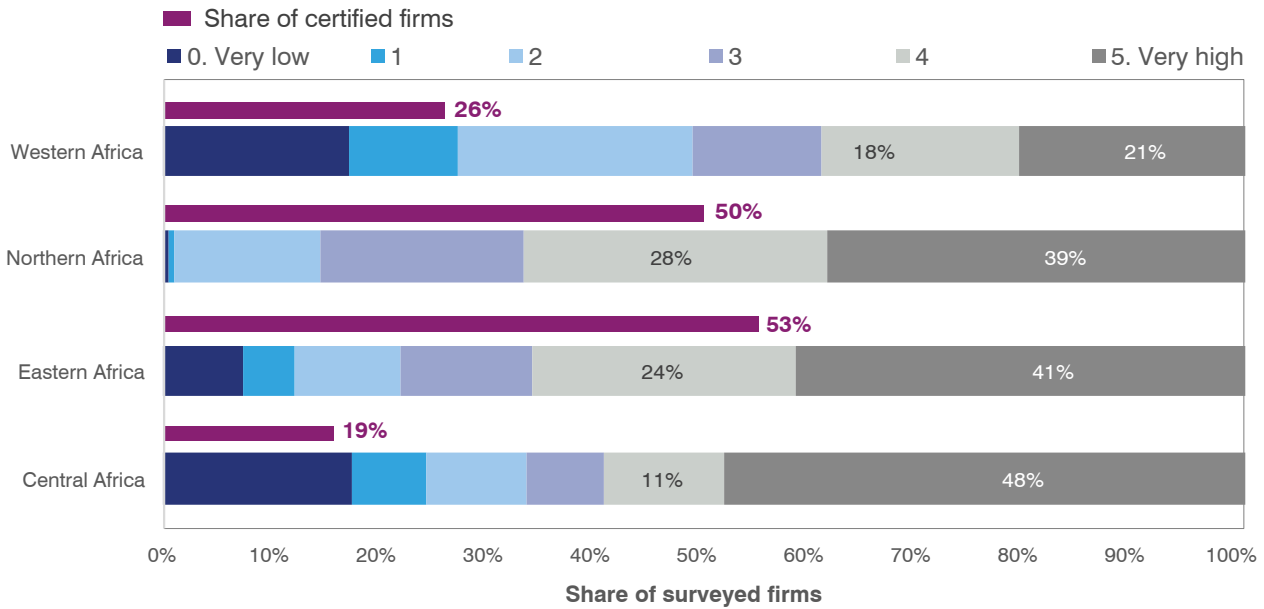
Note: The graph is based on firms' responses to the following question: "Please estimate the cost of services provided by product testing, certification and inspection bodies."

Source: CPCCAF Survey (2018).

Respondents generally consider certification to be expensive, regardless of their size. Companies in Central Africa, which has the fewest certifications, face the highest costs. About 60% of the surveyed enterprises in Central Africa perceive certification costs as high to very high, as shown in Figure 16. Although at least half of the respondents in Northern and Eastern Africa are certified, they still perceive certification

costs as high. Enterprises in Western Africa, on the other hand, do not seem to find these costs overly high.

Figure 16 Central African firms report highest costs of certification



Note: The graph is based on firms' responses to the following question: "Please estimate the cost of services provided by product testing, certification and inspection bodies."
 Source: CPCAFA Survey (2018).

Information about certification is not readily available

Respondents report that information about certification is not readily accessible, with almost two-thirds saying availability is low to very low (see Figure 17). This is a bigger

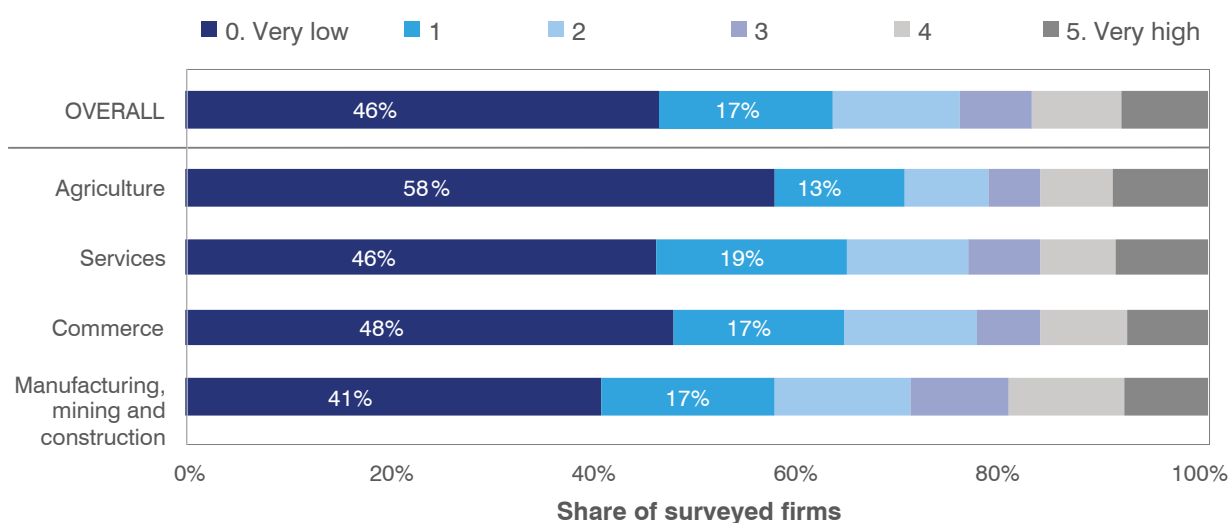
problem for the agriculture sector, which has the fewest certified companies, than for the manufacturing, mining and construction sector, which has the most. This highlights the crucial link between information and certification, and the role that relevant institutions can play in reducing information asymmetry and easing the certification process.



An ITC survey examining non-tariff measures in Benin found that businesses in both the agricultural and the manufacturing sectors perceive the technical requirements for their products as complex and confusing. They cited a lack of transparency about the necessary documents and the roles of agencies, such as ministries, regional authorities and chambers of commerce, in obtaining these standards and certifications to export.⁷⁰ All these factors can be a crucial deterrent of FDI.

The survey data suggest that the perceived availability of information is related to certification – that is, certification is more common in countries where information is seen as more readily available (see Figure 18). Firms in Tunisia, which has the highest share of certified companies in the survey, were the most satisfied with information availability, while businesses in Western and Central Africa, which have fewer certifications, report that information is not available.

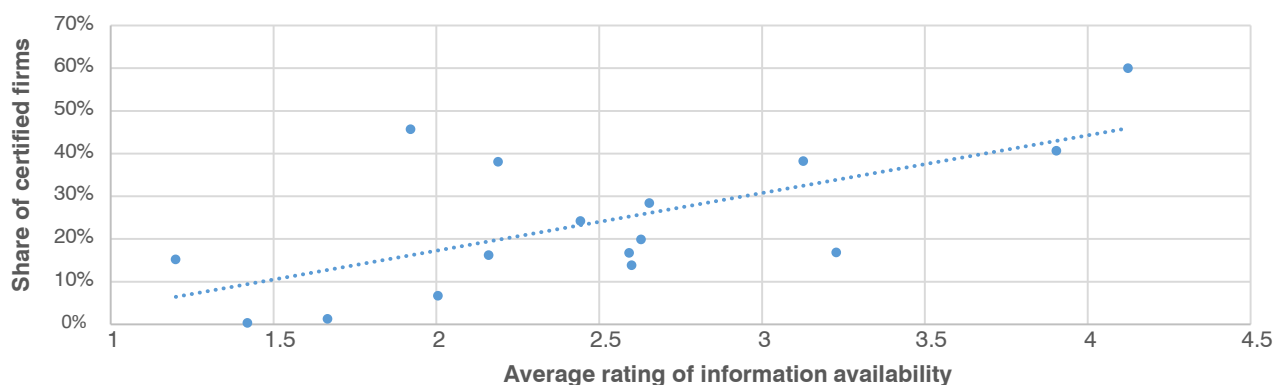
Figure 17 Firms report limited information availability about certification



Note: The graph is based on firms' responses to the following question: "Please assess the availability of national information on standards and certificates for the institution's primary product or service."

Source: CPCCAF Survey (2018).

Figure 18 Share of certified firms rises with perceived information availability



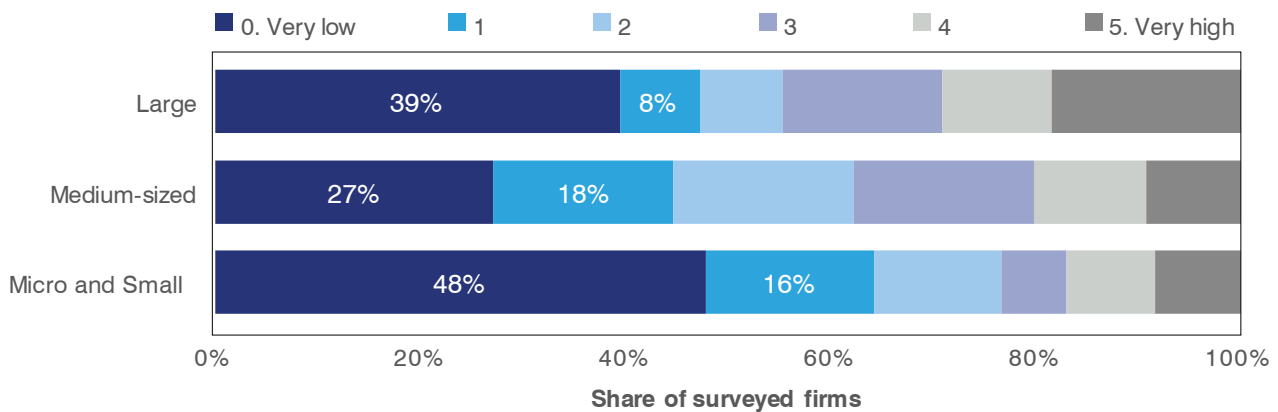
Note: The graph is based on firms' responses to the following questions: "Does your institution's primary product or service hold any of the following internationally recognized types of certificates (safety certificate, quality or performance certificate, sustainability certificate, other certificate) or no certificate?" and "Please assess the availability of national information on standards and certificates for the institution's primary product or service." Each point represents one of the 16 countries covered in the survey.

Source: CPCCAF Survey (2018).

Micro and small firms tend to suffer more than large companies from the lack of information about certification. Firms of all sizes report limited information. However, as Figure 19 shows, more than two-thirds of micro and small firms report information availability as low or very low. This

compares with 45% of medium-sized enterprises and 47% of large businesses. Larger firms are the most satisfied in this respect, with 29% reporting the availability of information as high and very high.

Figure 19 Smaller firms suffer from a lack of information on certification

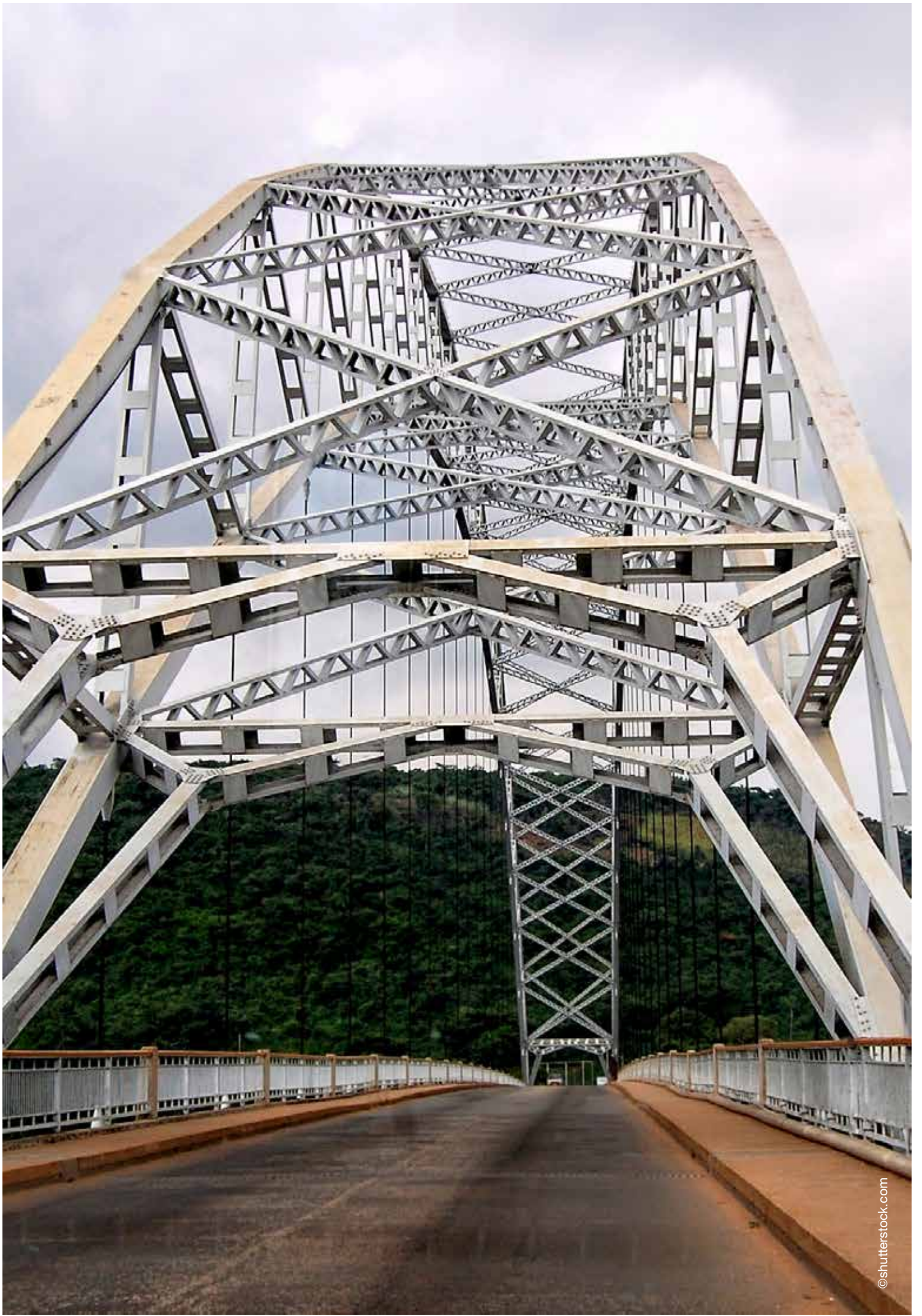


Note: The graph is based on firms' responses to the following questions: "Please assess the availability of national information on standards and certificates for the institution's primary product or service."
 Source: CPCCAF Survey (2018).

