SME Competitiveness in Francophone Africa 2023

Building resilience to climate change
The International Trade Centre (ITC) and the Permanent Conference of African and Francophone Consular Chambers (CPCCAF) joined forces in 2023 to help the network of chambers of commerce in French-speaking Africa understand how small and medium-sized enterprises (SMEs) are responding to environmental challenges in their countries. They conducted a business survey to assess the impact of environmental risks and analyse business practices of mitigation and adaptation to these challenges.

More than 5,600 in-depth surveys

ITC and CPCCAF surveyed 5,625 businesses in French-speaking Africa in April–July 2023. Data were gathered from companies in Benin, Burkina Faso, Cameroon, Chad, Congo, Côte d’Ivoire, Democratic Republic of Congo, Gabon, Mali, Mauritania, Morocco, Senegal and Togo.

This booklet presents the analysis of survey responses. It is the 6th edition of an annual series found at www.intracen.org/publications.

More than half of the respondents (55%) were microenterprises with fewer than four employees, 31% were small firms (5 to 19 employees), 11% were medium sized (20 to 99 employees) and 3% were large companies (more than 100 employees). Most (83%) of the enterprises operate in the services sector, 9% in the manufacturing and the remaining 8% in the primary sector.

Companies were predominantly led by non-youth (34 years old and over) and by men, whose firms represented 84% and 85%, respectively, of the surveyed businesses. Eighty-five percent of the surveyed firms were registered with a national authority.

The survey also shows that 28% of businesses were engaged in trade, whether importing or exporting. French-speaking Africa and Europe top the list of export destinations, with 64% and 43% of exporters selling to these regions, respectively. Seventy-five percent of companies exporting to French-speaking Africa generated up to half their sales in this region.

Note: The figures are based on unweighted data to depict the raw information gathered.
Key messages

Climate change is a global crisis. Its devastating consequences are already affecting lives and businesses worldwide. Temperature variability, water scarcity and extreme weather conditions increasingly weigh on African firms. Among them, SMEs are particularly vulnerable: a lack of awareness, technical know-how and/or financial means make these firms less likely to adopt adaptation and mitigation measures. Ensuring that SMEs are aware of the impending climate crisis and helping them to improve their financial position and access suitable technologies will help them adopt resilient strategies and improve their long-term competitiveness.

Businesses perceive environmental risks, but struggle to adapt

- More than two-thirds (68%) of survey respondents consider climate change-related events as a threat to their business. Primary sector firms were most concerned about changing temperatures (41%), while manufacturing and services firms were more fearful of climate-related input shortages (50% and 30%, respectively).

- However, up to 62% of respondents had no adaptation strategy to reduce their vulnerability to environmental risks. Primary sector firms were the most likely to invest in adaptation efforts (59%), ahead of manufacturing (48%) and services (23%) companies.

- Adaptation strategies are context-specific. In countries that are more exposed to climate-related infrastructure risks, firms’ adaptation efforts tend to focus on infrastructure reinforcement, such as investments in power generation systems and transport alternatives. In contrast, firms tend to invest in irrigation systems where climate change has a strong impact on water scarcity.

- Firms in good financial standing were more likely to invest in adaptation. SMEs – generally more prone to financial difficulties – were more than twice less likely to invest in adaptation measures than large enterprises. Moreover, SMEs in a good financial position were still less likely to invest than large firms in poorer financial positions, possibly due to a lack of technical know-how or awareness of environmental risks.

Investment in mitigation is limited but beneficial

- Just over a third (36%) of survey respondents have taken steps to reduce their environmental footprint. Primary sector firms lead in environmental action at 58%, surpassing manufacturing (47%) and services (21%) firms. To mitigate their impact, primary sector companies mainly focused on reducing their use of chemicals (40%) while manufacturing and services companies favoured investment in renewable energy.

- Firms in a favourable economic situation were more likely to adopt sustainability measures. Financially constrained businesses (mostly small, youth-led and women-led) also tended to take more low-cost, low-skill measures – such as using fewer chemicals and investing in sustainable/recyclable packaging – than their counterparts, which tend to make more substantive investments, such as renewable energy adoption.

- The vast majority (90%) of respondents that have invested in greening their businesses said it has opened up promising opportunities for them in terms of accessing new markets, retaining existing markets and improving product quality.

- Companies investing in renewable energy benefited most from increased access to new markets, while companies adopting more water-efficient technologies improved product quality.
Businesses perceive environmental risks, but struggle to adapt

Firms are threatened by the increasing frequency and severity of climate-related natural disasters. In francophone Africa, nearly seven out of 10 companies reported environmental change as a major threat to their business. Despite this exposure, few companies are taking adaptation measures.

