



**UNITED NATIONS
ECONOMIC COMMISSION FOR AFRICA**

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**2012 ECOSOC Annual Ministerial Review
“Small and Medium Enterprises (SMEs) as drivers of productive
capacity and job creation”**

Statement

by

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Distinguished Guests,

I sincerely welcome this opportunity to share my thoughts with you on this very important topic which I believe is central to Africa's development. Indeed, SMEs are the pulse of economic activity and a livelihood source for countless families. Enhancing the productive capacity of SMEs to enable them to grow and transition into medium and large enterprises is therefore critical for wealth creation and inclusive growth with the ultimate development of a vibrant middle class in Africa.

However, the sad reality is that SMEs operate in an unfriendly policy and regulatory environment. For instance, they have difficulty accessing credit and also lack adequate markets for their products. In addition, they use outdated technology and lack the capacity and support needed to design and implement effective strategies that respond to their challenges.

Distinguished guests,

I would like to draw your attention to some of the key considerations that should underpin efforts to strengthen the productive capacity of the labor force in general and SMEs in particular. There are two broad aspects that should feature in the strategy to enhance the productive capacity of SMEs. The first focuses on SMEs themselves and the second focuses on the environment in which they operate in. Tackling one without addressing the other will be an exercise in futility which will only yield sub-optimal results.

Few would disagree that an enabling environment is central to SME development. And I am sure that most would support the view that good economic governance as well as political stability, underpinned by credible systems of democratic governance, are critical ingredients of a business enabling environment. Indeed,

the experiences of post-conflict countries attest to the havoc that political instability, manifested by violent conflict, can wreck on human capacities and the business climate in general. We must therefore resolve to strengthen our democratic institutions and develop a cadre of leaders and citizens that respect and uphold these core values of democracy and accountability.

But stability and democratic governance alone are no panacea for SME development and job growth. Democratic governance must be complemented by a robust economic governance framework that: delineates the parameters of macro-economic policy; unambiguously articulates the legal and regulatory framework that guides business activity and; that establishes mechanisms and incentive structures that not only encourage investments in productive capacities but that also align these capacities to the realities and priorities of the labor market, while orienting business to emerging opportunities.

In this context, ladies and gentlemen, our macro-economic policies must reinforce our micro-level policies. We cannot on the one hand, advocate for SME growth and on the other hand pursue a monetary policy regime that restricts credit growth to SMEs. We cannot restrict public investments in research and development and science and technology and in the same breath question the lack of innovation of the private sector. Instead, we should develop a macro-economic policy framework that is flexible and accommodative of efforts to strengthen the capacities of SMEs to drive a rapid and inclusive growth process.

Sound macro-economic policies must be supported by a legal and regulatory environment that is business-friendly and credible in enforcing the rules of engagement with the private sector. But this requires greater transparency in communicating the laws and regulations that govern business transactions. Often the lack of transparency and access to information by the private sector facilitates rent seeking.

In this context, it is imperative that we nurture a culture of public service that is not predatory but supportive of private sector development. But such a culture can only grow if it is cultivated through leadership by example and through the credible and consistent application of the law.

But beyond creating an enabling environment for the development of the capacities of SME's to compete both locally and globally it is important to directly improve their productive capacities through formal education and skills development program that are dynamic enough to continually align the capacities and skills of entrepreneurs and the labor force to the ever-evolving demands of the labor market.

In particular, as Africa moves towards a “green economy,” the focus should shift to developing green technologies and to creating “green jobs”. However, targeted investments would be required to develop the requisite skills to drive this type of green growth.

In this respect, governments have an important role to play. They can support skill development and labor mobility in a variety of ways, such as through vocational training, employment services, skills certification, and standards setting. They can also support failed or failing SMEs through transfers that are conditioned on the willingness of the beneficiary to undergo skills development and/or orientation to new and emerging market opportunities.

Distinguished guests,

Growing Africa's middle class requires a vibrant and dynamic core of successful SMEs. However, as I have noted earlier, achieving this will require an active

participation by the State and the private sector to stimulate an environment that nurtures and supports SME productive capacity and creativity. I believe that this factor, coupled with the other critical development paradigms, will facilitate Africa's emergence as the next global growth pole.

I thank you for your kind attention and I wish you fruitful deliberations.