Trade support institutions can improve information availability

Trade and investment support institutions can ensure that standards promote 'better' trade and do not become bottlenecks. Policymakers must provide well-functioning, appropriate technical infrastructure for standards encompassing the bodies that create, maintain and implement standards and regulations, both at and across the border. These include national standards agencies, conformity assessment bodies, and metrology and accreditation bodies.⁷¹

TISIs are in a unique position to improve information availability and to support SMEs that want to grow and become certified. These institutions have both national and international ties, and they promote the growth of enterprises. However, they need a deeper understanding of SMEs and timely, relevant data to evaluate their strengths and obstacles.



CHAPTER 3

INFRASTRUCTURE AND LOGISTICS: A FOUNDATION FOR CONNECTIVITY

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INFRASTRUCTURE AND LOGISTICS: A FOUNDATION FOR CONNECTIVITY

High-quality infrastructure is a key driver of economic and social development. SMEs and economic production rely heavily on infrastructure networks such as roads, telecommunications systems and the supply of energy and water, which are important factors in the efficiency of firms and therefore their survival and competitiveness. High-quality infrastructure can help reduce costs and delivery times, and make it easier to find suppliers and customers.

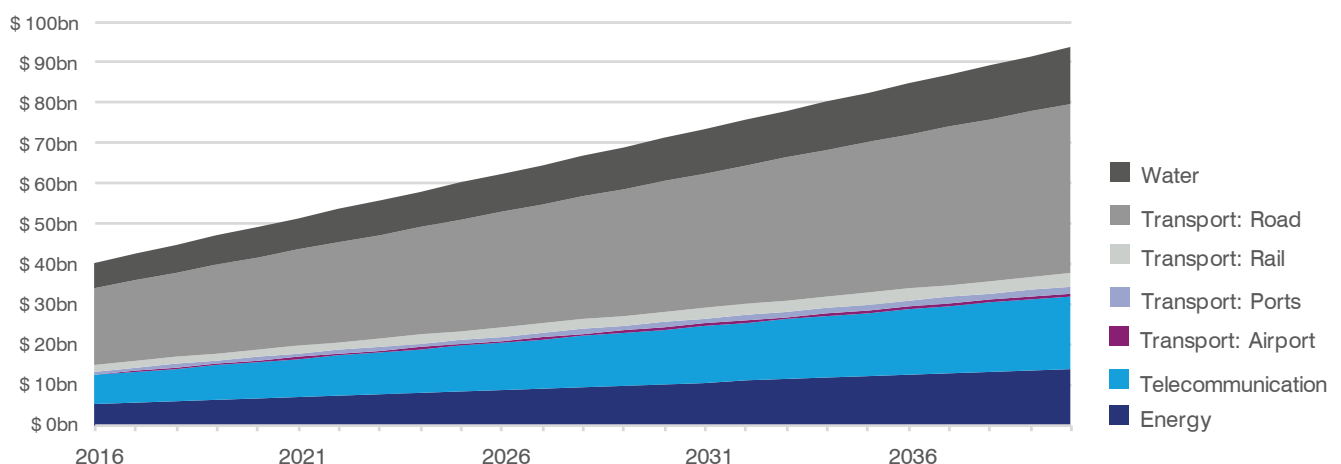
The proliferation of lean supply chains and e-commerce mean reliable, high-quality logistics services are more important than ever for enterprise competitiveness. The cost and quality of these services can determine whether a company can join a global value chain and begin exporting. Logistics are crucial for competitiveness, especially for time-sensitive products such as perishable goods. SMEs, like large companies, are increasingly using sophisticated supply-side management and strategic logistic approaches.

Given their size and limitations, however, they will always be affected by the business ecosystem in which they operate.⁷²

The quality and reach of infrastructure plays a central role in terms of inward investments. More than 70% of respondents in the Global Investment Competitiveness Report 2017/2018 survey rate good physical infrastructure as important or critically important for their investment decisions.⁷³ Improving the availability and efficiency of logistics services can generate high returns for countries – sometimes higher than infrastructure investments – by connecting SMEs to global supply chains and attracting more FDI.⁷⁴

Data are needed to better understand the competitive advantages of SMEs and the challenges they face. The SMECS carried out by ITC highlight some of these issues.

Figure 20 Africa’s infrastructure investment gap is expected to widen



Source: Global Infrastructure Hub (2017). Global Infrastructure Outlook: Infrastructure Investment Needs 50 - Countries, 7 Sectors to 2040.

Africa faces a large infrastructure investment gap

Infrastructure investment is crucial in Africa, which has the highest urbanization rate in the world⁷⁵ and a population that is expected to grow by nearly 75% to reach 2 billion people by 2040.⁷⁶ Over the next two decades, the continent will need to spend \$6 trillion to build, upgrade and maintain the infrastructure. A \$43 billion annual infrastructure investment shortfall exists today, and projections from the Global Infrastructure Hub suggest this will widen to \$93 billion by 2040. In other words, Africa needs to find another \$1.7 trillion in infrastructure investment by 2040 to meet its sustainable development goal targets⁷⁷ (Figure 20).

Africa has made considerable progress in telecommunications coverage and access to safe water. However, regional disparities remain when it comes to transport infrastructure and electricity networks. Therefore, sizeable investments must be made in infrastructure. The investment gap, projected at \$11.4 trillion by 2040, will have to be significantly reduced, if not closed.⁷⁸

Infrastructure is also vital for most logistics services. The quality and reach of certain infrastructure affects the performance of logistic networks and the delivery of goods. For firms, infrastructure and logistics are important factors in export performance.⁷⁹ As such, tackling infrastructural challenges can greatly reduce logistics costs and unleash trade opportunities for local firms.⁸⁰ It could also spur investment in other sectors, including logistics itself.

SME competitiveness depends on infrastructure and logistics services

Infrastructure is critical for SMEs performance and growth

Infrastructure affects business performance. Almost 60% of African firms consider infrastructure bottlenecks in power and transport as the main obstacles in their day-to-day operation, according to the African Economic Outlook 2018.⁸¹ Long journeys and delivery delays result in high costs and can damage the goods being transported.⁸² SMEs may face greater difficulties because they tend to have fewer resources available to bypass infrastructural obstacles.

Electricity is needed to operate machines in the production process and to use technology. Robust ICT infrastructure enables the efficient use of ICT tools, helping SMEs better

control their production, inventory and finances, as well as their access to business opportunities and relevant information.⁸³ A shortage of clean water can impair agricultural productivity and interrupt manufacturing, diverting time and resources away from business activity.⁸⁴

Many African SMEs lack adequate supplies of safe water and electricity. Regular electricity and water supply are rare in Africa and are unaffordable for most SME owners.⁸⁵ Power outages can halt production, damage equipment and delay order delivery. This often affects smaller firms more than large firms,⁸⁶ because other affordable sources, such as generators or solar energy, are limited. Moreover, although road transport is the predominant mode of motorized transportation in Africa, only a quarter of the roads – which exceed 2.8 million Kilometres – are paved.

The use of mobile phones and mobile applications has grown rapidly in Africa, but Internet penetration has progressed relatively slowly,⁸⁷ with a wide gender gap due to limited digital literacy among women.⁸⁸ This can hinder the ability of entrepreneurs to connect with suppliers and buyers, and make it difficult for them to manage their businesses efficiently.

Closing the 'logistics gap' can better connect SMEs

Growth of the logistics sector in sub-Saharan Africa is largely driven by the rising middle class, an expanding consumer market and the increased popularity of mobile retailing.⁸⁹ Although South Africa has a large and well-developed logistics market, Western and Central Africa face challenges. Africa's logistics efficiency is the lowest of all regions, according to the World Bank's Logistics Performance Index.⁹⁰

Logistics costs can cut profit margins substantially. In developing countries, the share of logistics costs in the sales price of goods is almost double what it is in industrialized economies. This could be due to high delivery costs, limited choices of logistics and delivery service providers, and difficulty finding warehouses in the destination market.⁹¹

Freight logistics costs in regions such as East Africa can be more than 50% higher per kilometres than in Europe or the United States. This is largely caused by a "logistics gap": inadequate infrastructure, technology and expertise that affects road networks, payment systems and warehousing facilities. Sub-Saharan countries, particularly landlocked ones, face greater disadvantages compared to North Africa.⁹² In landlocked Rwanda and Burundi, the logistics

gap can be even more pronounced due to transport costs that can be as high as 75% of the value of exports.⁹³ Such excessive operating expenses linked to distributing and sourcing goods can significantly reduce the competitiveness of local SMEs.

SMEs have been able to reduce these costs by using modern supply-chain management systems such as ‘just-in-time’ inventory systems.⁹⁴ Recent infrastructure improvements have also helped the logistics system. For instance, reforms in the Northern Corridor, which links Eastern and Central African countries with the Mombasa maritime port in Kenya, have simplified trade and cut logistics costs considerably. The cost of doing business has dropped by about half.⁹⁵

The inadequate infrastructure means some African firms must rely on innovation to lengthen the lifespan of products and try to develop their own value chains by becoming more vertically integrated, reducing their reliance on suppliers and logistics firms.⁹⁶

Insights from Morocco

Morocco has successfully connected to global supply chains. Moroccan firms have become more competitive in the world’s automotive and aeronautics sectors, and the North African country has become a platform for European manufacturers and service providers.⁹⁷ Thanks to its location between the Mediterranean Sea and the Atlantic Ocean and on the doorstep of the European market, Morocco is also developing into a regional trade hub for North, West and sub-Saharan Africa for shipping, logistics, assembly, production and sales. Morocco also has trade agreements with Persian Gulf, Mediterranean and African countries, as well as the United States and the European Union, and has duty-free access to 55 countries representing more than 1 billion consumers and 60% of the world’s GDP.⁹⁸

Infrastructure development plays a crucial role in Morocco’s status as a business hub. The World Economic Forum Global Competitiveness Index⁹⁹ ranks the country’s infrastructure as No. 1 in Africa. Between 2010 and 2015, Morocco invested more than \$15 billion in its transportation infrastructure, improving roads, highways, ports and other transportation services.

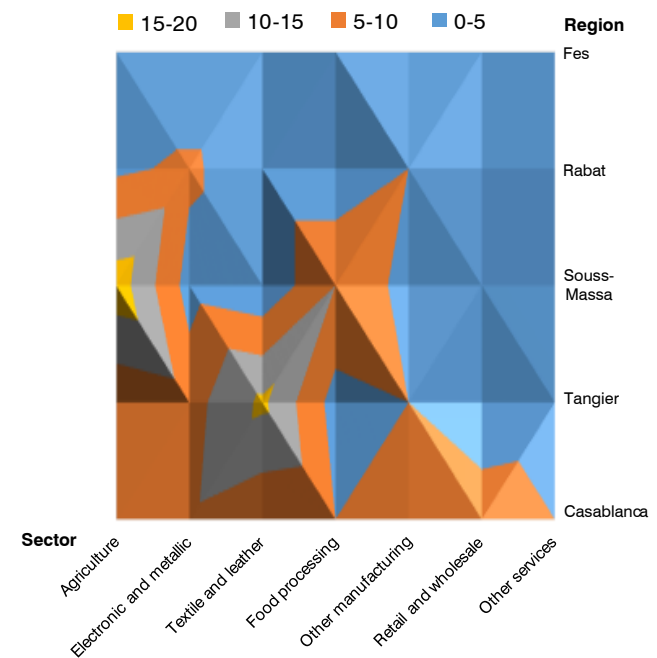
Ports and maritime infrastructure are fundamental to Morocco’s trade development and its broader links to the world (see Figure 21). Waterways are used for about 95% of trade with Morocco,¹⁰⁰ and the government intends to invest about 500 million euros in the maritime infrastructure to consolidate the country’s ability to trade.¹⁰¹

Figure 21 Map of Morocco’s maritime poles



Source: Ministère de l'Équipement et des Transports de Maroc. Ministère de l'équipement, du transport, de la logistique et de l'eau, "La Stratégie Portuaire Nationale à l'horizon 2030."

Figure 22 Geographic and sectoral coverage of SME Competitiveness Surveys in Morocco



Source: SME Competitiveness Survey, Morocco (2017). Almost two-thirds of surveyed enterprises base their competitive strategy on offering high-quality products, and 16% on supplying large quantities (Figure 24). Moroccan firms also have a good amount of negotiation power – 40% say they can affect prices to a large extent and 52% say they can influence non-price components of contracts.

Investments are also planned to expand logistics capacity and cut costs. Morocco ranks 21st out of 50 countries in the 2018 emerging markets logistics index.¹⁰²

The SME competitiveness survey in Morocco

The Association Marocaine des Conseillers à l'Export, under the umbrella of the Morocco Ministry of Industry, Trade, Investment and Digital Economy, carried out an ITC SME competitiveness survey with 149 Moroccan firms in 2017.

Enterprises were surveyed in five administrative regions of Morocco: Casablanca-Settat, Tangier-Tetouan-Al Hoceima, Souss-Massa, Rabat-Salé-Kénitra and Fes-Meknes. These businesses are active in sectors that correspond to the country's economic base, with a particular focus on the textile and leather industry and the food-processing industry.

In the sample, most SMEs involved in farming or food processing are located in the region of Souss-Massa, while textile and leather firms are mainly active in Tangier-Tetouan-Al Hoceima (Figure 22).

Most surveyed firms (43%) employ more than 100 workers and are considered 'large', while 36% are medium-sized enterprises (20–99 workers) and 20% are small (less than 20 workers). Firms operating in the secondary sector (textile and leather industry, food processing and the electric, electronic and metallic sector) are mostly large, while companies in the primary and tertiary sectors are mostly SMEs (Figure 23).