While Africa emits only 4% of global greenhouse gases, it is subject to more climate change-related shocks than any other continent. Its economy also depends heavily on agriculture, which is more sensitive to climate variability.

Environmental risks are significant and vary by sector

Companies in francophone Africa see environmental change as a threat to their operations. On average, 68% of survey respondents said that environmental risks were a significant threat to their business. Agricultural enterprises were the most exposed to environmental risks, with 90% saying they were affected. Yields and production levels in this sector are particularly vulnerable to climate variability and extremes, making environmental hazards a major concern for agriculture.

Firms in other sectors are also concerned. Most companies in the manufacturing (73%) and services (56%) sectors also reported considerable exposure to environmental threats.

Companies that reported facing environmental risks were most concerned about input scarcity (34%), followed by water scarcity (33%) and a decline in input quality (32%). However, the main environmental concerns differ by sector due to the nature of their activities. While the top three concerns of firms in agriculture included changing temperatures (41%), water scarcity (34%) and input scarcity (26%), manufacturers and service firms mainly worried about input scarcity (50% and 30%, respectively), input quality (49% and 29%) and water scarcity (39% and 29%).

Agricultural firms are often more aware of the potential impact of changing temperatures and water availability as they directly affect crop yields and productivity. While manufacturing and service sector firms tend to be less sensitive to climate variability, they depend on a stable supply of inputs, including energy and water, to sustain production processes or deliver services. Climate-induced input shortages can disrupt production and service efficiency, increasing costs and reducing output.

Adaptation strategies are context-specific

The challenges of environmental change cannot be met without adaptation. This involves proactively adapting business practices and strategies to find appropriate sustainable solutions and minimize vulnerability to changing environmental conditions.

Over the past three years, however, up to 62% of companies had no adaptation strategy to reduce their vulnerability to environmental risks. Companies that have implemented adaptive measures have mainly focused on infrastructure: 27% have invested in power generation systems, 23% in irrigation systems and 22% in alternative transportation.

1. (Kaïré et al., 2015)
2. (Holleman et al., 2020)
3. (Ricart et al., 2023)
4. (World Trade Organization, 2022)
Environmental risks are sizable for two-thirds of companies

Note: The figure describes the responses of businesses to the question “Which of the following environmental risks are significant for your business?” If respondents chose one or more environmental risk options (except ‘None’ or ‘Do not know’), they are identified as facing significant environmental risks. The data were weighted using the distribution of companies surveyed by country and the contribution of economic sectors to gross domestic product (GDP) in each country.

More than three-fifths of firms have no adaptation strategy

Note: The figure describes the responses of businesses to the question “In the last three years, did your company invest in any of the following measures to reduce the environmental risks that your company is facing?” Those that chose any of the answer options (except ‘None’ and ‘Do not know’) are identified as investing in adaptation. The data were weighted using the distribution of companies surveyed by country and the contribution of economic sectors to GDP in each country.

Financial situation and firm size constrain investments in adaptation

Note: The figure describes the responses of businesses to the questions “What is your company’s current financial situation?” and “In the last three years, did your company invest in any of the following measures to reduce the environmental risks that your company is facing?” Those that chose any of the answer options (except ‘None’ and ‘Do not know’) are identified as investing in adaptation. The data were weighted using the distribution of companies surveyed by country and the contribution of economic sectors to GDP in each country.
Furthermore, probably due to the high vulnerability of agriculture to climate variability, many farmers have invested in adaptation measures. In the past three years, 59% of them have invested in measures to cope with the impact of climate change. This compares with 48% of manufacturers and 23% of firms in the services sector. Farmers were also twice as likely as manufacturers and five times as likely as service sector companies to adopt multiple adaptation measures.

Successful adaptation requires context-specific actions, as the vulnerability and risks associated with environmental change vary across sectors, from country to country and even within countries. The survey results show that in francophone African countries that are highly exposed to climate-related infrastructure risks, companies’ adaptation efforts are primarily focused on infrastructure reinforcement. For instance, 43% of firms located in these countries have invested in power generation systems, 27% in transport and 23% in irrigation systems. This compares with 13%, 18% and 11% respectively of businesses in countries where infrastructure is at low risk of being affected by climate change. Similarly, 35% of companies in countries where climate change has a strong impact on water scarcity have invested in irrigation systems, compared with only 16% of companies in countries less vulnerable to water shortages.