Almost two-thirds of surveyed enterprises base their competitive strategy on offering high-quality products, and 16% on supplying large quantities (Figure 24). Moroccan

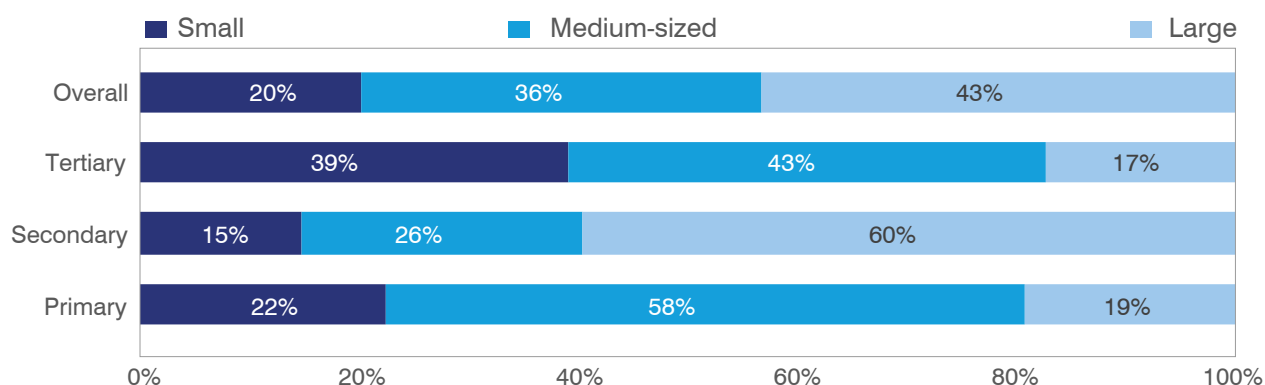


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firms also have a good amount of negotiation power – 40% say they can affect prices to a large extent and 52% say they can influence non-price components of contracts.

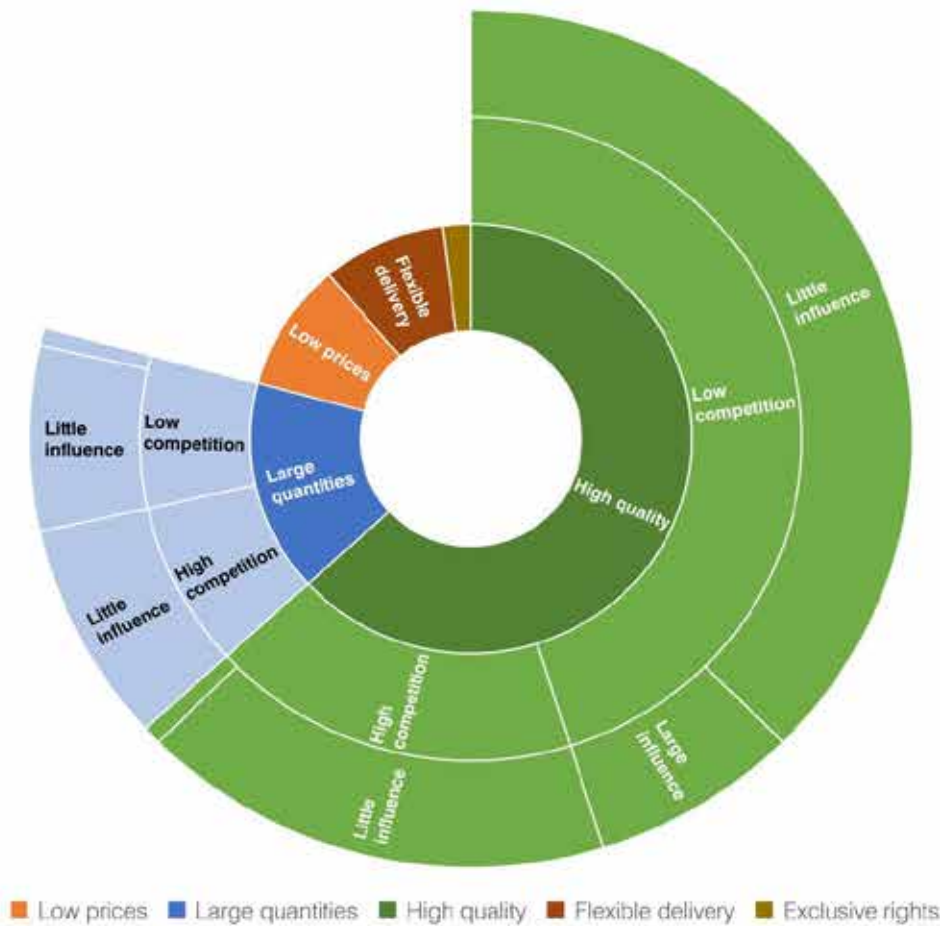
However, most of these firms consider the market to be competitive (31%) or very competitive (34%). Businesses whose competitive strategy is to sell high-quality goods apparently face less competition, which gives them more influence over prices than firms supplying large quantities. Given the low number of companies whose strategy is to offer low prices, the competitive environment in Morocco seems to push firms towards high-end products rather than cheaper prices. These findings confirm the direction taken by the Government of Morocco under the Green Morocco Plan and the Industrial Acceleration Plan, which aim to increase the added value of exports.

Figure 23 Breakdown of surveyed firms by size and sector



Source: SME Competitiveness Survey, Morocco 2017.

Figure 24 Moroccan firms base their competitive advantage on supplying high-quality goods



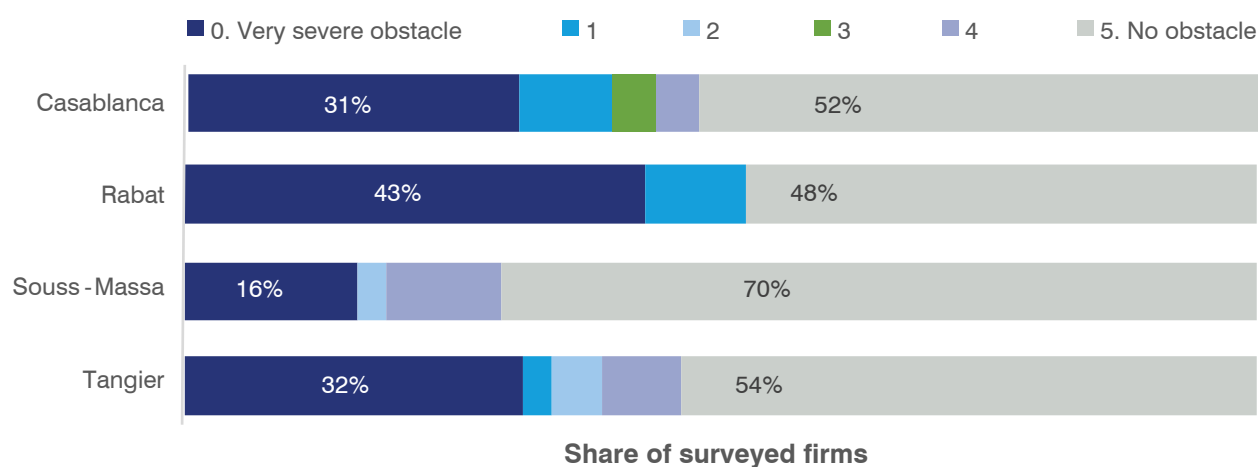
Note: The graph is based on firms' responses to the following questions, starting from the centre: "Which of the following statements best describes your enterprise's concurrence strategy?", "How would you rate the competition intensity your enterprise is facing?" and "To what extent is your firm able to influence the prices in the contact it signs?"
 Source: SME Competitiveness Survey, Morocco 2017.

Some SMEs still face unreliable electricity supply, despite countrywide electrification

To cope with climate change and make the most of the latest technological advancements, Morocco is shifting from fossil fuels to renewable energy. In particular, the country is developing its solar and wind power plants, benefiting from its considerable access to these energy sources. The national strategy for sustainable development aims for 52% of energy production to come from renewable sources by 2030.¹⁰³

Official statistics indicate that the entire country is electrified¹⁰⁴ and the quality of the electricity supply is seen as relatively good.¹⁰⁵ However, 35% of surveyed firms report that lack of access to electricity is a severe obstacle for their daily business operations. This problem is more widespread in the Rabat-Salé-Kenitra region, where 43% of firms consider it a severe obstacle, and less common in the Souss-Massa region, where only 16% see it as a barrier (Figure 25). Agricultural companies, which comprise the majority of firms in the Souss-Massa region, probably rely less on electricity than manufacturers, located on the Atlantic coast.

Figure 25 Lack of electricity as an obstacle, by region



Note: The graph is based on firms' responses to the following question: "To what extent is the lack of access to electricity an obstacle to your daily business operations?"

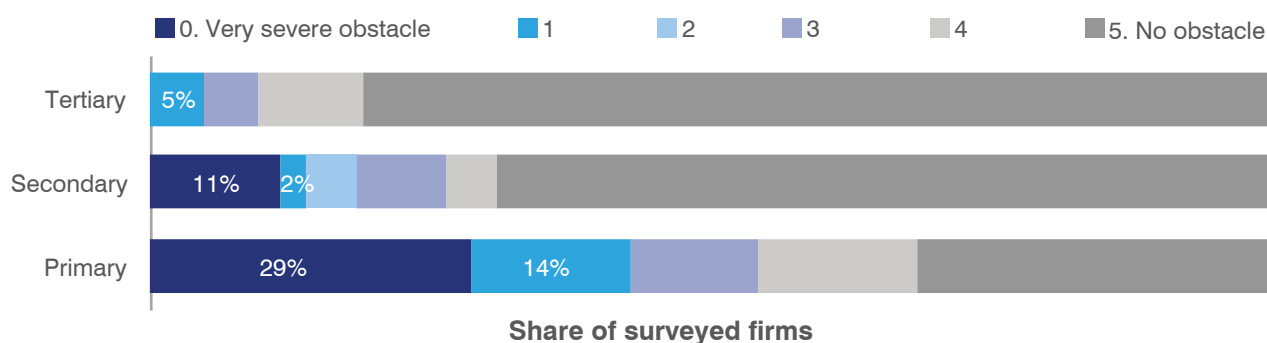
Source: SME Competitiveness Survey, Morocco 2017.

Lack of access to water impedes farm production

In Morocco, 85% of the population has access to an improved water source.¹⁰⁶ However, desertification and climate change may eventually reduce the number of water sources, causing economic problems. This is already happening in the farming sector, where only 4.6% of arable land was irrigated in 2011.¹⁰⁷ This lack of access to irrigation signals that agricultural production is very sensitive to droughts. Given the importance of agriculture in Morocco's economy, droughts can affect the livelihoods and incomes of many people.

Most surveyed companies do not see the lack of access to water as an obstacle for their daily business operations, though this result is sector-specific. Indeed, 43% of primary sector firms consider this to be a severe or very severe obstacle, compared to 13% and 5% in the secondary and tertiary sectors, respectively. Fruit production, which requires a lot of water, is the most affected. The Government is aware of this problem and is trying to increase water efficiency in the farm sector. The Green Morocco Plan, for example, pushes agricultural companies to adopt a drip-irrigation system and direct seeding.

Figure 26 Lack of access to water impedes agricultural production



Note: The graph is based on firms' responses to the following question: "To what extent is the lack of access to water an obstacle to your daily business operations?"

Source: SME Competitiveness Survey, Morocco 2017.

Logistics and road infrastructure: Key to timeliness of delivery

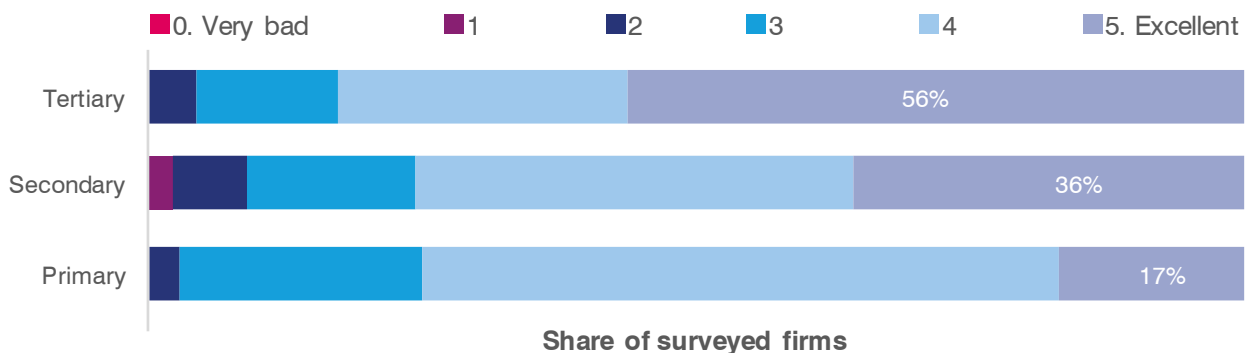
Trucks are used to transport three-quarters of goods in Morocco.¹⁰⁸ This underscores the importance of the highway network, expected to reach 3,000km in 2030 – 66% longer than in 2015.¹⁰⁹ The large number of trucks on the roads poses a challenge to safety, which remains a major issue and a priority for road policy.

To reduce congestion on the west coast, a high-speed railway network is being built between Tangier and Casablanca, the two biggest industrial cities. This railway will be extended to Marrakech, which will provide access to high-speed trains to all major Moroccan cities. Other railways

are being renovated, providing better transport of people and commodities from the countryside to the urban centres and harbours, and vice-versa.

These developments are reflected in the transport infrastructure ratings provided by Moroccan firms in the sample. The transportation network is generally not an obstacle to the operations of these companies, especially in the tertiary sector. This results in good timeliness of suppliers, rated excellent or very good by 76% of firms in the sample, particularly in the tertiary sector (82%). Furthermore, only 1% of products are lost during transport. Indeed, firms give high ratings for on-time delivery: 88% for goods and 76% for services.

Figure 27 Suppliers usually respect their timeliness commitments



Note: The graph is based on firms' responses to the following question: "Please rate the degree of timeliness of your suppliers' delivery."
 Source: SME Competitiveness Survey, Morocco 2017.

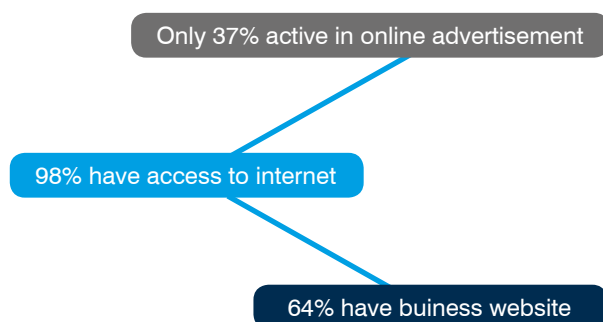
The quality of logistics services supplied by national companies is also good, the survey shows, with 67% of respondents rating it high or very high. Exporters tend to have better inventory management, as shown by the very low share (1%) of goods lost during storage. Interestingly, such losses are notably higher (above 2%) for firms that mostly sell on the domestic market. Large businesses are more likely to be exporters, which could explain their better inventory management. Despite this difference, the low share of loss during storage highlights the overall good quality of inventory management.

ICT does not facilitate online advertisement

In Morocco, 58% of the population has access to the Internet and mobile subscriptions are widespread.¹¹⁰ All of the surveyed firms use mobile phones and e-mail, and 98% have access to the Internet. Furthermore, 87% use computers extensively for back-office operations.

The quality of the Internet connection is also rated positively: most respondents rate the quality high (30%) or very high (47%). Nonetheless, some firms see the lack of access to good-quality Internet as an obstacle for their business

operations, with 25% rating it as a very severe obstacle. The connection quality is expected to improve thanks to the installation of optical fibre, which began in 2016.



Despite the widespread use of Internet in the sample, only 64% of the firms have a business website. Internet marketing is also rather weak: only 37% of surveyed firms advertise online. This is due to company size rather than bad Internet quality, as businesses that advertise online rate their connections similarly to those that do not. About 70% of large firms have websites, compared with 53% of smaller firms. Similarly, 45% of large firms advertise online, against 31% of smaller firms.

Continued infrastructure investments strengthen SMEs

Although infrastructure-related projects in Africa have made great strides, more investment is needed to improve electricity, roads and maritime transportation. It is also important to understand where SMEs are located and how they are affected.

The Green Morocco Plan will play a key role in Morocco by encouraging more water-efficient production and better use of resources. Further infrastructural development, such as train network reforms that are already taking place, will also alleviate congestion and safety concerns, especially in the country's most densely populated cities.

Although ICT use is widespread among Moroccan SMEs, business-support institutions in the country should promote the use of these tools for advertising that could connect high-quality producers to international markets in a more visible and branded way. These institutions could foster marketing skills by providing targeted training for exporting SMEs. This would help Moroccan companies reap greater benefits from a strong ICT infrastructure and broaden their customer base.



CHAPTER 4

HUMAN CAPITAL: A PILLAR OF SUCCESS

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HUMAN CAPITAL: A PILLAR OF SUCCESS

Education and skills are important in the development of individuals, firms and countries. They improve economic as well as social outcomes, such as empowering minority groups and promoting social mobility. In the economic literature, the concept of a person’s human capital encompasses ability; formal education and qualifications (whether academic or vocational); and skills, competencies and work experience.¹¹¹

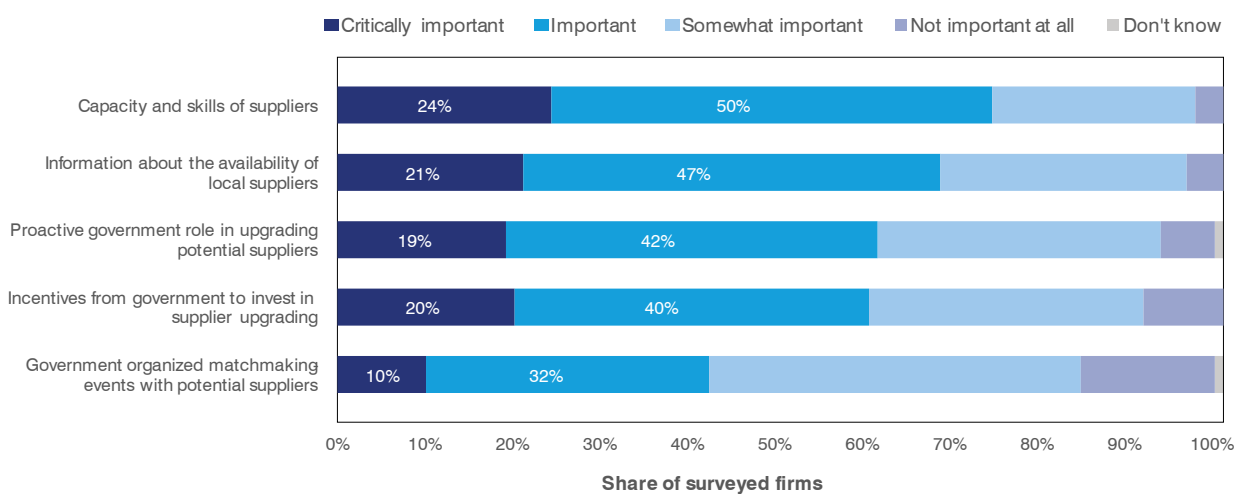
This human capital is an integral part of economic production and an important contributor to rising incomes, regardless of the development status of an economy. In fact, private returns to an additional year of schooling are higher in low-income countries compared to other countries. An additional year of schooling in sub-Saharan Africa is estimated to increase private earnings by more than 12%, the highest in the world.¹¹² This highlights the potential gains from improving human capital in Africa.

Competent workers are needed for any business to start and grow, so enhancing human capital is vital for SME development. It is also essential for investments. The availability of skilled labour in a country is an important determinant of FDI and one of several factors that investors take into account.¹¹³

The Global Investment Competitiveness Survey, which interviewed executives from multinational corporations that invest in developing countries, found that 74% rated the capacity and skills of local suppliers as important or critically important. Capacity and skills are the foremost factor in linkages-related features, according to the survey.¹¹⁴

Foreign investors also value government initiatives to provide information on the availability of local suppliers, to improve potential suppliers and to invest in supplier upgrading. This highlights the importance of human capital in economic decision-making and confirms yet again the value of data.

Figure 28 The skills of suppliers are important for investors



Source: Based on data from the World Bank Group (2018). Global Investment Competitiveness Report 2017/18: Foreign Investor Perspectives and Policy Implications.

Human capital is integral for SME development

The effect of human capital on earnings is often reflected in the productivity of a company. Higher human capital makes firms more productive by enhancing overall productivity.¹¹⁵ Evidence shows that better-educated workers not only contribute more themselves to productivity,¹¹⁶ but they also boost the productivity of lower-educated workers in the firm,¹¹⁷ and eventually even within the sector and across industries – an effect known as human capital spillovers.¹¹⁸

Human capital can also be important in dynamic economic environments, where technological evolution is fast and volatile. In this case, higher human capital can encourage technological diffusion in the firm and in the economy, promoting economic growth.¹¹⁹ This is related to the fact that a skilled workforce can help a firm anticipate and adapt to changes in the business environment.¹²⁰

Some research suggests a significant positive relationship between the level of human capital in SMEs and their tendency to internationalize,¹²¹ as well as between the level of human capital and export diversification.¹²² In fact, shortages of educated and skilled workers – reported in both developing and developed economies – can impede the local development and the global competitiveness of SMEs.¹²³ These challenges multiply as a firm grows and the economy expands, because higher value-added industries, as well as the investors behind them, also expect more knowledge and higher absorptive capacities.

Firms with higher absorptive capacities are better able to maximize the benefits from foreign investment: they can more easily recognize the value of information and assimilate it in their operations. Most importantly, increased absorptive capacity at the firm level is found to transfer FDI benefits from the firm to the wider economy.¹²⁴

Improved managerial competence can also enhance the productivity of an enterprise¹²⁵ as well as its capacity to internationalize,¹²⁶ among other things.¹²⁷ In developing countries, evidence shows that the management skills of many entrepreneurs are inadequate, but that interventions in this area could have positive impacts.¹²⁸

Human resource practices also affect the continued development of workers. On-the-job training and off-the-job learning opportunities contribute positively to productivity and firm profitability.¹²⁹

All of this highlights the importance of human capital in the performance, competitiveness and profitability of SMEs, and some of the constraints they may face. Upgrading Africa's human capital would help continue the structural transformation of the economy towards non-agricultural activities, spur job creation and improve welfare. An agenda to improve education and skills, therefore, would benefit enterprises, entrepreneurs, workers and the economy, as well as attract foreign investors. Both the public and private sectors have a role to play.

Addressing skills in Africa

Significant strides towards higher skills are needed

African countries have taken many steps in recent decades to improve educational outcomes, increasing gross and net enrolment rates in primary and secondary education.¹³⁰ Nevertheless, many countries in sub-Saharan Africa have high dropout rates and it is difficult to assess education quality. Gender gaps also remain, along with a rural-urban divide in educational outcomes.¹³¹

Formal education is crucial, because it serves as the foundation for workers, entrepreneurs and enterprises to be able to perform and compete. Without these basic skills, it is difficult to continue progressing and learning.

Educational programmes can unlock potential

While African governments, international organizations and donors continue improve foundational education, human capital can also be enhanced through vocational and technical education and training, including apprenticeships. TVET provides what some call 'specific human capital,' as opposed to 'general human capital.' This specificity often refers to a certain industry or type of job.

Some argue that this educational path may limit the general skills that could be transferred across industries, especially in dynamic labour markets.¹³² However, research shows some significant private and social returns to vocational education and training in developing countries, even when compared to academic secondary education.¹³³ This suggests that TVET programmes can raise the productivity of workers, consequently firms, which later translates to higher earnings and could attract investors.

In sub-Saharan Africa, about 12% of students in upper secondary education are in the vocational and technical education track, compared to 20% in East Asia and the Pacific.¹³⁴ This followed a period of decline, despite the efforts made by some African governments to strengthen these programmes.

Many factors contribute to these generally low enrollment and participation rates. Some people may not have completed enough primary or higher education to enroll. There is also a perception in some countries that these programmes attract disadvantaged youth and are therefore an undesirable track. Additionally, doubts remain about the quality and future funding of TVET programmes.¹³⁵

A major concern, however, is the disconnect between what TVET institutions offer and what industries need. Successful TVET policies in the Republic of Korea and China, for example, involved continued dialogue and consultation with the private sector and SMEs, with adjustments made as the economic and labour circumstances changed.¹³⁶

Apprenticeships could be an integral part of TVET programmes. Although they are an important part of education in certain Western countries including Germany and Switzerland, as well as in Australia, apprenticeship opportunities in Africa are very limited.

This is at odds with two facts. Firstly, African youth tend to choose apprenticeships over classroom settings when given the choice. Secondly, apprenticeship programmes usually require fewer financial resources even when they are subsidized, and their graduates find full-time jobs relatively quickly.¹³⁷ This emphasizes the potential in improving apprenticeship programmes and strengthening the links between industry and educational paths.

Company training can contribute to continuous learning

Another way to improve human capital in Africa is to strengthen on-the-job training and off-the-job learning opportunities for both staff and entrepreneurs or managers.



Some evidence shows that on-the-job-training can improve the productivity of workers in their current and future jobs, and result in long-lasting externalities.¹³⁸

Practical training for entrepreneurs and managers can benefit companies. Randomized experiments in Ghana¹³⁹ and Tanzania, for instance, showed that managerial training improved firm performance in areas including productivity and profits.¹⁴⁰ A programme in Swaziland (now the Kingdom of Eswatini) also gave entrepreneurs specific skills on how to run businesses, manage their accounts and improved their performance.¹⁴¹

Although many firms identify training and retraining as priorities for their continued growth and development, few enterprises in developed or developing countries invest enough in training.¹⁴²

Related to worker training is 'second-chance' learning, which offers opportunities to entrepreneurs and workers who may not have been able to complete their primary education or programmes that would have improved their economic outcomes. Some African countries, for example, have offered microcredit along with literacy and financial skills programmes. In others, enterprises were connected with ICT 'brokers' – usually trained youth – to expand the technological capabilities of firms and their entrepreneurs in a more dynamic and collaborative setting.¹⁴³ These innovative approaches carry the potential of higher benefits for entrepreneurs and enterprises.

Insights from the Gambia

The Gambia has a young population, with about 45% of its 2 million residents under age 15. More than half of Gambians are in the working-age group (15–64 years old) and this share is expected to climb to around 60% by 2035 – higher than the sub-Saharan African average, but similar to neighboring countries in West Africa. This means that large waves of new workers will enter the labour market in the coming years. If unskilled, they would be at a considerable disadvantage.

The Gambia has made great strides in improving education outcomes. The country's net primary school enrolment rates climbed from 50% in 1999 to around 80% in 2012, putting the Gambia ahead of other West African countries such as Liberia, Guinea-Bissau, Mali and Nigeria. Gross enrolment ratios in lower secondary education have also increased and were estimated at 70% in 2012.¹⁴⁴

Many challenges remain, however. Secondary and tertiary education completion rates remain relatively low in the Gambia and enrolment in vocational education remains meager. The latest data from 2010 show that only 10% of the students enrolled in secondary education and 24% of those enrolled in upper secondary education were following the vocational education route.¹⁴⁵

In light of this situation, a specific module on skills was included in the broader SMECS enterprise survey in the Gambia in 2017. ITC conducted the survey in collaboration with the Gambia Investment and Export Promotion Agency. The results were used to better inform the country's Strategic Youth and Trade Development Roadmap (SYTDR) 2018–2022, which identifies key sectors for economic growth and jobs, emphasizing skill development, entrepreneurship, value chain enhancement and sector coordination.