Smaller firms are less likely to invest in adaptation

Smaller enterprises lag in adaptation. While 76% of large firms in the sample reported that they had invested in at least one measure to cope with environmental changes, only 35% of SMEs had made such an investment over the past three years. A key reason for this lag in investment is SMEs’ limited access to finance. Some green initiatives require substantial financial resources that sometimes must be supplemented by external financing.

The survey indeed shows that both large and small businesses invested more in tackling the impacts of environmental change when their financial situation was good. Eighty-four percent of large companies in good financial condition invested in adaptation, compared with 71% of large companies in stable or difficult financial situations. These percentages are 50% and 32%, respectively, for SMEs.

However, SMEs were more than three times less likely than their large counterparts to report that their current financial situation was good (14% versus 45%). They also tend to have limited collateral, making them ineligible for various loan opportunities.

Improving the financial standing of SMEs is undeniably vital, but this should be complemented by initiatives to raise awareness about environmental risks and ability to implement required measures. This is imperative because SMEs often lack not only financial resources, but also the knowledge and skills needed to identify environmental risks and undertake measures to reduce their adverse effects.

Survey findings indicate that SMEs in good financial health still lag far behind large firms, even those in financial difficulty. While 50% of SMEs in a good financial situation had invested in adaptation measures over the past three years, 71% of large companies in a difficult or stable financial situation reported having invested.

5. (Intergovernmental Panel on Climate Change, 2022)

6. These statistics are based on the ITC–CPCCAF survey as well as data on the vulnerability of countries to climate change from the University of Notre Dame (https://gain.nd.edu/our-work/country-index/download-data/). The vulnerability index ranges from 0 to 1. Countries with a low (or high) vulnerability are defined as those with a score below (or above) the median of the vulnerability index distribution.

7. (Gorgels et al., 2022, ITC, 2021)
Investment in mitigation is limited but beneficial

Climate change mitigation by firms in francophone Africa is limited, the data suggest. This is disadvantageous given the host of opportunities that investment in mitigation opens up for businesses, including access to new markets and improved product quality. Financial support is crucial to help firms invest in climate change mitigation and take advantage of these opportunities.

Sustainability efforts vary by sector of activity

Only around a third (36%) of surveyed companies have taken measures to mitigate the effect of their activities on the environment. Firms that perceived environmental threats to their business – possibly aware of the importance of environmental sustainability – were almost four times more likely to adopt mitigation measures than those that did not.

The use of fossil fuel alternatives was the most popular form of climate change mitigation among companies, with a third of those taking measures investing in renewable energy sources. This was followed by investment in waste management systems (28%) and sustainable or recyclable packaging (27%). The use of renewable energy in Africa has indeed surged over the past decade, marked by a tenfold rise in annual investment between 2000 and 2020. The continent’s abundant wind, solar, hydro and geothermal resources make renewables more accessible to the private sector.

Primary sector firms lead in environmental action at 58%, surpassing manufacturing (47%) and services (21%). The type of mitigation measures taken, however, differ between sectors. Primary sector firms were most likely to reduce their use of chemicals (40%), a pragmatic and cost-effective measure compared to adopting modern climate-friendly technologies, which are less accessible and require more skills. Conversely, manufacturing and services companies, which are typically more energy-intensive and more able to integrate alternative energies, favoured investment in renewable energy.

Financial support is needed to foster mitigation

Businesses in a favourable economic situation are more likely to adopt sustainability measures, potentially indicating that these businesses self-finance many of these measures. The additional cost associated with climate change mitigation deters many companies, especially those with limited financial resources. As a result, cash-strapped firms are less inclined to invest in such measures.

Indeed, the survey shows that companies with higher turnover were more likely to invest in greening their enterprises. Firms with annual sales exceeding 200 million FCFA (about $330,000) were the most likely to adopt mitigation measures, with 68% saying they took measures.

In contrast, only a third of respondents that reported annual sales below 50 million FCFA (about $82,290) or no sales at all engaged in environmental mitigation, a difference of 35 points.

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9. (Food and Agriculture Organization of the United Nations, 2012)
11. (Jayaram et al., 2021; Tutak & Brodny, 2022)
12. (African Development Bank, 2023)
13. (ITC, 2021)
percentage points. Similarly, firms reporting good financial health or expanding their workforce were more inclined to invest in mitigation measures than those reporting poor financial health or reducing their workforce.

Financial capacity also matters for the type of measure in which businesses are inclined to invest. For example, small and youth-led firms, which are more susceptible to being in financial difficulty, invested markedly less in renewables, a comparatively investment-heavy measure. Instead, firms with limited financial resources resort to less costly measures. Women-led businesses, for instance, which are also more likely to struggle financially, were almost twice as likely as men-led ones to invest in more cost-effective measures such as sustainable/recyclable packaging.

Providing support to financially constrained businesses is vital to enable their investment in mitigation. Accreditation of national or regional financial institutions by multilateral climate funds, such as the Green Climate Fund, is one way to facilitate companies’ access to loans for green investment projects. Business support organizations could also help small and women-led enterprises to plan and develop mitigation projects, thereby increasing their ability to attract investment.

**Investing in mitigation brings economic gains**

Adopting sustainable practices is a challenge, but also an opportunity for SMEs to strengthen their competitiveness and resilience. The vast majority (90%) of respondents that have invested in greening their enterprises said it had opened up promising opportunities for them. This figure is considerably higher than the global average of 22% calculated in a 2021 survey, suggesting that the return on green investments may be higher in francophone Africa than elsewhere.

Among the most common opportunities reported were access to new markets, reported by two in five companies that invested in sustainability initiatives, retaining existing markets and increased product quality, both reported by almost a third of firms taking measures.

Certain actions tend to generate specific opportunities for businesses. Firms investing in renewable energy, for example, most commonly reported greater access to new markets. This could be because introducing renewable energy boosts competitiveness by lowering costs and dependence on fuel imports. Investing in renewables may also signal sustainability, thereby enhancing reputation and opening up opportunities in more environmentally conscious markets.

Similarly, companies adopting more water-efficient technologies are the most likely to report improved product quality. In the agricultural sector, for instance, technologies such as drip irrigation have been shown to enable better management of fertilizers and more efficient distribution of nutrients, leading to improved crop quality.

Therefore, climate consciousness offers business owners the double benefit of environmental protection and increased business competitiveness. To ensure that firms capitalize on these benefits, support is needed in the form of climate strategy-building as well as technical assistance to implement these strategies.

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15. (Coelho et al., 2020)
16. (African Development Bank Group, 2021; Meattle et al., 2022)
17. (Meattle et al., 2022)
18. (ITC, 2021)
20. (ITC, 2021)
21. (Jayaram et al., 2021; RES4Africa Foundation, 2023)
22. (IRENA Coalition for Action, 2021)
23. (Yang et al., 2023)
24. (McDonald & Bailey, 2020)
A third of firms invest to reduce their environmental footprint

Note: The figure describes the responses of businesses to the question ‘In the last three years, did you invest in any of the following measures to reduce your company’s negative impact on the environment?’ On the right, the responses of businesses are percentages (%) of firms that say they invested in measures. The data were weighted using the distribution of companies surveyed by country and the contribution of economic sectors to GDP in each country.


Businesses with higher sales are more likely to engage in mitigation

Note: The figure describes the responses of businesses to the questions ‘What were this establishment’s total sales before tax in 2022?’ and ‘In the last three years, did you invest in any of the following measures to reduce your company’s negative impact on the environment?’ The data were weighted using the distribution of companies surveyed by country and the contribution of economic sectors to GDP in each country.


Green investment opens up opportunities

Note: The figure describes the responses of businesses to the question ‘Have these investments opened up any of the following opportunities for your company?’ as percentages (%) of firms that say they invested in measures. The data were weighted using the distribution of companies surveyed by country and the contribution of economic sectors to GDP in each country.

The Permanent Conference of African and French-Speaking Consular Chambers

The Permanent Conference of African and Francophone Consular Chambers is an economic cooperation network for private-sector development and trade in French-speaking Africa. CPCCAF supports bilateral and multilateral cooperation between chambers of commerce, crafts, agriculture and other trade promotion organizations in all fields of entrepreneurial development. Created in 1973, CPCCAF’s network covers 33 economies, including 26 countries in francophone Africa.

The International Trade Centre

As the joint agency of the World Trade Organization and the United Nations, the International Trade Centre is the only multilateral agency fully dedicated to supporting the internationalization of SMEs. Through its market access tools and technical assistance programmes, ITC enables SMEs in developing and transition economies to exploit new market opportunities, helping to raise incomes and create job opportunities, especially for women, youth and poor communities.

SME Competitiveness in Francophone Africa

2022
Fostering digital transformation

2019
Improving access to finance for inclusive growth
https://intracen.org/file/francophoneafrica2019enwebpdf

2021
From crisis to recovery through regional integration
https://intracen.org/file/cpccaf2021layoutenwebpdf

2018
Standards open doors to trade
https://intracen.org/file/itcfrancophoneafricaengwebpdf

2020
COVID-19: Strengthening companies’ resilience
https://intracen.org/file/promotingsmecompetitivenessinfrancophoneafrica-2019strengtheningcompaniesresiliencepdf
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