Majority of surveyed firms have young workers and entrepreneurs

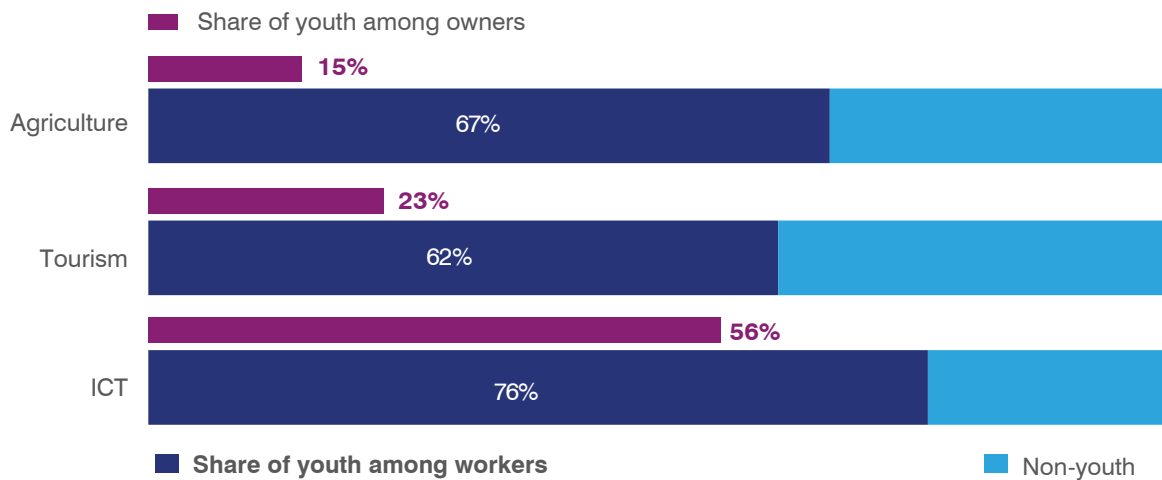
The Gambia survey covered 110 enterprises in three key sectors: agriculture, tourism and ICT.

More than two-thirds of workers in these companies are age 35 or younger.¹⁴⁶ Of the three sectors, ICT firms have the highest share of young workers (76%), which is characteristic of the industry in general, while tourism enterprises have the lowest share, at 62% of workers (Figure 29).

As an enterprise grows, the share of youth among its workers decreases. For instance, about 85% of all workers at micro firms (1–4 workers) are young. This drops to 77% in small enterprises (5–19 employees), 68% in medium-sized firms (20–99 employees) and 60% in large businesses. As companies develop, experience and specialization become increasingly important.

However, the data also show that many MSMEs – especially micro and small companies – are youth-led (Figure 29). This is most evident among ICT firms (56%). Less than a quarter of the surveyed tourism enterprises and just 15% of agricultural firms are owned by youth.

Figure 29 Enterprise workforce and entrepreneurship, by sector



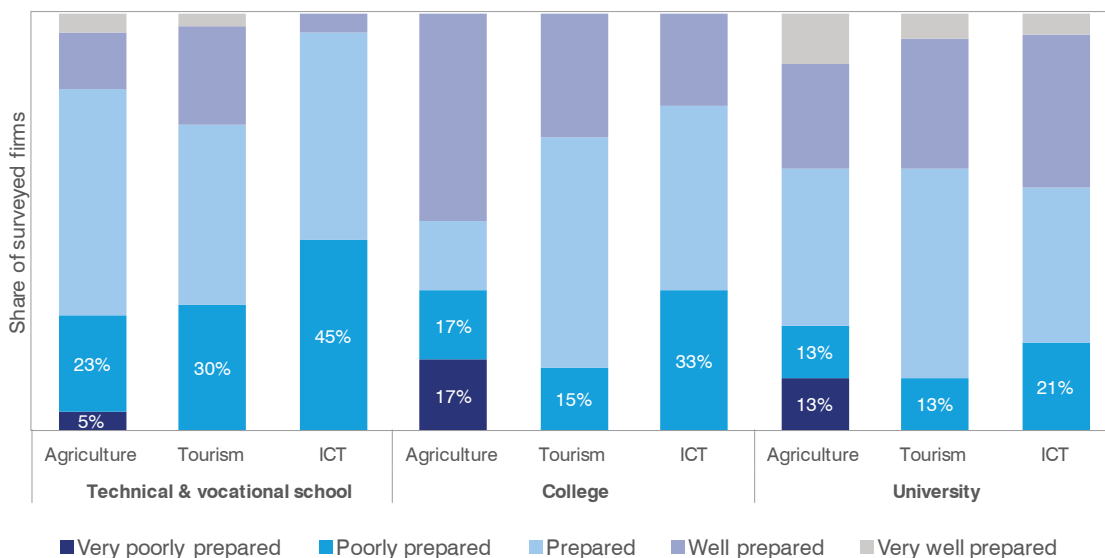
Note: The graph is based on firms' responses to the following questions: "How many employees does your establishment employ in the following age categories (Up to 25, 26–35, 35–45, 45 and over)?" and "What is the group age of your establishment's top manager?"
 Source: ITC, SME Competitiveness Survey, the Gambia (2017).

Junior staff is perceived to be less prepared

Three-quarters of the employees in surveyed enterprises are generally prepared for their tasks. However, those that have at least a secondary education. Only in agriculture do we see a large share of workers who have completed primary education at most.

Firms across the three sectors report that junior staffers coming from universities, colleges and TVET institutions are generally prepared for their tasks. However, those that attended TVET institutions are perceived as much less prepared than those who went to university or college (Figure 30). For instance, a quarter of agricultural enterprises report that their TVET graduate staff are poorly or very poorly prepared. In ICT, this share climbs to 45%.

Figure 30 Perceived level of preparedness of junior staff, by institution and sector



Note: The graph is based on firms' responses to the following questions: "How well prepared are each of the following for the work they do at the company (junior staff coming from technical and vocational school, junior staff coming from college and junior staff coming from university)?"
 Source: ITC, SME Competitiveness Survey, the Gambia (2017).

Box 1: Africa's young population

The African continent hosts the youngest population in the world. Children (0–14 years old) make up more than 40% of the population, compared to 26% in Latin America and the Caribbean and 27% in South-East Asia. Africans aged 0–24 years are set to constitute a third of the world's children and youth by 2040.

As the continent undergoes its demographic transition, larger waves of young adults will continue to enter the labour market seeking jobs and entrepreneurial opportunities. This highlights the potential that such a demographic boom can bring to Africa, if equipped with the skills and given the opportunities to prosper.

Source: United Nations, Department of Economic and Social Affairs, Population Division, "Probabilistic population projections based on the World Population Prospects: The 2017 Revision" (New York: United Nations, 2017). Retrieved from <http://esa.un.org/unpd/wpp/>; AfDB, OECD and UNDP, "African Economic Outlook 2015: Regional Development and Spatial Inclusions" (Paris: OECD, 2015); International Labour Office, "Global Employment Trends for Youth 2017: Paths to Better Working Futures" (Geneva: International Labour Organization, 2017); Mike Herrington and Penny Kew, "South African Report 2015/16: Is South Africa Heading for an Economic Meltdown?" Global Entrepreneurship Monitor (Cape Town, 2016).

While many African youth are unemployed, some are trying to take charge of their futures by becoming entrepreneurs. The average age of an African entrepreneur is about 31, the youngest in the world, compared to 35 in Latin America and the Caribbean and 36 in Asia. This sharpens the focus on skills and education as a way to develop SMEs and entrepreneurial activity. Successful entrepreneurship requires effective entrepreneurial education, including in mathematics and science at the levels of primary and secondary education.

These results flag a potential disconnect between the skills that industries need and what TVET institutions provide.

TVET institutions, in fact, can play a central role in filling some of the reported skill and quality shortages. Agricultural firms, for example, say they need to find qualified crop farm supervisors, food processing operatives and sales and marketing staff. TVET institutions can educate and train youth for these occupations.

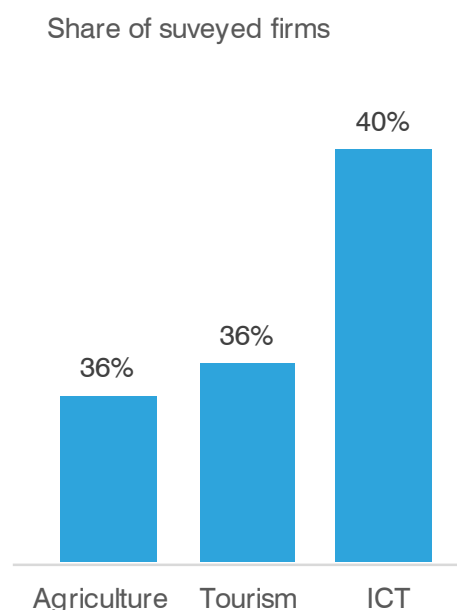
Similarly, tourism enterprises identified particular shortages in jobs such as cooks, bartenders and housekeeping – all of which could be supported by TVET institutions in the domain of hospitality. These institutions could also help fill ICT companies' needs for testing technicians and system administrators.

Worker training remains limited

Although 40% of the surveyed ICT firms train their staff, few tourism or agricultural enterprises provide training on a regular or even occasional basis (Figure 31). More than half of large companies offer training, compared with 38% of micro and small enterprises and just 33% of medium-sized enterprises. This is similar to the situation in some OECD countries, where SMEs are less involved in training activities than large firms. This may be due to various reasons: SMEs may get generally low returns for their training investments;

they may fear poaching by other firms after investing in worker training; and they may have less money than large companies to invest in training.¹⁴⁷

Figure 31 Share of firms that have occasionally or regularly trained their staff



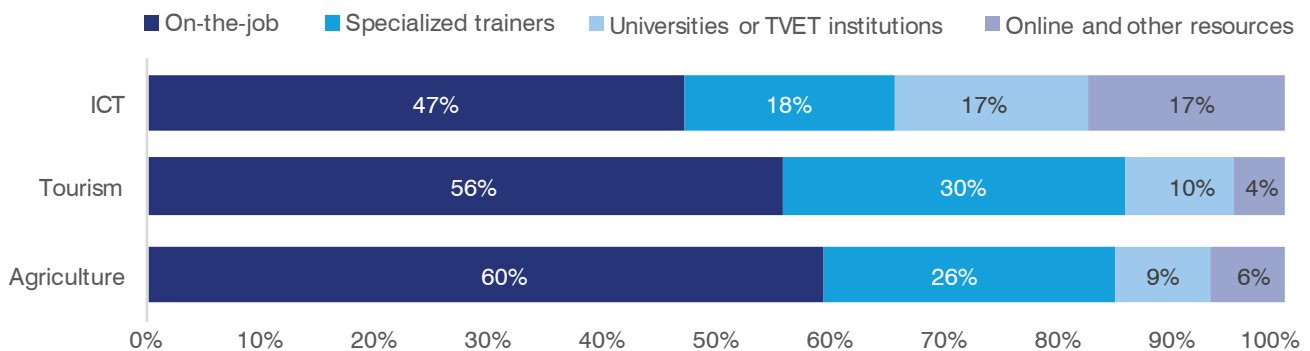
Note: The graph is based on firms' responses to the following questions: "Do you have any specific training activities to overcome the lack of skills (regularly, occasionally, never)?"
Source: ITC, SME Competitiveness Survey, the Gambia (2017).

The SME Competitiveness Survey in the Gambia shows that firms use different tools for training, depending on sector and size (Figure 32). ICT enterprises have relatively diverse ways to train their employees compared to the other two sectors. While 47% of ICT companies that educate their workers use on-the-job training by experienced staff, 17% report using university or TVET institutions' courses and another 17% have used online courses and other sources.

Gambian agricultural and tourism firms that train, on the other hand, rely heavily on on-the-job training by experienced staff, followed by some outside instructions. Very few use university or TVET learning opportunities or online courses. These sectors could benefit from more customized TVET programmes for their staff, particularly in occupations where they have reported the most shortages.

Youth-led enterprises are the most inclined to use training tools from TVET institutions or universities, as well as online courses.

Figure 32 Types of training providers, by sector



Note: The graph is based firms' responses to the following questions: "Do you have any specific training activities to overcome the lack of skills? (on-the-job training provided by experienced staff of the company, trainers or experts, foreign experts; training outside the company provided by vocational schools/centres, universities; online training course, and other provider or resources)."

Source: ITC, SME Competitiveness Survey, the Gambia (2017).

Internships are uncommon and firms report barriers to hiring youth

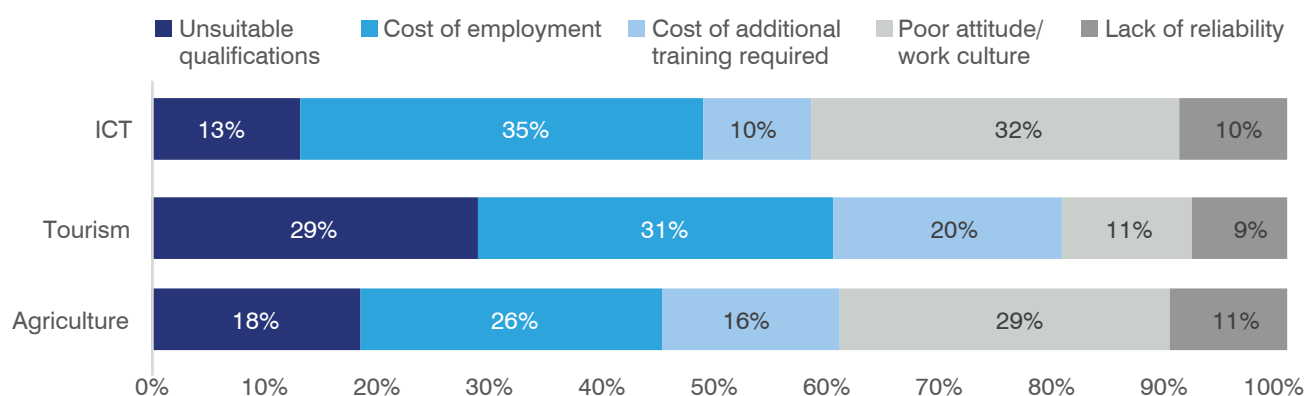
Internship programmes are effective to train youth who are about to enter the job market. However, the survey finds that most firms across the three sectors do not hire interns from universities, colleges or TVET institutions. In agriculture, 82% of enterprises have no interns. In tourism, this ratio is 57% and in ICT, it is 56%. Smaller firms are less likely to offer internships than large companies.

TVET institutions could collaborate with industries to provide structured internship training for young workers. There is also potential in government intervention to encourage the integration of youths in these companies. This support could be in the form of more structured incentives as part of the education or training curricula, or even subsidies. Internships could be more formally designed as long-term apprenticeship programmes with government backing.

This kind of support could help youth and remove some of the obstacles to hiring them. About a third of enterprises in the tourism and ICT sectors identified costs as the main barrier to employing youth in the first place. Other deterrents are the cost of additional training that young workers need and their inadequate qualifications. Many businesses, especially in the agriculture and ICT sectors, cited a bad work attitude and a lack of reliability as main barriers to hiring youth (Figure 33).

The proper curriculum and training by TVET institutions could help eliminate these obstacles, but this can only happen if there is good communication between these institutions and industry. This is particularly important now, as most enterprises that were surveyed said they planned to hire more workers in the following 12 months.

Figure 33 Main barriers to hiring youth in the Gambia, by sector



Note: The graph is based on firms' responses to the following questions: "In your opinion, what is the greatest barrier to employing young people among the following: Unsuitable qualifications cost of employment, cost of additional training required, poor attitude/work culture and lack of reliability?"

Source: ITC, SME Competitiveness Survey, the Gambia (2017).

Improving vocational education and training

Significant room remains to improve TVET institutions in the Gambia. In the framework of the SYTDR 2018–2022, ITC carried an additional survey of 25 TVET institutions to identify bottlenecks they face.

The findings show that TVET institutions have improved their offering by increasing entrepreneurship support. Three-quarters of the institutions surveyed, for instance, have begun to integrate training on entrepreneurship, covering basic areas such as business planning, market research and product development. Some also now offer in-market promotion services that target young entrepreneurs.

Many challenges remain, however, including the geographical concentration of TVET institutions, the lower share of female participants, limited teaching resources, hurdles in TVET management and little graduate follow-up. Moreover, there is still a disconnect between what these institutions provide and what the private sector needs.

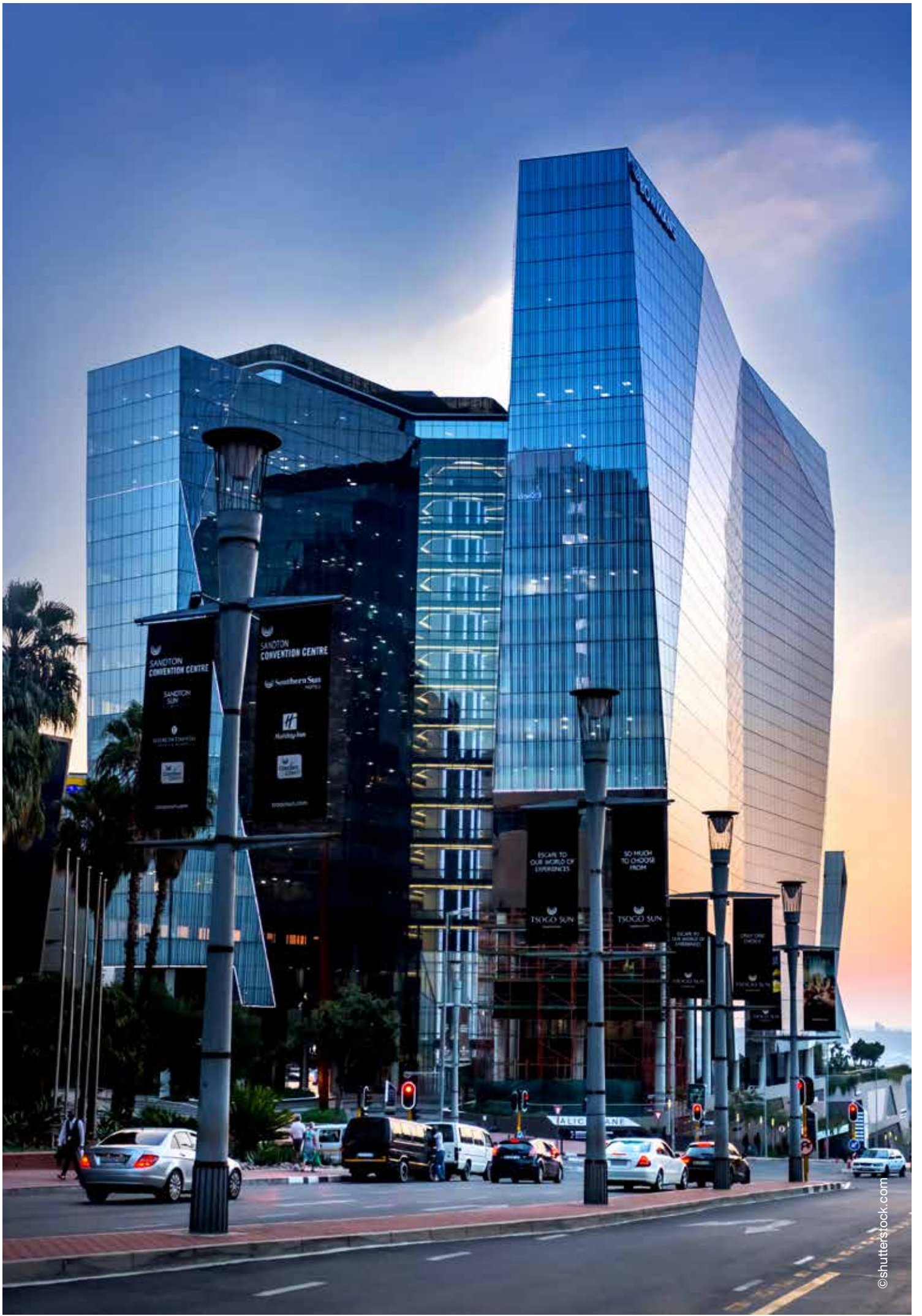
Consequently, the SYTDR recommends several concrete solutions, including:

- Design training programmes to incorporate industry visits, industrial exposure or on-the-job training.

- Develop agreed-upon criteria for quality on-the-job training.
- Further develop, with other stakeholders, structured apprenticeship programmes.

By supporting the skills upgrade across industries, these action points could have a positive effect on investment. Supply-level interventions are essential to improve the capacities of Gambian firms and help them meet the minimum standards expected by potential investors. To this end, support for targeted training should be aligned as much as possible with the requirements of potential investors or international buyers.

Partnerships between Gambian firms, on the one hand, and potential buyers and local educational institutions, on the other, could be effective. Coalitions of enterprises could also be valuable. By acting in a coordinated fashion, Gambian enterprises would be better positioned to achieve the scale needed to make trainings affordable for each firm, and to signal to investors that a cluster of companies has been created that could support large orders from foreign companies. These targeted actions would benefit from government policies designed to support more broad-based entrepreneurship development and training programmes aimed at enriching the skills development of Gambian firms.



CHAPTER 5

ACCESSING FINANCE: KEY FOR SCALE-UP

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ACCESSING FINANCE: KEY FOR SCALE-UP

Finance is the backbone of any business, from start-up to scale-up. Enterprises are always established with some start-up capital in hand. Young enterprises, usually small in size, tend to secure financing from informal sources (e.g. family and friends, own savings, retained earnings, sale of assets). But as enterprises grow, financing switches to more formal sources (e.g. banks and financial support institutions for debt and equity financing).¹⁴⁸ This ability to switch is critical to enterprise development, as formal entities can offer much larger sums of capital to businesses, which can then scale up production, create new products or expand geographically.

Securing a loan from the formal sector also gives firms more credibility in the eyes of potential buyers and suppliers.¹⁴⁹ However, enterprise growth is often not possible without a supportive financial ecosystem. Therefore, building an effective ecosystem is crucial for the future prospects of SMEs in developing countries.

This is even more important in Africa, where SMEs face an annual financing gap that exceeds \$136 billion, according to the International Financial Corporation.¹⁵⁰ About 60% of MSMEs in Africa need a bank loan, but cannot obtain one.¹⁵¹ The lack of access to finance is seen as the biggest constraint by 20% of the continent's SMEs.¹⁵² Enterprises in sub-Saharan African countries are less likely than those in other developing economies to obtain credit, and they also have less knowledge about the financing available to them.¹⁵³

Commercial banks and investors are reluctant to work with African SMEs because of the perceived risks of lending to these enterprises and a lack of information. Start-up firms and SMEs must prove good financial performance to attract investment, but without initial investment, they cannot develop a financial track record. By collecting the insights of SMEs about their needs and the main obstacles to finance, ITC SME Competitiveness Surveys help identify the areas where targeted solutions are needed to attract investment.

Finance is essential for SME growth

Young SMEs seeking credit are usually locked out of bank financing because of their small size and lack of information, which leads to costly verification and risk exposure for banks.¹⁵⁴ But they get better access to formal financial services as they mature and build up financial records and tangible assets for collateral. Thus, the phase of a business life cycle often determines the nature of a firm's financial needs and its ability to obtain credit.

Financial planning and strategic management are important in determining whether an enterprise can get a loan. Access to finance often depends on the manager's ability to produce a credible financing proposal and a good business plan, particularly in the absence of business track records. Also, the financial strategies of an enterprise rely largely on the manager's choices, which may be influenced by various factors – both internal and external to the firm – as well as the options that are available.¹⁵⁵

Commercial banks are the main formal providers of financial services to SMEs today.¹⁵⁶ About 58% of SME funding comes from banks.¹⁵⁷ Regardless of firm size, bank financing – such as loans, credit cards or overdrafts – is the source of most working capital and investment needs.¹⁵⁸ Supplier credit, factoring, leasing and equity financing are other common instruments through which SMEs meet their short-term working capital and long-term investment needs.

Access to formal finance helps SMEs invest in productive capacities and grow. Empirical evidence shows that firms in African countries that can obtain credit tend to grow faster than those which cannot.¹⁵⁹ Cross-country evidence also shows that better access to formal finance is associated with more innovation by small firms,¹⁶⁰ greater likelihood of starting to export and shorter times to begin exporting.¹⁶¹ Quick access to working capital and adequate cashflows is essential for SMEs serving foreign markets, to cushion risks such as customer non-payment and exchange-rate volatility.

As previously noted, many SMEs are unable to qualify for bank financing. It is harder and more expensive for traditional banks to assess these enterprises, which are typically perceived as riskier than larger businesses.¹⁶² Research also confirms that the quality and efficiency of local financial institutions greatly affects the ability of SMEs to access formal financing.¹⁶³

African SMEs need better access to financial services

It is also more difficult for SMEs in Africa to obtain credit than enterprises in other regions.¹⁶⁴ Of some 40 million formal and informal SMEs in sub-Saharan Africa, an estimated 55% are unserved or underserved by the formal financial sector.¹⁶⁵ These numbers reflect the reality of financial systems in most of Africa: a system that provides only limited and costly financial instruments to SMEs, and that lacks a private equity market and long-term financing tools.¹⁶⁶

Only 33% of adults in Africa reported having an account with a formal financial institution in 2017, compared to 43% in developing countries as a whole.¹⁶⁷ This average ranges from 30% in sub-Saharan Africa to 43% in the Middle East and North Africa region.

Moreover, African women are less likely than men to have a bank account. On average, 28% of adult women in Africa hold a formal account, compared with 38% of men.¹⁶⁸ It is important for women to have a bank account for several reasons: it enables them to save formally and independently, and can provide female entrepreneurs (or aspiring entrepreneurs) access to other financial services.

Banks in Africa often refuse to give loans to SMEs due to the high risk of default and inadequate financial facilities. Even though nearly 86% of SMEs in sub-Saharan Africa have a

bank account, only about 22% have a credit line or bank loan, according to World Bank data. In Namibia, 97% of SMEs had bank accounts in 2014, but only 22% had loans or lines of credit, the data show.¹⁶⁹

Almost 40% of small businesses in sub-Saharan Africa consider difficulty accessing finance as a major constraint to their operations, compared with 27% in South Asia.¹⁷⁰ The main sources of SME finance in Africa are retained earnings, informal savings and loan associations.¹⁷¹ However, these are usually short-term, insecure and limited as low income levels mean minimal savings.

Supply-side constraints to financial services

African adults identified the biggest obstacles to having an account at a financial institution as a lack of enough money to open and fund an account,¹⁷² high credit costs, the need for documentation and distance from the closest institution. Documentation requirements are especially constraining in sub-Saharan Africa – 49% of survey respondents in Zimbabwe and 35% in Zambia cited this as a reason not to own a bank account.¹⁷³

Many African SMEs that do have bank accounts are reluctant to apply for credit and/or cannot access financing due to onerous requirements such as collateral, high interest rates, application procedures and bribes.¹⁷⁴ For example, 91% of loans in Zambia required collateral in 2013, which on average amounted to 237% of the loan amount. This proportion is higher than the average collateral value needed for a loan in sub-Saharan Africa – roughly 213% of the loan amount – and in Latin America and the Caribbean (198%).¹⁷⁵



Limited access to finance affects female entrepreneurs in Africa more than businessmen. This hampers the growth of their enterprises as well as their efforts to join global value chains and upgrade into higher value activities, according to a 2013 World Bank study on gender and global value chains.¹⁷⁶

Women struggle to access credit in countries where rights to family capital for collateral are limited. Their businesses typically require more external financing, because women lack adequate collateral and control over resources. However, female entrepreneurs in sub-Saharan Africa generally receive smaller loans compared to men, which limits opportunities for business growth.¹⁷⁷ Other impediments in accessing capital include high interest rates, a complex application process, lack of a track record and gender discrimination by banks.¹⁷⁸

Firms often opt for semi-formal or informal financial services to avoid the difficulties that arise when dealing with banks. However, formal financial services are more reliable and may offer access to more funds. Tools that facilitate access to formal financial services are therefore in high demand in the region, and new technologies are playing a role.

Mobile banking platforms, such as M-Pesa in Kenya, help individuals and enterprises access fast and reliable payment systems.¹⁷⁹ Since 2014, the share of adults in sub-Saharan Africa with a mobile money account has grown about twice as much as the share of bank account owners.¹⁸⁰ Mobile money is used widely for services such as receiving or sending funds. But even in Kenya, where mobile money penetration exceeds 90%, few people use it as a saving facility or to access loans.¹⁸¹ This suggests that more work on mobile banking is needed to include more Africans in the financial system.

Insights from Nigeria

Nigeria, the second-largest economy in Africa, is home to one of the biggest unbanked populations in the world. More than 60% of adults in the country have no account in a formal financial institution.¹⁸² SMEs, approximately 96% of Nigeria's business community,¹⁸³ are often forced to close down because they cannot access finance.

Research shows that finance contributes about 25% to the success of SMEs in Nigeria¹⁸⁴ and that there is a positive relationship between microcredit institution loans and SME growth.¹⁸⁵ Studies also indicate that 80% of small and medium-sized enterprises in Nigeria fail within five years,¹⁸⁶ with one of the main reasons being their failure to secure

funding from banks, particularly long-term loans.¹⁸⁷ Although the Nigerian Government has promoted the establishment of credit institutions to improve SMEs' access to finance, the informal finance sector still provides more than 70% of the funds available to these enterprises.¹⁸⁸

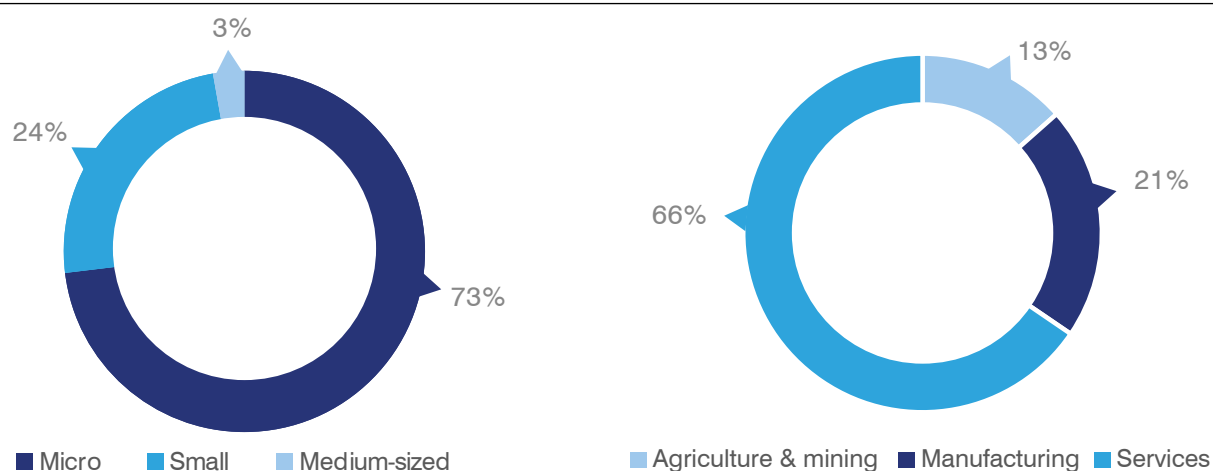
Formal financial institutions such as commercial banks, microfinance banks, the central bank and international development agencies have played important roles in funding small businesses in Nigeria.¹⁸⁹ However, less than a third of Nigerian SMEs successfully obtained a loan from a financial institution in 2015.¹⁹⁰ Commercial bank lending is the primary source of formal finance for Nigerian SMEs, but their lending to these enterprises as a percentage of total credit declined from 7.5% in 2003 to 0.13% in 2012 and 0.07% in 2016.¹⁹¹

Small Nigerian businesses find it difficult to obtain bank financing for reasons ranging from a lack of collateral security or bank credit to poor recordkeeping, credit worthiness uncertainty or inadequate project proposals. High interest rates and fears of losing business in the event of a default in repaying loans also deter SMEs from requesting bank loans.¹⁹² Furthermore, in a country dominated by informal enterprises, many Nigerian SMEs do not know how to access the formal financing necessary for their business to grow and develop.¹⁹³

The gender gap in ownership of formal financial accounts in Nigeria is stark: 51% of men and 27% of women say they have a bank account.¹⁹⁴ Financial constraints usually affect women more than men because of cultural norms and expected family roles that limit control over their own resources and reduce mobility, access to property, exposure to the market and financial literacy.¹⁹⁵ As a result, Nigerian women entrepreneurs have less access to financial services for their small businesses and rely mostly on internal funds and retained earnings.

Under the SheTrades Initiative, ITC conducted the SME Competitiveness Survey in Nigeria in 2018. The survey, which sought to identify the strengths and weaknesses of women-owned SMEs in the country, included a customized module about access to financial services for business growth. The interviewed sample included 394 women-owned SMEs: 288 micro, 95 small, and 11 medium-sized firms. Most were active in the services sector (66%), with 21% involved in manufacturing and 13% in agriculture and mining (Figure 34).

Figure 34 Composition of surveyed firms, by size and sector of activity



Source: SME Competitiveness Survey, Nigeria (2018).

Bank account penetration can drive access to financial services

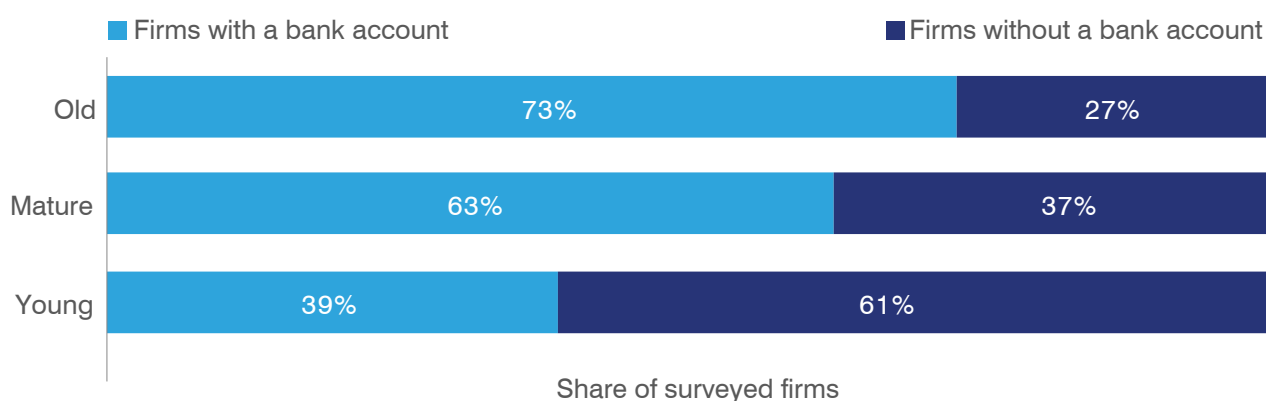
The closeup found that women entrepreneurs in Nigeria have limited access to formal financial services. Many have no relationship with a financial institution, which means they lack credit history and information about loan application procedures and other conditions to obtain loans. This causes many to turn to informal borrowing to sustain their businesses.¹⁹⁶

Opening a bank account creates a first relationship with a financial institution, and can be a gateway for SMEs to access other financial products. However, almost 45% of the surveyed women-owned enterprises had no business bank account (separate from a personal account) for daily operations.

Bank account ownership was more common among larger firms and enterprises in the agriculture and mining sector. The lion's share of micro enterprises and almost half of the manufacturing and services companies had no bank account.

Figure 35 shows the link between the age of an enterprise and ownership of a bank account. Young firms (not more than six years in business) and firms reaching their maturity (7-15 years) had fewer bank accounts than older companies (more than 15 years). More than half of the young firms and 37% of more mature firms had no bank account, while this was true of just 27% of older businesses. This might be because young SMEs rely more on informal sources of capital and only switch to formal financial services when informal ones are exhausted.¹⁹⁷

Figure 35 Ownership of bank account is less common among young firms



Note: The graph is based on firms' responses to the following question: "At this time, does this company have a bank account for daily operations which is separate from a personal account?" Young firms are those that have been in business for less than six years, mature firms have been in business for 7-15 years, and old firms for more than 15 years.

Source: SME Competitiveness Survey, Nigeria (2018).

Better access to financial services can stimulate business expansion

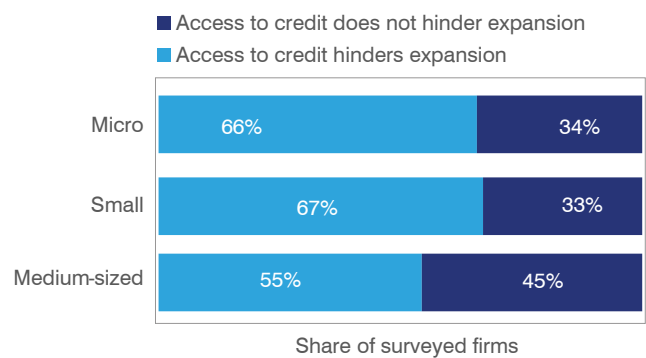
The absence of an established relationship with a financial institution can make it tougher for SMEs to obtain loans. In fact, 66% of SMEs cited difficulty in procuring credit as an obstacle to their business expansion. Figure 36 shows that limited access to credit restricted the growth of micro and smaller firms more than medium-sized enterprises. This may be because larger companies find it easier to access formal funding to expand than smaller firms, which tend to rely on internal funds.¹⁹⁸ However, larger firms often cannot obtain long-term financing, which might explain why so many medium-sized enterprises cited difficulty accessing credit as a barrier to their growth.

For Nigerian women-owned SMEs, problems obtaining loans for growth are coupled with barriers in their current operations stemming from their lack of access to financial institutions. The data indicate that the smaller the firm, the more severe the obstacle.

SMEs participating in global value chains appear to be less constrained in terms of access to financial institutions, as shown in Figure 37. Inaccessibility of financial institutions was identified as a very severe obstacle by 31% of the firms

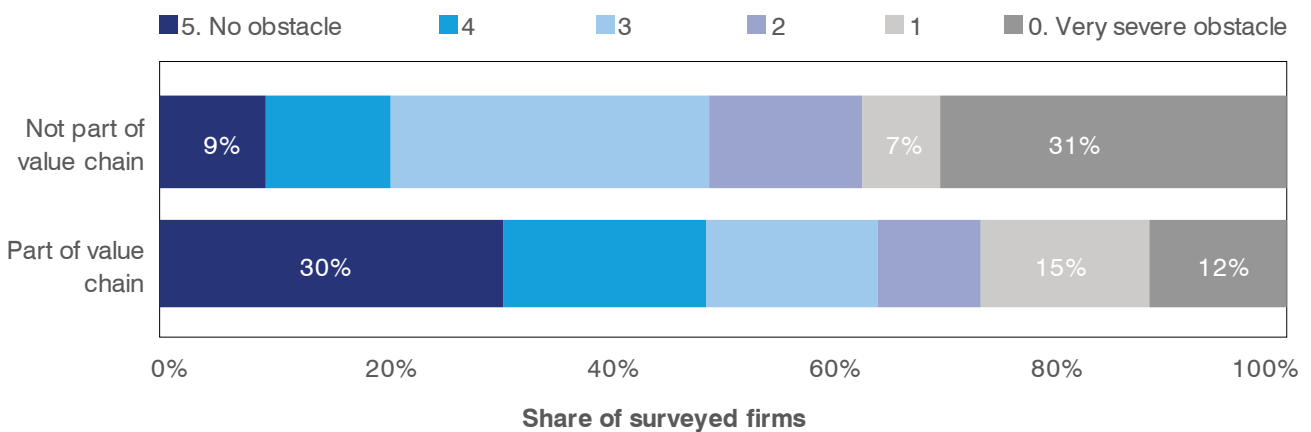
that were not part of the value chain, compared to 12% of those that were part of a value chain. This may be because contractual arrangements associated with participation in global value chains help expand and deepen access to banks. SMEs that supply inputs to large corporate firms can leverage their buyers' credit ratings and lower borrowing costs, which reduces some of the risks and liquidity constraints they face.¹⁹⁹

Figure 36 Difficulty obtaining credit curbs business expansion, regardless of firm size



Note: The graph is based on firms' responses to the following question: "What barriers do you face to expanding your business? (a. access to credit)"
 Source: SME Competitiveness Survey, Nigeria (2018).

Figure 37 Accessing financial institutions is tougher for firms outside value chains



Note: The graph is based on firms' responses to the following question: "To what degree is access to financial institutions an obstacle to current operations?"
 Source: SME Competitiveness Survey, Nigeria (2018).

SMEs have limited financial knowledge and skills

The problems that Nigerian SMEs experience when trying to develop their capital base are due partly to their ineffective use of financing opportunities. This could be because they lack financial knowledge and skills or cannot present persuasive business plans or acceptable collateral to banks and investors. In the words of Lamido Sanusi, former governor of the Central Bank of Nigeria: ‘Financial institutions often attribute their risk aversion stance for not lending to MSMEs to demand-side constraints, which include the lack of managerial capacity, inadequate collateral and poor recordkeeping, among others.’²⁰⁰

Most of the surveyed SMEs said they needed some kind of financing, regardless of their size and sector of operation. Two-thirds reported a need for business financing in the form of a traditional bank loan, equity, the issuance of bonds, a line of credit or a letter of credit.

However, many SMEs were unfamiliar with the necessary steps to get funding from domestic financial institutions (Figure 38). A low percentage of firms in each sector had detailed information about these steps, while a large percentage had little or no knowledge about how to

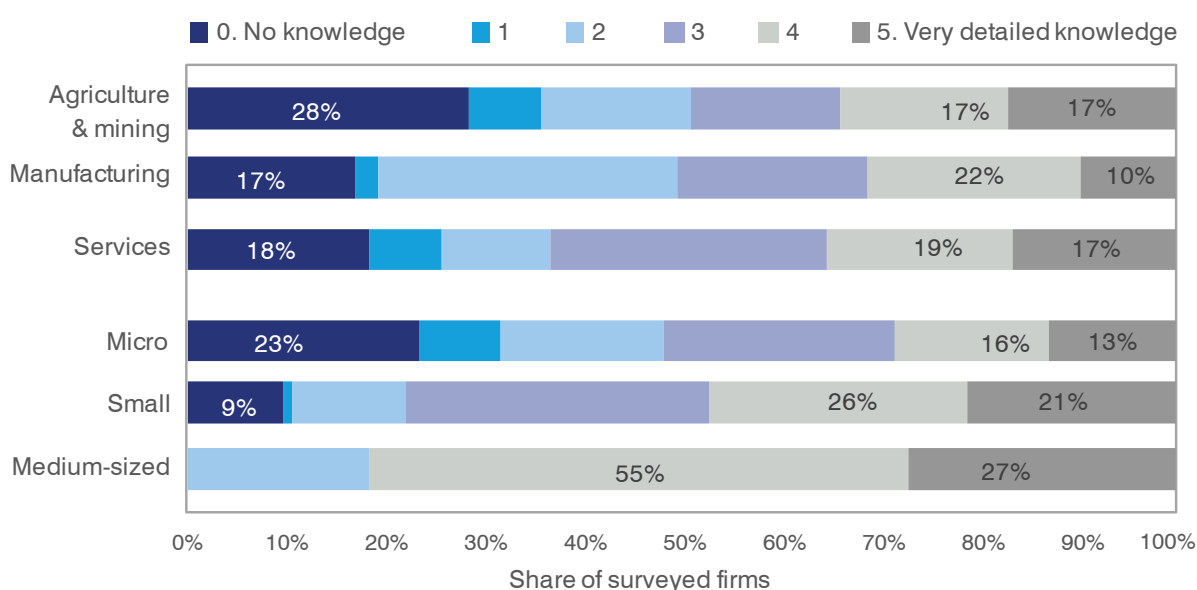
obtain formal funding. Bigger firms seemed to be more knowledgeable about these procedures.

Additionally, SMEs with a bank account also seemed to have more knowledge about formal loan application procedures than non-account owners, as shown in Figure 39. The survey also reveals that enterprises without a bank account were more likely to need financing, but less likely to apply for it than bank account owners. Thus, having a bank account might help SMEs learn more about loan application procedures and improve their chances of acquiring loans for their businesses. This reflects the need for a first-hand relationship with a bank that can give advice about loan application procedures and financial planning.

Nigerian women-owned SMEs manage cash flows and business plans well

It is important to maintain a high operating cash margin to obtain bank financing. This signals long-term survival and growth, and is therefore typically associated with successful repayment of a loan.²⁰¹ Studies have found that financial institutions in Nigeria consider the size and age of small businesses when offering loans, but they favour profitable, growing firms²⁰² – which also means companies with a stable and reliable cash flow history.

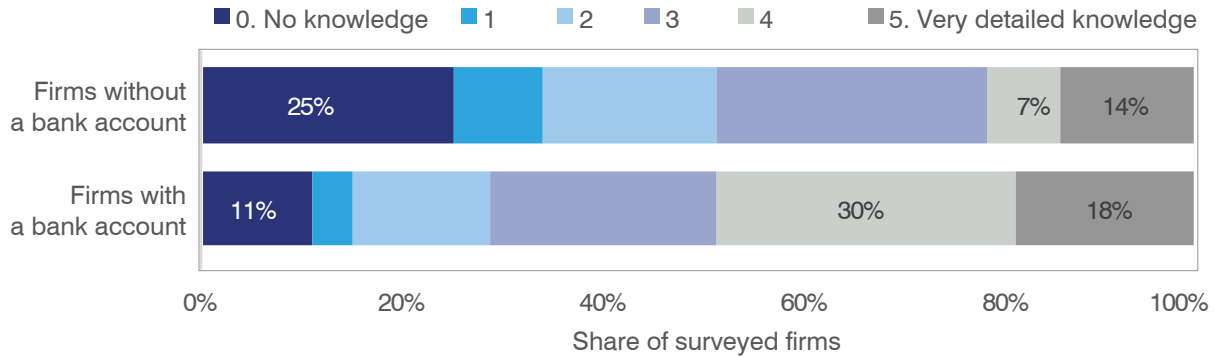
Figure 38 Smaller firms have limited knowledge about application procedures



Note: The graph is based on firms' responses to the following question: "Please rate this company's knowledge of the processes involved in getting finance with domestic financial institutions."

Source: SME Competitiveness Survey, Nigeria (2018).

Figure 39 Bank account owners know more about loan processes



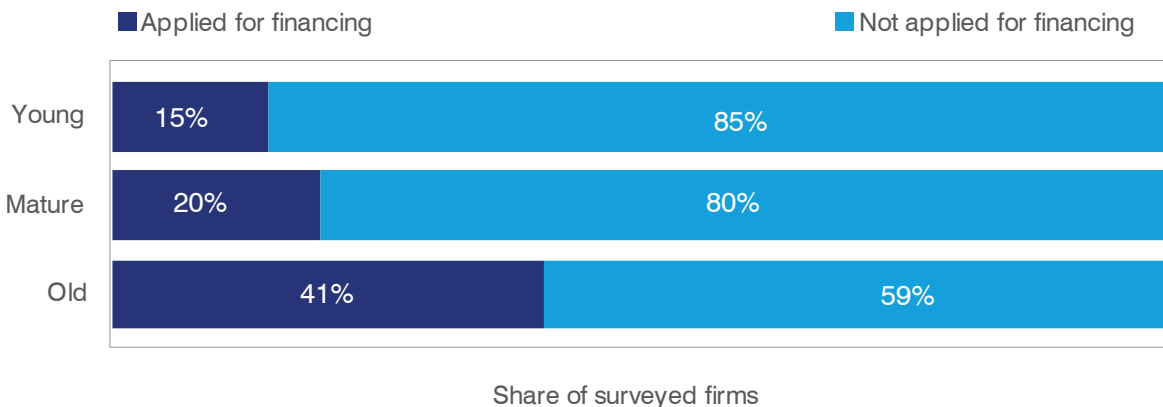
Note: The graph is based on firms' responses to the following question: "Please rate this company's knowledge of the processes involved in getting finance with domestic financial institutions."
 Source: SME Competitiveness Survey, Nigeria (2018).

Many of the surveyed women-owned SMEs said they were able to manage their cash flows and to present fully costed business plans to banks or investors as part of a loan application. Nearly 60% of these firms reported having good or very good cash flow management to reliably execute payments, and 50% said they were capable or very capable of presenting a fully costed business plan to a bank or investor to obtain a loan. Thus, even though women managers are often viewed as lacking the financial capability and confidence to manage their finances, this does not seem germane to the surveyed sample.

Women entrepreneurs are less inclined to seek external financing

Generally, women who own SMEs are less inclined to seek external financing because of systematic barriers such as their small size and lack of experience. The proportion of funding applicants was very low among these firms: only 19% had applied for financing in the last three years.

Figure 40 Mature firms tend to rely more on formal financing sources



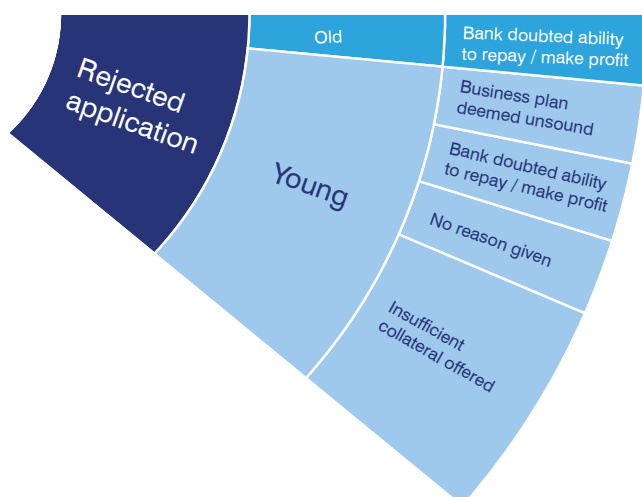
Note: The graph is based on firms' responses to the following question: "Referring to the last three full calendar years, did this establishment apply for any financing?"
 Source: SME Competitiveness Survey, Nigeria (2018).

Far fewer young firms applied for credit compared to mature and old firms: 15% of young companies tried to obtain financing, whereas 20% of mature and 41% of old firms had submitted an application during the last three years (Figure 40). This could be related to the financing pattern of firms that is generally observed over their business life cycle, where younger firms depend less on bank financing and more on informal financing than established firms.

Banks rejected about 17% of all funding applications and 77% of the unsuccessful applications were from micro enterprises. At the same time, more than half of all financing requests (54%) had received approval at the time of the survey. The success rate was quite low for micro enterprises, where 42% received loan approval compared with 60% for small firms and almost 100% for medium enterprises. This shows that smaller firms had worse chances of getting a bank loan than larger companies.

Moreover, applications from younger firms were more likely to be rejected than those from older firms, as shown in Figure 41. A whopping 69% of all unsuccessful applications were from young firms while only 24% have been approved so far, compared to 41% for older enterprises.

Figure 41 Loan applications by younger firms are more likely to be rejected



Note: The graph is based on firms' responses to the following questions, starting from the centre: "What was the outcome of the loan application? Why was the loan application rejected by the bank?"

Source: SME Competitiveness Survey, Nigeria (2018).

Few SMEs knew why their applications had been rejected. The main reasons given to those who did know, however, were insufficient collateral, bank uncertainty about the ability of the firm to repay the loan, and an unsound business model/plan. This is in line with the findings of many researchers, who attribute the difficulty of Nigerian SMEs to access formal loans primarily to exorbitant collateral requirements and high interest rates that reduce their ability to repay or make a profit, as well as information opacity about small firms.²⁰³

Institutional and regulatory constraints hinder SMEs' access to finance

Nigerian banks require secure land or buildings as collateral in 98% of loan applications.²⁰⁴ As noted above, inadequate collateral is a major factor in the failure of Nigerian SMEs seeking formal loans to win approval.

Women-owned SMEs tend to be more constrained in this respect. This is because most land in Nigeria is registered under men's names, and women are less likely to have control over property even when they do own it. Customary practices continue to influence land transactions, and the protection of women's property rights is very weak.²⁰⁵ Thus, women have less physical and reputational collateral to be eligible for a loan and are forced to use limited personal savings or credits from cooperative societies, which can be a major constraint for expanding businesses.

Additionally, most Nigerian banks are reluctant to give long-term loans to SMEs and charge exorbitant interest rates on short-term loans.²⁰⁶ Such strict lending standards limit credit access for women-owned SMEs and may deter them from applying to formal facilities.

The survey findings confirm this: high interest rates and collateral requirements were the biggest challenges reported by Nigerian women-owned SMEs with respect to accessing finance. They also cited complex application procedures and the fact that banks rarely gave loans to small businesses.

Banks, private investors and other stakeholders can enhance financial inclusion

Africa offers broad opportunities for investment in the financial services sector. Financial institutions and investors have an important role to play. These ecosystem actors can train enterprises on financial literacy and risk management strategies, as well as how to apply for a loan, draft a business plan and build relationships with bank managers.

Investors can help women entrepreneurs who face stringent collateral requirements by supporting technology-based innovation in local financial services. For instance, simplified digital financial services would allow to build records and

easily analyse the credit history, hence providing loan credibility and riskiness. This will enable women to start businesses and to provide the collateral necessary to finance growth and international expansion. Financial institutions also need to provide services that are adapted to women and permit diverse types of collateral to be used when female entrepreneurs apply for credit. Additionally, policymakers should remove legal barriers that affect women's property inheritance rights and better protect women's ownership rights.

Data collection should also improve, given how important it is to have information about women's needs and priorities. This can help financial institutions and investors change the way they engage with female clients and alter their perceptions of women as a high-risk group.



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DATA FOR DE-RISKING INVESTMENT

DATA FOR DE-RISKING INVESTMENT

SMEs represent more than 90% of enterprises and employ around 60% of the workforce in Africa. Helping more of these enterprises connect to international markets would boost economic growth in Africa and ensure that the gains from trade are broadly distributed within society.

Upgrading the competitiveness of SMEs should therefore be considered a major pillar of inclusive and sustainable growth. To this end, both domestic and foreign investments are necessary. The continent today faces a significant investment gap due to the perception that investing in Africa is risky. Additional and better ‘information about the availability of local suppliers’²⁰⁷ is needed to make specific sectors or value chains more attractive to investors.

Using data from ITC SME Competitiveness Surveys, this report sheds light on four areas that affect both the competitiveness and attractiveness of African enterprises for investment:

- Ability to meet quality requirements;
- Ability to meet time requirements;
- Human capital requirements;
- And access to finance.

The report reveals that more than 25% of companies in Francophone Africa currently meet international quality standards in their field and are ready to scale up exports. Levels of certification are higher in countries where information about certification processes and requirements is more readily available.

ICT is one of the most dynamic sectors in a number of countries, including in African LDCs like the Gambia. In the Gambia, two-thirds of ICT firms are run by youth. The ICT sector offers more (and more diversified) training to employees and makes greater use of online learning tools for training. The example of the Gambia highlights the potential of African countries to leapfrog into new or high technology

sectors and provides interesting pointers as to the role of training and education for this.

Across Africa, logistics services are developing fast and are key for enterprises to compete in high-quality segments. In Morocco, for instance, two-thirds of SMEs rate the quality of logistics as high. The combination of high-quality infrastructure, good logistics services and strong inventory management at the firm level have enabled Moroccan SMEs to move up the value chain.

Access to finance continues to be a bottleneck for many SMEs. Reasons for this differ across countries. While macroeconomic policies discourage SMEs to seek bank financing in a country like Ghana, firm level financial literacy plays an important role in a country like Nigeria.

This report suggests that combining information from the macro, meso and micro level of economies provides for nuanced pictures of what doing business means for SMEs in developing countries. This combination of data provides potential investors with information that is useful to assess the riskiness of investments in specific sectors, value chains or companies in the developing world. This information also helps investors gauge whether investments into major infrastructure projects is likely to spur private sector activity.

With data today seen as the new oil of the economy, a lack of data on SMEs in Africa is problematic. Investors want information about the availability of local suppliers and to be able to evaluate their ability to compete in national, regional and global markets. SME competitiveness data presented in this report fill this gap and give national stakeholders that collected them the knowledge necessary to build the future export success of their SMEs.

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